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PM'S MTG WITH
FRENCH PRES/PM

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10 DOWNING STREET
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From the Private Secretary

10 June, 1988.

PRIME MINISTER'S MEETING WITH PRESIDENT MITTERRAND

The Prime Minister visited Paris today to see President Mitterrand. The Prime Minister and President talked for an hour, with M. Attali also present, and then continued their talk over lunch which was attended in addition by Mde. Guigou. This was followed by a brief walk in the Elysee Garden. The President was almost jovial and seemed to enjoy the discussion, but was vague on the detail of several of the issues covered (in particular his own proposal on debt). I was struck by the fact that he never mentioned M. Rocard, indeed seemed unaware that the Prime Minister was going to see him. For his part, M. Rocard made no mention of the President. One feels that cohabitation is not necessarily dead.

It was agreed at the beginning to concentrate on the immediate issues to be taken at the Toronto Economic Summit and the Hanover European Council. There was only the briefest of exchanges at the end on East/West relations and defence cooperation.

Introduction

The Prime Minister congratulated the President on his re-election. It was useful that no further elections were due in the major European nations for at least two years. This would give continuity and stability to European affairs, particularly important at a time of change in East-West relations. She hoped that Britain and France could continue to work closely together.

The President echoed the Prime Minister's views. The main question mark was over the United States Presidential election. He did not know Mr. Dukakis. He appeared to have no international experience. But at present he seemed likely to win. Vice-President Bush, on the other hand, was one of the few American leaders who knew Europe and had an interest in it.

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Economic Summit

President Mitterrand said that the Toronto Economic Summit would come at the end of President Reagan's second term. He would quite legitimately wish that term to end on an upbeat note. He would probably want, therefore, to avoid difficult issues. The Summit was unlikely to be very productive. The Prime Minister disagreed: there were important issues to tackle, and the Americans would be ready to play their part.

Debt

The Prime Minister thanked President Mitterrand for his letter on debt. There were now several proposals on the table. There were marked similarities between those of Britain and France. The common factor was the wish to do something to help. We should aim for a positive result at the Economic Summit. While the precise steps taken to alleviate the position of the very poorest countries might vary, it was important that creditors should share the burden equally. In particular, the United States should be persuaded to do more. There were a number of points about the French proposals on which we were not clear. Were they intended to make relief conditional on debtor countries reaching agreements with the IMF? Did cancellation apply to aid debts alone or to all official debt? What provision would there be to enable creditors who offered lower interest rates or cancellation in return for early repayment to have their claims given priority in future reschedulings? The details should be worked out carefully. We attached great importance to conditionality: without it, the debtor countries would simply slip back into their bad old ways.

President Mitterrand said that he had deliberately not gone into detail but had just sketched out some possibilities. They could be discussed at Toronto, indeed he would welcome that. They were intended to cover all forms of official debt. At one stage he had considered proposing that all the debt of the poorest countries should be written off, but had decided to settle for one-third. There was no explicit conditionality. But the fact that two-thirds of the debt would not be written off left the IMF plenty of leverage. Heads of Government should not get involved in minutiae. The aim at Toronto might be to agree general guidelines and leave Finance Ministers to work out details. But France could not submit its decisions to others: it would be up to each government to settle on the steps it wished to take.

Agriculture

The Prime Minister said that just as important to the developing countries was help over trade, in particular trade in agriculture. The Economic Summit should make a commitment to early and concrete steps towards reducing agricultural subsidies. The European Community had made some important progress in this direction at the Brussels European Council,

but much more remained to be done.

President Mitterrand said that France's starting point was the interests of the large proportion of her people still active in agriculture, and the overall importance to the French economy of the food industry. That was why, at the Bonn Economic Summit, he had refused to allow agriculture to be singled out for discussion in the GATT. An arrangement had eventually been found which allowed agricultural and industrial trade to be dealt with in parallel. But the results had been disappointing: protectionism and competitive subsidies had actually increased, in the United States in particular. He agreed that a way had to be found to improve the situation, but not one which sacrificed vital interests. He hoped that European governments would not be divided on this issue at the Summit.

The Prime Minister said that, if matters were allowed simply to continue as at present, we should get into a spiral of competitive subsidies. The richest countries would be the victors, but it would be ruinously expensive for everyone, not least the developing countries, and undermine the results of the Brussels European Council. The American proposal to phase out all subsidies by the year 2000 was not realistic, but there must be significant reductions. She did not accept that Europe had done all that was needed. The Toronto Summit must give impetus to discussions in the GATT.

President Mitterrand said that he was very ready to discuss the problem of agriculture as part of a wider debate. He agreed that the problem had to be tackled. But he was sceptical about United States' intentions.

Single Market

The Prime Minister said that other countries feared that completion of the single market in Europe would lead to the raising of new barriers against them. The Community should make clear that the intention was to increase trade, not to increase protectionism. President Mitterrand said that the European Community was not just a free-trade area: it must have its own rules.

Terrorism

President Mitterrand said that he understood the Prime Minister wanted terrorism to be discussed at the Summit. A priori he was on her side on this issue. His only doubts were on the role of the Summit in this area as in others: he did not want it to become an institution as such. The Summit could reach conclusions, but they should be implemented in other bodies. The Prime Minister commented that Britain and France worked very well together in dealing with terrorism. It would be necessary to retain frontier controls in Europe after 1992 if the war against terrorism was to be waged successfully. President Mitterrand commented that he agreed in principle although France might differ from Britain over detailed arrangements.

Presidency of the Commission of the European Communities

President Mitterrand said that a decision would be needed at Hanover on the Presidency of the Commission of the European Communities. France was not pressing any particular appointment: they had held the Presidency for four years and recognised it was not theirs by right or entitlement. If others wanted a change, France would agree. That said, there seemed to be a general current in favour of the re-appointment of M. Delors. He had discussed the matter with Chancellor Kohl who seemed to be thinking in terms of Delors' re-appointment for two years. He probably had in mind the possibility that Mr. Bangemann might take over thereafter, although he did not think Kohl was very keen on Bangemann.

The Prime Minister said that no alternative candidate of Delors' stature had emerged. But the European Council should not try to settle now what should happen in two years time. Situations could change: for instance Mr. Lubbers might become available. President Mitterrand said that would be excellent.

Financial and Monetary Cooperation

President Mitterrand introduced the subject of financial and monetary cooperation over lunch. He had no difficulty with the principle of liberalising capital movements and dismantling exchange controls. But we were in a Community, and no government wanted to see its capital flee to other countries. There should therefore be a basic minimum of similarity in the taxation of capital throughout the member states. Even Germany had concerns on this score in relation to Luxembourg. So France would pose certain questions, both at ECOFIN on 13 June and at the European Council. The President continued that Herr Genscher had put forward his proposal for a study by a group of wise men of a European Central Bank. In his own view it would be difficult to deal with these matters without the participation of Central Bank Governors. But it could not be left to them alone, any more than agriculture could be left to Agriculture Ministers. In particular, Herr Poehl would be an obstacle to progress. He therefore favoured an independent group which would work in parallel with Central Bank Governors.

The Prime Minister said that the United Kingdom already had full freedom of capital movement and no exchange controls. Far from hurting our economy, this had stimulated growth. She understood that agreement had already been reached in the Community on a capital liberalisation directive: she hoped that there would be no going back on this or any attempt to set pre-conditions. President Mitterrand interjected that he was not putting pre-conditions or saying that there had to be tax harmonisation before there could be capital liberalisation. But certain questions had to be asked.

The Prime Minister continued that the idea of a European Central Bank just did not stand up to examination at this

stage of the Community's development. It presupposed a common currency, common economic policies and a readiness to surrender national control over monetary policy. None of these conditions was remotely likely to be met, so a study was pointless. She was fully behind Herr Poehl on this. We already had a European Investment Bank and a Bank for International Settlements which performed their functions admirably. There was scope for study of more technical ideas such as greater use of the ecu and wider cross-holdings of community currencies in foreign exchange reserves. But this was not an area for wise men who were likely to recommend all sorts of absurd things. It should be left to ECOFIN and to Central Bank Governors. The European Central Bank proposal was clearly motivated by political not technical considerations. But this was not an area for playing games.

President Mitterrand commented that it was nice to be reminded that the Prime Minister knew how to say no. He agreed that there was a distinction between the proposal for a European Central Bank, which was a long-term goal, and more immediate measures such as capital liberalisation. He was certainly not saying that a European Central Bank should be discussed in the early stages. But other governments wanted to set a goal towards which they could work. There was a feeling that Europe was losing out vis-a-vis the rest of the world. The Prime Minister said that she was not against discussing monetary cooperation, but it must be on the basis of feasible objectives, not pipe-dreams. She had set out the areas where progress might be made, but they were pre-eminently matters for experts not wise men. There was no point in discussing a European Central Bank when no-one knew what it meant. We had excellent Central Banks - and Central Bankers - of our own and should not interfere with them.

Channel Tunnel

The Prime Minister and President Mitterrand agreed that they would travel through the Channel Tunnel together in 1993 (it was not agreed in which direction this would be). President Mitterrand added a "God willing" proviso.

Economic Summit 1989

The Prime Minister said that we could accept the date of 14 July for the next Economic Summit. The President made clear that he envisaged Heads of Government attending the usual Bastille Day military parade.

East/West Relations and Defence Cooperation

The Prime Minister regretted that there had not been time to discuss East/West relations or defence cooperation. They should be taken up at a further meeting. We wished to strengthen our defence cooperation with France, and she hoped that the ideas in her message of January to the President could be studied.

Circulation of this letter within Departments should be

strictly controlled. I am copying it to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Stephen Ratcliffe (Department of Trade and Industry), Myles Wickstead (Overseas Development Administration), and to Trevor Woolley (Cabinet Office).

C.D. Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

10 June 1988

PRIME MINISTER'S MEETING WITH M. ROCARD

The Prime Minister had a talk in Paris this afternoon with M. Rocard, following her lunch with President Mitterrand. The French Ambassador in London and M. Petit were present on the French side and HM Ambassador Paris on our side. It was a notably friendly and good humoured discussion in which M. Rocard spoke English virtually throughout. Since the discussion covered much of the same ground as with President Mitterrand, I have not thought it necessary to record the Prime Minister's comments in detail.

Introduction

M. Rocard recalled the very kind reception which he had received from the Prime Minister on a number of occasions when he had been out of office. He also had wartime memories of listening to the BBC from London. France could talk in a quite different way to the United Kingdom than to other countries. He wanted the Franco-British relationship to have a special role. He had spoken with some emotion because this was what he felt. The Prime Minister thanked M. Rocard for his remarks. Emotion had a place in politics as did respect for history.

Debt

The Prime Minister gave an account of her discussion with President Mitterrand on debt. There should be a clear result from the Economic Summit on this issue, which must include conditionality. There should also be fair burden sharing.

M. Rocard said that the French proposals were clearly conditional upon countries concerned agreeing IMF programmes. They were also intended to cover all debt, that is aid debt and export credit debt. He agreed that the aim should be a concrete outcome from the Toronto Summit. France, for its part, was clearly committed to the option of writing off one third of the debt of the poorest countries.

Single Market

The Prime Minister said that it would be important that the Community should not erect new barriers against the

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outside world when the single market was completed in 1992. She was however concerned by the way in which the Commission's competence was being steadily extended, for instance into the field of mergers and monopolies. M. Rocard agreed that completion of the single market should be accompanied by an increase in the Community's trade with the rest of the world.

Agriculture

M. Rocard expected agriculture to be the most difficult subject at the Toronto Economic Summit. He could accept the concept of an agreement to reduce subsidies progressively. But a number of conditions had to be met. All forms of subsidy had to be covered: the United States tended to argue that some of its measures were not really subsidies. It had to be recognised that you could never have full free trade in agriculture. And there was a need to identify other ways of utilising land. He himself was a strong supporter of using cereals for ethanol. He had discussed these problems with the Americans and found that Mr. Yeutter agreed with him on the need for a long term plan to reduce subsidies. Nonetheless, he hoped that the Toronto Economic Summit would not go too deeply into these issues before the Community had been able to prepare its position better. There would need to be a major study done in the Community. But he believed that agreement could be reached internationally, just as had been done with details of the Multi Fibre Agreement.

The Prime Minister said that Europe could not just rest on the results of the Brussels European Council, although she accepted that the Community's position needed to be well prepared. It would be necessary at Toronto to agree to negotiate for a positive result to the Mid Term Meeting in December which covered both short term measures and longer term commitments. M. Rocard said that he was basically the Prime Minister's ally in this. He needed more funds for education and other social policies in France and they could only be found by reducing spending on agriculture. But more time and study was needed. The Community could not commit itself to a series of reductions without knowing where they would lead and without offering some vision of the future to its farmers. He envisaged a process of progressive reductions in subsidies stretching over 15 years or so. But it must be on a planned basis and not involve staggering blindly from measure to measure. That was why he was insistent on the need to explore the subject more thoroughly within the European Community first.

Financial and Monetary Co-operation

M. Rocard said that he accepted that a European Central Bank was only a long term prospect. The immediate issue was liberalisation of capital movement and France had already taken two further steps in this direction since he had become Prime Minister. The subject would again be discussed in ECOFIN on 14 and 15 June. He was not sure that complete agreement could be reached. For one thing, he was not certain that the EMS could survive if all foreign exchange controls

were removed. That was why France wanted a parallel commitment to discuss growing monetary co-operation between Central Banks.

The Prime Minister said that she agreed that the EMS would not have held together without foreign exchange controls. That was one reason why Britain had not joined the Exchange Rate Mechanism. She was very sceptical about a European Central Bank for reasons which she had explained at some length to President Mitterrand. She agreed that there were possibilities for further monetary co-operation in Europe such as greater use of the ecu and wider cross-holdings of Community currencies in foreign exchange reserves. But there was no need for wise men to address these issues: that was only an excuse for avoiding action. They should be left to Finance Ministers and Central Bank governors.

M. Rocard said that France would approach these matters in a pragmatic spirit and would not have a rigid position at ECOFIN. What he was really after was a procedure for co-ordination between Central Banks. He shared the Prime Minister's dislike of generalities. He would prefer any study to be carried out by the Central Bank governors although he would not exclude their efforts being supplemented by others. But decisions must remain in the hands of those with responsibility. The central problem, in his mind, was the need to proceed with capital liberalisation and removal of foreign exchange controls without making the EMS more fragile vis-à-vis other major currencies. This required better co-ordination of intervention between central banks. The Prime Minister said that she detected that she and M. Rocard agreed that any study should be limited in scope, pragmatic in approach and conducted by those with direct responsibility.

New Caledonia

M. Rocard said that he would like to give the Prime Minister a brief account of developments in New Caledonia. The issue had been very badly handled by the last government and France had gone back on its word over the Pisani plan. A mission of church leaders and others had recently visited New Caledonia and he had seen them on their return. He believed they had helped to achieve reconciliation between the two communities and had identified the outline of an agreement which could be accepted by both of them, although it would probably take until the autumn to finalise this. He would not tire the Prime Minister with the details but he was optimistic that a solution would be found. Meanwhile his first priority was to stop New Caledonia from being exploited as a political issue within France.

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

Lyn Parker, Esq.,
Foreign & Commonwealth Office.

(C.D. POWELL)

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4. THIS IS A SIGNIFICANT BREAKTHROUGH FOR LE PEN. THE FACT THAT THE TRADITIONAL RIGHT HAVE BEEN WILLING TO DO A DEAL DURING NATIONAL ELECTIONS CONFERS A NEW RESPECTABILITY ON HIM AND SETS WHAT COULD PROVE AN IMPORTANT PRECEDENT. WHETHER OR NOT HE WINS ANY SEATS IN THE SECOND ROUND (AND HE MAY NOW GET TWO OR THREE) IT MAKES OTHER DEALS MORE LIKELY IN FUTURE, PARTICULARLY IN NEXT YEAR'S MUNICIPAL ELECTIONS WHEN THE FN HOPE TO ENTER THE TOWN HALLS IN FORCE.

5. THE SOCIALISTS HAVE SPENT AN ANXIOUS WEEK, CONSCIOUS THAT THE FIRST ROUND RESULT WAS TOO CLOSE FOR COMFORT AND THAT THERE IS A RISK THAT THEY WILL NOT SECURE AN OVERALL MAJORITY IN THE SECOND ROUND. THEIR CAMPAIGN HAS CENTRED AROUND THREE THEMES:-

(I) THE NEED FOR THEIR SUPPORTERS TO GO TO THE POLLS. STUDIES SUGGEST THAT THE PS SUFFERED MORE THAN THE RIGHT FROM THE HIGH LEVEL OF ABSTENTION IN THE FIRST ROUND. BUT THE BOREDOM FACTOR IS STILL STRONG.

(II) THE NEED FOR INSTITUTIONAL COHERENCE BETWEEN PRESIDENT, GOVERNMENT AND PARLIAMENT. MITTERRAND HAS ISSUED AN APPEAL FOR A STABLE MAJORITY ON WHICH HE CAN DEPEND.

(III) THE URC/LE PEN DEAL, WHICH THEY DESCRIBE AS A BETRAYAL OF REPUBLICAN VALUES AND WHICH THEY HOPE WILL PROMPT SOME CENTRIST VOTERS EITHER TO VOTE FOR PS CANDIDATES IN THE SECOND ROUND OR TO ABSTAIN. (ALTHOUGH THE TRADITIONAL RIGHT ARE ARGUING THAT THE URC/FN DEAL IS SYMMETRICAL WITH THE PS/PCF DEAL, THE ELECTORATE MAY NOT SEE IT AS SUCH. THEY ARE USED TO CO-OPERATION ON THE LEFT BUT NOT TO CO-OPERATION BETWEEN THE RIGHT AND THE FN, PARTICULARLY SINCE THE RIGHT HAVE, UNTIL RECENTLY, BEEN ALMOST AS ENERGETIC AS THE SOCIALISTS IN CONDEMNING THE RACIST, ANTI-SEMITIC AND XENOPHOBIC TENDENCIES OF THE FN.)

6. IF THE PS FAIL TO SECURE A MAJORITY, FRANCE WILL BE PLUNGED INTO A PERIOD OF UNCERTAINTY AND PERHAPS RENEWED COHABITATION: THE FACT THAT THIS PROSPECT IS UNWELCOME TO MANY FRENCHMEN SHOULD HELP THE SOCIALISTS. I THINK IT LIKELY THAT THE THEMES THE PS HAVE HIGHLIGHTED THIS WEEK, BACKED UP BY SOME ENERGETIC CAMPAIGNING, WILL BE ENOUGH TO GIVE THEM AN OVERALL MAJORITY ON SUNDAY. THERE IS ALSO A FAIR CHANCE THAT THE CENTRIST CDS WILL DO WELL ENOUGH TO BE ABLE TO FORM AN AUTONOMOUS GROUP IN THE NEW ASSEMBLY (ASSUMING THEIR COURAGE DOES NOT FAIL THEM). IF THIS IS THE OUTCOME, THE BUILDING BLOCKS WILL BE AVAILABLE FOR MITTERRAND TO TRY AGAIN TO CONSTRUCT

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TO DESKBY 101200Z FCO

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OF 100753Z JUN 88

MY TELNO 566: FRENCH PARLIAMENTARY ELECTIONS: SECOND ROUND.

SUMMARY

1. LEFT AND RIGHT HAVE POLARISED FOR THE SECOND ROUND ON 12 JUNE. THE SOCIALISTS (PS) HAVE DONE A DEAL WITH THE COMMUNISTS (PCF), AND THE RIGHT WING ALLIANCE (URC) WITH THE FRONT NATIONAL (FN). THE URC/FN DEAL IS A BREAKTHROUGH FOR LE PEN AND COULD BE AN IMPORTANT PRECEDENT. THE PS HAVE BEEN CAMPAIGNING ENERGETICALLY, ANXIOUS TO SECURE AN OVERALL MAJORITY. THEY ARE APPEALING FOR A HIGH TURN OUT, CALLING ON THE COUNTRY TO GIVE MITTERRAND A STABLE MAJORITY WHILE REPUDIATING THE URC/FN LINK-UP. I EXPECT THEM TO WIN AND MITTERRAND TO TRY AGAIN TO WORK TOWARDS A CENTRE-LEFT UNDERSTANDING IN GOVERNMENT.

DETAIL

2. THE CLOSENESS OF THE FIRST ROUND RESULT HAS POLARISED THE ELECTION ALONG TRADITIONAL LEFT/RIGHT LINES, POSTPONING THE DEBATE ABOUT THE FUTURE SHAPE OF FRENCH POLITICS UNTIL AFTER THE SECOND ROUND ON 12 JUNE. ELECTORAL ARITHMETIC HAS PROMPTED THE SOCIALISTS TO CO-OPERATE WITH THE COMMUNISTS: WHERE PCF CANDIDATES DID BETTER THAN THEIR PS RIVALS IN THE FIRST ROUND, THE LATTER HAVE BEEN WITHDRAWN AND VICE VERSA. (IN THEORY THE PCF COULD NOW WIN OVER TWENTY SEATS.) ON THE RIGHT THE SAME ELECTORAL LOGIC HAS PERSUADED THE UNION DU RASSEMBLEMENT ET DU CENTRE (URC) TO DO A LIMITED DEAL WITH LE PEN IN THE MIDI WHICH HAS PRODUCED A STORM OF CONTROVERSY, AND FIERCE ATTACKS FROM THE PS.

3. THE URC WILL GIVE FN CANDIDATES A CLEAR RUN AGAINST THE LEFT IN EIGHT CONSTITUENCIES IN MARSEILLES AND THE BOUCHES-DU-RHONE, IN RETURN FOR LE PEN WITHDRAWING NEARLY ALL OTHER SURVIVING FN CANDIDATES TO THE BENEFIT OF THE URC. APART FROM BARRE, WHO HAS EXPRESSED MISGIVINGS, THE URC LEADERSHIP HAS SOUGHT TO PORTRAY THE DEAL AS A LOCAL ARRANGEMENT OF MINOR SIGNIFICANCE. EVEN THE CENTRIST CDS (PART OF THE URC) HAVE SWALLOWED IT, DESPITE THEIR LONGSTANDING AND OUTSPOKEN HOSTILITY TO LE PEN, HOPING THAT IT WILL ENABLE THEM TO WIN THE THIRTY SEATS THEY WILL NEED TO FORM AN AUTONOMOUS PARLIAMENTARY GROUP IN THE NEW ASSEMBLY.

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CENTRE-LEFT COOPERATION, ALTHOUGH RECENT EVENTS MAY PERSUADE HIM
THAT HIS BEST CHANCE OF SUCCESS WILL BE TO HASTEN SLOWLY.

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(CDS) TO JOIN THE PS IN THE GOVERNMENT THAN THAT HE WILL REVERT TO THE PS-PCF UNION OF THE LEFT FORMULA OF 1981. HOWEVER WE ARE IN FOR A PERIOD OF UNCERTAINTY AND COMPLICATED POLITICAL MANOEUVRING WHICH MAY TAKE SOME DAYS TO CLARIFY OR EVEN LONGER.

4. I SHALL TELEGRAPH FURTHER TOMORROW WHEN FINAL RESULTS BECOMES CLEAR.

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LUXEMBOURG FOR PRIVATE SECRETARY TO THE FOREIGN SECRETARY

FRENCH PARLIAMENTARY ELECTIONS: SECOND ROUND RESULTS

SUMMARY

1. THE SOCIALIST (PS) SEEM LIKELY TO FALL SHORT OF A CLEAR MAJORITY IN THE NEW ASSEMBLY. IF SO, MITTERRAND WILL PROBABLY TRY TO WORK TOWARDS CENTRE-LEFT GOVERNMENT RATHER THAN TURN BACK TOWARDS A PS-COMMUNIST UNION OF THE LEFT.

DETAIL

2. AT MIDNIGHT LOCAL TIME, THE INDICATIONS ARE THAT THE FRENCH ELECTORATE HAS NOT GIVEN MITTERRAND THE STABLE MAJORITY HE ASKED FOR. COMPUTER FORECASTS SUGGEST THE FOLLOWING RESULT (1986 RESULTS ARE IN BRACKETS):-

PCF (COMMUNIST)	: 25-26 SEATS (35)
PS (SOCIALISTS AND ALLIES)	: 275 WITHIN A SPREAD OF 265-285 SEATS (214)
URC (UDF AND RPR COMBINED)	: 275 WITHIN A SPREAD OF 260-280 SEATS (293)
FN (FRONT NATIONAL)	: 1 SEAT (35)

ABSTENTIONS WERE JUST OVER 30 PERCENT SOME 4 PERCENT DOWN ON THE FIRST ROUND, BUT HIGH BY FRENCH STANDARDS..

3. THESE FIGURES MAY CHANGE AS COUNTING CONTINUES, BUT DESPITE PREDICTIONS WHICH HAVE CONSISTENTLY SUGGESTED THAT THE ELECTORATE WOULD FOLLOW THE TREND SET IN THE PRESIDENTIAL ELECTIONS, THE SOCIALISTS NOW SEEM UNLIKELY TO GAIN AN OVERALL MAJORITY. NEVERTHELESS MITTERRAND SEEMS BOUND TO TRY TO FORM A NEW GOVERNMENT AROUND THEM: HE HAS COMMITTED HIMSELF TO LOOK TO THE LARGEST SINGLE PARTY AND THE URC ARE AN UNSTABLE COALITION. IT IS TOO EARLY TO BE CERTAIN WHAT FORM THIS GOVERNMENT WILL TAKE, BUT IT SEEMS MUCH MORE LIKELY THAT MITTERRAND WILL ATTEMPT TO ATTRACT THE CENTRE-RIGHT

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TO IMMEDIATE FCO

TELNO 612

OF 151538Z JUN 88

AND TO IMMEDIATE TREASURY, BANK OF ENGLAND

INFO ROUTINE OTTAWA, BONN, WASHINGTON, TOKYO, ROME

ADVANCE COPY

THE FRENCH ECONOMY.

SUMMARY

1. THE FRENCH ECONOMY STILL BUOYANT, HAVING WEATHERED RECENT ELECTORAL UNCERTAINTY WITHOUT DIFFICULTY. GDP GROWING AT ANNUAL RATE OF AROUND 2.5 PER CENT, WITH GROWTH BETTER BALANCED. BUT INFLATION SLIGHTLY UP, AND UNEMPLOYMENT A CONTINUING WORRY. BALANCE OF TRADE ERRATIC BUT NOT TOO DISQUIETING. THE FRANC STABLE AND THE STOCK MARKET STRONG. THE ELECTED CHAIRMAN AND THE CHIEF EXECUTIVE OF THE BOURSE RESIGN AFTER REVELATIONS OF LARGE LOSSES AT THE END OF LAST YEAR IN THE BOURSE'S RESERVE FUNDS.

DETAIL

2. GOVERNMENT POLICY.

HAVING TAKEN THE RE-ELECTION OF PRESIDENT MITTERRAND AND THE APPOINTMENT OF A CENTRE LEFT GOVERNMENT IN THEIR STRIDE, THE FINANCIAL MARKETS HAVE REMAINED UNPERTURBED BY RECENT POLITICAL UNCERTAINTY. THE BETTING IS ON BEREGOVY REMAINING FINANCE MINISTER IN A SECOND ROCARD GOVERNMENT WHICH IS LIKELY TO BE ESTABLISHED IN TWO WEEKS TIME, AND EVEN IF HE GOES, THE MARKETS JUDGE THAT THE PRAGMATIC AND MARKET ORIENTED POLICIES OF HIS FIRST MONTH IN OFFICE WOULD BE CONFIRMED BY ANY SUCCESSOR, THEREFORE ENSURING BROAD CONTINUITY FROM THE CHIRAC AND BALLADUR PERIOD.

3. THERE IS LITTLE DOUBT THAT THE BUSINESS AND FINANCIAL COMMUNITY WOULD PREFER BEREGOVY TO STAY. HE WON RESPECT FOR HIS PRAGMATIC POLICIES AS FINANCE MINISTER FROM 1984-86. HE HAS COMMITTED HIMSELF TO FIGHT INFLATION, AND HAS REAFFIRMED BALLADUR'S COMMITMENT TO REDUCE THE 1988 BUDGET DEFICIT TO F115 BILLION: ADDITIONAL 1988 SPENDING OF F4.4 BILLION, MAINLY ON EDUCATION, EMPLOYMENT, RESEARCH AND OVERSEAS AID, WILL BE FINANCED BY HIGHER THAN EXPECTED REVENUES AND ECONOMIES FROM OTHER BUDGETS. HELPED BY A STABLE INTERNATIONAL ECONOMIC BACKGROUND AND A STRONG FRANC, HE HAS PUSHED INTEREST RATES DOWN SLIGHTLY. HE HAS ABOLISHED SOME OF FRANCE'S FEW REMAINING EXCHANGE CONTROLS.

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10. THE FINANCIAL MARKETS.

THE BOURSE HAS HAD A GOOD FEW WEEKS, GAINING AROUND 10 PER CENT SINCE MID MAY. THE CAC INDEX REACHED A 1988 HIGH ON 9 JUNE. THE REPUTATION OF THE PARIS BOURSE WILL, HOWEVER, HAVE TAKEN A KNOCK WITH THIS WEEK'S RESIGNATION OF DUPONT, THE ELECTED HEAD OF THE NEW STOCK EXCHANGE COUNCIL AND COSSERAT, ITS DIRECTOR GENERAL. BOTH RESIGNED AFTER THE REVELATION THAT THE STOCK EXCHANGE RESERVE FUND ADMINISTERED BY THE STOCK EXCHANGE ITSELF HAD SUFFERED LARGE LOSSES AT THE END OF LAST YEAR THROUGH INJUDICIOUS TRADING ON THE MATIF (FINANCIAL FUTURES MARKET). CRITICISM HAS CENTRED ON THE FAILURE TO REVEAL THE LOSSES SOONER AS WELL AS ON THE LOSSES THEMSELVES.

11. PLEASE ADVANCE PS/CHANCELLOR, LITTLER, MATHEWS (TSY), LOEHNIS (B/E), BRAITHWAITE, RICHARDSON (FCO).

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MR PARKER CAB OFF
MR C R BUDD CAB OFF

PS/CHANCELLOR TRSY
SIR GEOFFREY LITTLER TRSY
MR MATHEWS TRSY
MR J E MORTIMER TRSY
MR M. MERCER, TRSY
MR LOEHNIS BANK OF ENG
PERMANENT SEC/MAFF
MR P KENT HM CUSTOMS
RESIDENT CLERK

NNNN

4. AS EXPECTED, BEREGOVY HAS SAID THAT THERE WILL BE NO RENATIONALISATIONS, OR FURTHER PRIVATISATIONS AT LEAST ON THE BALLADUR MODEL. BUT HE HAS SAID THAT HE WOULD ACCEPT INJECTIONS OF PRIVATE CAPITAL INTO EXISTING STATE ENTERPRISES, UP TO A MAXIMUM OF 49 PER CENT, WITH THE GOVERNMENT RETAINING OVERALL CONTROL. THE MOST LIKELY MECHANISM FOR THIS WOULD BE THE ISSUE OF CERTIFICATES OF DEPOSITS (IE NON-VOTING SHARES).

5. THE GOVERNMENT HAVE SAID THEY INTEND TO REINTRODUCE A WEALTH TAX, IN LINE WITH MITTERRAND'S ELECTION COMMITMENT, IN THE 1989 BUDGET TO COME BEFORE PARLIAMENT THIS AUTUMN. THE EXACT FORM IT WILL TAKE REMAINS UNCLEAR: ROCARD FAVOURS A WIDE BASE AND LOW RATE, BEREGOVY THE SIMPLER AND QUICKER APPROACH OF RESURRECTING THE NARROWER BASED, HIGHER RATE TAX ABOLISHED BY THE RIGHT IN 1986.

6. THE ECONOMY.
THE ECONOMY REMAINS BUOYANT. GDP GROWTH FOR THE FIRST QUARTER OF 1988 WAS BETTER THAN PREDICTED AT 1.2 PER CENT, AND OFFICIALS TALK PRIVATELY OF A 1988 GROWTH RATE OF 2.5 PER CENT OR A LITTLE MORE. INDUSTRIAL PRODUCTION IN THE FIRST QUARTER WAS UP BY A STRONG 2.8 PER CENT. GROWTH ALSO LOOKS BETTER BALANCED: CONSUMER DEMAND IS WEAKENING, AND INVESTMENT AND EXPORTS STRONGER.

7. ON THE DOWN SIDE, INFLATION ROSE SHARPLY IN APRIL, (THOUGH THIS MAY HAVE BEEN DUE TO SPECIAL FACTORS) AND THE ANNUAL RATE HAS EDGED UP TO AROUND 2.5 PER CENT OR A LITTLE MORE. CAPACITY MAY HAVE BEEN REACHED IN CERTAIN SECTORS.

8. ALSO WORRYING FOR THE GOVERNMENT IS THAT WITH GDP GROWTH BUOYANT AND INFLATION EDGING UP, THE UNEMPLOYMENT PROSPECTS CONTINUE TO LOOK POOR. UNEMPLOYMENT (AT 10.3 PER CENT) ROSE SLIGHTLY IN APRIL, WITH A FURTHER SIGNIFICANT RISE LIKELY OVER THE SUMMER AS CURRENT SPECIAL PROGRAMMES LAUNCHED IN THE SPRING COME TO AN END. (THE LABOUR MINISTER, DELABARRE, HAS PROMISED A COHERENT PACKAGE OF TRAINING AND EMPLOYMENT MEASURES FOR THE AUTUMN.) OFFICIALS RECKON THAT GDP GROWTH OF BETWEEN 2.5 PER CENT AND 3 PER CENT IS NEEDED TO ABSORB THE ANNUAL 0.7 - 0.8 PER CENT GROWTH IN THE ACTIVE LABOUR FORCE: THE UNDERLYING UNMEMEMPLOYMENT TREND THEREFORE LOOKS AT BEST STABLE.

9. THERE WAS AN APRIL TRADE DEFICIT OF F2.1 BILLION, BRINGING THE 1988 DEFICIT SO FAR TO F6.4 BILLION. RECENT MONTHLY FIGURES HAVE BEEN ERRATIC, BUT THE ESTIMATE IS FOR A 1988 TRADE DEFICIT OF AROUND F20 BILLION, DOWN ON THE 1987 FIGURE OF F31.4 BILLION.

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Graphs

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 34 OF 17 JUNE 1988
TO FCO

REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE,
COPENHAGEN, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON,
LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL
FRANCE

FRANCE: ECONOMIC REPORT FOR MAY 1988

SUMMARY

- Real GDP grew by 1.2% in the first quarter of 1988, and predictions are for a 1988 growth rate of 2.5% or more.
- Automobile registrations continues to grow quickly, while the iron and steel industry recorded its first profits since 1974.
- Balance of trade was in deficit by F2.1 billion, with a trade deficit for the first four months of 1988 of F6.4 billion. The predicted trade deficit for 1988 is some F20 billion.
- Inflation rose 0.5% in April, and by between 0.2-3.0% in May, with a year on year figure of 2.5%.
- Unemployment rose slightly in April, and stands at 10.3% of the labour force. On pay, a survey by CFDT (a trade union) showed that real net take-home pay of two-thirds of their members was lower in 1987 than in 1986. Another survey found that the average pay rise of managers in 1987 was 4.1%, with a forecast for 1988 of pay rises of around 3.9%. The national minimum wage went up 2.3% on 1 June.
- The Bourse had a good month, with the CAC index rising to a 1988 high of 351.1 on 9 June. The President of the Société des Bourses (the elected head of the stock exchange) and the Director General of the stock exchange resigned on 14 June following the announcement that the stock exchange reserve fund had lost F500m on the MATIF (financial futures market) in November and December 1987, as a result of mismanagement by the stock exchange authorities.
- The Bank of France's intervention rate was lowered by 0.25% to 7% on 26 May, though there were no changes in the bank base lending rates. At the same time, the level of obligatory reserves deposited with the Bank of France was raised from 2% to 2.5%.
- The franc has remained firm, while a number of exchange controls were abolished.
- The government has confirmed that there will be no corrective budget this year, while additional spending announced on 8 June will be funded by higher than expected revenues, and the squeezing of individual budgets.
- The wealth tax may be reintroduced in the autumn budget.

	Registrations	Percentage change 1988/1987 May 1988	Percentage of market	Registrations January - May 1988	Percentage change 1988/1987	Percentage of market
Citroën	22,124	+ 7.8	12	114,041	+ 0.8	12.5
Peugeot	40,114	+34	21.8	206,625	+20.9	22.7
PSA	62,238	+23.3	33.8	320,666	+12.9	35.2
Renault	57,795	+20.2	31.4	272,405	+ 5.7	29.9
French	120,033	+21.8	65.2	593,117	+ 9.5	65.1
Foreign	64,040	+10.2	34.8	317,375	+ 5	34.9
Total market	184,073	+17.5	100	910,492	+ 7.9	100

Balance of Trade

7. The balance of trade for April showed a deficit of F2.1 billion giving an overall deficit for the first four months of 1988 of F6.4 billion. The estimated deficit for 1988 is expected to be around F20 billion. This compares with a trade surplus of F1.8 billion in March and a trade deficit in 1987 of F31.4 billion.

8. The balance of trade data for April 1988 was as follows:

April balance of trade

Balance: -F2.1 billion (sa)
-F1.8 billion (unadjusted)

Cover rate: 97.4%

Exports: F79 billion (-4%)

Imports: F81.1 billion (+0.8%)

Balance of Trade:

a) in food and agriculture: +F3.6 billion
b) industry: -F3 billion
c) energy: -F5.5 billion

9. On 1 June the Minister of Trade and Industry, Roger Fauroux, announced steps to promote the competitiveness of French industry in world trade. Small and medium sized companies with export potential will benefit from greater state coordination and assistance. In addition, private/public sector clubs will be set up to promote trade with specific geographical areas (the Gulf and the Far East, especially Japan). These ideas remain, however, to be refined.

Inflation

10. There was a sharp 0.5% increase in inflation in April, and a more modest May increase of between 0.2% and 0.3%. The annual inflation rate to May 1988 stood at around 2.5% (compared to 3.5% in the twelve months to April 1987). The rise in April was due to increases in health charges, rents, and the price of tobacco.

Introduction

1. The economic policies of the Rocard government, appointed on 12 May after Mitterrand's re-election in the Presidential elections have helped to reassure the markets. Bérégovoy the Minister of Finance has stated that his priorities are the control of inflation, strict control of the budget deficit at F115 billion (while also accepting the previous government's budgetary commitments), no re-nationalisations or further privatisations (though he does support the introduction of private capital into existing public enterprises, up to a maximum of 49% of capital). The reductions of the Bank of France's interest rates and the abolition of a number of exchange controls have also been welcomed by the economic sector.

Economic Activity

2. The GDP growth rate for the first quarter of 1988, according to INSEE, was 1.2%, with the growth rate for 1988 as a whole likely to be at least 2.5% (compared with 2.3% for 1987). Growth has become better balanced, with consumer spending continuing to weaken and investment and exports stronger. Industrial investment was up 3.1% in Q1 (as against +1.6% in the previous quarter), exports up +1.7% compared to +2.4% and imports down 0.33% against a rise of 1.7% in the previous quarter. Industrial production was up 2.8%, with the automobile industry (4.3%), intermediate goods (2.7%) recording the strongest rises.

3. INSEE's breakdown of the GDP growth rates, including their estimates for the rest of the year are at table 8.

4. According to a study produced by INSEE at the end of May, the construction and public works sector recorded a 3.2% growth rate in production volume in 1987, due essentially to investment by private sector financial institutions. In franc terms, this was valued at F692.4 billion, of which housing accounted for F272 billion. The housing sector grew by 1.4% in volume in 1987 (as against 0.7% in 1986), due mainly to the construction of new houses (up +1.6% in 1987, as against +1.1% for the renovation of old housing stock).

5. As a result of the current boom in the automobile industry, the French iron and steel industry reported a profit of F2 billion (their first since 1974) for the first six months of 1988.

6. The automobile registration figures for May showed a strong rise of +17.5% compared to the disappointing April decline of -1.5% (due in part to the Easter holidays). In the first five months of 1988, the increase in sales was 7.9%. The detailed results for May and the first five months of 1988 are as follows:

15. A survey of managers' pay by the business consultancy, l'Expansion, found the average rise in 1987 was 4.1%. They forecast an average rise in 1988 of around 3.9%. A third of the companies surveyed did not offer any across-the-board rise to executives: increases were individually negotiated.

16. The national minimum wage, the SMIC, went up 2.3% on 1 June, triggered by rises in prices and wages. A further automatic rise is expected on 1 July. The government has not responded to pressure from trade unions for an extra rise to help the low paid.

Social Security

17. The Economic and Social Council is due to make recommendations to the Prime Minister in July on the future of the social security and health care system. Proposals under consideration include the simplification of the system of family allowances, more emphasis on individual responsibility in the health care system, reduction of hospital capacity, and the development of alternatives to hospitals. Higher pension contributions are also on the agenda.

18. The government has taken steps to balance the national social security accounts in 1988 by extending additional contributions introduced as an emergency measure by the previous government in 1987. The annual rate of increase of health care spending is edging up again after several months' decline: 2.8% in April following 2.4% in March.

Financial Markets

A. The Bourse.

19. Throughout May the Bourse has been strong, with active trading, and has not been adversely affected by the political uncertainties of the presidential or the legislative elections. In the two week period between 19 May and 3 June, the value of French stocks rose by 8%, while the various indexes recorded an average rise of 5% over the same period. On 6 June, on the day after the first round of the legislative elections, the CAC index rose another 3.1 points to close at 338.3, which is a gain of some 9.9% over 13 May when the CAC index stood at 307.7. The CAC index reached a 1988 high on 9 June of 351.1.

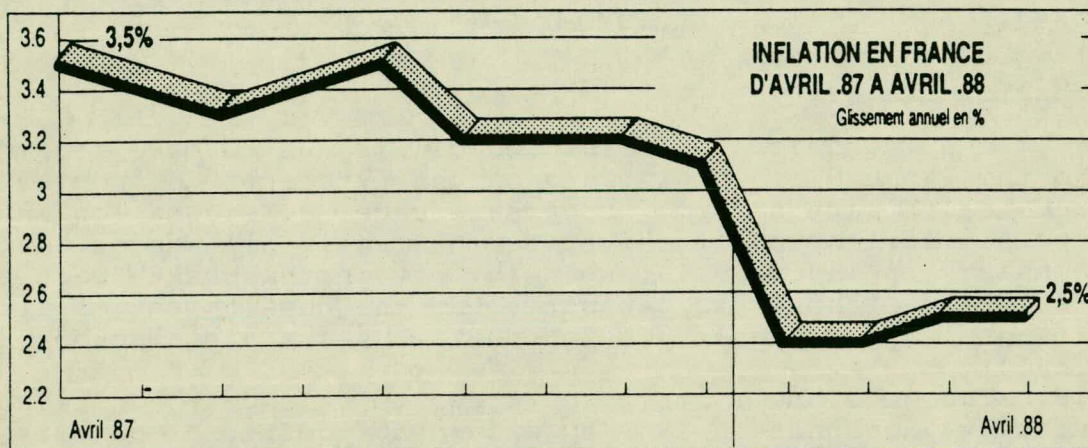
20. The strong showing of the Bourse is due to a number of factors, including the view that French stocks are undervalued, continued merger/acquisition activities and rumours, the stronger performance of other international markets and the publication of good results by a number of large companies.

21. New regulations, aimed in part at the protection and encouragement of smaller investors came into force on 1 June. Small orders, valued at less than F30,000 for stocks and shares and F50,000 for bonds, will no longer be required to be consolidated into larger orders, but will be processed immediately, or at the price at the opening of the next session of the Bourse. Private

11. The underlying trend is for increasing inflation in the next few months, with a 1988 outturn of something over 2.5%.

Inflation in France: April 1987-April 1988

(Source: AGEFI: 19 May 1988)



The Labour Market

12. Unemployment rose very slightly in April to 2,538,600 seasonally adjusted (table 2), still 10.3% of the labour force. The unadjusted figure total was 2,478,100. Announcing the figures, the Social Affairs and Employment Minister, Michel Delebarre warned that the programmes for the unemployed launched in the spring by the previous government were coming to an end and forecast a significant rise in unemployment over the summer months. He announced an immediate injection of 2.5 billion francs for additional places, and undertook to bring forward proposals for a new, more coherent and effective package of employment and training measures in the autumn.

13. André Laignel, the new junior minister responsible for adult training, announced that the government's priorities for vocational training, would be: 'tomorrow's skills, sectors which create employment, skill shortages and training for redundant workers'.

Pay

14. A trade union (CFDT) study of members' pay in 1987 found that two-thirds of those surveyed had lower real net take-home pay in 1987 than 1986. 84% of those earning less than 5,000 francs a month took home less in real terms in 1987.

26. The historical pattern of the various interest rates are given at table 9.

27. According to Bérégovoy, the 0.25% reduction in long-term bond interest rates should reduce the public debt on the budget deficit by F2 billion in one year, while a 1% reduction would reduce this debt by F8 billion in one year. The overall decline in bond interest rates in the last six months has been in the region of 0.5% from c9.5% to c9%.

C. The Franc and Exchange Controls

28. The franc has remained firm throughout May.

29. On 29 May, a few of the remaining exchange controls affecting the foreign currency operations of French firms were abolished. These changes were aimed at cutting administrative costs to companies and to improve their competitiveness in international trade. Only two significant exchange controls still remain in operation. The first is that French citizens (with a few exceptions) cannot hold bank accounts overseas or open foreign currency accounts in banks in France. The second is that there are certain restrictions on lending by banks in French francs to non-residents.

Fiscal Policy

A. The Budget

30. One of the first commitments of the new government was that there would be no corrective budget in the present fiscal year. At the same time, they committed themselves to maintaining the 1988 budget deficit at the current target level of F115 billion. Additional spending by the government, announced on 8 June, will be funded from buoyant revenues and from savings from some programmes. The additional funding will be as follows:

F1.205 billion	- education
F1.484 billion	- employment
F400 million	- research
F400 million	- aid to developing countries
F350 million	- culture
F250 million	- rentals for low cost housing
F116 million	- action against poverty
F50 million	- spending on preparations for the bicentenary of the revolution

B. Impôts sur les grandes fortunes (IGF) - The Wealth Tax

31. The government has announced that they intend to reintroduce a wealth tax in the 1989 budget which will come before the parliament in the autumn. The exact form of the tax and the number of people it will affect remains unclear though it is estimated that it should raise around F6 billion per year. Michel Rocard favours a wide base and a low rate, while Bérégovoy the simpler and quicker solution of resurrecting the narrower based higher rate tax which was abolished by the right wing government in 1986.

share ownership in France is roughly the equivalent to that in the UK, and currently stands at around 9 million.

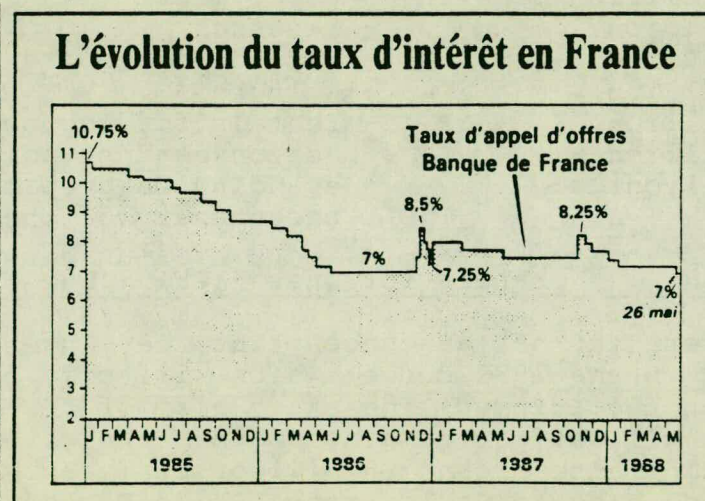
22. The expansion of the continuous market, as against the traditional 'open cry' market has continued throughout May. By 24 May, another sixteen stocks and shares had joined the continuous market quotations, which now total 155, as against 194 still traded on the traditional system. By the end of the year, the traditional system will have all but disappeared.

23. On 10 June Xavier Dupont, the President of the Société des Bourses Françaises announced that the reserve fund of the Bourse had lost F500 million on trading on the MATIF (the financial futures market) in November and December 1987. The losses - the largest in the history of the Bourse - appear to have been incurred when a fund manager attempted, but failed, to reverse previous losses on the MATIF. It is now expected that an extra levy will be imposed on brokers in order to make good the reserve fund. The purpose of this fund is to indemnify clients in the event of a stock broker defaulting. Monsieur Dupont and Monsieur Cosserat, the Director General of the Bourse resigned on 14 June.

B. Interest Rates

24. The strength of the franc against the D-mark since 8 May has provided scope for a reduction in interest rates. On 26 May, the Bank of France lowered by 0.25% its intervention rate to 7%, and that of its seven day repurchase rate to 7.50%. At the same time, the level of obligatory reserves deposited with the Bank of France was raised from 2% to 2.5%. Thus, while the overall cost of credit was reduced, the increase in the obligatory deposits acted as a control on the money supply and as a means of restricting credit. The reduction of intervention rate has not put pressure on inter-bank lending rates, where the base rate has remained at around 9.6%.

25. The pattern of intervention rate changes over the last three years (Le Monde, 28 May 1988) is as follows:



	REAL GDP	NOM'L GDP	TL IND OUT	MAN'F'ING	HOUS.START	RET.SALES
% change on year earlier						
1984	1.4	8.8	1.6	0.1	283.2	90.5
1985	1.6	8.0	1.6	-0.3	295.5	89.3
1986	2.2	7.5	2.4	0.9	295.5	90.3
1987	2.3	5.2	2.9	2.2	310.2	89.6

	% change on quarter earlier					
1987 Q2	1.0	1.5	1.1	1.9	75.8	88.6
1987 Q3	1.0	1.6	1.1	0.7	70.6	89.9
1987 Q4	0.7	1.2	0.7	0.6	91.9	90.9
1988 Q1	1.2				84.6	

=====

REAL GDP = Real GDP (marketed) % (1).
 NOM'L GDP = Nominal GDP (marketed) % (1).
 TL IND OUT = Total Industrial Output % (1).
 MAN'F'ING = Manufacturing % (1).
 HOUS.START = Housing Starts in 1000s (2).
 RET.SALES = Retail Sales (Volume) 1978=100 (yearly
 and quarterly average) (3).

Source: INSEE

- (1) Comptes Nationaux (Comptes Trimestriels).
- (2) Bulletin Mensuel de Statistique.
- (3) Tendances de la conjoncture - Graphiques sur 10 ans.

Assessment of future prospects

32. The prospects for 1988 look much better than expected a few months ago, with GDP growth of 2.5% or a little more, and a better balance between consumption, investment and exports. The balance of payments looks less worrying than it has seemed in the past. (It is exactly a year since poor trade figures led to an outburst of gloom and despondency about the French economy and a public debate on 'the decline of France'). But one senses a nervousness in official circles that the present rosy picture is too good to last, and that there is an underlying fragility that may reveal itself at any moment. Inflation is edging up, but still looks under control, even though the 1988 target figure of 2.5% may be hard to keep to. Officials are nevertheless anxiously watching inflation indicators in other countries, including Britain, for fear of a spillover effect into France. The twin US deficits are a continuing source of concern too: the fear of a further fall in the dollar, with a consequent adverse effect on the franc in the EMS, is always present. Finally the prospects for unemployment remain gloomy, especially by British standards, with the trend over the next few months likely to be at best stable.

DISTRIBUTION

FRAME ECONOMIC.

ECD (I) [-]

LABOUR MARKET
(All figures seasonally adjusted)

	Unemployment (sa) (1)	Total Employment (2)	Employment in non- agricultural market sector (1)	Employment in Industry excluding construction (3)	Industrial Disputes working days lost (excluding agriculture and public administration (3))	
					Local Disputes	General Action
1984						
1985	2,459,208 (Annual average)	21,228,000	(31 Dec) 13,482,800	(31 Dec) 4,876,800	726,717	158,175
1986	(Annual average) 2,515,583	21,247,000	(31 Dec) 13,488,500	(31 Dec) 4,755,400	567,689	473,830
1987	2,620,133 (Annual average)	21,232,000			511,545	457,518
			(31 Mar) 13,494,300	(31 Mar) 4,733,400		
			(30 Jun) 13,515,400	(30 Jun) 4,710,600		
			(30 Sep) 13,493,600	(30 Sep) 4,678,200		
			(31 Dec) 13,497,400	(31 Dec) 4,650,400		
Nov	2,546,400 (10.4%)				(Sep) 40,212	1,335
Dec	2,572,800 (10.4%)				(Oct) 56,664	8,327
Jan 1988	2,577,800 (10.4%)				(Nov) 43,872	287
Feb	2,581,900 (10.5%)				(Dec) 55,955	3,158
March	2,535,100 (10.3%)				Jan 27,406	2,470
April	2,655,000 (10.3%)				Feb 53,012	6,006

Employment figures revised to take account of 1982 census results

- (1) INSEE Informations Rapides
(2) INSEE estimates
(3) Statistiques du Travail

	IND PROD	RET SALES
--	----------	-----------

1987

OCTOBER	105	181.4
NOVEMBER	105	177.0
DECEMBER	106	180.3

1988

JANUARY	106	178.6
FEBRUARY	106	181.5
MARCH	106	177.6

=====

IND PROD = Industrial Production excluding
building and civil engineering, 1980=100, sa.

RET SALES = Retail Sales Value, 1978=100, sa.

Source : INSEE, Informations Rapides.

	M1*	M3*	TIOP	G BOND Y	FF/\$	FF/£	FF/DM	FF/ECU
1984	10.0	9.0	12.00	12.00	9.00	12.00		
1985	8.2	6.6	9.95	10.47	8.99	11.55	3.05	6.80
1986	5.9	4.4			6.93	10.16	3.19	6.80
1987	(4.1)	(9.1)			6.01	9.84	3.34	6.93
OCTOBER 87	3.7	8.9	8.33	10.66	6.02	10.00	3.34	6.93
NOVEMBER 87	4.1	9.2	8.79	10.02	5.71	10.14	3.40	7.01
DECEMBER 87	3.6	8.9	8.60	10.00	5.54	10.13	3.39	6.99
1988								
JANUARY	3.0	8.7	8.33	9.86	5.58	10.05	3.38	6.97
FEBRUARY	1.7	8.1	7.68	9.13	5.74	10.07	3.38	6.98
MARCH			8.04	9.25	5.69	10.42	3.39	7.03
APRIL			(8.13)	(9.16)				

M1 = Annual growth % (1).
M3 = Annual growth % (1).

TIOP (Taux Interbancaire Offert à Paris) = 3 month interest rate, % average on the money market (1).

G BOND Y = Government Bond Yield, % long term TME (2).

FF/\$ = Franc/Dollar (2).

FF/£ = Franc/Pound (2).

FF/DM = Franc/Deutsche-mark (2).

FF/ECU = Franc/European Currency Unit (2).

Notes :

* calculated on the basis of a 3 month average for the same period in each year (Bank of France).
Figures in () are provisional .

Source :

(1) Banque de France, Statistiques Monétaires Provisoires.

(2) Bulletin Mensuel de Statistique (INSEE).

	CONSUMER P	METAL PROD	AVG EARN	U LAB COST	PROD'VITY	
	Percentage change					
1984	6.7	7.3	7.9	8.5	1967-73	5.2
1985	4.7	-7.3	6.1	6.0	1973-79	3.6
1986	2.1	-4.8	5.3	4.5	1979-85	2.5
1987	3.1	-1.4	3.4	4.7	1985-87	2.3
					1987-91	2.9 (provisional)
OCTOBER 87	3.2	5.2		0.4		
NOVEMBER 87	3.2	5.2		0.3		
DECEMBER 87	3.1	6.4		0.0		
1988						
JANUARY	2.4	8.3		1.0		
FEBRUARY	2.4	8.4		0.3		
MARCH	2.5	9.9		-0.8		
APRIL	2.5	8.7				

=====

CONSUMER P = Consumer Prices, annual rates (1).
METAL PROD = Metal Products : wholesale prices,
annual rates (1).
AVG EARN = Average Earnings (April) (2).
U LAB COST = Unit Labour Costs : Mechanical and
Electrical Industries (1). (The index for March
1988 takes account of expenses which are only
available at the beginning of each year).
PROD'VITY = Productivity: annual average
percentage rate of growth in the hourly
productivity of labour for trading sectors
excluding agriculture, housing and financial
services (3).

Source

- (1) INSEE, Informations Rapides.
(2) Statistiques du Travail, Ministère des
Affaires Sociales.
(3) INSEE, Economie et Statistiques, January 1988.

	EXP-VOL	IMP-VOL	EXP-VAL	IMP-VAL
1986	551.8	633.1	154.6	140.4
1987	553.0	682.0	155.2	138.8
1987				
JULY	46.1	57.7	158.2	139.2
AUGUST	46.7	57.3	159.8	139.0
SEPTEMBER	47.2	57.1	154.3	140.5
OCTOBER	46.4	58.5	156.3	140.2
NOVEMBER	49.0	58.1	156.6	141.7
DECEMBER	49.4	60.6	157.1	139.5

EXP-VOL = Volume of Exports, billions of 1980 francs FOB .

IMP-VOL = Volume of Imports, billions of 1980 francs CIF .

EXP-VAL = Value of Exports FOB, 1980=100 .

IMP-VAL = Value of Imports CIF, 1980=100 .

Source : INSEE, Informations Rapides .

	EXP (FOB)	IMP (FOB)	BALANCE	C ACC BAL
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All figures seasonally adjusted

1984	850.100	874.800	-24.700	-7.3
1985	906.000	936.700	-30.700	-1.5
1986	863.600	864.100	-0.500	20.2
1987	889.000	920.500	-31.400	-26.7
OCTOBER 87	74.964	79.832	-4.868	
NOVEMBER 87	79.279	80.627	-1.348	
DECEMBER 87	81.497	81.866	-0.369	-2.4
1988				

JANUARY	79.543	80.135	-0.592	2.2
FEBRUARY	74.590	79.940	-5.350	
MARCH	81.777	79.978	1.799	
APRIL	79.000	81.100	-2.100	

=====

EXP (FOB) = Exports, millions of francs FOB (1).
 IMP (FOB) = Imports, millions of francs FOB (1).
 BALANCE = Trade balance, ml of francs FOB/FOB (1).
 C ACC BAL = Current Account Balance, billions of francs (accumulated) (2).

Source :

- (1) INSEE: Informations Rapides.
 (2) Ministère de l'Economie, des Finances et du Budget (Communiqué).

Table 8

EQUILIBRE RESSOURCES - EMPLOIS (en %)												
	1986				1987				1988			
	1 ^{er} trim.	2 ^e trim.	3 ^e trim.	4 ^e trim.	1 ^{er} trim.	2 ^e trim.	3 ^e trim.	4 ^e trim.	1 ^{er} trim.	1986	1987	Acquis 1988
P.I.B. marchand	0,1	1,2	- 0,3	- 0,3	0,2	1,0	1,0	0,7	1,2	2,2	2,3	2,5
dont V.A. indust.	- 1,4	1,7	- 0,4	- 0,9	0,2	1,3	0,9	0,8	1,8	- 0,4	1,3	3,2
V.A. non indust.	0,8	1,0	0,6	1,0	0,1	1,0	0,9	0,5	1,0	3,3	2,8	2,1
Importations	- 0,3	7,2	1,7	- 4,5	5,3	0,0	3,0	1,7	- 0,3	7,3	6,4	2,5
Total des ressources	0,1	2,5	0,6	- 0,8	1,3	0,8	1,4	0,9	0,9	3,3	3,2	2,5
Cons. march. ménages	1,0	1,2	0,5	- 0,1	1,0	0,0	1,5	0,8	0,2	3,5	2,4	1,4
Cons. nette des adm.	1,3	0,9	1,8	1,3	3,0	1,2	1,2	0,6	0,1	5,0	6,9	1,4
F.B.C.F. totale (1)	0,7	1,8	- 0,3	0,6	0,7	1,1	2,0	0,5	2,8	2,9	3,4	4,6
dont S.Q.S. et E.I. (2)	1,4	2,0	- 0,3	0,1	1,0	1,8	2,0	1,6	3,1	3,3	4,2	5,9
ménages hors E.I.	- 0,8	0,6	- 1,5	1,1	0,4	- 0,5	2,5	- 2,1	2,3	- 1,0	0,9	1,8
administ. pub.	0,4	2,6	1,0	1,0	0,4	1,6	1,3	1,2	2,9	6,2	4,5	4,9
autres secteurs	5,0	4,0	2,7	1,9	0,8	1,2	1,5	1,5	2,1	15,5	6,7	4,3
Exportations	- 1,2	0,9	- 0,3	- 1,1	- 0,3	0,7	3,2	2,4	1,7	- 0,7	1,7	5,3
Emplois hors stocks	0,5	1,2	0,2	- 0,1	0,7	0,4	1,9	1,0	1,0	2,6	2,6	2,6
Variations de stocks en milliards de francs 1980	- 3,4	6,9	9,8	4,5	9,1	12,4	8,5	7,9	6,8	17,8	37,9	
Demande intérieure totale	0,4	2,9	0,8	- 0,7	1,7	0,8	1,0	0,5	0,7	4,4	3,6	1,8

La demande intérieure totale est définie comme le total des ressources moins les exportations.

L'acquis est le taux de croissance annuel qui serait observé si la variable concernée restait au niveau atteint au dernier trimestre connu. Il ne s'agit pas d'une prévision mais d'une indication de l'impact des évolutions passées.

(1) Formation brute de capital fixe.

(2) Sociétés et quasi sociétés, entreprises individuelles.

(Source: Les Echos: 6 June 1988)

	EXP to UK	IMP fr UK	BALANCE
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All figures in millions of francs

1984	64.284	72.888	-8.604
1985	71.592	78.936	-7.344
1986	72.708	58.068	14.640
1987	75.504	67.176	8.328
OCTOBER 87	6.627	6.097	0.530
NOVEMBER 87	6.844	5.755	1.089
DECEMBER 87	7.242	5.694	1.548
1988			

JANUARY	7.520	5.209	2.311
FEBRUARY	5.942	5.747	0.195
MARCH	7.052	5.964	1.088

=====

EXP to UK = Exports to UK FOB, sa .
 IMP fr UK = Imports from UK CIF, sa .
 BALANCE = FOB/CIF .

Source : INSEE, Informations Rapides .

AGREGATS DE MONNAIE A FIN FEVRIER 1988	Données brutes en milliards de francs	Variation du mois C.V.S. %	Variation sur 12 mois de la moyenne trimestrielle centrée sur	
			Février 1988 %	Janv. 1988 %
M1	1.365,5	— 1,7	1,7	3,0
M2 - M1	1.247,8	0,3	4,7	4,5
M2 (objectif monétaire 4/6 %)	2.613,3	— 0,8	3,1	3,7
M3 - M2	921,5	2,3	24,7	25,9
M3	3.594,8	0,1	8,1	8,7
L - M3	518,9	0,8	33,9	36,8
L	4.113,7	0,0	10,8	11,4
L - M1 (placements liquides ou à court terme)	2.748,2	0,8	16	16,5
MARCHE PRIMAIRE OBLIGATAIRE A FIN MARS 1988	Flux mensuel en milliards	Cumul 3 mois 1988 milliards	Cumul 3 mois 1987 milliards	Variation 1988 sur 1987 %
Emissions brutes d'obligations	32,5	95,8	103,7	— 7,6
Règlements nets sur le marché obligataire (souscriptions moins amortissements et intérêts)	15,5	— 13,8	24,7	— 155,9
AGREGATS DE CREDITS A FIN FEVRIER 1988	Données brutes en milliards de francs	Variation du mois CVS %	Variation sur 12 mois de la moyenne trimestrielle centrée sur	
			Janvier 1988 %	Décembre 87 %
Crédits à l'économie des banques	2.152,5	0,5	14,8	14,0
Ensemble des crédits à l'économie		0000000		010,4

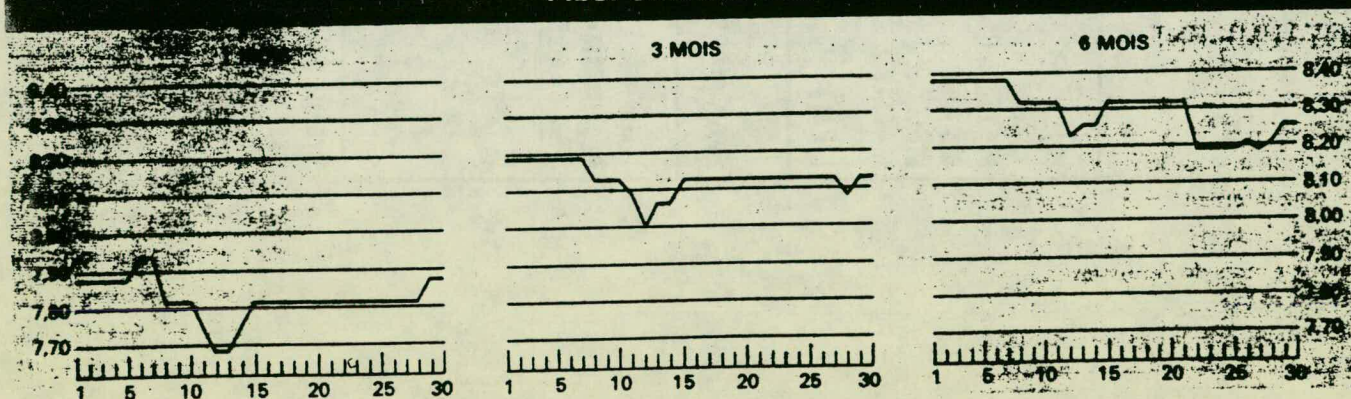
* Ces données, établies grâce au concours d'un échantillon restreint d'établissements, sont, bien entendu, sujettes à révision. Les variations intra-annuelles dont fait état le commentaire ci-après sont corrigées des facteurs saisonniers lorsqu'elles sont exprimées en pourcentage et brutes quand elles sont données en valeur absolue.

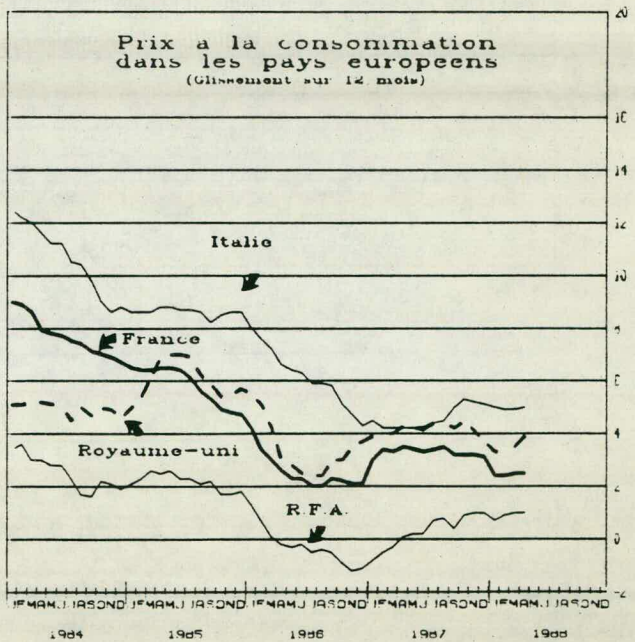
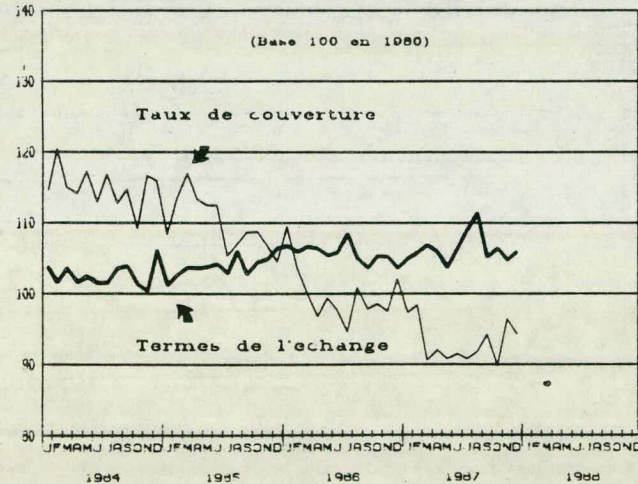
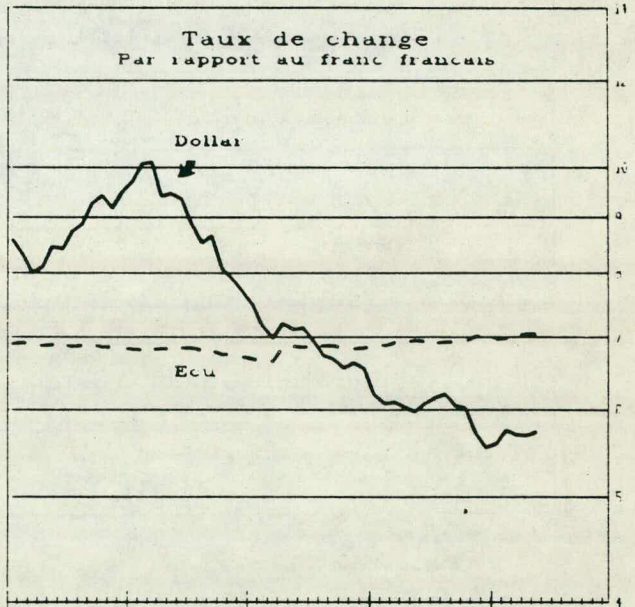
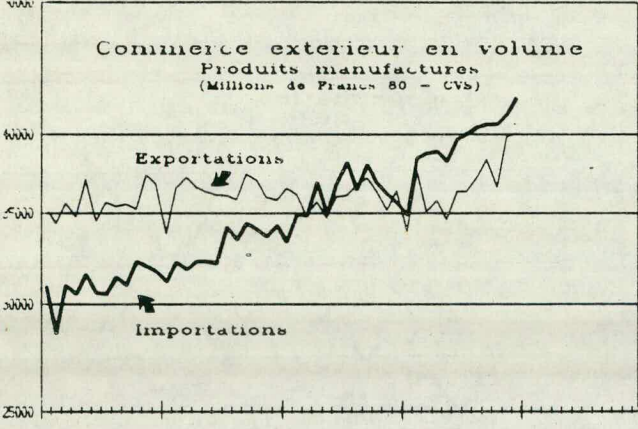
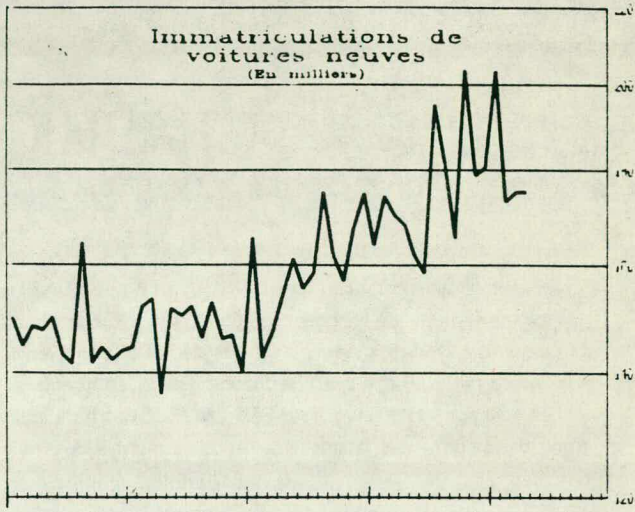
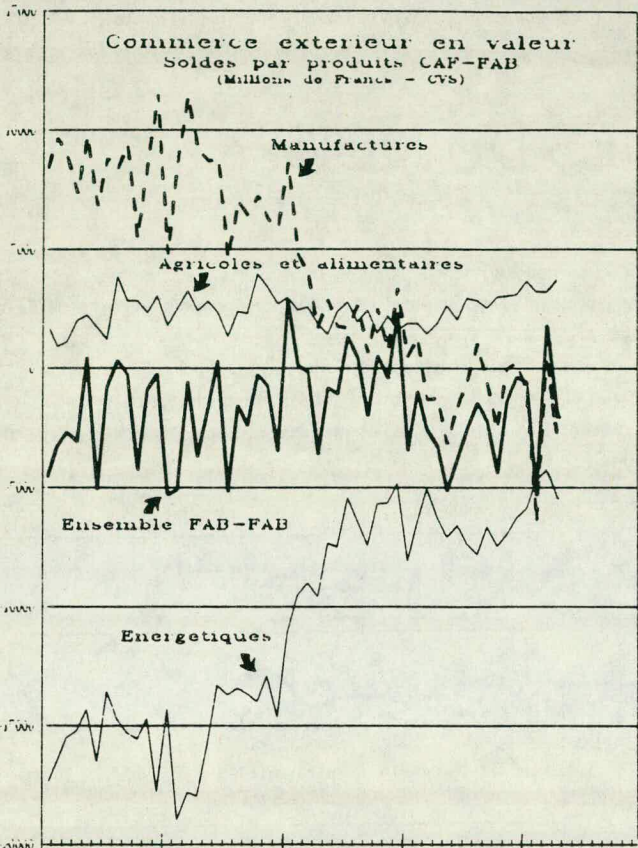
Taux d'intérêt monétaires et financiers

FRANCE	1986	1987	1987			1988		
			nov.	déc.	janv.	fév.	mars	avril
Taux d'escompte (1)	9,5	9,5	9,5	9,5	9,5	9,5	9,5	9,5
Taux d'intervention Banque de France sur le marché monétaire sur appels d'offres (1)	7	7,75	8	7 3/4	7 1/4	7 1/4	7 1/4	7 1/4
Taux moyen du marché monétaire au jour le jour contre effets privés (2)	7,74	7,97	8,66	8,03	7,80	7,26	7,54	7,55
Pibor 1 mois (2)	—	8,1171	8,6557	8,2319	7,8775	7,4440	7,7429	7,8229
Pibor 3 mois (2)	—	8,2690	8,7870	8,6043	8,3286	7,6767	8,0388	8,1286
Pibor 6 mois (2)	—	8,4732	8,9672	8,8493	8,6346	7,9865	8,2308	8,2875
Pibor 1 an (2)	—	8,7941	9,1891	9,0716	8,9783	8,4203	8,4728	8,5008
Bons du Trésor à 13 semaines (3)	—	8,24	8,85	8,54	8,31	7,59	7,82	7,93
Billets de trésorerie de 20 à 40 jours (4)	—	7 13/16 à 8 1/16	8 11/32 à 8 5/8	7 13/16 à 8 1/16	7 11/32 à 7 1/2	7 1/8 à 7 3/8	7 5/8 à 7 7/8	7 5/8 à 7 13/16
Taux de base de la BFCE (1)	9,60	9,60	9,60	9,60	9,60	9,60	9,60	9,60
Taux à 3 mois de l'eurofranc à Londres (2)	9,27	8,60	9,19	9,08	8,53	7,86	8,20	—
TME. Taux moyen des emprunts d'Etat à long terme (2)	—	9,43	10,02	10,00	9,86	9,14	9,23	9,19
TAUX DE L'ÉCU								
à 6 mois (1)	7 15/16 à 8 1/16	6,875 à 7,00	7,0625 à 7,1875	6,875 à 7,00	6 3/8 à 6 1/2	6 1/2 à 6 3/8	6 17/32 à 6 21/32	6 17/32 à 6 21/32
à 1 an (1)	7 5/16 à 7 13/16	7,00 à 7,125	7,1875 à 7,3125	7,0 à 7,125	6 5/8 à 6 3/4	6 3/4 à 6 5/8	6 11/16 à 6 13/16	6 23/32 à 6 27/32

(1) Fin de période. (2) Moyenne sur la période. (3) Taux de rendement pondéré actualisé (moyenne sur la période). (4) Valeur indicative des extrêmes en fin de période (source BFCE).

Pibor en mars 1988





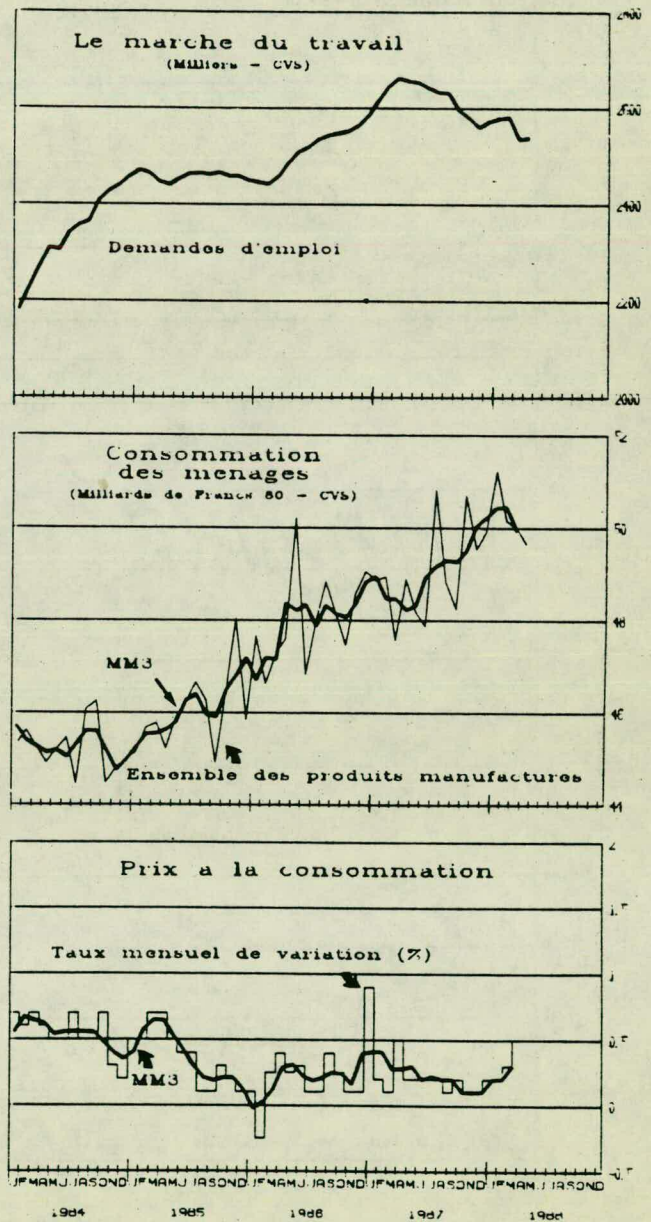
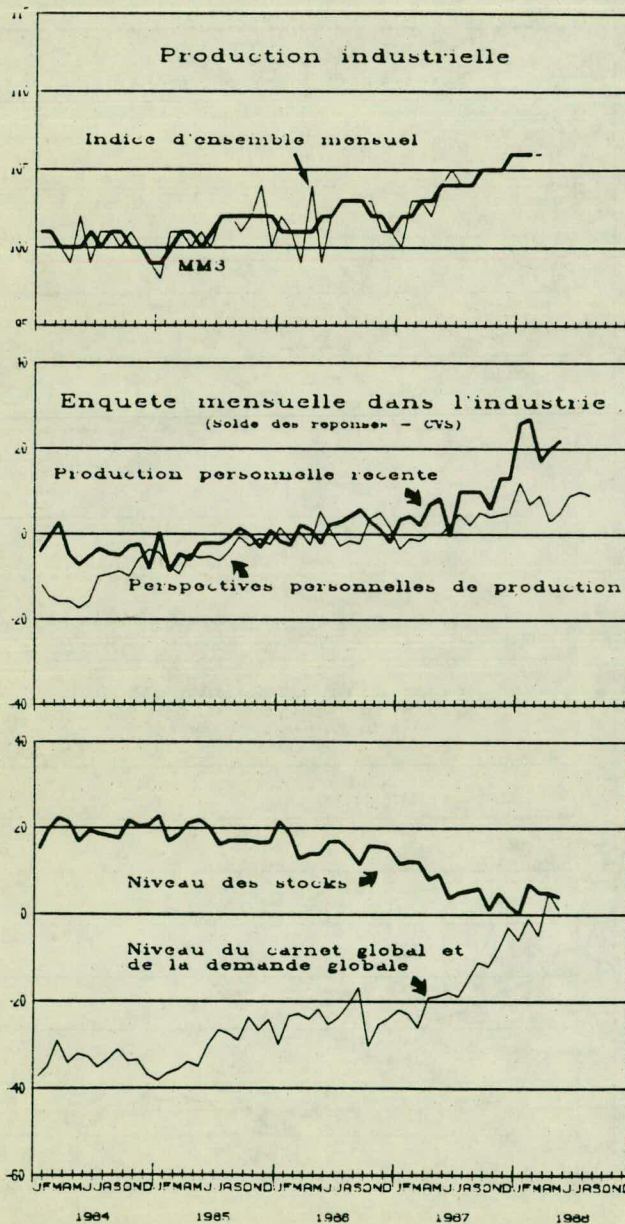
D'après l'enquête mensuelle de mai, la production a continué d'augmenter à un rythme soutenu dans toutes les branches.

En avril, la consommation des ménages en produits manufacturés poursuit le mouvement de repli amorcé depuis février, et lié ce mois-ci à une baisse sensible de la consommation d'électronique grand public.

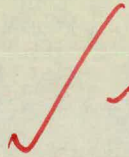
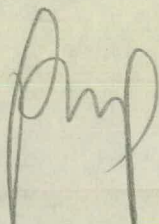
Le nombre de demandeurs d'emploi inscrits à l'ANPE confirme en avril la baisse enregistrée en mars.

L'indice mensuel des prix à la consommation augmente de 0,5 % en avril après 0,3 % en mars et 0,2 % en janvier et en février.

Les échanges extérieurs (FAB-FAB CVS-CJO) sont déficitaires en avril de 2,1 Mds de F (après un excédent de 1,8 Md de F en mars), du fait d'une baisse des exportations (4 %) et d'une montée des importations (0,8 %).



24/6/88



CH/EXCHEQUER	
REC.	- 4 JUL 1988
ACTION	
COMES TO	

FRANCE: THE SINGLE MARKET AND THE LONGER TERM

SUMMARY

1. The French are aware of 1992. For some it is part of a compelling vision of a strong France in a strong Europe, and an opportunity that must be grasped. For others it is an uncertain risk. (paragraphs 1-5)
2. The optimists see France criss-crossed by new motorways and high speed trains, at the centre of a dynamic Europe; the pessimists doubt the benefits such networks will bring. (paragraphs 6-8)
3. The optimists see France benefitting from a higher population growth rate than her main Community competitors; the pessimists the shifting age structure, and the inappropriateness of France's elitist education system to a liberal economy. (paragraph 9)
4. The optimists focus on those dynamic sectors of French industry that will benefit from competition; the pessimists on the many small and medium size industries that will suffer. (paragraphs 10-11)
5. There will be continuing rhetoric on monetary construction, as well as more practical proposals for adapting the EMS to reduce the dominance of the DM. Ambiguity on tax approximation. (paragraphs 12-14)
6. The outlook is mixed for French financial services (paragraph 15); the farmers are nervous, and instinctively protectionist (paragraph 16); but the energy sector may benefit. (paragraph 17)
7. Conclusion: a continuing tension between a genuine commitment to a single market and a need to protect France from some of its consequences. Differences of approach between Britain and France but these are manageable and both want progress towards a single market. (paragraphs 18-22)

BRITISH EMBASSY

PARIS

24 June 1988

The Right Honourable
Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs

Sir,

FRANCE: THE SINGLE MARKET AND THE LONGER TERM

1. France was the first member of the Community to embark on a deliberate programme to prepare business and public opinion for the creation of the Single Market, and the challenge of 1992 figured prominently in the recent Presidential campaign. All three leading candidates gave Europe pride of place in describing their vision of France's future. Awareness of the significance of 1992 is almost certainly more widespread in France than in any other member state. Now that France has a President who will, barring accidents, lead the country through to 1 January 1993 and beyond, it is worth asking what 1992 represents for the French and what consequences they expect the Single Market to have for France's future.

2. At one level 1992 is for the French a rallying cry. It represents a vision of the future which instinctively they find persuasive. That vision is of a Europe sufficiently strong and united to take on the economic challenge of the USA and Japan and to cope with any strategic shifts in relations between the two super powers. In this Europe France will have a pivotal role, stemming from her geographic position at its centre and from the quality of her intellectual and economic contribution to its development. The vision is, in one sense, a cloak for the continuing French aspiration for hegemony in Europe. While the French recognise that their guiding influence will not be accepted by other states for its own sake, they are convinced that the new Europe needs to radiate the best that France can offer in ideas, culture (broadly defined, to include science and technology) and vitality.

/3. For

3. For a representative description of the main ingredients of this vision one can do worse than turn to the Letter to the French which was the nearest to which President Mitterrand came to producing a Presidential manifesto. The key points are:

- (a) Europe is already the largest commercial force in the world. If she could find the will she could become the foremost scientific and technological force, the leading agricultural force, and a serious challenger to Japan and the US in the industrial sphere, while the ECU could be one of the three pillars of the world monetary system.
- (b) The challenge of 1992 is more than the simple creation of a free trade area. It is about developing new common policies in research, culture, the environment and social issues, developing the ECU into a genuine reserve currency managed by a Central Bank, harmonising taxation rates, increasing coordination of foreign policy, and strengthening the institutions of the Community.
- (c) It is also about devising better protection for European producers, industrial and agricultural, than exists at the moment. Without that protection Europe's 320 million consumers will be assaulted by non-Europeans seeing in them the most important market in the world.

4. The French feel all the more need for a vision of this sort in that they are uneasily aware that for some years things have not been going particularly well for them economically. They have been temperamentally and historically better adapted to a dirigiste culture than to economic liberalism, which goes against the grain. The confidence in France's economic future that was widespread in the early 70s has faded and the need for new strategies is widely recognised. In as much as this European vision satisfied this need, their commitment to the creation of a Single Market is genuine.

5. At another level, however, French attitudes towards 1992 are more ambivalent. This ambivalence springs partly from uncertainty about whether France really will benefit economically from the creation of a Single Market, partly from more basic fears about erosion of national sovereignty. When they get down to detailed analysis of the consequences for France of implementing the Commission's proposals, they see that the outcome is far from clearcut. A Single Market will present opportunities for France, but it will also present risks.

Geography

6. This tension between opportunity and risk is apparent in several areas. Take first the basic question of geography. two scenarios are possible, one optimistic, the other pessimistic.

/For the

For the optimists France is uniquely placed to benefit economically from the creation of the Single Market. She has common borders with six other Member States (counting the cross-Channel links with the UK as a border), and she is the hinge between northern and southern Europe. Communications with the rest of Europe are already good, and are being further developed as a high priority. By the mid-90s the fast rail network (Train de Grande Vitesse - TGV) which now links Paris with Lyons, Geneva and Marseilles, will extend to London, Brussels, Amsterdam, Cologne, Bordeaux and Nantes. To the existing network of motorways spreading out from Paris will have been added a large number of inter-regional links. Traffic from the channel ports will be able to flow down through Nantes to Bordeaux and on into Northern Spain. Another link to Spain will run through Bordeaux, Clermont-Ferrand and Lyons. And of course the Channel Tunnel will have been completed.

7. These geographic considerations feature particularly prominently in the thoughts of regional administrators and politicians. For the authorities in the Nord-Pas-de-Calais, a region that has been badly hit by the decline of traditional industries such as textiles, steel, coal and shipbuilding, the development of cross-border links with the UK (through the Tunnel), and Belgium, is seen as offering the best hope for a brighter and more prosperous future. In another region badly affected by industrial decline, the Lorraine, much play is being made of the fact that 70 million European citizens live within a radius of 300kms of the region's twin capitals of Metz and Nancy. In Western France, a relatively under-industrialised area, where rural desertification is a major problem, the region's position athwart the UK-Spain axis is a source of hope. For the three regions that border Spain, Aquitaine, Midi-Pyrenées and Languedoc-Roussillon, the current vitality of Catalonia and the Basque region of Spain is seen as offering the prospect of fruitful cooperation. The regional authorities in Toulouse, for example, are already looking into how the region might profit from the staging of the Olympic Games in Barcelona in 1992.

8. For the pessimists much of this is wishful thinking. They point out that a large area of France is outside the main economic axis of the Community - the Milan/Birmingham line - stretching from northern Italy to central and south-east England. There is no guarantee that there will be a spillover effect into the South and West, or that commercial and industrial activity spreading from a resurgent Spain will generate sufficient activity to transform the economic prospects of the neighbouring regions. Besides, the thesis that economic benefits must flow from lying athwart communications between two major economic centres is by no means proven. On the contrary, rather on the pattern of the United States, there is a risk that in the Europe of the Single Market economic activity will centre round the most powerful of the existing conurbations, little benefit accruing to rural areas beset by desertification or to industrial areas already in decline. The process of consolidation that is expected to occur at a company level over the next few years, resulting in a reduction in the overall number of players, may occur too at the level of economically significant areas. Industrial

production and its attendant services may be concentrated in fewer areas ten years from now than at present. The optimists have a counter-argument: developments in telecommunications may make it possible for people to provide services from a much greater distance than at present, and in such a case they will be tempted to locate themselves in rural, relatively underdeveloped regions like the South and West of France because they can thus enjoy a better quality of life than is generally available in major metropolitan areas. But no one can be sure that things will turn out this way. The upshot therefore is uncertainty, and hence ambivalence.

Demography

9. Demography is another important area of debate. If recent trends are maintained, France is likely to be the most populous nation in the Community by the year 2020. The birth rate is not especially high, but it is higher than anywhere else in Western Europe except Ireland, Greece and Portugal. This, the optimists argue, must work to France's economic advantage. The pessimists point out that overall, Europe is declining in relation to the rest of the world. And whatever the comparisons with other countries in Europe, such as the FRG, which may show France in a favourable light, within France the balance between the elderly and the young and active is changing for the worse, with consequent pressure on retirement pensions and health care services. Also the productive capacity of the working population leaves something to be desired. It is not clear that, for all their abilities, France's elites - the products of the 'grandes écoles' - have the qualities and attitudes required for success in international business; and there is widespread concern that the education system as a whole is not adapted to the needs of the economy, while the generality of the workforce is less well trained than that of Germany, the United States and Japan - though better trained than Britain's. Hence the political consensus on the need to give priority to education and a drive to raise the number of young people obtaining the baccalaureat (the French equivalent of 'A' levels) to 75% or 80% by the year 2000.

Industrial tissue

10. There is tension between optimism and pessimism in the industrial sphere too. The optimists' case rests on French strengths in a number of high-technology sectors that have enjoyed government support for many years, notably nuclear energy, telecommunications, and aerospace; and in the fact that the worst of the restructuring in traditional sectors is now behind them. Their steel industry is leaner and fitter than the German or Italian industries. The shipbuilding nettle has been grasped and all but one civil yard closed down. Peugeot/Citroen and Renault have returned to profitability having shed tens of thousands of employees and achieved large increases in labour productivity. By and large the major French industrial groups are managed by professionals who are already

well used to thinking in European if not global, terms, who have experience in dealing in non-French markets, and who know how to handle competition.

11. It is much less clear, however, that France's small and medium sized industries as a whole will fare well post-1992. It is an accepted generalisation that the attitudes of many of those who run them (often family firms) are outdated and their knowledge of modern management and marketing skills limited. The Head of the French Patronat admits that France lacks an enterprise culture. They are not used to looking outside France for business and are slow to exploit new technological opportunities. Some see little point in courting the risks attendant upon expansion. Low profits since the mid-70s (though recently picking up) have resulted in under-investment in productive capacity. Finance, especially risk capital, is often only available at discouragingly high interest rates. There are fiscal disincentives to passing on a company to members of one's family. They bear a heavier social payments and fiscal burden than counterparts in the FRG and certain other member states. The Chirac government tried to get to grips with some of these problems, and the Rocard (or a successor) government is likely to be equally aware of the stakes, but it is not at all clear that radical improvements in the competitiveness of this sector can be achieved between now and 1992. Meanwhile there is a widespread feeling - not exclusively on the Left - that measures to break down internal barriers to trade must be accompanied by harmonisation of standards for worker protection and representation if French firms, bearing their costly burden of employment legislation, are not to be the victims of 'social dumping' by neighbours whose social costs are lower. The call by Monsieur Delors, the President of the European Commission, for a set of basic employment rights will find a ready audience in France.

Monetary construction

12. Over the last few months monetary construction has become the symbol of commitment to a more united Europe. But there is confusion between rhetoric and reality. The rhetoric calls for endorsement of the goals of a common currency and a European Central Bank, and for wise men to chart the path towards them. But there has been little thought about what these goals would actually mean for France. When the Prime Minister asked President Mitterrand on 10 June whether France would really accept the loss of economic sovereignty implied by a truly common currency he replied, predictably, no; and nobody in the Banque de France or the Trésor sees them as anything other than an aim for the mid-21st century. No one has studied seriously the consequences for France of full economic and monetary union, and the limitations which it would place on the ability of any democratically elected government to transfer resources to regions in decline. But that will not stop the rhetoric, particularly given Mitterrand's personal commitment to greater European union and to closer monetary union as part of it.

13. The reality of French policy on monetary construction is more down to earth: the need to adapt the EMS in order to bring about greater convergence of economic policy and to weaken the role of the Deutschmark within it, and thereby the deflationary and potentially destabilising effect of Germany economic policy on the French economy. We must not forget that behind the facade of Franco-German togetherness - the new Economic and Financial Council for example - lie some fundamental differences of opinion on economic management. We can expect continuing French initiatives designed to strengthen the EMS. And since sterling's membership of the exchange rate mechanism is seen as important in this context, the French will continue to want (and sometimes to urge) us to join.

Tax approximation

14. There is an ambiguity here too. The French will accept the principles of tax approximation, and argue strongly for it when it suits them - as over the taxation of personal savings as a counterpart to free movement of capital. But they fear the budgetary losses that would result from the Commission's proposals to harmonise VAT, and will want to move only slowly in that direction.

Financial Services

15. In the financial services sector, as in industry, the outlook is mixed. The major French clearing banks are large by European standards, but many French bankers believe that only one or at most two will be among the half dozen large European banks they expect to survive into the mid to late 1990's. They do not have the innovative record of the Anglo-Saxon banks and are still handicapped by a certain backwardness of attitude. With two or three exceptions French insurance companies are small by European standards and tiny compared to some of the US and Japanese groups beginning to take an interest in the European market (eg the assets of groups like Nippon and Prudential equal the total assets of all French insurance companies). The French life insurance business has only recently taken off. Taxes on insurance premiums in France are at the top end of the European scale. The Paris Bourse is being liberalised and secondary markets (financial futures, unlisted securities, stock options) have been set up. But no one realistically expects Paris to catch up with London as a financial market place.

Agriculture

16. For agriculture the impact of 1992 as such will be less marked than for industry or the financial sector; but the outlook for French farmers is nonetheless uncertain. Four years of downward

pressure on EC farm spending and EC prices have left their mark on morale. They see a future of limited production possibilities in the sectors where they are traditionally strong, and no easy answers to the question of alternative outlets, whether agricultural or industrial. Although the Chirac years have left them better off in revenue terms, farmers know that this has been achieved largely through the injection of state aids. Looking to the future, they see by the early 1990s the progressive dismantling of barriers to agricultural trade with Spain and Portugal, regarding it more as a threat to their markets in the south and south-west than as an opportunity. At the same time, traditional third country markets for French agricultural exports are coming under constant pressure from American export programmes. Little wonder, perhaps, that the French farmer instinctively reacts to the pressure to rein in the CAP by seeking to erect substantial protectionist barriers against the outside world: on the reasoning that if the European farmer, for so long the Community's favourite son, has to tighten his belt, third country suppliers should share at least some of the misery.

Energy

17. One of the few major sectors where the French have little to lose and something to gain is energy. The creation of a Single Market for energy will not aggravate or materially affect their existing dependence on imports for their oil and gas needs; it will, however, make it easier for them to make maximum use of the electricity production capacity that their nuclear power programme has given them. At present they are willing suppliers of electricity at a highly competitive price, but are frustrated by the import barriers that some governments have contrived.

Conclusion

18. In their presidential campaign platforms, both President Mitterrand and Monsieur Chirac put Europe at the centre of their vision of the future. But Chirac's prescription was more demanding. His response to the risk side of the balance sheet was to argue the need for sacrifices, and to take the view that 1992 was a way of forcing change on to certain areas of French society, removing obstacles to enterprise, and fostering a more dynamic approach. (This view is largely shared by the French Patronat.) The electorate clearly preferred the subtler, more reassuring language of Mitterrand in which an equally strong commitment to Europe and acknowledgement of the challenges it posed was offset by references to social solidarity. Chirac gave the impression that not only would there be wounded but they would be left behind as the French forces advanced; Mitterrand implied, in a masterfully vague way, that there need be no wounded.

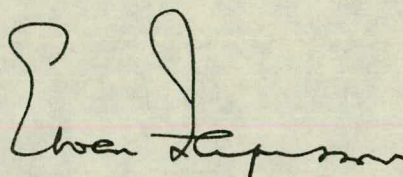
19. What all this means is that over the next few years there will be a tension between the French commitment to the creation of the Single Market - a commitment which is genuine, because as explained above (paragraphs 2-3), it rests on a logically coherent vision of what will serve France's long-term interests - and the wish to minimise damage to more immediate interests in those areas where France is badly placed to cope with the consequences of creating the market. There is nothing surprising or novel about this. The same could no doubt be said about other members of the Community (though the nature of the commitment may be less far-reaching in some other cases). But when we encounter French foot dragging in specific negotiations or a lack of enthusiasm for progress that appears at odds with French rhetoric, it is in this tension that an explanation should be sought.

20. Given our different approaches, we and the French are bound to find ourselves on different sides of the fence from time to time. We shall tend to favour liberalisation; the French harmonisation or regulation. On external trade issues, the French will tend towards a more protectionist approach. They will also tend towards the general declaration and the commitment to long term goals, eg on monetary union; we shall want to emphasise the practical steps. The French will put more emphasis on social issues than we shall. They may threaten to push ahead without us on some issues, perhaps in German company. We may hear too of a Franco/German/Spanish axis. (It will be interesting to see how far the French and Spanish try to work together in their successive Presidencies in 1989.) But we and the French share a common and important goal in wanting to make real progress towards a Single Market. Provided that we continue to develop deeper bilateral contacts with them, and concentrate on the practical points to be resolved, rather than the philosophies underlying them, the differences between us will be manageable. (And in President Mitterrand and Monsieur Bérégovoy (to quote the latter when I called on him on 22 June) we have two men in significant positions of a generation for whom the British role in 1914 and 1940 makes our relationship with France an «unforgettable necessity»).

21. Finally, much work is going on in French Ministries, special commissions and think tanks, about the implications of 1992 for France. The Planning Commission has been asked to draw the threads together and to produce a strategic overview. I should be most interested to know what similar exercises are going on in Whitehall. If there has been any attempt to analyse the effect of the creation of a single market on different sectors of the economy, or to define the contours of the economic map of Europe in the 1990's it might be useful if my Embassy, and others in the European Community, could be brought in on it. If not, should a start be made? Can we help further?

22. I am sending copies of this despatch to Her Majesty's Permanent Representative to the European Community and to HM Ambassador's in other Community posts.

I am Sir
Yours faithfully

A handwritten signature in dark ink, appearing to read "Ewen Fergusson". The signature is written in a cursive style with a large initial "E" and "F".

Ewen Fergusson

CONFIDENTIAL

1 Jonathan
2. Puz

From: Sir G.Littler
Date: 27 June 1988

MR ALEX ALLAN

c.c. Sir P.Middleton
Mr Peretz

BEREGOVOY

I think the Chancellor may like to see the attached letter with a note of a meeting between our Ambassador in Paris and the French Finance Minister, especially the second page on EMS/ERM issues.

2. Incidentally, on SSA debt, the difference reported in Jay's letter between the Minister and his official (Deputy Secretary) Denis Samuel-Lajeunesse fits what we know. S-J has been cautious and unhelpful, whereas Trichet has been much more positive.



(Geoffrey Littler)

**BRITISH EMBASSY**

35, rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08

Telephone : 42 66 91 42

Sir Geoffrey Littler KCB
 HM Treasury
 Whitehall
 London SW1

Your reference

Our reference

Date 23 June 1988

Dear Geoff,

AMBASSADOR'S CALL ON BEREGOVOY

1. The Ambassador called on Bérégovoy yesterday. This was intended as essentially a courtesy call, but Bérégovoy covered ground in which the Ambassador thought that you and the Chancellor would be interested: I attach a copy of the Ambassador's record of the discussion.

2. It is worth adding that although it is early days yet, one has a sense that the institutional dynamics of economic policy formulation are changing under the new government. Mitterrand played a comparatively small role between 1986 and spring 1988, with the conduct of economic policy left to Chirac and in practice - since he had Chirac's entire confidence - Balladur. The role of the Trésor was consequently very great. Since the elections, Mitterrand is making his presence clearly felt, at least in areas which interest him, such as debt and European monetary cooperation. Bérégovoy will not always see eye to eye with him; nor, perhaps will the Trésor always see eye to eye with Bérégovoy. (Bérégovoy told the Ambassador he was pleased with the Toronto outcome on debt; Samuel-Lajeunesse told me the other night that he thought we had all set off along a thoroughly unsafe road, with no knowing where it would lead). The result may be that both the Finance Minister and the Trésor will be less powerful, at least on international economic issues, than has been the case over the last two years, and Mitterrand and the Elysée staff correspondingly more important. The role of Rocard and the staff at Matignon remains uncertain for the moment: they may find themselves marginalised.

3. This is, of course, an area we shall watch and report on as the second Rocard government, due to be appointed within the next few days, settles in and as economic policies unfold.

Tommy,
M H Jay

M H Jay

Mr Jay

CALL ON THE FRENCH MINISTER OF FINANCE, 1530, WEDNESDAY 22 JUNE

1. I called on M. Bérégovoy this afternoon. Beforehand I had a short talk with M. Jacques Desponts, Conseiller Technique, who was present at the meeting, who had been present at the Lawson/Bérégovoy meeting at the time of the OECD meeting and who had been in Toronto. As we left M. Bérégovoy said that while he would always be happy to see me on major points, the best way of keeping in touch with his thinking was by regular contact with M. Desponts.
2. M. Bérégovoy went out of his way to emphasise that both M. Mitterrand and he were of a generation for whom the British role in 1914 and 1940 was unforgettable. They saw it as a permanent requirement to do their best to maintain a close working relationship with the UK. He commented on M. Mitterrand's respect and admiration for Mrs Thatcher; his relations with Mr Lawson were easy, as one would expect from a pragmatic Socialist and a realistic Conservative. Although there had been no specific bilateral contact at Toronto the relationship during M. Bérégovoy's early spell as Finance Minister had been a positive one and the bilateral during the OECD meeting had re-established close personal contact.
3. M. Bérégovoy thought that the Toronto meeting had gone well. The outcome on debt (M. Desponts had commented on the minor problems of amour propre among those who had espoused their own proposals) had been positive; a satisfactory compromise had been achieved which would now be worked out in the Paris and London clubs.
4. M. Bérégovoy said that although a satisfactory text had been achieved on agriculture, Mrs Thatcher had revealed her true colours during the discussion and, in his view, had gone significantly further than the agreed European Community position on long-term «subsidy disarmament». This remained an inevitable point of difference between us. For his part he thought that the American position was profoundly hypocritical.
5. M. Bérégovoy agreed that the ground work for Hanover had now been well prepared and he foresaw no trouble over the basket of practical decisions. He did however expect substantial pressure on the UK on future economic and monetary cooperation. One aspect of this was the study of future institutions and of European Central Bank. He believed that this ought most sensibly to be entrusted to the Central Bank Governors. He would for instance be entirely content with a small team consisting of Poehl, Larosière and a British representative, but he knew that there were more far reaching ideas in the Elysée and the Quai; and he would not himself be present at the discussions. When I mentioned that the names of Giscard and Schmitt had come up between the Prime Minister and M. Mitterrand, he was dismissive («inevitable since they are on the European Monetary Committee») but said that he must have a word with the President before Hanover, ie on Sunday,

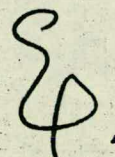
/to try to

to try to ensure that the President and M. Dumas were tied down to a sensible practical position.

6. As far as liberalisation was concerned, M. Bérégovoy said that there was an ineluctable trend towards the more open market of «1992», in the way of which he would certainly not want to stand. He was satisfied with the ECOFIN decision on the liberalisation of capital movements. Desponts earlier told me that the date for the Commission proposal of 30 June was important for the French since that was before the start of their Presidency (I did not fully understand and he did not explain). M. Bérégovoy went on to repeat, in very much the same terms what he had said to me in March (recorded in your letter to Sir Geoffrey Littler) about sterling and the exchange rate mechanism. It was not reasonable that there should be a sterling weighting in the ECU, such that the ECU's value was affected by fluctuations in the value of sterling, if sterling was not subject to the same disciplines as the other currencies which came from their participation in the ERM. He knew the position of the Chancellor of the Exchequer, the Treasury and the Bank of England. He knew too how sensitive an issue this was in political terms between the Prime Minister and her senior Ministers. There was no question therefore in the short-term of further French pressure for sterling's entry. Nonetheless we could not have it both ways. If we wanted the far reaching progress on financial services which was clearly in our interest, we could only achieve it by entering the ERM. The crunch would not come for two or three years but when it did there might well be a choice between staying in the ECU and entering the ERM, or leaving both.

7. We had a short discussion of the current state of the French economy which M. Bérégovoy thought was in reasonable shape. He would probably be putting ^{down} ~~up~~ interest rates next week. He thought that the deutschemark was at present vulnerable and he regretted that the UK had put up its interest rates, thus sucking in deutschemarks unnecessarily. He thought that the dollar was likely to strengthen. He believed that the mounting UK inflation rate was likely to be a worry (we were paying ourselves too much), which could only be a further argument in favour of a closer link with the deutschemark.

8. My call, which lasted 25 minutes, was perceived as essentially a courtesy call. M. Bérégovoy was warm and friendly throughout. We have discussed what of the above might be reported immediately. I should not object to your sending Sir Geoffrey Littler a copy if you thought that it might be of interest to him.



Ewen Fergusson

22 June 1988

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MDHIAN 5549

*This programme, of measures
PX & a return to the left,
implies centrally a new
treatment of unproductive economic
performance.*

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FM PARIS

TO IMMEDIATE FCO
TELNO 665
OF 301651Z JUN 88
INFO ROUTINE EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO
INFO SAVING HMGCS IN FRANCE

ROCARD'S STATEMENT TO PARLIAMENT

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DETIAL

2. ROCARD PRESENTED HIS GOVERNMENT'S PROGRAMME TO THE ASSEMBLY ON 29 JUNE. TAKING THE PRESIDENT'S LETTER TO ALL THE FRENCH (MY TELNO 340) AS HIS POINT OF REFERENCE, HE GAVE THE FOLLOWING COMMITMENTS:-

(I) NEW CALEDONIA: THERE WILL BE ANATIONAL REFERENDUM THIS AUTUMN ON THE AGREEMENT WORKED OUT WITH TJIBAOU AND LAFLEUR (MY TELNO 657, NOT TO ALL).

(II) THE CITIES: AN INTERMINISTERIAL COMMITTEE IS TO BE SET UP TO COORDINATE ACTION TO TACKLE URBAN PROBLEMS.

(III) MINIMUM GUARANTEED INCOME: AN INTERMINISTERIAL COMMITTEE WILL SUPERVISE THE INTRODUCTION OF THE MUNIMUM GUARANTEED INCOME AND WILL REVIEW THE SCHEME IN THREE YEARS TIME.

(IV) PRESCRIPTION CHARGES: THESE WILL AGAIN BE REIMBURSED IN FULL, AS THEY WERE BEFORE THE CHIRAC GOVERNMENT.

(V) WEALTH TAX: THE GOVERNMENT WILL ANNOUNCE ITS PROPOSAL FOR THE REINTRODUCTION OF A WEALTH TAX ON 13 JULY, FOR DEBATE IN THE ASSEMBLY DURING THE AUTUMN BUDGET SESSION.

(VI) 1992: EACH PROFESSION THAT WILL BE AFFECTED BY THE INTRODUCTION OF THE SINGLE MARKET IS INVITED TO LET THE PRIME MINISTER HAVE A

LIST OF ITS CONCERNS BEFORE THE END OF THE YEAR.

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(II) THE MODERATE TONE: ROCARD INSISTED ON THE NEED FOR RECONCILIATION. HE AVOIDED POLEMICS AND ADOPTED A TONE OF STUDIED REASONABLENESS. BY INSISTING ON THE NEED FOR DEBATE AND REFLECTION RATHER THAN DOGMATIC LEFT/RIGHT HOSTILITIES, HE WAS DOING ALL HE COULD TO CREATE THE CLIMATE FOR QUOTE OUVERTURE UNQUOTE (POLITICAL OPENING). BUT HE HAS TO PAY SOME PRICE TO KEEP HIS OWN LEFT ON BOARD. HE HAS A DIFFICULT JUGGLING ACT AHEAD.

(III) THE APPEAL TO THE CENTRE: HIS COMMITMENTS, AND THE TONE IN WHICH THEY WERE DELIVERED, WERE DESIGNED TO BE ACCEPTABLE TO THE CENTRISTS IN MEHAIGNERIE'S UDC (UNION DU CENTRE) (THOUGH AT SOME RISK, AS IS ALREADY CLEAR, TO SUPPORT FROM MAINSTREAM SOCIALISTS). ROCARD DWELT AT LENGTH ON THE RECENT NEW CALEDONIA NEGOTIATION, WITH WHICH THE BARRISTES WERE ASSOCIATED, AS A SYMBOL OF THE RECONCILIATION AND COOPERATION WHICH HE WANTS TO PROMOTE THROUGHOUT

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Phy

FROM: J M G TAYLOR

DATE: 4 July 1988

SIR G LITTLER

cc Mr Lankester
Mr R I G Allen
Mr H P Evans

ROCARD'S STATEMENT TO PARLIAMENT

... The Chancellor has seen Paris Telno 665 (below).

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JMG

J M G TAYLOR

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FM PARIS

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TELNO 665

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(IX) THE ECONOMY: THE GOVERNMENT WILL PURSUE RIGOROUS ECONOMIC POLICIES AS THE ROUTE TO STRONGER GROWTH. (THIS IS CONSISTENT WITH THE COMMITMENT ALREADY ANNOUNCED TO REDUCE THE BUDGET DEFICIT.)

3. ROCARD'S SPEECH SETS THE AGENDA AND THE TONE FOR HIS ADMINISTRATION. IT IS STRIKING ON THREE COUNTS:

X (I) THE EMPHASIS ON SOCIAL AFFAIRS: THIS IS AN AREA OF PARTICULAR INTEREST TO ROCARD. HE INSISTED ON THE NEED TO TACKLE SUCH PROBLEMS AS BROKEN LIFTS IN COUNCIL FLATS AND FLANKING WALLS IN INNER-CITY SCHOOLS, IF GOVERNMENT WAS TO GIVE QUOTE NEW HOPE UNQUOTE (A LEITMOTIV RUNNING THROUGH THE SPEECH) TO A QUOTE CIVIL SOCIETY UNQUOTE INCREASINGLY DISILLUSIONED BY WHAT APPEARED TO BE QUOTE POLITICAL SOCIETY'S UNQUOTE INDIFFERENCE TO EVERYDAY ISSUES. ROCARD BELIEVES (AND MITTERRAND MAY WELL DO SO TOO) THAT IT IS AT THIS MICRO-LEVEL THAT MEASURES MUST BE TAKEN TO ATTRACT ELECTORS WHO HAVE BEEN TAKING REFUGE IN ABSTENTION OR IN A VOTE FOR THE FRONT NATIONAL.

(II) THE MODERATE TONE: ROCARD INSISTED ON THE NEED FOR RECONCILIATION. HE AVOIDED POLEMICS AND ADOPTED A TONE OF STUDIED REASONABLENESS. BY INSISTING ON THE NEED FOR DEBATE AND REFLECTION RATHER THAN DOGMATIC LEFT/RIGHT HOSTILITIES, HE WAS DOING ALL HE COULD TO CREATE THE CLIMATE FOR QUOTE OVERTURE UNQUOTE (POLITICAL OPENING). BUT HE HAS TO PAY SOME PRICE TO KEEP HIS OWN LEFT ON BOARD. HE HAS A DIFFICULT JUGGLING ACT AHEAD.

(III) THE APPEAL TO THE CENTRE: HIS COMMITMENTS, AND THE TONE IN WHICH THEY WERE DELIVERED, WERE DESIGNED TO BE ACCEPTABLE TO THE CENTRISTS IN MEHAIGNERIE'S UDC (UNION DU CENTRE) (THOUGH AT SOME RISK, AS IS ALREADY CLEAR, TO SUPPORT FROM MAINSTREAM SOCIALISTS). ROCARD DWELT AT LENGTH ON THE RECENT NEW CALEDONIA NEGOTIATION, WITH WHICH THE BARRISTES WERE ASSOCIATED, AS A SYMBOL OF THE RECONCILIATION AND COOPERATION WHICH HE WANTS TO PROMOTE THROUGHOUT

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FRENCH SOCIETY. HE WILL HAVE TAKEN ENCOURAGEMENT FROM MEHAIGNERIE'S REPLY ON BEHALF OF THE UDC IN WHICH HE SAID THAT, ALTHOUGH HIS GROUP WAS IN THE OPPOSITION, THAT WOULD NOT PREVENT IT FROM WORKING WITH THE MAJORITY IN THE INTERESTS OF THE COUNTRY.

CONCLUSION

4. ROCARD'S SECOND GOVERNMENT (MY TELNO 660 AND 661) AND HIS STATEMENT TO THE ASSEMBLY TAKE THE OUVERTURE PROCESS ANOTHER STAGE. HIS AIM NOW WILL BE TO PUT FORWARD PROPOSALS IN THE AUTUMN SESSION OF PARLIAMENT WHICH WILL ATTRACT THE SUPPORT OF THE UDC AS WELL AS THE SOCIALISTS. SUCCESS THEN WILL ENHANCE THE CHANCES OF INCREASED SOCIALIST-UDC COOPERATION AND OF EVENTUAL CENTRE-LEFT COALITION GOVERNMENT. FAILURE WILL REDUCE THE PROSPECTS OF SUCH A COALITION, AND GLADDEN THOSE ON THE RIGHT, AS WELL AS SOME IN THE SOCIALIST PARTY, WHO ARE HOSTILE TO OUVERTURE.

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MR J M G TAYLOR

From: Sir G.Littler
Date: 4 July 1988

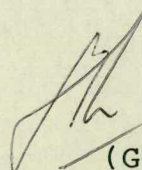
c.c. Mr Lankester
Mr R I G Allen
Mr Huw Evans

ROCARD'S STATEMENT TO PARLIAMENT

I happened to be talking by phone with Trichet this afternoon - mainly about next week's meetings, but we also had a brief exchange about national policies.

2. Trichet expressed sadness about our further increase of interest rates - because Beregovoy is wanting to lower French rates and finds the recent German and UK moves inhibiting. I expressed mild sympathy, but explained our position and also wondered aloud whether the economic arguments favoured reductions in France at this juncture. Trichet said he would favour a move down as being 'safe' in domestic terms (money supply contained, no external threat) if it were not for our and Germany's moves.

3. I took the opportunity to ask about Rocard's statement. Trichet spoke with more (and I think genuine) satisfaction than I would have expected. He was plainly pleased with the strong restatement of deficit reduction targets. He said that the bulk of the modest expenditure increases would be financed from the much higher than expected revenues they are enjoying. I had the impression he was perhaps relieved that the pressures for a more radical change had been successfully resisted.



(Geoffrey Littler)



[Handwritten signature]

Ch.

ECOFIN.

I understand from UKREP that
Béregson has decided not to go.
Stoltenberg is, as you already know,
definitely not going either. (And
apparently Røding, having learnt
that none of you are going, is
probably not going to go either!)

Good!

[Handwritten initials]

8/7



Handwritten signature in a circle

FROM: J M G TAYLOR

DATE: 5 July 1988

SIR G LITTLER

cc Mr Lankester
Mr R I G Allen
Mr Huw Evans

ROCARD'S STATEMENT TO PARLIAMENT

The Chancellor was grateful for your minute of 4 July.

Handwritten initials

J M G TAYLOR

Ch / At our internal NHS meeting on Thursday you mentioned the Rozard p/ex measures as an example of small sweeteners used to good political effect. These, I think pps you had in mind?

Y's with; Rozard X mpm
- the Rozard 1985 approach.
Min. Auth. n.



mp

Ami

Ch/

Geoff rang to report that he'd had a long chat with Trichet today. T. took the opportunity to emphasise that newspaper reports of rows between Bérégovoy and Germans much overdone.

For his part, Geoff mentioned something of our operations today, said we'd tried to do it in a way that we'd not cause EMS problems. Trichet seemed reasonably happy about all this

2/7

mpw



[Handwritten signature]

Ch.

Here with Delors (in French, I'm afraid).

Key passage is at the red flag - highlighted.

Thanks,
M. J.
[Handwritten signature]
S/B

Erklärungen des Rates und der Kommission zum Europäischen Rat von Hannover

Αηλώσεις του Συμβουλίου και της Επιτροπής για το Ευρωπαϊκό Συμβούλιο στο Αννόβερο

Statements by the Council and Commission of the Council meeting in Hannover

Declaraciones del Consejo y de la Comisión sobre la reunión del Consejo en Hannover

Déclarations du Conseil et de la Commission sur le Conseil européen de Hanovre

Dichiarazioni del Consiglio e della Commissione sul Consiglio di Hannover

Verklaring van de Raad en de Commissie over de Europese Raad te Hannover

Declarações do Conselho e da Comissão na sequência da reunião do Conselho Europeu em Hanôver

PRESIDENT. The next items is the Statements by the Council and the Commission following the meeting of the European Council on 27 and 28 June in Hannover followed by a debate. Chancellor, may I on behalf of the House give you a very warm welcome. We are delighted that you have been able to join us today at the end of your six months in office. I thank you on behalf of all parliamentarians for the tremendous job that you and your colleagues have done.

(Applause)

You have given us an opportunity to make a new search forward as we look towards the next year, as we look towards the elections and as we look towards 1992. Your six months have been very productive, Chancellor. Thank you very much and thank you for joining us today. I give you the floor.

KOHL, Mitglied des Europäischen Rates. - Herr Präsident, meine sehr verehrten Damen und Herren! Ich darf mich zunächst bei Ihnen, Herr Präsident, sehr herzlich für dieses freundliche Willkommen und für Ihre guten Wünsche bedanken.

Was wir in den letzten sechs Monaten erreichen konnten, war nicht nur unser Verdienst. Viele haben mitgewirkt: die Kommission, der Präsident der Kommission, die Kollegen in den einzelnen Ländern. Nicht zuletzt war auch die tatkräftige Unterstützung dieses Hohen Hauses wichtig für uns, und ich hoffe, daß wir in diesem Geist gemeinsam weiterarbeiten werden.

Ich freue mich, daß ich Ihnen heute die Ergebnisse des Europäischen Rates vom 27. und 28. Juni in Hannover mitteilen kann. Das für mich Wichtigste

an dieser Sitzung des Rates war, daß sich der Rat erstmals seit langer Zeit wieder seiner eigentlichen politischen Aufgabe widmen konnte, nämlich politische Diskussion zu führen, Bilanz zu ziehen und gleichzeitig Leitlinien und Orientierungen für die Zukunft zu erarbeiten. Dies war möglich, weil wir das, was wir uns vorgenommen hatten, auch in die Praxis umsetzen konnten. Die wiedergewonnene Dynamik der Gemeinschaft zeigt sich zum einen darin, daß die Entscheidungen des Sondertreffens des Europäischen Rates im Februar noch vor Ende unserer Präsidentschaft umgesetzt werden konnten. An dieser Stelle möchte ich folgendes betonen: Hierzu hat das Europäische Parlament einen ganz wesentlichen Beitrag geleistet. Diese - wie ich es nennen möchte - neue Schubkraft der europäischen Politik spiegelt sich auch in den großen Fortschritten wider, die wir im Bereich des Binnenmarkts erreicht haben. Besonders deutlich wird dies in den Schlüsselbereichen wie der Liberalisierung des Kapitalverkehrs und des Güterkraftverkehrs, der gegenseitigen Anerkennung der Diplome oder dem öffentlichen Beschaffungswesen. Insgesamt ist jetzt - Mitte 1988 - ein Drittel des im Weißbuch der Kommission niedergelegten ehrgeizigen Programms in die Tat umgesetzt.

Wir haben in Hannover aber nicht nur diese Erfolgsbilanz betrachtet, sondern wir haben uns auch die Probleme vergegenwärtigt, die noch zu bewältigen sind. Und dazu - ich will dies herausstellen - gehören insbesondere so schwierige Fragen wie die Steuerharmonisierung oder die Entwicklung des europäischen Gesellschaftsrecht.

Wir waren uns im Kreis der Staats- und Regierungschefs einig, daß wir in unseren Bemühungen in diesem Bereich nicht nachlassen dürfen, daß wir zügig arbeiten müssen, wenn wir unser Datum 1992 einhalten wollen.

Im Einklang mit dem Weißbuch der Kommission haben wir als konkrete Prioritäten für die nächste Zeit festgelegt, die weitere Öffnung des öffentlichen Beschaffungswesens, die Verwirklichung des freien Dienstleistungsverkehrs für Banken und sonstige finanzielle Dienstleistungen, die weitere Angleichung der Normen und die Regelungen zum geistigen Eigentum.

Wir haben in einer intensiven Diskussion die Anregung von Staatspräsident Mitterrand aufgenommen und uns sehr eingehend mit der Lage im audiovisuellen Bereich beschäftigt. Herr Mitterrand hat mit Recht auf die unüberschbare Lücke hingewiesen, die zwischen der Produktion in Europa und dem tatsächlichen Programmangebot klafft. Dank Kabel- und Satelliten Technik haben wir heute ein ständig wachsendes, vielfältiges Programmangebot in Europa, das leider aber nur zu einem sehr geringen Teil aus europäischer Produktion stammt.

Wir waren uns in Hannover einig, daß in Zukunft besondere Anstrengungen notwendig sind, um den Reichtum und die Vielfalt unserer europäischen Kulturlandschaft auch in den Programmen stärker hervortreten zu lassen.

Der Europäische Rat hat ausdrücklich anerkannt, daß wir in diesem Bereich, den Sie ja alle kennen und oft schon diskutiert haben, möglichst eng mit dem Europarat zusammenarbeiten müssen. Dies erscheint mir besonders wichtig, da damit nicht nur der bestehenden engen Kooperation zwischen europäischen Rundfunk- und Fernsehanstalten Rechnung getragen wird, sondern auch deutlich wird, daß die europäische Kultur einen weit größeren Raum umfaßt als lediglich den Raum der EG.

Die Vollendung des Binnenmarkts ist eine Herausforderung, die mit der Gründungsphase der Gemeinschaft vergleichbar ist.

Nach den Untersuchungen, die uns vorliegen, wird dieser große einheitliche Markt beträchtliche Wachstumsimpulse auslösen und damit auch zur Schaffung neuer Arbeitsplätze beitragen, was auch immer bedeutet, zur Bekämpfung der Arbeitslosigkeit einen Beitrag zu leisten.

Der Binnenmarkt ist zugleich ein entscheidender Beitrag zur Sicherung unserer Wettbewerbsfähigkeit auf den Weltmärkten und ist damit auch die Sicherung unserer Zukunft.

Ich glaube, wir sind jetzt auf einem guten Kurs und meine Bitte an Sie ist, daß Parlament, Rat und Kommission auf diesem Weg gemeinsam vorangehen. Wir werden ein so wichtiges Vorhaben wie den Binnenmarkt nur dann verwirklichen können, wenn wir alle gesellschaftlichen Kräfte, das heißt, wenn wir die Sozialpartner, die Repräsentanten der Wirtschaft ebenso wie die Gewerkschaften, dafür gewinnen können.

Entsprechend den Zielsetzungen der Römischen Verträge und der Einheitlichen Europäischen Akte brauchen wir einen europäischen Wirtschafts- und Sozialraum. Wir sollten daher an dem wichtigen Teilbereich des Arbeits- und Gesundheitsschutzes, in dem wir gerade in jüngster Zeit greifbare Fortschritte erzielt haben, intensiv arbeiten. Auch Fragen der Berufsausbildung und -fortbildung sollten wir besondere Beachtung schenken.

Der Europäische Rat hat gleichzeitig bekräftigt, daß die Maßnahmen der Gemeinschaft zur Verwirklichung des Sozialraumes nicht zu einer Abschwächung bestehender nationaler Vorschriften zum Schutz der Arbeitnehmer und zur Sicherung ihrer Rechte führen dürfen. Der Binnenmarkt darf nicht

zum Vorwand für einen Ausstieg aus bestehenden Rechten werden.

(Beifall)

Europa wird nur in dem Maße Gestalt annehmen, als sich seine Bürger mit ihrem Europa indentifizieren können. Ich glaube, der soziale Dialog ist daher ein ganz wichtiger Bestandteil eines lebendigen „Europas der Bürger“. Aber dieses „Europa der Bürger“ darf auch in einem anderen Bereich kein Schlagwort bleiben. In zunehmendem Maß stellen unsere Bürger die Frage, was wir auf europäischer Ebene tun, um mit den bedrohlichen und bedrohlicher werdenden Phänomenen des Terrorismus, des Drogenhandels und – das unterstreiche ich jetzt besonders – der zunehmenden internationalen Bandenkriminalität fertig zu werden.

Wir hatten in Hannover auf meine Anregung hin über diese Fragen eine erste, sehr intensive Diskussion, die wir fortsetzen müssen. Wir waren uns alle darin einig, daß wir – zumal bei immer stärker durchlässigen Binnengrenzen – Überlegungen anstellen müssen, wie wir unsere Handlungsfähigkeit verbessern können. Daher – und das spreche ich mit Bedacht aus – dürfen wir uns auch nicht scheuen, mittelfristig neue Wege der Zusammenarbeit in diesem Bereich zu gehen. Der Bürger erwartet zu Recht, daß die Gemeinschaft auch seine Sorgen im Bereich der Umwelt ernst nimmt. Wir haben in Hannover ausführlich über die aktuellen Probleme gesprochen, insbesondere über jene, die sich in den letzten Wochen im Bereich der Nordsee ergeben haben. Wir waren uns darin einig, daß die Gemeinschaft aufgefordert ist, eine offensive Umweltpolitik zu führen, denn wir wären schlecht beraten, wenn wir immer nur auf gerade eintretende Ereignisse oder Katastrophen reagieren würden.

Der Umweltrat hat in den letzten Wochen in wichtigen Bereichen, z. B. bei den Großfeuerungsanlagen oder den Emissionen von Kraftfahrzeugen, Einvernehmen erzielt. Dies war gewiß aus der Sicht vieler – gerade auch der deutschen Bürger – nicht zufriedenstellend, stellt aber, wie ich glaube, einen wichtigen Schritt in die richtige Richtung dar, in einer Richtung, die wir weitergehen müssen. Unsere Umweltpolitik kann auch nicht an den Grenzen der Gemeinschaft halt machen. Der Weltwirtschaftsgipfel in Toronto hat auf unsere Anregung dieses Thema erörtert und dringlich zu stärkerer internationaler Zusammenarbeit aufgerufen. Ich glaube, auch wir in der Gemeinschaft müssen hier unseren Beitrag leisten.

Einen der Schwerpunkte der Beratungen des Europäischen Rates bildete der Ausbau der Zusammenarbeit in der Währungspolitik in der Perspektive der Wirtschafts- und Währungsunion, deren Schritt

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weise Verwirklichung wir entsprechend der Einheitlichen Europäischen Akte anstreben.

Wir haben nach intensiven und manchmal auch schwierigen Beratungen ein Gremium berufen, das die konkreten Etappen zur Verwirklichung der Wirtschafts- und Währungsunion prüfen und entsprechende Vorschläge vorlegen soll. Kernstück im personellen Bereich dieses Gremiums bilden die jeweiligen Notenbankgouverneure, die wir hierzu *ad personam* eingeladen haben. Der Vorsitz des Ausschusses wird vom Präsidenten der Kommission übernommen. Für die Kommission wird als weiteres Mitglied an dieser Expertenarbeit Vizepräsident Andriessen teilnehmen.

Wir haben einvernehmlich nach entsprechender Beratung - drei Persönlichkeiten benannt, die wir darüber hinaus als Sachverständige zu diesen Beratungen einladen. Es sind dies Herr Niels Thygesen, Professor für Wirtschaftspolitik in Kopenhagen, Herr Alexander Lamfalussy, Generaldirektor der Bank für internationalen Zahlungsausgleich in Basel und Professor für Wirtschaftswissenschaften an der Universität Louvain-la-Neuve, und Herr Miguel Boyer, Präsident der Außenhandelsbank von Spanien, vielen hier bekannt als früherer Wirtschafts- und Finanzminister seines Landes.

Dieses Gremium soll, damit deutlich wird, daß die Arbeit vorangeht und nicht vertagt wird, rechtzeitig innerhalb der nächsten zwölf Monate seinen Bericht erstellen. Der Bericht soll zunächst im Kreis der Finanz- und Wirtschaftsminister erörtert und dann dem Europäischen Rat im Juni 1989 unter spanischem Vorsitz vorgelegt werden.

Wir werden dann in Madrid auf der Grundlage dieser Ausarbeitung zu entscheiden haben, wie es konkret weitergeht. Die mit dem Ausbau der währungspolitischen Zusammenarbeit zusammenhängenden Fragen sind für alle Mitgliedstaaten, das muß jeder erkennen, von hoher Sensibilität. Es bestand daher in Hannover zwischen uns Einvernehmen, daß wir pragmatisch an diese Entwicklung herangehen müssen.

Der Europäische Rat hat schließlich zu wichtigen außenpolitischen Fragen Stellung genommen. An erster Stelle nenne ich die für die Zukunft Europas zentrale Frage der Entwicklung der West-Ost-Beziehungen. Durch eine konsequente Politik der Kooperation und des Dialogs haben auch die Zwölf zu den Fortschritten in der jüngsten Zeit, wie wir wissen, beigetragen. Wir sind entschlossen, in diesem Prozeß auch weiterhin eine aktive und eine förderliche Rolle zu spielen. In diesem Zusammenhang würdigt unsere Erklärung ausdrücklich die Aufnahme der offiziellen Beziehungen zwischen der Europäischen Gemeinschaft und dem Rat für gegenseitige Wirtschaftshilfe, RGW.

Ich freue mich, daß in der letzten Woche zudem die Verhandlungen über ein Handels- und Kooperationsabkommen der Gemeinschaft mit Ungarn endlich abgeschlossen werden konnten. Ich hoffe, daß dies auch mit anderen RGW Staaten möglich sein wird.

(Beifall)

Wir haben ferner noch einmal an die von der Gemeinschaft vorgeschlagene West-Ost-Wirtschaftskonferenz erinnert sowie an die KSZE-Teilnehmerstaaten appelliert, alles zu tun, um in Wien zu einem substantiellen und ausgewogenen Abschlußdokument zu kommen, ein Dokument, das in allen Bereichen, aber insbesondere in jenen Bereichen, die die Menschen bewegen, im Bereich etwa der Menschenrechte, Fortschritte bringt.

Die Europäische Politische Zusammenarbeit hat sich nicht zuletzt in unserer weltweiten Verantwortung für Frieden und Menschenrechte bewährt. Der Europäische Rat hat die Grundlinien unserer gemeinsamen Politik zu Afghanistan, zum Nahen und Mittleren Osten, zu Südafrika und dem südlichen Afrika sowie zu Lateinamerika bekräftigt.

Zu Afghanistan haben die Gemeinschaft und ihre Mitgliedstaaten ihre Bereitschaft erklärt, humanitäre Hilfe, die dringend notwendig ist, im Rahmen der Vereinten Nationen zu leisten.

Zu Südafrika darf ich anmerken, daß der Europäische Rat - wie auch im übrigen der Weltwirtschaftsgipfel in Toronto - eindringlich an Präsident Botha einen Appell zugunsten der Sharpeville Six gerichtet hat.

Wir haben außerdem die Forderung erneuert, daß Nelson Mandela, der in wenigen Tagen, am 18. Juli dieses Jahres, 70 Jahre alt wird, freigelassen wird. Das gilt auch für unsere Forderung für die anderen politischen Gefangenen in diesem Land.

(Beifall)

Wir haben, und dies ist hier besonders wichtig, ungeachtet der dramatischen menschlichen Dimension des eben Gesagten noch einmal deutlich gemacht, daß die Beziehungen der EG zu Südafrika erheblichen Belastungen ausgesetzt würden, wenn das dort geplante und dem Parlament vorliegende Gesetz - genauer gesagt der Gesetzentwurf - über die finanziellen Zuwendungen an Anti-Apartheid Organisationen, zu den auch die Kirchen und Gewerkschaften gehören, vom dortigen Parlament verabschiedet würde.

Vor Eintritt in seine Arbeit hat der Europäische Rat die Vorstellungen des Parlaments zu den wesentlichen Themen gehört. Diese Begegnung mit Ihnen,

(4)

Herr Präsident des Parlament, ist inzwischen eine gute Tradition geworden. Sie ist, wie insbesondere die Arbeiten zur Umsetzung des Delors Pakets gezeigt haben, Teil der konstruktiven, vertrauensvollen Zusammenarbeit, die durch die Bestimmungen der Einheitlichen Europäischen Akte entscheidend verbreitert und verbessert wurde.

In diesem Zusammenhang möchte ich ausdrücklich die interinstitutionelle Vereinbarung zwischen Parlament, Rat und Kommission zur Haushaltsdisziplin als ein für das Verhältnis der Institutionen zueinander wichtigen, in die Zukunft weisenden Schritt noch einmal würdigen. Die Zusammenarbeit der letzten Monate war auch mit Blick auf die dritte Direktwahl in einem Jahr, im Juni 1989, ein wichtiger Beweis für das Selbstverständnis und für das Verantwortungsbewußtsein des Parlaments. In diesem Geist haben Parlament und Rat auch bei der Benennung des künftigen Präsidenten der Kommission zusammengewirkt.

Nachdem ich mir zu Beginn unserer Tagung im Gespräch mit den Kollegen eine Übersicht und Klarheit über die Haltung aller Mitgliedstaaten verschafft hatte, habe ich dieses Thema dann vertraulich mit Ihnen, Herr Präsident, besprochen. Das Erweiterte Präsidium des Parlaments hat unsere Absicht, die Amtszeit von Präsident Jacques Delors um zwei Jahre zu verlängern, begrüßt.

(Beifall)

Ich habe dies dann, nachdem dieses Votum vorlag, meinen Kollegen übermittelt und die entsprechende endgültige Beschlußfassung des Rates herbeigeführt.

Ich glaube, wir haben auf diese Weise pragmatisch und vernünftig eine Abstimmung erreicht, die vielleicht zu einer guten Tradition werden kann.

(Beifall)

Die Erfolge der letzten Monate, ich möchte sagen, die wiedergewonnene Aufbruchstimmung, wäre ohne die Hilfe von vielen nicht möglich gewesen. Ich nenne noch einmal die Arbeit der Kommission, die Unterstützung durch alle Mitgliedstaaten und auch die Unterstützung hier durch Sie im Hohen Haus. Dafür sehr, sehr herzlichen Dank!

Die Gemeinschaft hat nicht nur ihre Handlungsfähigkeit nach innen und außen wiederhergestellt. Sie hat auch gezeigt, daß sie fähig ist, auf dem Wege voranzugehen und zu einer wirklichen Solidargemeinschaft zu werden.

Ich habe die Entwicklung der letzten Monate in Hannover auf die einfache Formel gebracht:

„Europa ist wieder da! Wir sollten gemeinsam dafür Sorge tragen, daß es dabei bleibt.“

Wir müssen diese neuen Dynamik erhalten, und zwar in allen Bereichen. Wir müssen den von der Einheitlichen Europäischen Akte vorgezeigten Weg entschlossen weitergehen und alles tun, ungeachtet der Schwierigkeiten und mancher Opfer, die auf diesem Weg noch zu bewältigen sind, daß wir das Ziel erreichen.

Die Europäische Union, auf die sich alle Mitgliedstaaten in der Akte verpflichtet haben, ist heute nicht mehr irgendeine ferne Vision mehr. Wir werden 1992 die Bilanz der Reformen nach innen ziehen und gleichzeitig die bis dahin in der gemeinsamen Außenpolitik gemachten Fortschritte überprüfen. Im Lichte der Bilanz werden wir dann über die weiteren Integrationsschritte zur Europäischen Union zu entscheiden haben. Hierzu wird wesentlich auch die Frage gehören, wie wir das Gewicht des Europäischen Parlaments verstärken können.

Lassen Sie uns mit Mut, mit Blick für das Mögliche, mit Realismus und vor allem auch im Geiste des gegenseitigen Vertrauens an diese Aufgaben herangehen. Lassen wir uns dabei von Jean Monnet, dessen 100. Geburtstag wir in diesem Jahr begehen, leiten. Seine Worte: „Fahrt fort, fahrt fort, es gibt für die Völker Europas keine andere Zukunft als die Union“ sollten unser Leitmotiv sein, und dann werden wir unsere Aufgabe vor der Geschichte erfüllen.

(Lebhafter und anhaltender Beifall)

PRESIDENT. Thank you very much indeed, Mr President.

I now have pleasure in giving the floor to Mr Jacques Delors, President of the Commission.

DELORS, président de la Commission. Monsieur le Président du Conseil, Monsieur le Président du Parlement européen, il y a trois semaines à Toronto il m'a semblé que les quatre chefs d'Etat européens présents au Sommet avaient éprouvé, plus que jamais sans doute lors de ces sommets, la fierté de leur appartenance commune et la réalité consistante de la Communauté.

Voici quelques jours, à nouveau réunis dans la vieille capitale des grands ducs électeurs de Hanovre, ils n'ont eu qu'une seule voix pour se féliciter des progrès réalisés. De fait, en six mois, la Communauté aura sans doute pris plus de décisions qu'elle n'en avait prises entre 1974 et 1984. C'est de cela dont je vais vous rendre compte brièvement, sans faire double emploi, je l'espère, avec l'exposé du Chambrier Kohl.

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Je le fais avec le sentiment de vous rendre un dû, Mesdames et Messieurs, car ces progrès, je le répète, n'auraient jamais eu lieu sans la ténacité, la volonté et l'esprit de coopération manifestés en toutes occasions par le Parlement européen, véritable creuset de la conscience européenne. Mais il serait tout aussi injuste de ne pas rendre l'hommage qui lui est dû à la présidence allemande faite de volonté, de générosité - notamment lors du Conseil européen de février - et de bon sens, et de ne pas lui témoigner la gratitude de la Commission pour la confiance que la présidence allemande lui a accordée tout au long de ce travail en commun.

(Applaudissements)

Je voudrais donc vous expliquer pourquoi, en quelques mots, nous avons fait davantage en six mois qu'en dix ans, vous commenter les deux percées stratégiques réalisées au Conseil européen de Hanovre, l'une vers l'espace social, l'autre vers l'Europe monétaire, vous dire un mot du nouveau style du Conseil européen dont le Chancelier Kohl a parlé. Et enfin - n'oublions pas que nous sommes à un an des élections européennes - vous dire comment nous pourrions passer de l'Europe des citoyens à la parole donnée aux citoyens.

Tout d'abord, nous avons fait davantage en six mois qu'en dix ans.

C'est, en premier lieu, la mise en oeuvre du «paquet» de la Commission qui avait été adopté au Conseil européen de février 1988; l'adaptation de la politique agricole commune à la nouvelle donne internationale et le renforcement de la discipline budgétaire la concernant, comme celle visant toutes les autres dépenses, la mise en oeuvre des politiques d'accompagnement à travers les Fonds structurels, grâce à l'adoption du règlement-cadre qui sera suivi de règlements particuliers pour chaque fond, lesquels vous seront soumis pour examen dans les mois qui viennent; et, enfin, la réforme budgétaire très importante accomplie sous la direction de M. Christophersen.

En second lieu, l'adoption de l'accord institutionnel. Il y a eu beaucoup d'hésitation et de scepticisme quand la Commission a proposé qu'au lieu de cette continuelle guérilla entre les deux branches de l'autorité budgétaire, le Conseil et le Parlement, on aboutisse à un accord interinstitutionnel entre ces deux branches de l'autorité budgétaire et la Commission, et ce afin d'avoir un processus plus paisible et plus transparent pour l'élaboration du budget annuel. Le Conseil, sous la présidence de M. Stoltenberg, auquel je rends hommage pour sa patience et son esprit d'ouverture, le Parlement, de sa part, a constamment essayé de trouver des solutions et qui a même renoncé sans doute à certaines de ses prérogatives, le Conseil et le Parlement,

disais-je donc, ont abouti à un accord qui devrait permettre, dès la première lecture, de rendre compte dans le budget des grandes orientations de l'Acte unique et permettre aussi au Parlement d'indiquer les inflexions qu'il entend donner à l'ensemble du budget, notamment pour les dépenses non obligatoires.

J'espère ainsi - et le premier banc d'essai sera déterminant en septembre prochain sous la présidence grecque - que nous ne donnerons plus à nos électeurs et aux journalistes, ce spectacle «ésotérique» de guérilla sans fin entre le Conseil et le Parlement, se terminant souvent par le recours à la Cour de justice, ce qui est un comble lorsqu'il s'agit de préparer un budget, c'est à dire de donner une consistance financière à ce qui sera notre travail pour l'année suivante.

Et enfin, troisième point important, l'accélération de la marche vers l'objectif 1992. Il est assez symbolique de constater que pendant ces six mois, des décisions stratégiques ont été prises pour les quatre libertés: liberté de circulation des personnes, des biens, des services et des capitaux. Pour les personnes, ce fut la reconnaissance mutuelle des diplômes, qui est un pas très important aussi vers l'Europe des citoyens: pour les biens, ce furent de nombreuses décisions que je n'ai pas besoin d'énumérer devant vous, pour les services, ce sont deux décisions importantes, l'une sur les transports routiers, l'autre sur les assurances, et enfin, ce fut l'accord, quasiment historique, sur la liberté de circulation des capitaux, même si nous devons nous donner deux ans pour bien le préparer.

A propos des transports routiers, je voudrais vous dire que la Commission est particulièrement fière du résultat obtenu, car il s'agissait de résoudre un problème redoutable: comment, dans un même temps, supprimer les entraves et réaliser un minimum d'harmonisation qui permette d'avoir une compétition loyale et de conserver des acquis sociaux auxquels presque personne ne veut - et à raison - renoncer. Le compromis a été difficile à trouver, mais je crois qu'il représente un cas exemplaire, ou il devrait être considéré comme tel, de la conciliation indispensable entre la suppression des entraves, ce que certains appellent la dérégulation, et un minimum d'harmonisation. Comme je vous l'ai souvent dit, il ne peut y avoir de bon fonctionnement du marché sans un minimum de règles communes et il ne peut y avoir de progrès européen que si celui-ci ne se réalise pas aux dépens du progrès social acquis dans certains pays. Et c'était bien cela qui était en cause à propos des transports routiers.

Enfin, le dernier élément pendant ce semestre, dont le mérite vous revient, c'est le bon fonctionnement de la procédure de coopération. A ma connaissance, il n'y a pas eu un seul cas où le Parlement ait retardé

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la prise de décision. Cela vous a demandé beaucoup de travail dans les commissions, en séance plénière. Cela vous a demandé une stricte discipline pour respecter le nouveau règlement intérieur que vous aviez fait. Parfois même, on vous a demandé de délibérer d'urgence, mais vous l'avez fait avec beaucoup de bonne volonté et d'efficacité, et je tenais à le dire, notamment à l'endroit de ceux qui, au moment où on a élaboré l'Acte unique, avaient critiqué cette procédure de coopération comme risquant d'alourdir le processus de décision. Cela n'a pas été le cas. En revanche, cela a été un pas en avant pour le processus de démocratisation de la Communauté.

Le Conseil européen de Hanovre a été également marqué par deux percées stratégiques, deux percées qui doivent être confirmées, l'une vers l'espace social européen, l'autre vers l'Europe de l'union monétaire. Auparavant je dois dire, mais je ne reprendrai que ce qu'a dit le Chancelier Kohl, il y a beaucoup de travail à faire sur le marché intérieur. Les grandes lignes vous sont connues, elles ont été rappelées hier par M. Papoulias: l'ouverture des marchés publics, c'est un dossier extrêmement difficile, mais il faut maintenir le mouvement pour assurer la crédibilité de l'objectif global, la réalisation de l'espace financier, celle du marché commun des services financiers - maintenant que nous avons la décision sur la libération des mouvements de capitaux - et, enfin, l'harmonisation des normes.

En ce qui concerne les premiers pas vers l'espace social européen, je pense que tout va tourner dans les mois qui viennent autour de trois questions: la société de droit européen, l'application des articles de l'Acte unique, 100 A et 118 A qui concernent la dimension sociale, et, enfin, la reprise du dialogue social avec, au premier rang, l'exigence d'une formation professionnelle valable pour tous les travailleurs de notre Europe.

En ce qui concerne l'entreprise de droit européen tout d'abord, je voudrais vous supplier de ne pas entrer à nouveau dans les querelles religieuses qui ont marqué les discussions sur la directive Vredeling, car le memorandum qui vous a été remis s'efforce d'éviter ces discussions stériles. La société de droit européen est demandée par les entreprises de notre Europe, elle leur est nécessaire pour assurer leur coopération au moindre coût, pour éviter les acrobaties juridiques, fiscales, et même pour éviter des opérations publiques d'achat. Mais la société de droit européen nous est également demandée par les syndicats pour bien montrer que notre Europe s'intéresse aussi aux modalités de participation des travailleurs dans la société de droit européen. Nous avons prévu un statut facultatif, la société de droit européen ne s'imposera pas à tout le monde, ne la prendront que ceux qui en ont besoin. Nous avons prévu un menu à options pour ses organes de direction et un second menu à options pour les modalités

de participation des travailleurs. Il faudrait que, dans les six mois, le Conseil et le Parlement donnent leur avis de façon à ce que nous puissions transformer ce rapport en une directive ou en un règlement, selon le cas.

En second lieu, nous devons appliquer l'article 100 A et l'article 118 A: l'article 100 A pour ce qui est des conditions d'utilisation des biens d'équipement - c'est un aspect très important de l'ergonomie et de la place de l'homme au travail - et l'article 118 A en ce qui concerne les conditions d'hygiène, de santé et de sécurité des travailleurs. Enfin, puisque tout le monde a mis l'accent sur ce point, aussi bien au Conseil européen qu'au Parlement, nous devons nous préoccuper de la formation permanente, de la formation valable, adaptée à notre temps, de tous les travailleurs, jeunes ou âgés, de la Communauté. Nous en ferons un nouveau thème pour le dialogue social. Nous en ferons également un élément central pour la réalisation des cinq objectifs prioritaires des politiques d'accompagnement. J'espère que, dans ce domaine et forts des expériences de chaque pays, nous pourrions progresser et réaliser un pas en avant. Voilà, je crois, un bon départ pour la marche vers l'espace social européen.

En ce qui concerne l'union monétaire, comme l'a souligné le chancelier Kohl, la discussion a été difficile, vous l'imaginez. Elle a été difficile parce que, dans l'ordre qui doit nous mener vers l'union politique ou l'union européenne, chacun a ses priorités. Certains estiment que la marche vers l'intégration monétaire serait un puissant facteur de construction de l'Europe politique. D'autres estiment que l'Europe politique doit se réaliser pour que nous ayons une monnaie commune et une banque centrale européenne. Un compromis a été trouvé. Pas un compromis stérile, puisque le Conseil européen a défini une méthode en confiant à un groupe de 17 personnes le soin d'étudier les questions qui se posent et a fixé aussi une échéance: c'est au Conseil européen de Madrid que les chefs d'Etat et de gouvernement devront dire comment ils veulent aller ensemble vers l'union économique et monétaire. Certains ont été surpris - je pense à certaines déclarations d'hommes politiques ou de comités - de la présence des gouverneurs des banques centrales à titre personnel dans ce comité. Mais je voudrais vous dire, Mesdames et Messieurs les députés, que ma propre expérience me montre qu'il n'est pas possible d'étudier cette question sans la contribution positive des gouverneurs de banques centrales.

(Applaudissements)

D'ailleurs, mon expérience me montre aussi que, tant en ce qui concerne la libération des mouvements de capitaux que les renforcements du système monétaire européen qui sont intervenus, les gouverneurs des banques centrales ont joué un rôle

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positif. C'est la raison pour laquelle il me semble que la solution trouvée par le Conseil européen devrait nous permettre de travailler, même s'il est toujours difficile de délibérer et d'aboutir à des solutions en commun dans un groupe de 17 personnes. Mais, après tout, nous sommes 17 à la Commission et, pour l'instant, cela ne nous a pas empêché d'avancer, fût-ce parfois avec difficulté.

Je voudrais, pour terminer, souligner le nouveau style de ce Conseil européen, revenu à ses origines. Qu'a fait le Conseil européen? Il a eu des discussions informelles, à tel point que peu de chefs d'Etat ou de ministres des Affaires étrangères lisaient des notes préparées à l'avance, et ces discussions ont été extrêmement fructueuses et très utiles pour la Commission, sur tous les sujets - l'Europe sociale, l'union monétaire.

Le Conseil européen a même ouvert de nouvelles voies, comme l'a souligné le chancelier Kohl. Le problème de la télévision et, à travers lui, de la défense de la culture européenne a été heureusement posé. La question de l'environnement a été traitée avec plus de dynamisme par les chefs d'Etat et de gouvernements que par la Commission.

Tout cela permet de donner des impulsions et de faciliter l'efficacité du triangle institutionnel: Conseil, Parlement, Commission. Le Conseil, les Conseils de ministres, car ils ne doivent plus compter sur le Conseil européen pour venir en arbitrage - doit prendre des décisions. Le Parlement, car il sait où en sont les chefs d'Etats et quelle est leur volonté, quelles sont parfois leurs différences et, enfin la Commission puisqu'elle peut s'appuyer sur les résolutions du Conseil européen pour faire avancer l'Europe.

Bien entendu, je n'oublie pas que nous sommes à un an des élections européennes et qu'il faut donner la parole aux citoyens. Les citoyens sont encore bien éloignés de nos problèmes. Nous les trouvons, nous, très techniques mais nous arrivons à nous comprendre. Cependant il est désespérant parfois et j'en ai encore fait l'expérience lundi dernier lorsque je me suis adressé à des cadres d'un parti politique, de voir le degré d'ignorance sur les problèmes européens, je dirais même sur les enjeux des problèmes européens. C'est pourquoi il faut que le Parlement européen joue sans cesse son rôle d'avant garde institutionnelle et politique. Il l'a fait par des propositions ces temps derniers. Même si je ne suis pas d'accord sur toutes, je les ai soutenues à titre personnel, et ce pour deux raisons: l'exigence d'efficacité, le déplacement des centres de décision. Mon sentiment est que nous n'arriverons pas à prendre toutes les décisions qu'il s'impose d'ici 1995 sans que, sous une formule ou sous une autre, il y ait une amorce de gouvernement européen. Il y aura trop de décisions à prendre, trop de complications, trop de lenteurs s'il

n'en est pas ainsi. Sur la formule à trouver, la réflexion est ouverte.

D'autre part, en ce qui concerne le déplacement des centres de décision, je suis frappé que à part en République fédérale d'Allemagne et en Grande-Bretagne, les parlements nationaux n'ont pas pris conscience de ce déplacement du centre de décision. Dans dix ans, 80% de la législation économique, peut-être même fiscale et sociale, sera d'origine communautaire. Aucune prise de conscience n'est intervenue dans dix pays et aucune coopération n'existe dans ces dix pays entre les parlementaires européens et les parlements nationaux. Et je crains qu'un jour certains de ces parlements nationaux ne se réveillent avec stupeur, scandalisés, et constituent un frein de plus à la marche vers l'Union européenne.

(Applaudissements)

C'est pourquoi je souhaiterais que, en pleine transparence - puisque c'est un mot à la mode, mais je préfère le prononcer en français - et en pleine coopération le Parlement européen et les parlements nationaux multiplient les colloques et les rencontres pour réfléchir sur le schéma institutionnel de l'avenir. Qu'est ce qui incombera au niveau communautaire, au niveau national et au niveau régional?

Cela devrait être fait dès maintenant, me semble-t-il, et ce serait une raison de plus pour intéresser les citoyens aux élections européennes, car même les députés nationaux ne pourraient alors se désintéresser d'une consultation dont les potentialités et l'importance pour l'avenir sont plus grandes qu'on ne le croit généralement.

(Applaudissements vifs et prolongés)

SALISCH(S). Herr Präsident, Herr Bundeskanzler, meine Damen und Herren! Der Hannoveraner Gipfel hat ein sehr konkretes und für uns überaus befriedigendes Ergebnis gebracht, die Bestätigung von Jacques Delors im Amt. Daß dies die Sozialistische Fraktion, deren Mitglied der Kommissionspräsident lange Zeit war, im besonderen Maße freut und daß dieses Ereignis sie mit Stolz erfüllt, bedarf wohl keiner besonderen Erwähnung. Ich stelle unsere herzlichen Glückwünsche an Sie, Herr Jacques Delors, an den Beginn meiner Ausführungen zum Gipfel, weil es Freude und natürlich auch Erleichterung über diese Benennung gar nicht anders zulassen, aber auch weil wir nicht nur Glückwünsche aussprechen wollen.

Große Hoffnungen und Erwartungen sind mit Ihrer erneuten Kommissionspräsidentschaft verbunden. Die Sozialistische Fraktion geht davon aus, daß Sie Ihre fantastischen Fähigkeiten, widerstreitende

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normes sociales minimales communautaires qui remettent en cause les objectifs initiaux du traité de Rome, à savoir l'harmonisation des législations sociales par le haut, et ouvrent les portes à une diminution des dispositions sociales existant dans la plupart des pays. A mon avis, le sommet de Hanovre n'a pas été marqué par l'absence de politiques sociales. Il a été marqué par la volonté de la Commission et des États membres de réduire les dispositions sociales nationales existantes. La plupart des syndicalistes en Europe considèrent que ces dispositions constituent un recul et nous partageons leur point de vue. Notre conception de l'espace social européen est très différente. Celui-ci, c'est d'abord l'harmonisation par le haut des législations sociales, c'est un contrôle des travailleurs, des syndicalistes, des comités d'entreprises sur l'utilisation des fonds européens, afin qu'ils servent à l'emploi, à la formation, à des productions pacifiques. C'est le refus de la déréglementation aveugle; c'est le maintien des droits des salariés, la restauration de la responsabilité publique, comme garant de ces droits. Dans tous ces domaines, des coopérations communautaires seront utiles et nécessaires.

La création d'une banque centrale européenne entamée à Hanovre souffre de la même orientation. Nous pensons qu'il faut s'entraider pour combattre les privilèges du dollar et les prélèvements réalisés au profit des États-Unis, aller, en Europe, vers des coopérations bancaires appuyées sur la taxation en commun des sorties de capitaux et réorienter le crédit vers la croissance des productions et des emplois, la résorption des déséquilibres sans imposer de déflation supplémentaire aux pays à monnaie faible. C'est dans ce cadre que l'Ecu pourrait être un support privilégié des financements. Au contraire, les propositions des Douze aboutissent, compte tenu des rapports de forces économiques existant actuellement entre l'Allemagne et des pays comme la France et l'Italie, à officialiser la suprématie de la Bundesbank sur ses partenaires.

Un tel projet non seulement renforcera les disparités en Europe, mais risquera de porter un coup fatal au mécanisme communautaire jusqu'ici plus ou moins utilisé, mais qui aurait pu être porteur d'orientations positives, si les Douze en avaient eu la volonté politique.

En conclusion, nous ne considérons pas que les jeux sont faits et qu'il faille abandonner tout projet de coopération communautaire plus équilibrée, que ce soit en matière sociale ou bien en matière monétaire. C'est pourquoi nous travaillons pour que toutes les forces de progrès, les syndicalistes et les travailleurs de nos pays imposent de telles coopérations mutuellement avantageuses.

VANDEMEULEBROUCKE (ARC). - Mijnheer de Voorzitter, geachte collega's, ik wil het Duitse voor-

zitterschap van harte gelukwensen, het was een vastberaden voorzitterschap, er werd uiterst doelmatig opgetreden in de voorbije zes maanden. De Top van Hannover was echt een hoogtepunt want daar werden de belangrijkste oriëntaties voor de komende jaren vastgelegd. De realisering van de interne markt, de sociale dimensie en de monetaire harmonisatie.

Ik zal het alleen hebben over het sociale aspect. Wij vinden het zeer positief dat in het slotcommuniqué wordt gezegd dat de interne markt ten dienste moet staan van alle burgers. Het sociale beleid in de Europese Gemeenschap kwam steeds op de tweede plaats na het economische beleid. Er waren heel veel ambitieuze doelstellingen maar nooit voldoende financiële middelen. 1992 zal daarin geen verbetering brengen. Het verslag-Cecchini gaat over het Europa van de kooplui, het Europa van sociaal-unilateralisme en van veel te eenzijdige, ondernemingsgeïnspireerde maatregelen. Het Europees Parlement en de Commissie zijn eigenlijk objectieve bondgenoten. In 1986 hebben wij verslagen goedgekeurd met betrekking tot de flexibiliteit van de arbeidsmarkt, hebben wij gesproken over de Europese sociale ruimte, over de rol van de sociale partners, over de bescherming van de werknemers, over de sociale zekerheid, over de veiligheid op de arbeidsplaats. Voorzitter Delors en vice-voorzitter Marin, hebben nooit de gelegenheid laten voorbij gaan om te wijzen op het parallellisme tussen de economische en de sociale ruimte. Ik hoop dat we uit deze Top van Hannover geleerd hebben dat we ook aan de sociale ruimte aandacht moeten schenken.

DER PRÄSIDENT. - Meine Damen und Herren! Herr Bundeskanzler Kohl muß uns in Kürze verlassen. Er hat deshalb jetzt um das Wort gebeten. Ich erteile es Ihnen, Herr Bundeskanzler.

KOHL, Mitglied des Europäischen Rats. - Herr Präsident! Meine Damen und Herren! Zunächst darf ich mich bei Ihnen und den vielen, die gesprochen haben, auch für den freundlichen und freundschaftlichen Zuspruch herzlich bedanken. Es tut einem als Regierungschef gut, einmal eine Parlamentssitzung zu erleben, in der man überwiegend Zuspruch erfährt.

(Zwischenruf)

Ich habe das auch schon zu Hause erlebt, verehrte Kollegin! Es tut einem gut, und ich finde, wenn man sich freut, soll man das auch einmal vor einem Parlament bekunden und nicht so tun, als müsse immer nur diese Stimmung verbreitet werden.

Ich will kurz zu drei Punkten sprechen. Erstens zu dem Thema, das hier sehr engagiert - und wie ich finde verständlich engagiert - vorgetragen wurde: Soziale Dimension. Ich gebe zu, der Begriff ist nicht

optimal, weil er eigentlich die Leute nicht innerlich anspricht; aber vielleicht finden wir gemeinsam ein besseres Wort dafür. Aber Sache nach – daran kann es keinen Zweifel geben – ist das eine der entscheidenden Voraussetzungen dafür, daß Europa zu dem Europa wird, das wir uns vorstellen. Wenn wir ein Klasseneuropa bekämen, würde Europa nicht werden. Wir müssen aus der Geschichte – 100 Jahre zurück – lernen. 1988 ist dies wohl angebracht. Man muß sich darüber im Klaren sein, daß die freiheitlichen Demokratie, die wir schätzen und in denen wir leben wollen, nur geworden sind, weil nach manch bitteren Erfahrungen soziale Gegensätze – jedenfalls weitgehend – überwunden werden konnten.

Dieses Europa wird keine menschliche Dimension haben, es wird – ich sage das einmal beinahe pathetisch – kein Europa mit menschlichem Antlitz sein, wenn es nicht eine soziale Dimension hat und sich die einzelnen Gruppen nicht in Europa wiederfinden. Deswegen ist es ungeheuer wichtig – ich habe dies versucht und bin sicher, die Kollegen, die nach mir die Präsidentschaft wahrnehmen, werden das auch tun –, die sozialen Partner möglichst frühzeitig in die Entwicklung einzubinden. Dazu gehören nicht zuletzt die Gewerkschaften, die sich – das muß man ganz klar sehen – schwerer tun als andere Gruppen, weil die soziale Ausgestaltung in den einzelnen EG-Ländern sehr unterschiedlich sein wird und die einen die Hoffnung haben, daß sich ihr Standard dadurch wesentlich verbessert, und die anderen mit einem gewissen Pessimismus abwarten, ob ihre Situation sich verschlechtert. Deswegen habe ich hier aus gutem Grund als deutscher Regierungschef gesagt –, und ich fühle mich als solcher auch durchaus angesprochen –, daß es in der Bundesrepublik nicht unsere Politik sein wird, etwa in der Frage der sozialen Dimension so vorzugehen, daß sich am Ende des Weges die Positionen, etwa der Arbeitnehmer bei uns, schlechter darstellen. Wir müssen versuchen, hier einen vernünftigen Kompromiß zu finden, und ich glaube, das ist möglich.

Aber abgesehen von Details bleibt es bei der These, daß Europa nicht wird, wenn nicht die breiten Schichten der Bevölkerung, die in diesem Begriff „Soziale Dimension“ in einer besonderen Weise umfaßt sind, wenn wir nicht die Arbeitnehmerschaft im weitesten Sinne des Wortes so in diesem Europa einbinden, daß sie dort ihre *Heimat* finden – ich verwende bewußt dieses deutsche Wort.

(Beifall)

Zweiter Punkt: Währungspolitische Zusammenarbeit. Nun, meine Damen und Herren, ich denke, das ist doch ein Bereich der Politik – ich sprach vorhin in meinem Eingangsstatement vom sensiblen Bereich –, in dem jeder erkennen muß, daß dann zunächst der Sachverstand und dann erst die Emotion walten

darf. Ohne Sachverstand werden wir auf diesem Wege nicht vorankommen. Ich glaube, das was wir jetzt in dieser Expertenkommission als Kompromiß gefunden haben – in einer sehr kurzen Arbeitszeit von knapp 12 Monaten – darüber müssen Sie sich im klaren sein – ist eine richtige Eingangspforte für die Entwicklung, die wir vor uns haben. Ich bin von dem einen oder anderen Redner – in diesem Fall jetzt als Regierungschef der Bundesrepublik – darauf angesprochen worden und will dazu ganz einfach sagen: Wir werden diesen Weg gehen. Darüber gibt es für mich überhaupt gar keinen Zweifel.

Es gibt bei uns zu Hause den einen oder anderen, der glaubt, dies sei eine Sache, die man auf die lange Bank schieben könne. Es gilt aber wie bei der „Sozialen Dimension“: Dies Europa wird nur werden können, wenn wir im Bereich der Währungspolitik, die ja ein Teil der Wirtschafts- und Finanzpolitik ist, vorangehen. Nur bitte ich Sie jetzt einmal aus der deutschen Sicht um Verständnis – ich sage das vor allem den Kollegen, die nicht aus der Bundesrepublik kommen –: Wenn wir in der Bundesrepublik – übrigens quer durch die politischen Gruppierungen – immer wieder Währungsstabilität als ein wichtiges Argument voranstellen, dann müssen Sie dabei die spezielle Erfahrung der Deutschen mit zwei Inflationen in diesem Jahrhundert zugrundelegen. Andere Länder in Europa haben hier andere Erfahrungen. Sie haben weniger bittere Erfahrungen machen müssen und weniger Blessuren erlitten. Wenn Sie die Geschichte der ersten Hälfte dieses Jahrhunderts in Deutschland verfolgen – die Entwicklung nach dem Ersten Weltkrieg und die Entwicklung nach dem Zweiten Weltkrieg, aber vor allem auch die Entwicklung der Weimarer Republik –, dann wird jeder Kenner mir bestätigen, daß einer der Gründe, warum der großartige erste Versuch deutscher Demokratie gescheitert ist, auch darin zu sehen ist, daß die Deutschen die Inflation in den 20er Jahren weder politisch noch innerlich verkräftet hatten. Deswegen gibt es bei uns eine besonders hohe Sensibilität in bezug auf das Thema Stabilität. Wer also über unsere Position nachdenkt und spricht, der soll nicht sagen, wir seien Leute, die nichts wagen, sondern der soll wissen, daß wir unsere besonderen Erfahrungen haben; und weil wir diese besondere Erfahrung haben, legen wir im Hinblick auf eine europäische Bank beispielsweise größten Wert auf deren Verpflichtung zur Stabilität und zur Unabhängigkeit. Das ist es, was wir aus gutem Grund in diese Entwicklung miteinbringen.

(Beifall)

Das Dritte, was ich noch kurz ansprechen will, ist die Funktion und Rolle des Europäischen Parlaments. Sie werden verstehen, daß ich dies jetzt auch sage als Vorsitzender einer der großen christlich-demokratischen Parteien in Europa, nämlich der deutschen.

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Ich persönlich bin auch hier - im Gegensatz übrigens zu dem einen oder anderen meiner EG-Kollegen im Amt des Regierungschefs - der Meinung, daß die Entwicklung zwangsläufig den Weg zugunsten dieses Parlaments geht. Da gibt es den einen oder anderen, der meint, er könne das Rad der Geschichte festhalten, aber wenn Europa werden soll - die These kehrt also wieder -, muß dieses Parlament mehr Rechte haben. Die Entwicklung geht zwangsläufig dorthin.

Ich halte es im übrigen für ausgeschlossen - auch das sage ich als Prognose -, daß bei der übernächsten Wahl zum Europäischen Parlament ich spreche also nicht von der im nächsten Jahr, sondern der in fünf Jahren - die Bürger in Europa noch einmal zu freier, geheimer und direkter Wahl für ein Parlament motiviert werden können, das sich in seiner Ausstattung mit Kompetenzen jedenfalls wesentlich unter dem Niveau der nationalen Parlamente befindet. Ob die Parteien - und ich sage das ganz bewußt an jedermanns Adresse, auch die meiner eigenen - in den nationalen Organisationen dies innerlich schon begriffen haben, wage ich sehr zu bezweifeln. Das ist in der Bundesrepublik nicht anders als in den anderen Ländern der Gemeinschaft; aber hier haben wir finde ich, einen gewaltigen Vorteil auf dem Weg in die Zukunft, nämlich die psychologische Disposition.

Freiheitliche Demokratie ist ohne das Mittragen durch die Bürger nicht denkbar. Jeder normale Mensch reagiert mit dem Herzen und mit dem Verstand. Der Präsident sprach heute früh mit mir über die Europa-Tage, die am Rande des EG-Gipfels in Hannover stattfanden, und die Kollegen, die in Hannover waren, haben ja bemerkenswerte Beobachtungen gemacht: wie viele Zehntausende Menschen sich bewegt haben und plötzlich das Thema Europa ganz emotional, vom Herzen her kommend lebendig war. Das ist eine Entwicklung, die vorangeht.

Wir alle können dazu beitragen: zu Hause, in unseren Parteien, in unserem sozialen Umfeld, aber - das sage ich jetzt auch durchaus kritisch an Ihre Adresse - auch Sie hier, wenn Sie zu einer Sprache finden, die die Menschen erreicht. Selbst für einen wie mich ist es gelegentlich schwer, die Dokumente, die aus diesem Hause kommen, sprachlich zu begreifen. Es ist eine Fachsprache, eine spezifische Sprache entstanden. Ich weiß, daß das üblich ist, aber ich weiß auch: Wenn wir die Herzen der Menschen erreichen wollen, müssen wir sie zunächst in ihrem Verstand erreichen, und die Möglichkeit für den Transport von Ideen ist immer noch die Sprache. Lassen Sie uns also auch im Blick auf die Zukunft Europas - die Integration, den Bau des künftigen vereinten Europas - eine Sprache finden, die alle, die Jungen und die Alten, verstehen, auch wenn sie sich nicht jeden Tag mit dem Alltag eines Europäischen Parlaments beschäftigen.

Nochmals vielen herzlichen Dank. Die Präsidentschaft der Bundesrepublik ist zu Ende. Diese Präsidentschaft war eine besondere Pflicht für eine bestimmte Zeit von sechs Monaten. Die allgemeine Pflicht, auf diesem Weg nach Europa voranzugehen, bleibt für uns jeden, selbstverständlich auch für mich.

(Lebhafter Beifall)

DER PRÄSIDENT. - Herr Bundeskanzler, ich danke Ihnen im Namen des Hauses dafür, daß Sie zu uns gekommen sind, über den Gipfel in Hannover berichtet und mit uns diskutiert haben.

Wir fahren in der Aussprache fort.

ULBURGHS (NI). - Mijnheer de Voorzitter, ik heb genoten van de mooie redevoering van de heer Kohl over het sociale Europa, maar toch ben ik nog steeds begaan met het lot van de kleine arbeiders, de kleine boeren, de 14 miljoen werklozen en de 40 miljoen armen in Europa. Het is niet zo dat een Europa van de kapitalen grotere kruimels van de tafels van de rijken zal laten vallen. Een economisch welvarend Europa kan alleen maar opgebouwd worden door de 320 miljoen Europeanen die gemotiveerd streven naar sociale rechtvaardigheid. Ik wou hier citeren wat Georges Debunne, oud voorzitter van het Europees Vakverbond, heeft gezegd op een vergadering die ik onlangs heb georganiseerd met basiswerkers en afgevaardigden uit de vakbonden: „niet de snelheid waarmee Europa groeit, mag de maatstaf zijn, maar de kwaliteit van dit Europa voor de gewone burger“.

Een sociaal en cultureel hoogstaand Europa is ook een brug van vrede waarop Oost en West, Noord en Zuid elkaar als vrienden ontmoeten en met een hart toespreken.

NEWENS (S). - I recognise that a number of very positive decisions were taken at Hannover, and heartily welcome these. But in many ways the outcome of the meeting was deeply disappointing, particularly for many Socialists and those concerned about raising living standards and the quality of life for the population as a whole. All of us are anxious to achieve economic prosperity, but in the completion of the internal market the major emphasis is on measures designed primarily to benefit multinational companies, financial corporations and large enterprises. Those who remain unemployed, the low paid, deprived inner city dwellers, the rural poor, the inhabitants of the less favoured regions, the old, the sick and the handicapped, stand to gain little or to lose out. Why not upgrade minimum standards for pensions and welfare benefits?

As for employed workers, while welcome decisions have been taken on health and safety at work, and

Ik heb met aandacht het artikel gelezen van dr. Pöhl in de *Frankfurter Allgemeine Zeitung* over zijn visie van een Europese *Währungsunion*. Met alle waardering daarvoor mis ik toch een element, namelijk de interdependentie tussen economische convergentie en de invulling van een monetaire unie. Ik vrees dat als er teveel tijd blijft tussen stappen op het gebied van de interne markt en de institutionele invulling van de monetaire unie, dit contraproductief zal werken.

Het Parlement wil niet wachten tot het verslag over een jaar klaar is. Wij willen graag op enigerlei wijze daarbij betrokken worden. In de Commissie economische en monetaire zaken en industriebeleid zal in september een discussie beginnen naar aanleiding van een verslag over dit thema met dezelfde taakinhoud.

Ik wil in dit verband aan de voorzitter van de Commissie twee vragen stellen. Ten eerste, zou hij iets willen zeggen over de betrekkingen met het Parlement en de Commissie economische en monetaire zaken en industriebeleid gedurende dit jaar? Ten tweede, is hij bereid ook het verslag van het Parlement, als dat tijdig verschijnt en wordt goedgekeurd, volgend jaar in de conclusies te betrekken? Wij zouden namelijk ook als Parlement duidelijk willen participeren - dat wenst ook mijn fractie - in de uiteindelijke besluitvorming over de monetaire unie.

SCHLEICHER (PPE). - Herr Präsident, meine Damen und Herren! Ich möchte ein Thema ansprechen, das in dieser Debatte leider zu kurz gekommen ist im Verhältnis zu dem, was diese Präsidentschaft an Erfolgen vorweisen konnte. 1983 gab es den ersten Auftrag des Rates zum Thema Luftverschmutzung, und zwar mit der Bitte an die Kommission, entsprechende Vorschläge vorzulegen. Zum Paket Luftverschmutzung waren vier große Gesetzesvorhaben vorzulegen, die nur zögernd vorangekommen sind. Allerdings hat das Parlament bis Mitte 1984 dazu seine Aufgaben gemacht, doch sind die Dinge im Rat hängengeblieben.

Es ist sicher mit ein ganz großer Erfolg der jetzigen Ratspräsidentschaft, daß dieses Paket - auch mit dem schwierigen Gebiet der Großfeuerungsanlagen-Verordnung und der Schadstoffemissionen von Automobilen, wo das Problem immer noch an den Autos mit weniger als 1,4 l Hubraum hing, zu einem vielleicht nicht für alle perfekt erfreulichen Ergebnis, aber immerhin zu einem Ergebnis gebracht werden konnte, so daß man sagen kann, daß diese vier großen Gesetzesvorhaben praktisch zum Abschluß gekommen sind.

Das möchte ich gerade in Anbetracht dessen, wie wichtig es für die Lebensgrundlagen der Menschen

unserer Gemeinschaft ist, daß wir die Luftverschmutzung in den Griff bekommen, ganz besonders hervorheben. Dafür möchte ich ganz herzlich danken. Nun haben zwar alle Fraktionen Entschließungsanträge vorgelegt, doch war unsere Fraktion die einzige, die auf dieses Thema eingegangen ist. Leider taucht jetzt im gemeinsamen Entschließungsantrag das Thema „Umweltschutz“ nicht mehr auf, weil die anderen Fraktionen dies wohl nicht als so wichtig und vorrangig angesehen haben.

Gestatten Sie hier einige Worte zur sozialen Dimension. Darüber wurde schon heute viel gesprochen. Dem Parlament liegt bereits eine ganze Reihe von ganz wichtigen Sozialpaketen vor, die den Arbeitnehmern am Arbeitsplatz betreffen. Hier muß ich nun bedauern, daß im Parlament die Beratungen im Moment eindeutig von der Sozialistischen Fraktion verzögert werden. Jedesmal, wenn der Ausschuß tagt, kommen andere Dinge, wird dieser Punkt von der Tagesordnung abgesetzt.

Auf der anderen Seite hat jedoch der Rat kürzlich eine sogenannte Troika eingesetzt, d. h. daß die drei Regierungen, die sich in der Ratspräsidentschaft folgen, zusammenarbeiten, um das soziale Paket voranzubringen. Ich begrüße, daß eine solche Troika eingerichtet wurde, so daß jetzt der Weg geebnet ist und nun Taten folgen müssen.

Es kommt aber auch darauf an, daß unser Parlament das Seine tut und nicht verzögert, denn auch im letzten Jahr vor den letzten Wahlen, muß das Parlament zeigen, wozu es sich entschlossen hat. Deswegen meine Aufforderung an Sie alle, dies nicht hängenzulassen, sondern schnell voranzugehen, um hier noch zu einem Erfolg zu gelangen.

DER PRÄSIDENT. - Wir kommen jetzt zur Abstimmung über den Antrag auf baldige Abstimmung zu den schon angekündigten fünf Entschließungsanträgen.

(Das Parlament nimmt den Antrag an)

Die Abstimmung über die fünf Entschließungsanträge findet morgen, 18.30 Uhr, statt.

DELORS, président de la Commission. Monsieur le Président, Mesdames, Messieurs, je ne vais pas vous retenir longtemps.

Ma première observation sera pour dire que vous avez mis l'accent, après, d'ailleurs, les présentations qui ont été faites, sur le renforcement de la construction interne de la Communauté. Cela ne devrait pas faire oublier que, dans les six mois qui viennent de s'écouler, la Communauté a eu aussi une intense activité extérieure. Pas simplement pour préparer la reconnaissance de la Communauté par le COME-

CON, pas simplement pour approfondir nos relations avec les pays de l'A.E.L.E., mais dans deux domaines que je me permets de souligner, car ils revêtiront, dans les mois qui viennent, une importance considérable et ils seront le test de ce que veut notre Europe ainsi que des responsabilités qu'elle entend assumer à l'extérieur.

Je veux parler, d'une part, des négociations multilatérales de l'Uruguay Round, menées avec beaucoup de talent par Willy De Clercq et, d'autre part, de la préparation de la quatrième convention ACP, menée également avec beaucoup de compétence par M. Lorenzo Natali, qui comportera une innovation puisque M. Natali tente de faire accepter une facilité spéciale permettant aux pays africains de mieux traiter leur problème de l'endettement, tout en préservant - et c'est le plus important - leur possibilité de développement pour l'avenir.

Sur le plan intérieur, je ne retiendrai que trois questions.

On a parlé des résultats, ou plutôt de l'ouverture aux problèmes sociaux du Conseil européen de Hanovre. Monsieur Baillôt, contrairement à ce que vous avez dit, la Confédération européenne des syndicats a accueilli avec satisfaction les résultats du Conseil de Hanovre - je tiens le texte à votre disposition. Il est vrai - et je le regrette - que deux organisations importantes sur le plan national ne font pas partie de la Confédération européenne des syndicats, mais elles savent que ma porte leur est toujours ouverte et que si elles veulent être consultées dans toutes les instances appropriées, je ferai le nécessaire pour cela.

En ce qui concerne la question monétaire et notamment ce qu'a indiqué M. Beumer, mon intention est de vous proposer, Monsieur le Président, de vous rencontrer et d'avoir avec vous - et trois ou quatre collègues que vous désigneriez - des conversations informelles, et assez confidentielles, qui me permettraient de recueillir vos avis et de vous tenir au courant de l'évolution des travaux. Mais, contrairement à ce qu'ont dit certains hommes politiques qui se sont exprimés avec audace sur la Banque centrale européenne, il reste de nombreux problèmes techniques qui n'ont pas été étudiés et il y a aussi la dimension macro-économique et l'environnement institutionnel, politique, d'une telle évolution. C'est ce qui explique, d'ailleurs, que j'ai insisté pour que soient désignés pour ce comité la Commission et des experts et pas simplement, bien que je le considère comme indispensable, les gouverneurs des banques centrales.

Pour ce qui est du « futur institutionnel », et là je réponds à M. Croux, nous ferons une évaluation de ce qu'a donné la comitologie, c'est-à-dire des pouvoirs d'exécution de la Commission. Vous pourrez

constater que si la présidence allemande a fait pleinement confiance à la Commission - je l'ai indiqué, cela a été un des facteurs du succès - en revanche, dès que l'on descend au niveau des groupes de travail du COREPER, on assiste à une bataille « pointilliste » sans grandeur, qui n'a rien à voir avec ce qui devrait être notre idéal commun et notre responsabilité commune.

Je terminerai en disant que l'euphorie d'aujourd'hui ne doit pas nous cacher que la construction européenne a 31 ans, qu'elle a connu plus d'années de stagnation que d'années de développement et beaucoup de crises. Aussi me permettez-vous de dire que j'aborde, pour ma part, les mois et les années qui viennent avec beaucoup de vigilance.

Enfin, je ne voudrais pas laisser passer sans réplique ce qu'a dit M. le Pen.

M. Le Pen fait son beurre comme il le peut. Moi, j'ai parlé des quatre libertés inscrites dans le Traité. Hélas, j'ai oublié de parler de la sécurité et me voilà classé parmi les « neutralistes bêlants ». Je rappellerai simplement à M. Le Pen que juste après le Sommet de Reykjavik, j'ai demandé solennellement aux Douze de réunir un Conseil européen exceptionnel pour analyser la situation, tirer les enseignements de l'absence de l'Europe et voir ce que nous pourrions faire dans le domaine de notre sécurité...

(Applaudissements)

J'ai toujours considéré que l'évolution des rapports entre l'Est et l'Ouest nécessitait, de notre part, une dialectique subtile entre l'ouverture vers les chances de paix et la vigilance, car une nation qui ne sait pas rester debout n'est plus une nation.

(Vifs applaudissements)

DER PRÄSIDENT. - Die Aussprache ist geschlossen.

(Die Sitzung wird um 13.08 Uhr unterbrochen und um 15.00 Uhr wiederaufgenommen)

PRESIDENCE DE M. MUSSO

Vice-président

DEVEZE (DR). - Monsieur le Président, pour une motion de procédure, comme disent nos amis, mes grands amis britanniques - *I shall try to do it in the most friendly way* -

Tout à l'heure, M. Delors, dont c'est parfaitement le droit, bien que ce ne soit pas le rôle, a mis en cause mon président d'une façon qui m'a un petit peu choqué et je voudrais simplement dire ceci. Cela me

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5. WITH THE END OF COHABITATION, MITTERRAND IS AGAIN IN THE POSITION OF HAVING A GOVERNMENT (ALBEIT A MINORITY ONE) OF HIS OWN PERSUASION. BUT THERE ARE ALREADY CLEAR INDICATIONS THAT THE DIRECTION WHICH HE WISHES TO FOLLOW IS PARTLY CENTRIST, WITH AN INJECTION OF CONCERN FOR SOCIAL ACCORD WHICH IS SHARED BY MANY CENTRISTS AND IS A NECESSARY ELEMENT, IN THE PRESIDENT'S VIEW, OF HIS STRATEGY TO LEAD A GOVERNMENT OF WIDE APPEAL. THESE INDICATIONS ARE:

(I) NEXT FIVE WORDS UNDERLINED LETTER TO ALL THE FRENCH: ALTHOUGH MITTERRAND OFFERED NO DETAILED PROGRAMME DURING THE PRESIDENTIAL CAMPAIGN, HIS OPEN QUOTE LETTER TO THE FRENCH UNQUOTE (MY TELNO 340 AND MY SAVINGRAM 18) SET OUT HIS PREOCCUPATIONS. IT DOES NOT MENTION SOCIALISM ONCE. IT PUT EMPHASIS ON THE NEED FOR SOCIAL SOLIDARITY AT HOME, INCLUDING THE COMMITMENT TO A MINIMUM INCOME FOR THE UNEMPLOYED TO BE PARTLY FINANCED BY THE REINTRODUCTION OF A WEALTH TAX. THERE WERE ALSO COMMITMENTS TO EUROPEAN CONSTRUCTION (INCLUDING THE SOCIAL DIMENSION OR QUOTE SOCIAL SPACE UNQUOTE), DISARMAMENT (BUT NOT AT THE EXPENSE OF SECURITY), EDUCATION AND RESEARCH. THE AIM OF THE LETTER WAS TO APPEAL BEYOND THE CONFINES OF THE SOCIALIST PARTY (PS) TO THOSE IN THE CENTRE AND ON THE CENTRE-RIGHT. MITTERRAND'S LANDSLIDE RE-ELECTION SHOWED HOW WELL THIS ESSENTIALLY NON-IDEOLOGICAL MESSAGE WAS RECEIVED.

(II) NEXT THREE WORDS UNDERLINED THE ROCARD GOVERNMENT: MITTERRAND'S DECISION TO APPOINT HIS OLD RIVAL ROCARD AS PRIME MINISTER MUST BE TAKEN AS A SIGNAL THAT HE IS SERIOUS ABOUT A POLITICAL OPENING TO THE CENTRE (QUOTE OUVERTURE UNQUOTE). ROCARD, WHO WAS FIERCELY CRITICAL OF THE HEAVILY SOCIALIST POLICIES MITTERRAND PURSUED IN THE 1981-83 PERIOD, IS ON THE SOCIAL DEMOCRATIC WING OF THE PS, COMMITTED TO THE MARKET ECONOMY AND A PRAGMATIST. HE IS POPULAR WITH THE ELECTORATE AT LARGE. ON THE OTHER HAND, MITTERRAND IS REPUTED TO HAVE LITTLE AFFECTION FOR ROCARD. HIS REPUTATION AS A MANAGER LEAVES SOMETHING TO BE DESIRED. HE HAS FEW SOLID SUPPORTERS AND A NUMBER OF WELL-ENTRENCHED AND ACTIVE RIVALS IN THE MAIN STREAM OF THE SOCIALIST PARTY. WHILE ROCARD THEREFORE IS USEFUL TO MITTERRAND HE IS NOT INDISPENSABLE. BUT, AT PRESENT, ROCARD IS THE BEST AVAILABLE MEANS BY WHICH MITTERRAND'S POLICIES CAN BE CARRIED THROUGH. HE IS LIKELY TO STAND OR FALL BY HIS RESULTS.

(III) NEXT FOUR WORDS UNDERLINED THE ROCARD GOVERNMENT'S POLICIES: FIRST INDICATIONS MAKE IT CLEAR THAT ROCARD IS GUIDED BY PRAGMATISM RATHER THAN IDEOLOGY. HIS DECISION TO SOLICIT BARRE'S CO-OPERATION IN TACKLING THE NEW CALEDONIA PROBLEM PROVIDED AN EARLY

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FRENCH INTERNAL POLITICS: MITTERRAND LOOKS TO THE CENTRE.

SUMMARY

1. AS THE FRENCH POLITICAL SEASON CLOSES, THERE ARE CLEAR INDICATIONS OF THE CENTRE-LEFT STRATEGY BEING PURSUED BY MITTERRAND. AT HIS BEHEST, THE ROCARD GOVERNMENT IS BEING GUIDED BY PRAGMATISM RATHER THAN IDEOLOGY AND CONTINUES TO SEEK AN OPENING TOWARDS THE CENTRE.

DETAIL

2. PARLIAMENT HAS GONE INTO RECESS UNTIL OCTOBER. POLITICIANS WILL NOW TAKE STOCK. WE CAN DO THE SAME.

3. THE PRIME MINISTER AND YOU HAVE SEEN PRESIDENT MITTERRAND AT FIRST HAND IN FOUR SUCCESSIVE PRESIDENTIAL PERFORMANCES:-

(A) MITTERRAND I FROM 1981 TO 1983, WHEN THERE WAS COMMUNIST PARTICIPATION IN A GOVERNMENT OF QUOTE UNION OF THE LEFT UNQUOTE, AND FRENCH SOCIALIST IDEOLOGY WAS - WITH SERIOUS CONSEQUENCES FOR THE FRENCH ECONOMY - GIVEN FREE REIN:

(B) MITTERRAND II FROM 1983 TO 1986, WHEN THE LESSONS OF HIS EARLIER ECONOMIC POLICY HAD BEEN LEARNT AND THERE WAS A RETURN TO ECONOMIC AND SOCIAL MODERATION:

(C) MITTERRAND III FROM 1986 TO 1988, WHEN, FACED WITH THE POLITICAL AWKWARDNESS OF COHABITATION WITH CHIRAC, MITTERRAND HELD HIMSELF BACK FROM DAY TO DAY GOVERNMENT AND PROJECTED, SUCCESSFULLY, THE IMAGE OF A CAUTIOUS, CONSERVATIVE AND REASSURING FATHER-FIGURE:

(D) THE PRESENT MITTERRAND IV, RE-ELECTED IN A SUBSTANTIAL PERSONAL VICTORY, BUT DENIED A MAJORITY FOR THE SOCIALIST PARTY (PS) AND UNABLE SO FAR TO SECURE A SUFFICIENT BLOCK OF CENTRIST SUPPORT TO FORM THE BROAD-BASED GOVERNMENT HE WANTS.

4. IN THIS NEW SITUATION, WHAT SORT OF MITTERRAND SHALL WE SEE? IS THERE ANY LIKELIHOOD OF A SIGNIFICANT SHIFT BACK TO MORE OBVIOUSLY SOCIALIST POLICIES?

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DIRIGISTE ELEMENTS OF FRENCH SOCIETY, AND THERE WILL UNDOUBTLEDLY BE A STATIST TINGE TO THE POLICIES PURSUED DURING MITTERRAND'S SECOND TERM. THIS WILL FIND RHETORICAL AND PRACTICAL EXPRESSION IN EC FORA, NOT LEAST IN MITTERRAND'S PREOCCUPATION WITH QUOTE THE SOCIAL SPACE UNQUOTE. INDEED, THE MOVING FORCE OF THE NEW GOVERNMENT IS MITTERRAND'S PERSONAL CONCERN FOR, AND COMMITMENT TO, A FAIRER AND MORE EQUAL SOCIETY. THAT FEELING MAY HAVE ITS ORIGINS AS MUCH IN HIS CATHOLIC PROVINCIAL UPBRINGING, AND EARLY POLITICAL RADICALISM, AS IN ANY BELIEF IN SPECIFICALLY SOCIALIST DOCTRINES. BUT SUCH CONCERN IS NOT CONFINED TO THE PRESIDENT (NOR TO ROCARD NOR THE PS). IT MEETS AN INTERNAL POLITICAL DEMAND THAT RANGES WIDELY OVER THE POLITICAL SPECTRUM, AND IS SHARED BY BARRE IN PARTICULAR.

8. IN SHORT, MITTERRAND IV IS A LOGICAL EXTENSION OF MITTERRAND II. OVERSHADOWING THE POLITICKING OF THE PRESENT PHASE OF FRENCH POLITICAL LIFE IS THE UNCERTAIN PROSPECT OF 1992, THE FRENCH REACTIONS TO WHICH WERE ANALYSED IN MY RECENT DESPATCH. MITTERRAND CLEARLY PERCEIVES THAT FRANCE'S ABILITY TO FACE THE COMPETITION OF THE NEW WORLD AHEAD REQUIRES WIDESPREAD CHANGE FOR THE PEOPLE OF FRANCE AS A WHOLE AND THEREFORE A NATIONAL CONSENSUS. IT WOULD BE MISTAKEN, AND INCONSISTENT WITH HIS KNOWN VIEWS, FOR HIM TO PURSUE POLICIES WHICH - BY THEIR IDEOLOGICAL AFFINITIES - REPRESENTED A RETURN TO POLARISATION.

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EXAMPLE OF HIS NON-SECTARIAN APPROACH. IN ECONOMIC POLICY THE SIGNS ARE OF CONTINUITY RATHER THAN CHANGE, EG THE DECISION TO ADHERE TO THE CHIRAC GOVERNMENT'S TARGETS FOR REDUCING THE BUDGET DEFICIT. THERE ARE TO BE NO NATIONALISATIONS (A COMMITMENT GIVEN IN MITTERRAND'S LETTER), BUT THERE MAY BE SOME PRIVATISATION BY STEALTH. A WEALTH TAX IS BEING INTRODUCED TO HELP FUND A MINIMUM GUARANTEED INCOME, AS PROMISED BY MITTERRAND, BUT IT IS RELATIVELY MODEST IN SCOPE AND SCALE. IT IS AN UNAVOIDABLE SOP TO SOCIALIST PARTY SENTIMENT. WITH LUCK IT SHOULD HAVE RELATIVELY LITTLE IMPACT ON THE ECONOMICALLY ACTIVE ENTREPRENEURIAL CLASS. SO FAR, IT HAS MET WITH GRUMBLING RATHER THAN OUTRAGE ON THE RIGHT. (THE MINIMUM GUARANTEED INCOME HAS BROAD SUPPORT AND WAS SOMETHING TO WHICH BOTH BARRE AND CHIRAC ALSO COMMITTED THEMSELVES DURING THE PRESIDENTIAL CAMPAIGN.) THE SAME SIGNS OF CONTINUITY ARE EVIDENT IN FOREIGN AND DEFENCE POLICY. IN THE OTHER AREA OF MAJOR ACTIVITY TO DATE, SOCIAL POLICY (MY SAVINGRAM 35 OF 22 JUNE), THE GOVERNMENT'S AIMS ARE BROADLY SHARED BY THE CDS IN THE CENTRE.

6. MITTERRAND'S ELECTION CAMPAIGN AND THE FORMATION OF THE NEW GOVERNMENT PROVIDE CLEAR EVIDENCE OF HIS WISH TO CONSTRUCT A GOVERNMENT ON THE CENTRE-LEFT (ALTHOUGH THERE IS NO GUARANTEE THAT HE WILL SUCCEED). I FIND PERSUASIVE THE ARGUMENT OF THOSE WHO SAY THAT MITTERRAND'S LONG TERM ASPIRATION HAS BEEN TO REFOCUS POLITICAL DEBATE IN FRANCE ABOUT THE CENTRE, BETWEEN A MODERATE SOCIALIST LEFT AND A REASONABLE AND PRAGMATIC RIGHT. HAVING FASHIONED A SOCIALIST PARTY IN THE 1970S CAPABLE OF CAPTURING POWER IN 1981, HE HAS SINCE CONCENTRATED ON MOVING IT AWAY FROM SOCIALIST FUNDAMENTALISM TOWARDS THE SOCIAL DEMOCRATIC CENTRE. THE FABIUS GOVERNMENT (1984-86) WAS THE FIRST STEP: THE FORMATION OF THE ROCARD GOVERNMENT IS THE SECOND. FRANCE NOW HAS A GOVERNMENT NOMINALLY OF THE LEFT. BUT THAT NOMINAL QUALITY HAS ALREADY LED TO MUTTERING IN THE PS'S LEFT WING RANKS AT THE INSUFFICIENCY OF GENUINE SOCIALIST CONTENT IN THE GOVERNMENT'S PROGRAMME. SOME CLAIM THAT MITTERRAND HAS MOVED SO FAR TOWARDS THE CENTRE THAT HE RISKS IRRITATING HIS OWN SOCIALIST PARTY AND LOSING IT A CONSIDERABLE NUMBER OF VOTES IN THE LOCAL ELECTIONS TO COME. HE UNDOUBTEDLY NEEDS TO TREAD DELICATELY, SO AS NOT TO PUSH LEFT-WING SUPPORTERS BACK TOWARDS THE COMMUNISITS (WHOSE VOTES ARE USEFUL TO HIM BUT OF WHOSE POLITICAL ASPIRATIONS HE IS A CONFIRMED OPPONENT), NOR CLOSE OFF OPENINGS TO THE MODERATE CENTRE.

7. THE NEW GOVERNMENT WILL UNDOUBTEDLY CONCENTRATE ON ISSUES THAT ARE OF TRADITIONAL CONCERN TO THE PS SUCH AS EDUCATION, UNEMPLOYMENT AND THE THIRD WORLD (WITH DOUBTLESS SOME TIRESOME GESTURES ON SOUTH AFRICA). ALL FRENCH GOVERNMENTS TEND TO REFLECT THE TRADITIONAL

VALÉRY GISCARD D'ESTAING

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Monsieur le Chancelier,

Le COMITE POUR L'UNION MONETAIRE DE L'EUROPE que je préside avec le Chancelier Helmut SCHMIDT a tenu, au cours de l'année 1987 et au premier semestre 1988, une série de réunions consacrées à la mise au point de ses premières propositions.

Connaissant l'intérêt personnel que vous portez aux problèmes de la construction européenne, je vous prie de trouver ci-joint un exemplaire du "Programme pour l'action" établi et adopté par le Comité. Ce document a déjà été transmis par nos soins aux membres du Conseil Européen participant au Sommet de Hanovre les 27 et 28 juin.

Je vous prie de croire, Monsieur le Chancelier, en l'expression de ma considération la plus distinguée,

et celle de mes sentiments les meilleurs.

V. Giscard d'Estaing

Her Majesty's Nigel LAWSON
Chancellor of the Exchequer
TREASURY
Parliament Street
LONDON SW 1 P 3 A G
GRANDE-BRETAGNE

- Interest rates: the Bank of France lowered its intervention rate to 6.75% - the first time it has been below 7% since 1979.
- Considerable M & A activity, including Guinness' acquisition of a holding in LVMH, the champagne and luxury goods group.
- Preparations for the general government budget underway, with a 1989 budget deficit target of F100 billion.
- The social security budget was in deficit by F1 billion in 1987, and is predicted to be in deficit by F11 billion in 1988 and F33 billion in 1989.
- Rate of VAT on non-alcoholic drinks was reduced from 18.6% to 5.5% on 30 June.
- Wealth tax and minimum income bills approved by the Council of Ministers on 13 July and will be presented to Parliament in October. Wealth tax rates vary from 0.5% to 0.9% on total assets over F4 million.

FRAME ECONOMIC 206

ECD (i) [-]

ADDITIONAL

FRAME 1

SAVING TELEGRAM

UNCLASSIFIED

FRAME ECONOMIC

FROM PARIS SAVING TELNO 40 OF 19 JULY 1988

TO FCO

REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE
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FRANCE

FRANCE: ECONOMIC REPORT FOR JUNE 1988

SUMMARY

- INSEE release their 1988 forecast on the French economy, which points to faster growth in 1988 than previously expected, though with some slowing down in the rest of this year. INSEE predict a marketed GDP growth rate of 2.8%, investment growth of 5.8%, domestic demand growth rate of 3.1%, household consumption growth of 2.3%, export growth of 5.0%, against import growth of 5.8%. Manufacturing production is expected to reach 4.3%. Other predictions include an inflation rate of 3.2%; an external trade deficit of F32.8 billion; and an annual average unemployment rate of 10.5% by the end of the year.

- Some economic commentators consider the INSEE report to be too cautious, in particular on external demand, and argue that the slow down in the economy during the rest of the year will be less than INSEE predict. A consensus view suggests a GDP growth rate of around 3.0% by the end of the year, inflation at 3.0% or slightly less, and a smaller trade deficit.

- Subsequent investment statistics published by INSEE suggest a growth of investment by volume in 1988 of 9%-10%.

- The balance of trade was in deficit in May by F1.4 billion, bringing the trade deficit in the year to F15.5 billion. The balance of payments deficit in February was F5.9 billion. The revised January BoP figures was in surplus of F4.8 billion.

- Provisional inflation rate in June was 0.3%, bringing the annual rate to 2.6%.

- Unemployment rose to 2,558,800 (10.4%). The latest employment figures show an upward trend.

- The national minimum wage was raised by 1% on 1 July, slightly more than required by statutory index linking. A report on incomes indicated that employees' purchasing power declined slightly in 1987. Pressure for higher pay rises is increasing.

- The Bourse CAC index reached a 1988 high of 368.5 on 8 July, in moderate trading. Share prices increased as a result of favourable economic indicators, M & A activity and a lowering of interest rates.

FRANCE: ECONOMIC REPORT FOR JUNE 1988

I GENERAL ECONOMIC ACTIVITY

(a) INSEE forecast

1. On 30 June 1988, INSEE published their latest forecast on the French economy covering the period to the end of the year. The forecast proved to be somewhat more optimistic than previous ones earlier in the year. At the same time, the report points to a number of worrying factors, such as unemployment and the balance of trade, though even these are less pessimistic than had previously been predicted. A number of commentators consider the report to be too cautious, and they hold the view that the performance of the French economy by the end of the year will be better than the INSEE prediction.

2. According to INSEE, *the marketed GDP growth rate by the end of 1988 will be 2.8% (compared to 2.3% in 1987) though they believe that there will be a slow down in the economy during the second half of the year. Investment has been particularly high, and the total rate of growth is expected to be 5.8% (as against 3.4% in 1987). Of this figure, business investment is expected to reach 6.8%, while residential investment will reach 3.9% (as against 0.9% in 1987). Domestic demand is expected to fall to 3.1% (against 3.6% in 1987). This is primarily due to a slowing of the level of household spending power (0.8% in 1988; 1.9% in 1987) and total consumption (2.2% in 1988; 2.4% in 1987). Household consumption is also expected to ease slightly, from 2.4% in 1987 to 2.3% in 1988, albeit remaining at the present high levels. Export growth is expected to grow at 5.0% (1.7% in 1987) while import growth will fall to 5.8% (as against 6.4% in 1987). The full INSEE data is as follows:

Biens et services marchands : équilibre ressources-emplois aux prix de 1980												
Taux de croissance en %												
	Glissements semestriels						Glissements annuels			Moyennes annuelles		
	86.I	86.II	87.I	87.II	88.I	88.II	1986	1987	1988	1986	1987	1988
GDP	1,4	0,6	1,2	1,6	1,2	0,8	2,0	2,9	2,1	2,2	2,3	2,8
Imports.	6,9	-2,9	5,4	4,8	2,6	1,8	4,0	10,1	4,4	7,3	6,4	5,8
Total resources	2,6	-0,2	2,1	2,3	1,5	1,1	2,4	4,5	2,6	3,3	3,2	3,5
Household consumption	2,3	0,4	1,0	2,1	0,8	1,0	2,6	3,1	1,8	3,5	2,4	2,3
Investment	2,5	0,3	1,8	2,5	3,7	1,2	2,8	4,4	4,9	2,9	3,4	5,8
- Business	3,5	-0,2	2,8	3,7	3,5	1,4	3,3	6,5	4,9	3,3	4,2	6,8
- Household	-0,2	-0,4	-0,1	0,3	4,3	0,6	-0,6	0,2	4,9	-1,0	0,9	3,9
Exports	-0,4	-1,4	0,4	5,7	1,2	-0,1	-1,8	6,1	1,1	-0,7	1,7	5,0
Variations of stock in billions	3,5	14,3	21,5	16,4	15,7	22,8	-	-	-	17,8	37,9	38,6
Total domestic demand	3,4	0,1	2,6	1,5	1,6	1,4	3,5	4,0	3,0	4,4	3,6	3,1

*footnote: all figures are an annual average for 1988 (en moyenne) as against year on year (en glissement) with the exception of the inflation figures.

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7. Despite the generally optimistic picture, the forecast points to a slowing down in the economy in the second half of 1988, and by implication in 1989.

8. Annex 8 gives a summary of the key economic indicators contained in the INSEE forecast.

9. The general consensus reaction of economic commentators (including the Ministry of Finance's economic advisers and the bankers) seems to be that the INSEE forecast is too cautious. In particular, they believe that INSEE are too pessimistic on external demand, and thus the trade deficit will be less than predicted. It is also suggested that the marketed GDP growth rate will reach 3.0% or slightly more; while the rate of inflation will be lower than 3.0%. They also believe that the slow down in the economy in the second half of 1988 (and in 1989) will be less than predicted by INSEE.

(b) Other forecasts

10. Two other private sector forecasts were published recently. The Bureau d'Information et de Prévisions Economiques (BIPE) published their forecast on 8 June. Their figures are contained in Annex 8. BIPE, which predicts a 1988 marketed GDP growth rate of 2.4%, readily admit that this, and their other figures, will have to be revised in the light of recently released economic data (they now privately predict a growth rate of around 3.0%).

11. Meanwhile, the Forecasting Centre of 'L'Expansion' published their own forecast for the French economy in 1988 and 1989, which gives a more optimistic picture than that of INSEE. Their figures are summarised as follows:

LES COMPTES DE LA FRANCE (Accroissements annuels en volume et en pourcentage)			
	1987	Prévision 1988	Prévision 1989
OFFRE			
PIB marchand	2.2	3.0	1.8
Importations	8.5	6.0	3.0
DEMANDE			
Consommation des ménages	2.4	2.2	1.5
Investissement	4.1	5.3	4.4
dont : sociétés	4.9	6.5	5.0
ménages	1.4	3.0	3.0
Exportations	2.4	6.5	2.5
Prix de détail (1)	3.1	2.7	2.2
Salaires horaires (1)	3.5	3.4	2.6

(1) Hausse intra-annuelle en % Source : Centre de prévision de L'Expansion.

♦ La croissance atteindra 3 % en volume cette année. Mais le ralentissement mondial, attendu en 1989, la ramènerait à 1.8 % l'an prochain.

(c) Investment

12. Subsequent to their forecast, INSEE published revised predictions on the rate of growth in investment on 7 July, based on a survey of industry in June. According to this survey the growth of investment by volume will be between 9%-10% this year, and around 7% in 1989. The automobile, consumer goods and the agrifood industries, have been the most dynamic. However, INSEE

3. Manufacturing production, as a whole, grew strongly during Q1 1988, and the end of the year prediction is for an annual average growth of 4.3% (compared to 2.2% in 1987). Intermediate goods (5.6% in 1988 against 2.4% in 1987), the auto industry (7.3% against 6.5%), services (4.5% against 4.8%) and housing and public works (4.8% against 3.7%) have all held up particularly well, and are the motors (along with investment) of the current growth rate. The good performance of intermediate goods is due primarily to higher than expected export orders, the result of faster growth in external demand.

4. Inflation is predicted to edge up to 3.2% (year on year) by the end of the year (as against 3.1% in 1987), while non-energy inflation is expected to be 3.4% (against 3.3% in 1987).

5. The two most worrying aspects of economic performance are external trade and unemployment, though INSEE are slightly less pessimistic than had previously been forecast by some commentators. They predict that the external trade deficit (FOB/FOB) will be F32.8 billion as against a deficit of F31.5 billion in 1987. Export growth in manufactured products is predicted to ease to 8.3% (against 8.9% last year). Despite the growth in exports in manufactured products the deficit in this sector is predicted to be F31.8 billion (against a deficit of F7.9 billion in 1987). The surplus in agriculture/ agrifood industries is expected to improve to F36.0 billion (against F29.3 billion in 1987); while the energy deficit is predicted to fall to F69.0 billion (against a deficit of F82.2 billion in 1987). The commercial balance data is as follows:

Solde commercial douanier 1/										en Milliards de Francs		
	Niveaux trimestriels								Niveaux annuels			
	87.1	87.2	87.3	87.4	88.1	88.2	88.3	88.4	1986	1987	1988	
Agriculture/IAA	5.2	6.5	8.3	9.2	10.1	9.0	7.3	9.6	26.1	29.3	36.0	
Energie	-19.6	-19.9	-21.8	-20.7	-14.9	-16.8	-19.0	-18.3	-89.5	-82.2	-69.0	
Manufacturés	0.4	-6.0	-0.1	-2.2	-7.1	-9.6	-8.8	-6.3	35.4	-7.9	-31.8	
TOTAL CAF/FAB	-14.0	-19.4	-13.6	-13.7	-11.9	-17.4	-20.5	-15.0	-28.0	-60.8	-64.8	
TOTAL FAB/FAB	-7.0	-12.2	-6.2	-6.1	-4.2	-9.5	-12.3	-6.8	-0.6	-31.5	-32.8	

1/ En raison d'une différence de traitement des corrections de variations saisonnières et de jours ouvrables, les mouvements infra-annuels des soldes retracés par les comptes trimestriels peuvent diverger de ceux présentés par les chiffres douaniers. Le graphique ci-dessous précise ces divergences.

6. The end of year annual average unemployment rate is predicted to be 10.5% (against 10.6% in 1987). INSEE predict that the surge in unemployment by the end of September will be 100,000 - 150,000, as existing training schemes come to an end. This is less pessimistic than recent public government predictions of an increase in the number of unemployed of 200,000 - 250,000 by the end of September. The growth in job creation is expected to be 0.2% (ie 40,000 new jobs) by the end of the year.

V THE LABOUR MARKET

17. The recent upward trend in unemployment continued in May: the end month seasonally-adjusted total was 2,558,800, 10.4% of the labour force (Annex 2). The total includes 761,000 who have been unemployed for over a year, down slightly from the April long-term unemployed total, but the average duration of unemployment continued to increase, to 370 days. The unadjusted total was 2,432,200. The official explanation for the rise in unemployment is a fall in the number of places available on the employment programmes organised by the previous government.

18. The Labour Ministry quarterly survey of employment in the non-agricultural market sector showed a rise of 42,000 in the first quarter of 1988, bringing the total to 13,539,700. The decline in employment in industry continued, but at a slower rate. The rising trend in employment was confirmed in figures from the unemployment benefit service (UNEDIC) which showed 120,000 new jobs created in the period April 1987 - March 1988.

VI PAY

19. A detailed study on recent changes in incomes in France by the Centre d'Etudes sur les Revenus et les Coûts (CERC) showed that average real incomes of employed persons fell in 1987 by 0.3% compared with the 1986 annual average, following an annual average rise of 0.3% in 1985 and 1986. Taking account of the effect of changes in the structure of the labour force, CERC estimates that average real incomes in the private and semi-public sector rose by 0.8% on average over the period, while they remained stable or fell very slightly in the public sector. The real value of the national minimum wage (SMIC) rose by 1% on average each year between 1984 and 1987, and remained stable during 1987. These findings are expected to add to pressure for higher pay rises in the second half of 1988 and in 1989.

20. The quarterly Labour Ministry study of the hourly wage rates of manual workers showed a rise of 3.3% between April 1987 and 1988.

21. The SMIC was updated by 1% with effect from 1 July to 28.76 francs an hour. This represents a small gesture by the government towards the low paid. The statutory link between the SMIC and the retail price index required a rise of only 0.6%. An estimated 1.650,000 employees were on the SMIC in 1987, representing a slight fall on 1986. A rise in the number of trainees covered by minimum wage arrangements brought the total coverage to over 2 million.

VII INDUSTRIAL RELATIONS

22. The new Centrist Minister for Labour, Employment and Training, M Jean-Pierre Soisson, has set out guidelines for collective bargaining in 1988. They include:

- improved arrangements for the introduction of flexible working patterns, in particular a commitment to shorter working hours;

predict that a 9% annual increase in investments will only produce an increase in production capacity from the current figure of 1.5% to 2.0%.

II BALANCE OF TRADE

13. There was a balance of trade deficit in May of F1.4 billion, giving an overall trade deficit in the first five months of 1988 of F8 billion. This compares with a trade deficit in April 1988 of F2.1 billion, and a deficit of F15.5 billion in January-May 1987.

The balance of trade data for May 1988 was as follows:

May 1988 Balance of Trade

Balance	-F1.4 billion (sa)
Cover Rate	98.3%
Exports	F81.9 billion (adjusted)
Imports	F83.4 billion (adjusted)

Balance of Trade:

(a) in food and agriculture	+F4 billion
(b) industrial products	-F2.2 billion
(c) energy	-F5.9 billion

14. This represents an increase over April in exports of +3.5% and imports of +2.3%. The main increases in exports were in agricultural products (+12.2%) and manufactured goods (+4.1%). Of the latter, household goods (+8.2%) automobiles (+7%) and intermediate goods registered the strongest rises. The overall May deficit in manufactured products stood at F2.2 billion, against a deficit in April of F3 billion.

III BALANCE OF PAYMENTS

15. The Ministry of Finance announced in early July that the Balance of Payments (sa) in February 1988 was in deficit by F5.925 billion. This compares with a revised Balance of Payments (sa) surplus in January 1988 of F4.791 billion. The first two months deficit in 1988 stands at an estimated F1.134 billion, as against a deficit of F1.500 billion in the same period of 1987. A full breakdown of the January and February figures are given in Annex 9.

IV INFLATION

16. The rate of inflation rose in May by 0.2%, and by 0.3% in June while the annual rate over the previous twelve months to June rose from 2.5% to 2.6%. Over the previous twelve months, inflation in the services sector recorded a rise of 4.9%, while the figure for manufactured products was 1.6% and food and drink was 1.1%.

(b) The MATIF

26. According to their annual report (which was released at the end of June) the Chambre de Compensation des Instruments Financier de Paris (CCIFP), the supervisory committee of the MATIF (the financial futures market) increased their profits in 1987 to F96.67 million (against F4.17 million in 1986). According to the report, activity on the MATIF in 1987 grew by 650%, with 12 million contracts completed compared to 1.7 million in 1986. The MATIF also saw a fundamental shift in its working practices in 1987. The activity of agents de change (traditional stockbrokers) accounted for 52.7% of all transactions (74% in 1986), while banks accounted for 25.8% of transactions (against 14.52% in 1986).

27. The MATIF index for 10% notional bonds with a due date of September, rose slightly in the course of June, from just over 102 to 103.25 on 27 June.

(c) Interest Rates

28. On 8 July, the Bank of France lowered its intervention rate by 0.25% to 6.75%, earlier than expected and against the trend of interest rate increases in the international market. This is the first time since 1979 that the rate has fallen below 7%. This is the second reduction under the present government, with the last on 26 May. On this occasion the seven day repurchase rate was not reduced (7.50%) nor has there been an increase in the level of obligatory deposits with the Bank of France. The present reduction was considered possible because of the continued strength of the franc, and a moderation in the growth of M2 money supply figures (+2.7% in May against +2.8% in April).

29. The lowering of the intervention rate is seen as a message from the government that they still wish to reduce interest rates. However, the reduction has had little or no affect on money market rates (the base lending rate remains at 9.6%, a figure set in May 1986), nor will it have any affect on consumer credit.

IX MERGERS AND ACQUISITIONS

30. There has been considerable merger and acquisition activity in France, though not on the same scale as in the United States and the United Kingdom. According to 'La Tribune del'Expansion' on 11 July, in France there were 915 M & A activities in 1987, equal to 4% of GDP and valued at F66 billion. Each transaction averaged F190 million. According to 'La Tribune de l'Expansion' this compares with the situation in the United States where M & A activity was valued at F2,000 billion/8% of GDP, and in the UK at F760 billion/22.2% of GDP. The newspaper goes on to say that the margin for manoeuvre for further M & A activity is considerable and total acquisitions, at a minimum, should double during the next five years. The major French banks active in M & A are Paribas (39 M & As), Suez (27 M & As), Credit Lyonnais (16 M & As) and CCF (15 M & As).

- pay negotiations to include stricter rules on merit pay;
- negotiations on the social consequences of technological change.

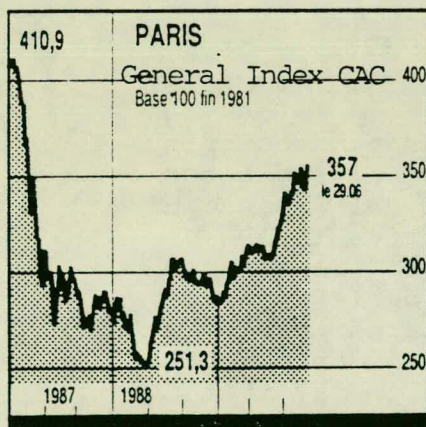
23. Days lost through industrial action continue at a higher level than in previous years. The dispute over manning levels for Airbus A320 flight crews continues to disrupt internal air traffic.

VIII FINANCIAL MARKETS

(a) The Bourse

24. During June, trade in shares on the Bourse was in moderate volumes. Trading has now returned to normal following the disruption of a series of recent strikes and a bomb scare. The CAC index has continued to rise, and closed at 358.7 on 1 July. There was a spurt of activity in the week 4-8 July, with the CAC index closing at 368.5 at the end of the week, a 1988 high. Much of the rises were the result of merger and acquisition activities; while the drinks sector (especially Pernod, Perrier and BSN) benefitted following the lowering of VAT rates on soft drinks (from 18.6% to 5.5%). The Bourse also reacted well to recent favourable economic indicators, in particular the INSEE forecast, a trade deficit in the year to May which is half that for the same period last year, high growth in the volume of investment, and the anticipation of a lowering of interest rates (which occurred on 8 July).

25. The CAC index has gained 32% in the last six months, and the 1988 high has just stopped short of the 16 October level when the CAC index was 369.6. The index remains well below the record high of 460.4 reached on 26 March 1987, though well above the post October crash level of 251.3. The trend in share prices since the end of September 1987 is as follows:



(Source: 'Investir', 2-8 July 1988)

tax revenues this year, the result of higher than expected growth, but the negotiations currently underway between the Budget Ministry and spending ministries are nonetheless very tough.

35. The government also stands by the medium term objectives of the previous government, ie to reduce the budget deficit by steps to F70 billion in 1991 (ie F100 billion in 1989, F85 billion in 1990).

(b) The Social Security Budget

36. Figures recently released by the Commission des Comptes de la Sécurité Sociale, show that the budget deficit in 1987 for the 'regime general' which covers most employees and their families was F1 billion, and is predicted at F11 billion in 1988 and F33 billion in 1989. Their predictions for the budget balance are as follows:

	(millions of francs)		
	1987	1988	1989
Health	7.8	5.3	1.2
Pensions	-10.3	-17.6	-34.4
Family Allowances	1.5	1.3	0.5
Régime général	-1.0	-11.0	-32.7

The forecasts are based on the following assumptions.

	(average annual change)	
	1988	1989
Prices	2.5	2.5
Gross wages	3.8	3.3
Employment	0.3	0.0
Total wage costs	4.1	3.3
Social Security ceiling	3.0	4.0

37. The published accounts take note of government measures announced early in June to increase contributions to the national social security fund (June MER, para 18). But they do not take account of the latest rises in the annual average rate of increase in health care spending by the 'general régime': 3.8% in May, following 2.8% in April; or of plans to reintroduce free prescriptions for the long term sick.

38. The new minimum income for the unemployed will be financed from general taxation rather than from social security contributions. A draft bill approved by the Council of Ministers on 13 July, which will be put to Parliament in the autumn, provides for a means-tested allowance of up to 2,000 francs for a single person, 3,000 for a couple and 600 for each child. The allowance will

31. Most recently in the news, has been the recent acquisition of a holding by Guinness in LVMH, Moët Hennessy Louis Vuitton, the world's leading producer of champagne and luxury goods. In what is a rather complex operation, Guinness and Financière Agache (a leading French retail and fashion group) have formed a joint holding company (split 40%-60%) and acquired 24% of LVMH. At the same time, LVMH will take a 10% holding in Guinness. Following the announcement of this acquisition the share price of LVMH dropped 17% in pre-Bourse trading (well below the 7% daily maximum movement) as profit taking occurred, and share dealings were suspended for a while. Prices of LVMH shares had risen 25% in recent months, due to speculation about a full takeover bid.

32. Another notable M & A activity involves Lyonnaise des Eaux's involvement with British water companies. There is a F480 million cash offer for the Essex Waters company and a takeover bid for the East Anglian Water Company (in which the French company holds around 45% of its shares).

33. The main seven takeover bids since 1 January 1988 are as follows:

The Seven Main Takeover Battles since 1 January 1988

<u>Target Company</u>	<u>Bidder</u>	<u>Counter-bid</u>	<u>Result</u>
Martell	Grand-Metropolitan	Seagram	Seagram take control of Martell
Bénédictine	Rémy Martin	Martini et Rossi	Martini & Rossi win
Télémechanique	Schneider	Framatome	Schneider wins
Rhin-Rhône	Vincent Bolloré	Elf	Agreement between the two contenders
Holophane	Thorn-Emi	Emess Plc	Thorn-Emi wins
Darty	Employee buy out		Completed
Européenne de Soufres	Akzon et Kali Chimie		Friendly takeover

(Source: AGEFI)

X FISCAL POLICY

(a) 1989 Budget

34. As required by the Constitution the 1989 general government budget* will be presented to Parliament on the first Tuesday in October. The new government has confirmed that it will stick to the last government's intention of reducing the 1989 budget deficit to F100 billion, compared to the 1988 target of F115 billion, despite some increases in public expenditure, notably on education, research and training. This will be made much easier by higher than expected

* (excluding social security) //

will affect approximately 100,000 - 120,000 people. Thus, revenue raised by the ISF will only cover 30%, at the most, of the estimated F10-12 billion cost of the minimum income project.. It will also prove to be a tiny part of state revenues, at most 0.5% of total income tax revenues of around F220 billion.

43. The ISF bill will go before Parliament at the start of the October session, where it may have a rough ride. The Communists and some Socialists consider it too timid, while some on the right, including the RPR, oppose it in principle. The Rocard government hopes that the moderate nature of the tax will ensure enough support to see it through.

XI FUTURE PROSPECTS

44. The French economy is clearly growing faster this year than expected, though some slowing down of growth in the second half of 1988 looks likely. Nonetheless, a 1988 GDP outturn figure of around 3% looks on the cards, though with a lower figure likely for 1989. Inflation is edging up slightly, but seems under control. The relatively buoyant 1988 performance will be welcome to the French authorities, but should not disguise the underlying structural problems that remain. In particular:

i) even a GDP growth rate approaching 3% seems unlikely to do better than keep the current (10.5%) rate of unemployment stable. A slow down of growth next year would almost certainly lead to an unwelcome rise in unemployment;

ii) growth is better balanced now than a few months ago, with consumer spending, previously dominant, somewhat weaker, and investment and exports stronger. But the export performance may worsen if the international economy slows, in which case the structural balance of payments deficit will become, once again, a serious constraint. There are some signs that the supply side measures taken by the government over the last few years, and particularly by the 1986-88 Chirac government, are working through into increased industrial and export competitiveness, but the improvement does not yet seem enough to enable the economy to break out of this constraint;

iii) the recent relative weakness of the mark, and hence the relatively strong position of the franc in the EMS, has provided the new French government the unusual luxury of maintaining a strong franc while slightly lowering interest rates. This seems unlikely to last however. If the dollar continues its present upward path, French interest rates seem bound to have to follow others up, with adverse consequences for growth. If the dollar weakens, on the other hand, the franc/mark will come under pressure again, with the unwelcome choice between the depreciation of the franc within the EMS and higher interest rates.

be payable to all adults over 25, though beneficiaries will have to undertake to participate in training or employment schemes proposed to them. Some 500,000 people are expected to benefit.

(c) VAT changes

39. The government reduced the VAT rate on non-alcoholic drinks from 18.6% to 5.5% (the normal VAT imposition on foods) on 30 June, which had an immediate beneficial affect on the value of shares on the Bourse of the main soft drinks companies. The new VAT regime will become effective on 8 July, and the budgetary cost of this reduction is estimated to be approximately F2 billion per year. The VAT reduction was heralded as a further step in the direction of tax harmonisation in the lead up to 1992, though it is also estimated that the reduction could lower the retail price index by 0.01% (despite government denials that this was the main purpose of the move).

(d) Impôt de Solidarité sur la fortune (ISF) - The Wealth Tax

40. The bill reintroducing a Wealth Tax (now called the 'impôt de solidarité sur la fortune', ISF) was considered by the Council of Ministers on 13 July, along with the minimum income bill. There have been reports of a disagreement between Prime Minister Rocard and Finance Minister Bérégovoy on the form the wealth tax should take, with Bérégovoy favouring the model abolished in 1986 - narrow base, higher rates - and Rocard a model with a wider base and lower rates. The model finally adopted is a compromise - low rates, narrow base - which meets President Mitterrand's campaign commitment to reintroduce the tax, marks a symbolic link between a contribution by the rich to a minimum income for the poor, but affects comparatively few people (and is unlikely to bring in more than F4 billion), and does as little violence as possible to Bérégovoy's aim of fostering greater entrepreneurial spirit.

41. The proposed tax will have the following rates:

Proposed ISF rates

<u>Assets</u> (million francs)	<u>Rates of Tax</u> %
0 - 4	0
4 - 6.5	0.5
6.5 - 12.9	0.7
Over 12.9	0.9

42. There has also been some debate on what assets would be included in the tax. The tax bill on an individual will be based on total assets held on 1 January every year. Assets will include all domestic property, though there will be exemptions for works of art, forests and assets specifically related to a person's work, such as offices and equipment necessary for one's profession, or shareholdings in family companies. It is estimated that the ISF

ECONOMIC ACTIVITY

	IND PROD	RET SALES
1987		

OCTOBER	105	181.4
NOVEMBER	105	177.0
DECEMBER	106	180.3
1988		

JANUARY	106	178.6
FEBRUARY	106	181.5
MARCH	106	177.6
APRIL	105	

=====

IND PROD = Industrial Production excluding
building and civil engineering, 1980=100, sa.

RET SALES = Retail Sales Value, 1978=100, sa.

Source : INSEE, Informations Rapides.

Annex 1

ECONOMIC ACTIVITY

	REAL GDP	MONEY GDP	TL IND OUT	MAN PROD	HOUS. START	RET. SALES
	% change on year earlier					
1984	1.2	8.7	1.6	0.1	283.2	90.5
1985	1.6	8.0	1.6	-0.3	295.5	89.3
1986	2.2	7.5	2.4	0.9	295.5	90.3
1987	2.4	5.4	2.9	2.2	310.2	89.6
	% change on quarter earlier					
1987 Q2	1.0	1.5	1.1	1.9	75.8	88.6
1987 Q3	1.0	1.6	1.1	0.7	70.6	89.9
1987 Q4	0.7	1.2	0.7	0.6	91.9	90.9
1988 Q1	1.1				84.6	90.3

REAL GDP = Real GDP (marketed) % (1).

MONEY GDP = Nominal GDP (marketed) % (1).

TL IND OUT = Total Industrial Output % (1).

MAN PROD = Manufacturing Production, % (1).

HOUS. START = Housing Starts in 1000s (2).

RET. SALES = Retail Sales (Volume) 1978=100 (yearly and quarterly average) (3).

Source: INSEE

(1) Comptes Nationaux.

(2) Bulletin Mensuel de Statistique.

(3) Tendances de la conjoncture - Graphiques sur 10 ans.

PRICES AND EARNINGS

	CONSUMER P	WH'SALE P	WAGES	U LAB COST	PROD'VITY
	Percentage change				
1984	6.7	7.3	7.9	8.5	1967-73 5.2
1985	4.7	-7.3	6.1	6.0	1973-79 3.6
1986	2.1	-4.8	5.3	4.5	1979-85 2.5
1987	3.1	-1.4	3.4	4.7	1985-87 2.3
OCTOBER 87	3.2	5.2	3.7	0.4	1987-91 2.9 (provisional)
NOVEMBER 87	3.2	5.2		0.3	
DECEMBER 87	3.1	6.4		0.0	
1988					
JANUARY	2.4	8.3		1.0	
FEBRUARY	2.4	8.4		0.3	
MARCH	2.5	9.9		-0.8	
APRIL	2.5	8.7		0.2	
MAY	2.5	9.3			

CONSUMER P = Consumer Prices, annual rate (1).

WH'SALE P = Wholesale Prices: metal products, annual rate (1).

WAGES = Average Earnings (annual figures for April) (2).

U LAB COST = Unit Labour Costs : Mechanical and Electrical Industries (1). (The index for March 1988 takes account of expenses which are only available at the beginning of each year).

PROD'VITY = Productivity: annual average percentage rate of growth in the hourly productivity of labour for trading sectors excluding agriculture, housing and financial services (3).

Source

- (1) INSEE, Informations Rapides.
- (2) Statistiques du Travail, Ministère des Affaires Sociales.
- (3) INSEE, Economie et Statistiques, January 1988.

Annex 2

LABOUR MARKET

	UNEMPL'NT (TOTAL)	UNEMPL'NT (%)	EMP'T(TOT)	EMP'T(N-A)	EMP'T(IND)	LOC'L DISP	GEN ACTION
All figures seasonally adjusted							
1985	2,459,208		21,228,000	13,482,800	4,876,800	726,717	158,175
1986	2,515,583		21,247,000	13,488,500	4,755,400	567,689	473,830
1987	2,620,133		21,232,000	13,497,400	4,650,400	511,545	457,518
1987 Q2				13,515,400	4,710,600		
Q3				13,493,600	4,678,200		
Q4				13,497,400	4,650,400		
DECEMBER 87	2,572,800	10.4%				55,955	3,158
1988							

Q1				13,539,700	4,644,600		
JANUARY	2,577,800	10.4%				27,406	2,470
FEBRUARY	2,581,900	10.5%				53,012	6,006
MARCH	2,535,100	10.3%				121,353	13,443
APRIL	2,538,600	10.3%					
MAY	2,558,800	10.4%					

UNEMPL'NT = Unemployment, total and % , period average (1).

EMP'T(TOT) = Total employment, period average (2).

EMP'T(N-A) = Employment in non-agricultural market sector, end period (1).

EMP'T(IND) = Employment in industry, excluding construction, end period (3).

LOC'L DISP & GEN ACTION = Industrial disputes working days lost (excluding agriculture and public administration) : local disputes and general action (3).

Sources:

- (1) INSEE, Informations Rapides.
- (2) INSEE estimates.
- (3) Statistiques du travail.

TRADE

	EXP (FOB)	IMP (FOB)	BALANCE	C ACC BAL
--	-----------	-----------	---------	-----------

All figures seasonally adjusted

1984	850.100	874.800	-24.700	-7.3
1985	906.000	936.700	-30.700	-1.5
1986	863.600	864.100	-0.500	20.2
1987	889.000	920.500	-31.400	-26.7
1988				

JANUARY	79.543	80.135	-0.592	4.8
FEBRUARY	74.590	79.940	-5.350	-5.9
MARCH	82.281	80.425	1.856	
APRIL	79.164	81.496	-2.332	
MAY	81.925	83.358	-1.433	

=====

EXP (FOB) = Exports, millions of francs FOB (1).
 IMP (FOB) = Imports, millions of francs FOB (1).
 BALANCE = Trade balance, ml of francs FOB/FOB (1).
 C ACC BAL = Current Account Balance, billions of francs (annual figures are accumulated) (2).

Source :

- (1) INSEE: Informations Rapides.
 (2) Ministère de l'Economie, des Finances et du Budget (Communiqué).

Annex 4

MONETARY INDICATIONS

	M2	L	3M I RATE	LONG YIELD	FF/\$	FF/£	FF/DM	FF/ECU
1984	9.8	10.0	12.00	12.00	9.00	12.00		
1985	6.5	8.5	9.95	10.47	8.99	11.55	3.05	6.80
1986	4.8	7.1			6.93	10.16	3.19	6.80
1987	4.1	11.8			6.01	9.84	3.34	6.93
OCTOBER 87	3.6	11.3	8.33	10.66	6.02	10.00	3.34	6.93
NOVEMBER 87	4.1	11.8	8.79	10.02	5.71	10.14	3.40	7.01
DECEMBER 87	3.9	11.5	8.60	10.00	5.54	10.13	3.39	6.99
1988								
JANUARY	3.7	11.4	8.33	9.86	5.58	10.05	3.38	6.97
FEBRUARY	3.1	10.8	7.68	9.13	5.74	10.07	3.38	6.98
MARCH	2.9	10.4	8.04	9.25	5.69	10.42	3.39	7.03
APRIL			8.13	9.16	5.68	10.65	3.39	7.05
MAY			7.93	9.23	5.73	10.71	3.39	7.04
JUNE					5.92	10.54	3.37	7.01

M2= Monetary target, annual growth, % (1).

L = Broad money aggregate, annual growth, % (1).

M2 & L are calculated on the basis of a 3 month average for the same period in each year (Bank of France).

3M I RATE = 3 Month Interest Rate, % average on the money market (TIOP) (1).

LONG YIELD= Government bond yield, % long term TME (2).

FF/\$ = Franc/Dollar (2).

FF/£ = Franc/Pound (2).

FF/DM = Franc/Deutsche-mark (2).

FF/ECU = Franc/European Currency Unit (2).

Source :

(1) Banque de France, Statistiques Monétaires Provisaires.

(2) Bulletin Mensuel de Statistique (INSEE).

FRANCE : TRADE WITH UK

EXP to UK IMP fr UK BALANCE

All figures in millions of francs

1984	64.284	72.888	-8.604
1985	71.592	78.936	-7.344
1986	72.708	58.068	14.640
1987	75.504	67.176	8.328

1988

JANUARY	7.520	5.209	2.311
FEBRUARY	5.942	5.747	0.195
MARCH	7.092	5.990	1.102
APRIL	7.943	6.095	1.848
MAY	7.782	6.472	1.310

=====

EXP to UK = Exports to UK FOB, sa .
 IMP fr UK = Imports from UK CIF, sa .
 BALANCE = FOB/CIF, sa .

Source :

INSEE, Informations Rapides.

Annex 6

TRADE : VOLUME AND VALUE

	EXP-VOL	IMP-VOL	EXP-VAL	IMP-VAL
1986	551.8	633.1	154.6	140.4
1987	553.0	682.0	155.2	138.8
1987				
JULY	46.1	57.7	158.2	139.2
AUGUST	46.7	57.3	159.8	139.0
SEPTEMBER	47.2	57.1	154.3	140.5
OCTOBER	46.4	58.5	156.3	140.2
NOVEMBER	49.0	58.1	156.6	141.7
DECEMBER	49.4	60.6	157.1	139.5

=====

EXP-VOL = Volume of Exports, billions of 1980
francs FOB .
IMP-VOL = Volume of Imports, billions of 1980
francs CIF .

EXP-VAL = Value of Exports FOB, 1980=100 .
IMP-VAL = Value of Imports CIF, 1980=100 .

Source :

INSEE, Informations Rapides.

	JANVIER 1988 (révisé)	FEVRIER 1988
DONNEES BRUTES (en Millions de F)		
I - <u>BIENS ET SERVICES</u>	+ 338	- 6.475
a) MARCHANDISES	- 4.570	- 8.465
. Exportations-Importations	- 4.443	- 8.848
. Négoce international	- 127	383
b) SERVICES	2.608	- 410
. Services liés au commerce extérieur	253	- 680
. Services liés aux échanges de technologie	1.077	1.730
. Voyages	835	720
. Autres services	443	- 2.180
c) AUTRES BIENS ET SERVICES	2.300	2.400
II - <u>TRANSFERTS UNILATERAUX</u>	881	- 2.610
TOTAL DES TRANSACTIONS COURANTES	+ 1.219	- 9.085
DONNEES CVS (en millions de F)		
TOTAL DES TRANSACTIONS COURANTES	4.791	- 5.925
	2 MOIS 1987	2 MOIS 1988
TRANSACTIONS COURANTES CUMULEES (en milliards de FRF)		
DONNEES BRUTES	- 10.0	- 7.9
DONNEES CVS	- 1.5	- 1.1

Annex 8

FORECASTS OF THE FRENCH ECONOMY

	1986	1987	INSEE 88	BIPE 88	CL 88	MIN F 88	EXP 88	BIPE 89	EXP 89
	Percentage change								
CONSUMPTION	3.5	2.6	2.3	2.0	1.8	1.9	2.2	1.4	1.5
INVESTMENT	2.9	3.7	5.8	4.2		3.6	5.3	2.1	4.4
o/w BUSINESS	3.3	4.3	6.8	5.9	6.2	4.0	6.5	3.5	5.0
RESIDENTIAL	-1.0	1.4	3.9	1.9		3.2	3.0	1.2	3.0
GOVERNMENT	6.2	4.2		1.8		2.2		-2.6	
STOCKS (CONTRIBUTIONS)	0.7	1.4	1.5	-0.1				0.3	
DOMESTIC DEMAND	4.4	3.7	3.1	1.1	2.6			2.0	
EXPORTS	-0.7	2.6	5.0	5.1	5.0	3.5	6.5	1.8	2.5
IMPORTS	7.3	7.5	5.8	5.3	5.5	4.2	6.0	2.9	3.0
MARKETED GDP	2.2	2.4	2.8	2.4	2.5	1.9	3.0	1.7	1.8
CONSUMER PRICES	2.1	3.1	3.2	3.1	2.9	2.5	2.7	3.1	2.2
WAGES	1.7	0.1	1.0	1.0				0.0	
SAVING RATE	13.3	12.1	11.9	11.9		12.6		11.6	
	In FF billions								
TRADE BALANCE (FOB/FOB)	-0.6	-31.5	-32.8	-29.2	-25.0	-30.5		-44.1	
CURRENT ACCOUNT	20.2	-26.7		-23.9	-15.0	10.3		-37.8	

Source :

1986 & 1987 : INSEE, Comptes Nationaux.

INSEE 88 : Note de conjoncture de l'INSEE, juin 1988.

BIPE 88 & 89 : BIPE, L'économie française en 1988-1989, Présentation des principaux résultats, juin 1988.

CL 88 : Crédit Lyonnais, juillet 1988.

MIN F 88 : Ministère de l'Economie & des Finances, Prévisions de l'économie française, mars 1988.

EXP 88 & 89 : Centre de Prévision de l'Expansion, juillet 1988.

FRENCH INDUSTRY IS STILL NOT WELL STRUCTURED TO MEET INTERNAL OR EXTERNAL DEMAND. THE BALANCE OF PAYMENTS WILL THEREFORE REMAIN A CONSTRAINT ON GROWTH (BEREGOVY'S CABINET TELL US THERE WILL BE A HARD LOOK THIS AUTUMN AT WAYS OF BOOSTING MANUFACTURED EXPORTS) AND THE UNEMPLOYMENT TREND SEEMS LIKELY TO CONTINUE UPWARDS. THE HIGHTER THAT INTEREST RATES HAVE TO BE HELD, IN ORDER TO SUSTAIN CURRENT FRANC PARITIES IN THE EMS, THE MORE SERIOUS THESE PROBLEMS WILL BECOME.

ECONOMIC POLICY

5. AGAINST SUCH A BACKGROUND, THE MAIN THRUST OF FRENCH ECONOMIC POLICY UNDER THE ROCARD GOVERNMENT HAS, AS EXPECTED, BEEN ON CONTINUITY NOT CHANGE. BEREGOVY AS FINANCE MINISTER HAS UNDERLINED HIS COMMITMENT TO FIGHTING INFLATION, AND HAS CONFIRMED THE PREVIOUS GOVERNMENT'S TARGETS FOR REDUCING THE BUDGET DEFICIT TO 100 BILLION FRANCS IN THE 1989 BUDGET (TO BE PRESENTED TO PARLIAMENT IN OCTOBER), WITH SUBSEQUENT REDUCTIONS TO 70 BILLION FRANCS IN 1991. (HIGHER THAN EXPECTED TAX REVENUES MAKE THIS A REALISTIC AIM FOR 1989, DESPITE INCREASES IN PUBLIC EXPENDITURE ON EDUCATION, RESEARCH AND TRAINING, THOUGH THERE WILL BE LITTLE IF ANY SCOPE FOR TAX CUTS. THE TARGETS FOR LATER YEARS LOOK MORE DIFFICULT. BALANCING THE SEPARATE SOCIAL SECURITY BUDGET, FOR WHICH DEFICITS OF 11 BILLION FRANCS IN 1988 AND 33 BILLION FRANCS IN 1989 ARE PREDICTED, WILL BE LESS EASY). BEREGOVY HAS ALSO SHOWN DETERMINATION TO REDUCE FRENCH INTEREST RATES IN ORDER TO ENCOURAGE INVESTMENT, PARTICULARLY AMONG SMALL AND MEDIUM SCALE ENTERPRISES, AND THEREBY HELP JOB CREATION. THE TWO SMALL FALLS OVER THE LAST FEW WEEKS ARE PROBABLY OF MORE SYMBOLIC THAN ECONOMIC IMPORTANCE, AND MAY ANYWAY NOT BE SUSTAINABLE, BUT BEREGOVY'S PERSONAL COMMITMENT TO LOWER RATES WAS CLEAR FROM HIS EVIDENT (AND NOT VERY CLEVERLY HANDLED) IRRITATION AT THE RISE IN GERMAN RATES LAST WEEK WITHOUT, IN HIS VIEW, ADEQUATE CONSULTAION (PARIS TELNO 725).

6. THE TWO MAIN ECONOMIC POLICY DIFFERENCES SO FAR BETWEEN ROCARD AND CHIRAC HAVE BEEN OVER PRIVATISATIONS AND SOCIAL QUESTIONS. BALLADUR'S PRIVATISATION POLICY HAS BEEN HALTED, THOUGH NATIONALISED COMPANIES WILL BE ALLOWED TO RAISE CAPITAL ON THE MARKETS, AS RHONE POULENC HAVE RECENTLY DONE. THE GOVERNMENT WOULD ALSO LIKE TO CHANGE THE COMPOSITION OF SOME OF THE DEFENSIVE CORE SHAREHOLDINGS IN PRIVATISED COMPANIES PUT TOGETHER BY BALLADUR, BUT HAVE NOT YET WORKED OUT HOW TO DO SO.

7. AS FOR SOCIAL ISSUES, THE GOVERNMENT HAVE PUT FORWARD DRAFT BILLS FOR THE REINTRODUCTION OF A WEALTH TAX (THOUGH AT LOWER RATES THAN

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THE FRENCH ECONOMY

SUMMARY

1. THE ECONOMY CONTINUES TO DO BETTER THAN EXPECTED, BUT UNDERLYING PROBLEMS REMAIN. THE EMPHASIS OF THE NEW GOVERNMENT'S ECONOMIC POLICY IS ON CONTINUITY NOT CHANGE, BUT WITH OVERT PRIVATISATIONS HALTED AND MORE EMPHASIS ON SOCIAL POLICY. MITTERRAND WILL SET THE OVERALL POLICY TONE WITH BEREGOVY IN DAY-TO-DAY CHARGE: ROCARD MAY BE MARGINALISED.

DETIAL

THE FRENCH ECONOMY

2. THE PROSPECTS FOR THE FRENCH ECONOMY, AT LEAST FOR 1988, CONTINUE TO LOOK BETTER THAN EXPECTED. INSEE'S LATEST FORECAST IS FOR 1988 GDP GROWTH AT 2.8 PERCENT, (2.3 PERCENT IN 1987), WITH GROWTH BETTER BALANCED: HOUSEHOLD CONSUMPTION DOWN SLIGHTLY TO 2.3 PERCENT, AND INVESTMENT (5.8 PERCENT) AND EXPORTS (5 PERCENT) BOTH UP. BUT MANY COMMENTATORS BELIEVE GDP GROWTH THIS YEAR MAY BE HIGHER THAN INSEE PREDICT, PERHAPS 3 PERCENT OR A LITTLE MORE, TAKING INTO ACCOUNT IN PARTICULAR INSEE'S SUSEQUENT ESTIMATE OF 10 PERCENT INVESTMENT GROWTH. INSEE FORECAST A RISE IN INFLATION (CURRENTLY 2.6 PERCENT AFTER A RISE OF 0.3 PERCENT IN JUNE) TO 3.2 PERCENT, LARGELY AS A RESULT OF THE CONTINUING FAST RISE IN THE PRICE OF SERVICES. BUT BEREGOVY, AMONG OTHERS, BELIEVES IT CAN BE KEPT BELOW 3 PERCENT. THE TRADE DEFICIT FOR THE FIVE MONTHS TO MAY 1988 WAS F 8 BILLION (F 15.5 BILLION IN THE SAME PERIOD IN 1987) AND INSEE'S ESTIMATE OF A 1988 DEFICIT OF F 32.8 BILLION LOOKS ON THE HIGH SIDE.

3. THE WEAK POINT REMAINS UNEMPLOYMENT, WHICH STOOD AT 2.6 MILLION (10.4 PERCENT) AT END-MAY, UP SLIGHTLY ON THE PREVIOUS MONTH. A FURTHER RISE SEEMS LIKELY OVER THE NEXT FEW MONTHS THOUGH UNEMPLOYMENT MAY LEVEL OUT TOWARDS THE END OF THE YEAR.

4. THIS YEAR'S RELATIVELY GOOD PERFORMANCE SHOULD NOT MASK THE STRUCTURAL PROBLEMS THAT REMAIN. ALTHOUGH THE SUPPLY SIDE MEASURES TAKEN IN RECENT YEARS, INCLUDING PRICE LIBERALISATION AND PRIVATISATION, MAY BE WORKING THROUGH INTO PRODUCTIVITY INCREASES,

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IN THE 1982 - 86 TAX) AND FOR MINIMUM INCOME ARRANGEMENTS, THEREBY FULFILLING THE PROPOSALS IN MITTERRAND'S PRESIDENTIAL ELECTION MANIFESTO. THE GOVERNMENT HAVE ALSO RAISED THE MINIMUM WAGE BY MORE THAN THE AMOUNT REQUIRED BY LAW. THE WEALTH TAX WILL BE SEEN AS A TEST OF ROCARD'S ABILITY TO STEER A MIDDLE POLITICAL COURSE, AND WILL HAVE A ROUGH RIDE IN PARLIAMENT THIS AUTUMN: MUCH OF THE RIGHT OPPOSE IT ON PRINCIPLE, SOME SOCIALISTS OPPOSE IT BECAUSE IT DOES NOT GO FAR ENOUGH, AND THE CENTRISTS (CDS) ARE DEMANDING AMENDMENTS BEFORE AGREEING TO SUPPORT IT. THE MINIMUM INCOME ARRANGEMENTS WILL BE LESS CONTROVERSIAL: INDEED THERE WERE SIMILAR COMMITMENTS IN ALL THREE PRESIDENTIAL MANIFESTOS. THE ARRANGEMENTS SHOULD BENEFIT HALF A MILLION PEOPLE, MANY OF WHOM NOW FALL WHOLLY OUTSIDE THE SOCIAL SECURITY NET, BUT AT F10 - 12 BILLION A YEAR, WILL BE EXPENSIVE. NONETHELESS, FOR THE MOMENT THOSE MEASURES SEEM LIKELY TO HAVE MORE POLITICAL THAN ECONOMIC SIGNIFICANCE, AND NOT TO CUT SERIOUSLY ACROSS BEREGOVY'S COMMITMENT TO A FREE MARKET ECONOMY AND LOWER BUDGET DEFICITS. BUT THE POINT WILL BE WORTH WATCHING THIS AUTUMN: EMPLOYMENT MINISTER SOISSON'S RECENT SUGGESTION THAT COMPANIES BE MORE GENEROUS OVER PAY AWARDS MAY NOT HAVE PLEASED BEREGOVY.

8. WHO, FINALLY, IS IN CHARGE OF ECONOMIC POLICY? MITTERRAND SEEMS UNLIKELY TO GET INVOLVED IN DAY TO DAY ECONOMIC MANAGEMENT THOUGH HE WILL TAKE A CLOSER INTEREST IN INTERNATIONAL ISSUES - EG COMMUNITY AND THIRD WORLD - AND WILL SET THE OVERALL TONE. BEREGOVY WILL WISH TO BE SEEN TO BE IN CHARGE, BUT HIS WISH FOR POLITICAL REASONS TO STAY CLOSE TO MITTERRAND (HE STILL HOPES TO BECOME PRIME MINISTER AND WOULD LIKE TO SUCCEED ROCARD IN DUE COURSE) MAY SOMETIMES GET THE BETTER OF HIS ECONOMIC JUDGEMENT. ROCARD'S ROLE IS AS YET UNCLEAR. BUT THERE IS A GROWING VIEW THAT ALTHOUGH HE MAY MAKE A FUSS IN THE WINGS IT WILL BE MITTERRAND AND BEREGOVY WHO WILL BE CENTRE STAGE.

FCO PLE ADVANCE PS/CHANCELO, LITTLER, MATHEWS, TSY, LOEHNIS B/E,
BAYNE FCO.

FERGUSSON

YYYY

Ch. OK for me (!) to write to Giscard? Or do you think the letter might better go from you? (I do!).

25
27/7

FROM: N P WILLIAMS

DATE: 27 July 1988

send!

- mom*
27/7
1. MISS O'MARA
 2. PS/CHANCELLOR

cc: Sir G Littler
Mr Lankester (or)
Mr Peretz
Mr R I G Allen
Mr Polin

"A PROGRAMME FOR ACTION" FROM THE COMMITTEE FOR THE MONETARY UNION OF EUROPE - LETTER FROM GISCARD

M Giscard d'Estaing wrote to the Chancellor on 12 July (copy attached) enclosing a copy of the "Giscard/Schmidt Committee's" report, which we had already seen. It contains a number of ambitious proposals, including the creation of a European Central Bank. I attach a draft of a short acknowledgement for you to send.

NPW

N P WILLIAMS

CHANCELLOR

DRAFT LETTER FROM PRIVATE SECRETARY TO:-

M Valéry Giscard d'Estaing
Assemblée Nationale
Palais Bourbon
PARIS

Pse type final

~~The Chancellor has asked me to~~ ^T thank you for your letter of 12 July, with which you enclosed a copy of "A Programme For Action" for European monetary union. ^{I shall} ~~He will~~ read it with interest.

N - L -

VALÉRY GISCARD D'ESTAING

CH/EXCHEQUER	
REC.	21 JUL 1988
ACTION	MISS O'MARA
COPIES TO	Sir G. LITTLER
	Mr LANKESTER
	Mr R. G. ALLEN

* Paris, le 12 juillet 1988
ENCLOSURE WITH
TOP COPY ONLY.

Mr Williams
Can you do a short
acknowledgement for
Chancellor to send - in
English?

non 2/7

Monsieur le Chancelier,

Le COMITE POUR L'UNION MONETAIRE DE L'EUROPE que je préside avec le Chancelier Helmut SCHMIDT a tenu, au cours de l'année 1987 et au premier semestre 1988, une série de réunions consacrées à la mise au point de ses premières propositions.

Connaissant l'intérêt personnel que vous portez aux problèmes de la construction européenne, je vous prie de trouver ci-joint un exemplaire du "Programme pour l'action" établi et adopté par le Comité. Ce document a déjà été transmis par nos soins aux membres du Conseil Européen participant au Sommet de Hanovre les 27 et 28 juin.

Je vous prie de croire, Monsieur le Chancelier, en l'expression de ma considération la plus distinguée,

et celle de mes sentiments les meilleurs.

V. Giscard d'Estaing

Her Majesty's Nigel LAWSON
Chancellor of the Exchequer
TREASURY
Parliament Street
LONDON SW 1 P 3 A G
GRANDE-BRETAGNE

cc: Sir G Littler
Mr Lankester
Mr Peretz
Mr R I G Allen
Mr N P Williams
Miss O'Mara
Mr Polin



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Py

29 July 1988

Russell Dixon Esq
APS/Foreign Secretary
Foreign and Commonwealth Office
King Charles' Street
LONDON SW1

Russell

LETTER TO M. GISCARD D'ESTAING

... I attach a letter from the Chancellor to Giscard. I should be most grateful if you could arrange for this to be delivered.

Yours sincerely
J M G Taylor

J M G TAYLOR
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

28 July 1988

M Valéry Giscard d'Estaing
Assemblée Nationale
Palais Bourbon
PARIS

Mr Valéry Giscard d'Estaing

Thank you for your letter of 12 July, with which you enclosed a copy of "A Programme For Action" for European monetary union. I shall read it with interest.

*Yours sincerely
Nigel Lawson*

NIGEL LAWSON



FROM: A C S ALLAN
DATE: 4 August 1987

SIR G LITTLER

cc: PS/EST
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Lavelle
Mr Monck
Mr A J C Edwards
Mr Peretz
Mr Mountfield
Mr Culpin
Mr Cropper

VISIT TO PARIS: FRIDAY 31 JULY

Michael Jay, from the Paris Embassy, will be doing a record of *the* discussions, but it may help if I set down a few points from a Treasury perspective.

2. The atmosphere of the talks was relaxed, with Balladur very ready to accept contributions from the others present. No doubt the aura from the new pyramid in the courtyard helped!

English and French economic performance

3. The discussion over lunch was primarily about the relative performance of the two economies. Among the points which arose were

- (i) Balladur was very struck with our £100 million net overseas assets, and asked his officials whether they could do similar calculations. It might be an idea for us to send him copy of the CSO's Pink Book when it is published later this month.
- (ii) Balladur very concerned about the rising cost of social security payments. He gave various figures for the costs of unemployment, including lost tax revenues etc. The



Chancellor cautioned him against using these sorts of figures in public: Trichet said he had given the same advice, but Balladur had over-ruled him. In practice this did not seem to have stimulated any noticeable pressure for more public spending on job-creation programmes.

EC Budget

3. To our surprise, Balladur launched into the EC Budget after lunch, making several unhelpful points. He started by blaming the increases in agricultural expenditure on the movements in the dollar since 1985, but was not supported by Lebegue, who pointed out that much depended on the choice of base date. Balladur was generally gloomy about the prospects for EC budget and for agricultural spending, saying several times that the system would not last ten years but he was incapable of proposing any new system now. He dropped some hints that things might be easier after the French Elections. He appeared (perhaps deliberately) somewhat confused over the size of net contributions, and ran the familiar line that the UK's problem arose because we imported so much from outside the Community.

4. Perhaps most worrying were his comments that the UK abatement could not be a permanent part of the system. He also - predictably - pressed the oils and fats tax, hinting that our position was unduly influenced by our special relationship with the US and arguing that the tax would help to reduce spending on Spanish olive oil.

5. He did not attempt to prolong the arguments when the Chancellor made the obvious counters, and did not seem very



familiar with the details of the arguments on these various points. As a Finance Minister, he said he could not but agree with the Chancellor's general thesis that it was essential to act through the price mechanism, and to impose firm discipline on spending. You and Trichet inherited a remit to sort out agreed figures for UK and French net contributions and resource costs, as background for the informal ECOFIN.

VAT cash accounting

6. Balladur himself raised this, obviously expecting to be thanked. The Chancellor did express his relief that everything had come out all right in the end, but commented that this was not something friends should do to one another.

Sub-Saharan African Debt

7. The Chancellor said that everyone agreed on the need for help for the very poorest; for them the key was a reduction in interest rate on official debt, perhaps with some similar action on IMF/IBRD debt. He had no pride of authorship in his proposals, and would be very happy to try to find a common Anglo-French position, which could be presented as a joint proposal at the ECOFIN in September. If the Germans could be signed up there, that would produce a majority on the G5, and help to get the US on board.

8. Trichet was pretty gloomy. The tour de table in the Paris Club had revealed many countries against, including the US and Germany; only the UK and Sweden seemed keen. The US in particular had argued about their budget difficulties, and had been particularly concerned about the knock-on effects on Egypt. The Chancellor thought that since his proposals were strictly confined to official debt, and could not be presented as bailing out the banks, the US might not have too many problems with Congress. The Egyptians were not nearly as poor as the countries his proposals were aimed at; and the best way of helping them would in any case be assistance on their US military debt.

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9. Balladur agreed that it would be helpful to try to reach a common position. You and Trichet were given a remit to investigate this further, in preparation for another discussion at the informal ECOFIN.

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COMPANIES) WILL HAVE AN INCENTIVE, WHEN CAPITAL MOVEMENTS ARE LIBERALISED, TO INVEST OVERSEAS SOME FUNDS CURRENTLY INVESTED IN FRANCE. A COMPARATIVE ANALYSIS OF HOW INTEREST AND DIVIDENDS ARE TAXED THROUGHOUT THE COMMUNITY, IN THE US AND IN JAPAN, SHOWS THAT SUCH INCOME IS IN SEVERAL CASES MORE HIGHLY TAXED IN FRANCE THAN ELSEWHERE, AND THAT EVASION OF SUCH TAXES IS HARDER IN FRANCE THAN MOST OTHER COUNTRIES. POST-LIBERALISATION THE ONLY FRENCH PRODUCTS LIKELY TO REMAIN FISCALLY ATTRACTIVE ARE SHARES (EXCEPT WHEN AN INVESTOR IS IN A HIGH INCOME TAX BRACKET) AND THE FRENCH EQUIVALENT OF NATIONAL SAVINGS ACCOUNTS, LIVRETS DEFISCALISES. THE FLOW OF CAPITAL NEED NOT BE ALL ONE WAY - FOREIGNERS MAY WELL HAVE A FISCAL INCENTIVE TO INVEST IN FRENCH MONEY MARKET SECURITIES AND ON THE FINANCIAL FUTURES AND STOCK OPTIONS MARKETS - BUT FRENCH BONDS, SHARES AND UNIT TRUSTS ARE LIKELY TO HAVE LITTLE OR NO FISCAL ATTRACTION FOR NON-RESIDENTS.

5. NOT ALL MEMBERS OF THE LEBEGUE GROUP WERE CONVINCED THAT THESE INCENTIVES WOULD BE SUFFICIENT TO OVERCOME THE INERTIA AND PREFERENCE FOR THE FAMILIAR OF THE SMALL INVESTOR. BUT THE MAJORITY VIEW WAS THAT PROFESSIONAL FUND MANAGERS WOULD BE QUICK TO TAKE ADVANTAGE OF MORE ATTRACTIVE TERMS OVERSEAS, AND THAT MODERN MARKETING TECHNIQUES WOULD QUICKLY GET THE MESSAGE THROUGH TO THE SMALL INVESTOR. CALCULATING THAT FRENCH HOUSEHOLDS HAVE OVER FF6000 BILLION INVESTED IN FINANCIAL ASSETS, THE GROUP ESTIMATES THAT SOME FF1000 BILLION COULD BE SWITCHED TO INVESTMENTS OVERSEAS. SUCH AN OUTFLOW COULD HAVE SERIOUS CONSEQUENCES FOR GOVERNMENT FISCAL REVENUES, THE EARNINGS OF FRENCH FINANCIAL INSTITUTIONS AND THE STATUS OF PARIS AS A FINANCIAL CENTRE.

6. THESE CONCLUSIONS LEAD THE GROUP TO ARGUE FOR SOME SORT OF APPROXIMATION OF EC MEMBER STATES' FISCAL TREATMENT OF INTEREST AND DIVIDENDS, TOGETHER WITH CHANGES TO THE FRENCH REGIME. IN THE ABSENCE OF APPROXIMATION MEMBER STATES WILL COMPETE FOR INVESTMENTS THROUGH TAX REDUCTIONS AND EXEMPTIONS. THIS WILL PRODUCE UNACCEPTABLE DISCREPANCIES BETWEEN THE TAXATION OF EMPLOYMENT INCOME AND THAT OF FINANCIAL ASSETS AND WILL UNDERMINE THE REDISTRIBUTIVE FUNCTION OF INVESTMENT INCOME TAXATION.

7. THE GROUP RECOMMENDS, THEREFORE, THAT THERE SHOULD BE AN EC-WIDE WITHHOLDING TAX REGIME FOR INCOME ACCRUING TO EC RESIDENTS FROM SECURITIES ISSUED BY EC RESIDENTS. THE GROUP DOES NOT RECOMMEND A SINGLE RATE FOR THIS TAX AND DOES NOT CONSIDER ABSOLUTE HARMONISATION ESSENTIAL: BUT APPEARS TO BELIEVE THAT MEMBER STATES SHOULD AIM FOR RATES BETWEEN 10 AND 20 PERCENT. WHETHER OR NOT SUCH

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INFO SAVING TO BRUSSELS, ROME, MADRID

FRAME ECONOMIC
OUR TELNO 640: EC LIBERALISATION OF CAPITAL MOVEMENTS:
TAXATION OF FINANCIAL ASSETS

SUMMARY

1. THE LEBEGUE REPORT ON THE TAXATION OF FINANCIAL ASSETS IS DUE TO BE MADE PUBLIC ON 24 AUGUST. ITS MAIN RECOMMENDATIONS ARE THAT THERE SHOULD BE (A) AN EC-WIDE WITHHOLDING TAX REGIME FOR INCOME ACCRUING TO EC RESIDENTS FROM SECURITIES ISSUED BY EC RESIDENTS: (B) EC-WIDE ADOPTION OF THE CURRENT PRACTICE IN SOME MEMBER STATES OF TAXING SHARE DIVIDENDS AT SOURCE BUT REFUNDING NON-RESIDENTS, COMBINED WITH TAX CREDITS TO REFLECT THE FACT THAT CORPORATE PROFITS HAVE BEEN TAXED PRIOR TO THE PAYMENT OF DIVIDENDS. VARIOUS REFORMS TO THE FRENCH SYSTEM ARE ALSO RECOMMENDED. NO CONVINCING ANSWER TO ARGUMENT THAT SUCH A REGIME WOULD DRIVE SAVINGS OFFSHORE.

DETAIL

2. A REPORT ON THE TAXATION OF FINANCIAL ASSETS PRODUCED BY AN ADVISORY GROUP CHAIRED BY THE DIRECTOR GENERAL OF BNP, LEBEGUE, IS DUE TO BE MADE PUBLIC ON 24 AUGUST. IT CONTAINS AN ANALYSIS OF THE IMPLICATIONS OF CAPITAL MOVEMENTS LIBERALISATION FOR FRENCH INVESTMENT HABITS AS WELL AS RECOMMENDATIONS COVERING BOTH A FRENCH APPROACH TO EC NEGOTIATIONS ON THE TAXATION OF FINANCIAL ASSETS, AND REFORMS TO THE FISCAL TREATMENT OF FINANCIAL ASSETS IN FRANCE.

3. THIS REPORT IS COMPARABLE IN STATUS TO THAT ON VAT ISSUES PRODUCED BY THE BOITEUX COMMISSION IN FEBRUARY. IT IS THE FRUIT OF COOPERATION BETWEEN OFFICIALS, FINANCIERS AND ACADEMICS. IT PAVES THE WAY FOR DECISIONS BY MINISTERS, BUT IT IS NOT INEVITABLE THAT ITS CONCLUSIONS WILL BE ADOPTED WHOLESALY BY THE FRENCH GOVERNMENT. IT DOES NOT CONSIDER THE FISCAL TREATMENT OF LAND, PROPERTY, INHERITANCES OR THE CORPORATE SECTOR'S FINANCIAL ASSETS.

4. THE REPORT'S STARTING POINT IS THAT FRENCH INDIVIDUALS AND FINANCIAL INSTITUTIONS (NOTABLY UNIT TRUST MANAGERS AND INSURANCE

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TAX EXEMPT DEPOSIT ACCOUNTS (LIVRETS DEFISCALISES)

E) EXTENDING THE FIELD OF APPLICATION OF PERSONAL ALLOWANCES TO ALL FINANCIAL ASSET INCOME

F) ENHANCING THE FISCAL ATTRACTION OF PENSION-PLANS (EPARGNE EN VUE DE LA RETRAITE).

13. THE ABOVE IS NECESSARILY A VERY SUMMARY ACCOUNT OF A REPORT THAT IS 70 PAGES LONG AND SUPPORTED BY 24 ANNEXES, TOTALLING 200 PAGES. COPIES OF THE REPORT WILL BE SENT BY BAG TO ARTHUR (ECD(I)), ALLEN (TREASURY) AND JOHNS (INLAND REVENUE) AS SOON AS POSSIBLE AFTER 24 AUGUST.

14. FCO PLEASE ADVANCE TO KERR, ARTHUR (ECD(I)), BUDD (CABINET OFFICE), ALLEN, PERETZ (TREASURY), JOHNS (INLAND REVENUE), LOEHNIS (BANK OF ENGLAND).

LLEWELLYN SMITH

FCO PLEASE PASS SAVING ADDRESSEES

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AN EC TAX WOULD EXEMPT NON-RESIDENTS FROM ANY FURTHER LIABILITY IN THEIR COUNTRIES OF RESIDENCE WOULD BE FOR THE DECISION OF INDIVIDUAL MEMBER STATES. THE GROUP CONSIDERS WHETHER EUROBONDS SHOULD BE INCLUDED WITHIN THIS REGIME, BUT CONCLUDES THEY CAN BE EXCLUDED. THE RATES AT WHICH SECURITIES ARE TAXED IN FRANCE (CURRENTLY 27 AND 34 PERCENT) WOULD HAVE TO COME DOWN - AMALGAMATION MIGHT BE DESIRABLE.

8. THE GROUP RECOGNISES THAT SOME WILL ARGUE THAT SUCH A REGIME WOULD ENCOURAGE EC INVESTORS TO GO OUTSIDE THE COMMUNITY. IT SUGGESTS THAT THE COMMISSION SHOULD NEGOTIATE THE INSTITUTION OF COMPARABLE REGIMES IN THE US AND JAPAN. IT ACCEPTS, HOWEVER, THAT THE AMERICANS AND JAPANESE MAY DECLINE TO COOPERATE, AND THAT IT IS UNREALISTIC TO EXPECT THAT SUCH ARRANGEMENTS COULD BE EXTENDED TO SMALL OFF-SHORE INVESTMENT CENTRES SUCH AS THE CHANNEL ISLANDS. RATHER LAMELY IT ABANDONS THE ISSUE AT THAT POINT.

9. AS FOR DIVIDENDS FROM SHARES, THE GROUP RECOMMENDS EC-WIDE ADOPTION OF THE CURRENT PRACTICE IN SOME MEMBER STATES OF WITHHOLDING TAX AT SOURCE BUT REFUNDING NON-RESIDENTS, COMBINED WITH TAX CREDITS TO REFLECT THE FACT THAT CORPORATE PROFITS HAVE BEEN TAXED PRIOR TO THE PAYMENT OF DIVIDENDS. THE FRENCH SYSTEM IS SEEN AS SATISFACTORY IN THIS AREA, THOUGH THE GROUP RECOMMENDS CONTINUING EFFORTS TO LOWER CORPORATE TAX TO 33 1/3 PERCENT, SO THAT THE VALUE OF TAX CREDITS CAN BE 100 PERCENT.

10. THE GROUP DOES NOT SEE ANY NEED TO CHANGE EXISTING ARRANGEMENTS FOR THE TAXATION OF CAPITAL GAINS ARISING FROM FINANCIAL ASSETS.

11. THE GROUP CONSIDERS THAT IT WOULD BE DESIRABLE TO IMPOSE ON ALL EC FINANCIAL INSTITUTIONS AN OBLIGATION TO DECLARE TO TAX AUTHORITIES ALL PAYMENTS OF INTEREST AND DIVIDENDS. BUT IT RECOGNISES THAT THIS IS UNLIKELY TO BE NEGOTIABLE. IT RECOMMENDS THAT THE FRENCH TAX AUTHORITIES, BASING THEMSELVES ON ARTICLE 4 OF THE DIRECTIVE ON THE LIBERALISATION OF CAPITAL MOVEMENTS, REQUIRE FRENCH FINANCIAL INSTITUTIONS TO REPORT ON THE INFLOW AND OUTFLOW OF FUNDS.

12. OTHER INTERNAL REFORMS PROPOSED ARE:

- A) REMOVING SOME OF THE CONDITIONS TO WHICH FRENCH UNIT TRUST MANAGERS ARE SUBJECT
- B) ABOLISHING STAMP DUTY ON STOCK EXCHANGE TRANSACTIONS
- C) ABOLISHING THE TAX LEVIED ON INSURANCE POLICIES
- D) EXTENDING TO ALL FINANCIAL INSTITUTIONS THE RIGHT TO MARKET

*Le Ministre d'Etat,
Ministre de l'Economie, des Finances
et du Budget*

Paris, le 6 SEP. 1988

BF 29
22/9

Cher Collègue,

La négociation en cours sur la troisième reconstitution du Fonds International pour le Développement Agricole (FIDA) se trouve présentement dans une phase délicate.

Je crois très important que nous unissions nos efforts pour permettre un succès de cette négociation en faveur d'un organisme qui est un symbole d'interdépendance et de coopération entre les pays du Nord et du Sud, et dont l'efficacité des interventions n'est pas mise en doute.

C'est pourquoi je vous prie de bien vouloir trouver ci-après, en langue française et anglaise, une page résumant les termes dans lesquels à mes yeux la négociation pourrait réussir.

Je vous prie de croire, Cher Collègue, à l'assurance de ma très haute considération, et à mes sentiments d'amitiés.

Cordialement,

P. Bérégovoy

Pierre BÉRÉGOVOY

Rt. Hon. Nigel LAWSON
Chancellor of the Exchequer

H.M. Treasury
Parliament Street
LONDON SW1P 3AG

CH/EXCHEQUER	
REC.	14 SEP 1988
ACTION	Mr Mountfield
COPIES TO	Ser G. Little
	Mr Lancaster
	Mr H.P. Evans

14/9.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT : NEGOTIATION ON THE THIRD REPLENISHMENT OF RESOURCES..

a) The two meetings, held in Geneva in april and in Roma in june, allowed to draft the scheme for the replenishment . It consists of two elements :

- the first one relies on a traditional burden sharing between category I (OECD) and II (OPEC), respectively about 60% and 40%, with the idea, however, to accept some flexibility ;

- the second one relies on a flow, bigger than usual from category III (Developing countries). It would be encouraged by category I, which will provide M dollars in addition to each dollar brought by category III. Matching coefficient M is at least 2, but is not yet specified. Category III has made a step forward in announcing its target to gather \$ 75 M in convertible currencies. They ask , in return :

. category II to keep assuming its part and to bring as much as for the second replenishment (\$ 184 M), or nearly so.

. category I to assume a high matching coefficient (M = 3 or 4).

b) The pressure of the negotiation beared initially by category II (OPEC). Category I (OECD) and III (Developing countries) expect a contribution close to the \$ 180 M one brought for the last replenishment. The last meeting in june has reported part of the pressure on our category.

c) IFAD is a symbol of interdependence and cooperation between North and South countries. Everything must be done to negotiate a rapid and satisfactory result.

We think that it would be useful that each G7 member country carries its bilateral contacts on with category II countries with which relationships are close, in order to step up decision process.

We also must take great care to keep a common attitude within our category, firm with respect to the minimum level of contribution of OPEC countries (an amount between US dollars 140 and 180 million could be an acceptable compromise), and open-minded as regards category III (coefficient M around 3).

At last, although the negotiation has already started, in compliance with our suggestion of our last annual meeting in january 1988, a mediator could be chosen, by Président JAZAIRY, among personalities of either category, to visit and coordinate capitals and the negotiation. The same was done, for instance, for the fifth replenishment of the African Development Fund.

NEGOCIATION SUR LA RECONSTITUTION DES RESSOURCES DU FONDS INTERNATIONAL DE DEVELOPPEMENT AGRICOLE.

a) Les deux premières réunions, tenues à Genève en avril et à Rome en juin, ont permis d'élaborer le mécanisme de la reconstitution. Il se compose de deux éléments :

- le premier repose sur un partage des charges traditionnel entre catégorie I (OCDE) et II (OPEP), à hauteur de 60% et 40% environ, avec l'idée d'accepter cependant une certaine flexibilité ;

- le second repose sur un apport plus important que d'ordinaire de la catégorie III (Pays en développement), encouragé par la catégorie I qui apportera M dollars par dollar versé par la catégorie III. Le multiple M, au moins égal à 2, n'est pas précisé à ce stade. La catégorie III a fait un pas en avant en affichant l'objectif de réunir 75 M \$ en monnaies convertibles. Elle demande en contrepartie :

. à la catégorie II de continuer à assumer son rôle et d'apporter autant ou presque qu'à la deuxième reconstitution (184 M\$).

. à la catégorie I d'assumer un multiple élevé (M = 3 ou 4).

b) La pression de la négociation portait au départ sur la catégorie II (OPEP) dont les catégorie I (OCDE) et III (PED) attendaient une contribution proche des 180 M \$ apportés lors de la précédente reconstitution. La réunion de Rome a reporté une partie de la pression sur notre catégorie.

c) Le FIDA est un symbole d'interdépendance et de coopération entre les pays du Nord et du Sud. Tout doit être fait pour que la négociation en cours aboutisse rapidement à un résultat satisfaisant.

Nous pensons qu'il serait utile que chacun des pays membres du G7 poursuive ses contacts bilatéraux auprès des pays de la catégorie II avec lesquels il entretient des relations privilégiées pour y accélérer le processus de décision.

Nous devons, par ailleurs, veiller à préserver au sein de notre catégorie une attitude commune, ferme sur le niveau minimum de la contribution des pays de l'OPEP (un montant compris dans la fourchette de 140 à 180 millions de dollars pourrait être à nos yeux un compromis acceptable), et ouverte vis à vis de la catégorie III (Multiple M de l'ordre de 3).

Enfin, bien que la négociation ait déjà débuté, et conformément à ce que nous avons suggéré à la dernière Assemblée Annuelle en janvier 1988, un médiateur pourrait être choisi par le Président JAZAIRY, parmi des personnalités de l'une ou l'autre catégorie, pour jouer les bons offices auprès des capitales et animer la négociation, comme il a été fait, par exemple, pour la cinquième reconstitution du Fonds Africain de Développement.

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COMMITMENTS FOR NEW CALEDONIA) AND SIGNIFICANT INCREASES FOR RESEARCH, EDUCATION, COOPERATION AND TRANSPORT.

- C) CUTS IN VAT (INCLUDING THE REDUCTION OF 5.5 PERCENT OF ALL ITEMS CURRENTLY TAXED AT 7 PERCENT).
- D) A CUT IN CORPORATION TAX ON UNDISTRIBUTED PROFITS FROM 42 PERCENT TO 39 PERCENT.
- E) CHANGES TO EMPLOYER CONTRIBUTIONS TO FAMILY ALLOWANCES WHICH WILL REDUCE THE COST OF EMPLOYING LOWER PAID WORKERS WHILE INCREASING THE COSTS AT THE HIGHER END OF THE PAY SCALE.

4. HOWEVER, NOT ALL THE RECENT NEWS HAS BEEN GOOD. THE JULY UNEMPLOYMENT FIGURES SHOWED A RISE TO 2.6 MILLION (10.4 PERCENT OF THE WORKFORCE). THE BALANCE OF TRADE IN JULY WAS IN DEFICIT BY FF 3.4 BILLION (WITH THE DEFICIT ON INDUSTRIAL GOODS AT FF 4.1 BILLION) AND IS EXPECTED TO TURN OUT AT MINUS FF 25 BILLION FOR THE YEAR AS A WHOLE. THE RISE IN GERMAN INTEREST RATES ON 25 AUGUST OBLIGED THE FRENCH TO FOLLOW SUIT IN ORDER TO MAINTAIN THE 1.5 DIFFERENTIAL WHICH THEY CONSIDER AN ESSENTIAL UNDERPINNING TO CURRENT FRANC-DM PARITIES.

5. THESE FIGURES WILL HAVE SERVED TO REMIND ROCARD AND HIS TEAM OF SOME OF THE FUNDAMENTAL CHALLENGES FACING THEM. UNEMPLOYMENT HAS BEEN RISING STEADILY THROUGHOUT THE 80'S AND GIVEN DEMOGRAPHIC TRENDS IT IS JUDGED POSSIBLE BY THE IMF IN THEIR MOST RECENT ARTICLE IV CONSULTATION ASSESSMENT THAT IT COULD REACH BETWEEN 12 AND 14.5 PERCENT BY 1992. THE FRENCH SERVICES SECTOR HAS BEEN PROVING LESS PRODUCTIVE OF JOBS THAN THIS SECTOR IN THE UK AND US (61.3 PERCENT OF TOTAL EMPLOYMENT IN 1986 AGAINST 66.6 PERCENT AND 69.3 PERCENT). THE TRADE DEFICIT IN INDUSTRIAL GOODS THAT HAS BEEN A FEATURE OF THE LAST 3 YEARS CONTRASTS WORRYINGLY IN FRENCH EYES WITH THE SURPLUS THAT WAS THE NORM BETWEEN 1971 AND 1984. SOCIAL WELFARE SPENDING, PARTICULARLY ON PENSIONS (FINANCED OUTSIDE THE GOVERNMENT BUDGET IN FRANCE), LOOKS SET TO CONTINUE TO OUTSTRIP RECEIPTS UNLESS SIGNIFICANT REFORM OF THE SYSTEM IS ACHIEVED IN THE NEAR FUTURE.

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(CULL)
MIPT: THE FRENCH ECONOMY

SUMMARY

1. A GENERAL IMPROVEMENT IN THE ECONOMIC PICTURE HAS STRENGTHENED ROCARD'S POSITION AND MADE POSSIBLE A 1989 BUDGET THAT IS LIKELY TO GO DOWN WELL WITH THE ELECTORATE. BUT NOT ALL THE RECENT NEWS HAS BEEN GOOD AND THERE REMAIN MAJOR ECONOMIC CHALLENGES FOR THE GOVERNMENT.

DETAIL

2. AS ROCARD AND HIS MINISTERS GET BACK TO SERIOUS BUSINESS AFTER THE SUMMER BREAK THEY FIND THAT THEIR POSITION HAS BEEN STRENGTHENED BY A GENERAL IMPROVEMENT IN THE ECONOMIC PICTURE. THE LATEST OFFICIAL FORECAST UNDERLINES THE RECENT STRENGTH OF THE FRENCH ECONOMY. 1988 GDP GROWTH ESTIMATES HAVE BEEN REVISED UPWARDS TO 3.4 - 3.5 PERCENT, THANKS IN PART TO HIGHER THAN EXPECTED INVESTMENT AND STOCK FORMATION. TOTAL INVESTMENT IS EXPECTED TO SHOW A YEAR-ON-YEAR INCREASE OF 10 PERCENT AND INDUSTRIAL INVESTMENT AN INCREASE OF AT LEAST 14 PERCENT, WHICH MAY PROVE TO BE THE HIGHEST IN EUROPE.

3. THE BOOM HAS BEEN GENERATING HIGHER TAX RECEIPTS, NOTABLY FROM VAT AND CORPORATION TAX. REVENUES ARE UP 7.4 PERCENT IN THE FIRST 6 MONTHS OF 1988 OVER THE CORRESPONDING PERIOD IN 1987. THIS MEANS THAT THE GOVERNMENT CAN EASILY MEET ITS 1989 BUDGET TARGET OF A FF 15 BILLION CUT IN THE GOVERNMENT BORROWING REQUIREMENT (FF 100 BILLION) WHILE INCREASING NOMINAL SPENDING BY 4.6 PERCENT AND CUTTING TAXES BY FF 10 - 12 BILLION. OTHER FEATURES OF THE BUDGET (WHICH WILL BE FINALISED ON 21 SEPTEMBER) ARE LIKELY TO INCLUDE:

- A) TOTAL SPENDING OF FF 1130 BILLION APPROX (PDS STG 106 BILLION).
- B) 12 PERCENT INCREASES IN SPENDING ON EMPLOYMENT, CULTURE AND OVERSEAS TERRITORIES (THE RESULT MAINLY OF ADDITIONAL AID

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14th September, 1988

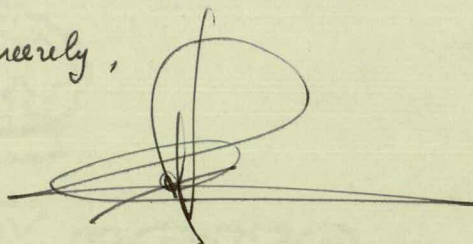
Prof
Jean M. Allan,

(Lettré in'd)

I have just received through the diplomatic bag a letter addressed to The Rt. Hon. Nigel Lawson MP, Chancellor of the Exchequer, by Monsieur Pierre Bérégovoy, Ministre d'Etat, Ministre de l'Economie, des Finances et du Budget.

In the Ambassador's absence, I hasten to forward it to you.

Yours sincerely,



Dominique Chassard
First Counsellor

A.C.S. Allan, Esq.
Principal Private Secretary to
The Chancellor of the Exchequer,
Departmental Treasury,
Parliament Street,
London, SW1P 3AG.

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AND TO PRIORITY WASHINGTON, BONN, PARIS, ROME, OTTAWA, UKDEL IMF/IBRD
AND TO PRIORITY UKDEL OECD, UKREP BRUSSELS

YOUR TELNO 624: IMF/IBRD ANNUAL MEETINGS, BERLIN : 27-29 SEPTEMBER

SUMMARY

1. THE JAPANESE UNLIKELY TO RELAUNCH THEIR MIDDLE INCOME DEBT PROPOSALS THROUGH THEY REMAIN ON THE TABLE. RECOGNITION THAT POOREST DEBTOR RELIEF AND FUND ARREARS LIKELY TO PROVE THE PRICKLIEST ISSUES. MIYAZAWA MAY NOT BE ABLE TO ATTEND HIMSELF.

DETAIL

2. WE SPOKE TO KURODA (DIRECTOR, INTERNATIONAL ORGANISATIONS DIVISION, MINISTRY OF FINANCE) ON 13 SEPTEMBER ABOUT THE PROSPECTS FOR THE BERLIN MEETING. ALTHOUGH A FINAL DECISION HAD NOT YET BEEN TAKEN HE EXPECTED THAT THE JAPANESE WOULD NOT PUSH THE DEBT PROPOSALS WHICH THEY HAD AIRED AT THE TORONTO SUMMIT, BUT THEY REMAINED ON THE TABLE. IF ASKED, THE JAPANESE DELEGATION WOULD BE HAPPY TO OUTLINE THEIR IDEAS, AND TO ANSWER QUESTIONS, BUT THE ISSUE WOULD MOST DEFINITELY BE PLAYED IN A LOW KEY. THE MOF FELT THAT SINCE THEIR PLANS RESTED ON THE ACTION OF CREDITOR BANKS, AND THE MAJORITY OF THEM WERE AMERICAN, IT WAS REALLY UP TO THE US TREASURY TO DECIDE WHETHER THE SCHEME WAS WORTH CHAMPIONING. THEIR UNDERSTANDING WAS THAT THE US TREASURY DID NOT DISAGREE WITH THEIR IDEAS IN PRINCIPLE BUT BELIEVED THAT THE TIMING WAS DIFFICULT, BECAUSE OF THE NEED TO SECURE CONGRESSIONAL APPROVAL FOR THE GENERAL WORLD BANK'S CAPITAL INCREASE.

3. KURODA WAS LESS THAN SANGUINE ABOUT THE PROSPECTS FOR AN EARLY RESOLUTION OF POOREST DEBTOR RELIEF. THE JAPANESE STILL FELT THAT THE COVERAGE OF COUNTRIES NEEDED SORTING OUT (PARTICULARLY THE INCLUSION OF ASIAN LLDCS AND THE EXCLUSION OF SUB-SAHARAN AFRICA NON-LLDCS) AND THE COVERAGE OF CONCESSIONS NEEDED FURTHER DISCUSSION (PARTICULARLY THE QUESTION OF WHETHER THE TRANSFORMATION OF ODA LOANS INTO GRANTS SHOULD BE RECOGNISED). THE PARA CLUB COMPROMISE PROPOSALS WERE USEFUL, AND AS KURODA UNDERSTOOD IT REDRAFTS WERE BEING SUBMITTED BY MEMBERS. BUT ALTHOUGH THE BERLIN MEETING WOULD BE A POLITICALLY NEAT OCCASION TO ANNOUNCE ANY AGREEMENT ON

BURDEN SHARING, AND THE FRG (AS THE HOST COUNTRY) MIGHT BE PARTICULARLY KEEN TO MAKE AN ANNOUNCEMENT, THE JAPANESE STILL SEEMED LIKELY TO BE GUIDED BY THE YEAR END DEADLINE FOR A SOLUTION TO THE PROBLEM, AS AGREED BY SUMMIT LEADERS IN TORONTO.

4. KURODA MENTIONED THAT MIYAZAWA HIMSELF MIGHT NOT BE ABLE TO GO TO BERLIN. THE EXTRAORDINARY DIET SESSION ON TAX REFORM WAS DUE TO END ON 26 SEPTEMBER, BUT IT WAS VERY LIKELY TO BE EXTENDED. NOBODY YET KNEW WHEN A DECISION ON EXTENSION WOULD BE TAKEN, BUT MIYAZAWA HAD DECIDED THAT UNLESS THE DECISION WERE MADE BEFORE 22 SEPTEMBER HE WOULD BE UNABLE TO GO TO BERLIN. IN THE EVENT OF HIS ABSENCE SUMITA (GOVERNOR OF THE BANK OF JAPAN) AND GYOHTEN (VICE MINISTER) WOULD REPRESENT JAPAN.

5. KURODA WAS VERY INTERESTED TO HEAR THAT WE WOULD CIRCULATE A PAPER ON ARREARS TO THE FUND, AND WAS KEEN TO KNOW WHETHER THIS WOULD BE DISTRIBUTED IN BERLIN OR BEFORE. HE HOPED IT WOULD BE BEFORE SO THAT MINISTERS COULD BE FULLY BRIEFED. JAPAN SAW THIS AS AN EXTREMELY GRAVE ISSUE, AND WOULD BE KEEN TO HELP SOLVE IT, ALTHOUGH HE HOPED THAT THE UK'S PAPER WOULD NOT DEPART FROM THE GENERAL PRINCIPLES ALREADY AGREED BY THE FUND'S EXECUTIVE DIRECTOR EARLIER THIS YEAR. THE JAPANESE WOULD ALSO PREFER TO CONTINUE TO DEAL WITH THE PROBLEM WITHOUT THE GLARE OF PUBLICITY, DESPITE THE RATHER PUBLIC PRONOUNCEMENTS BY THE AMERICANS THIS SPRING. HE HOPED THAT THE UK SUPPORTED THIS VIEW.

6. ON OTHER ISSUES THE JAPANESE WERE FAIRLY RELAXED. THE WORLD ECONOMIC OUTLOOK WAS BRIGHTER THAN MIGHT HAVE BEEN EXPECTED 6 MONTHS AGO, ALTHOUGH THE DISCUSSION AT BERLIN WOULD NEED TO PAY DUE ATTENTION TO THE CONTINUING LEVELS OF EXTERNAL IMBALANCES AND TO THE DANGER OF INFLATION. ON THE FIRST, KURODA NOTED THAT EXTERNAL IMBALANCES HAD BEEN IN CONSISTENT, ALTHOUGH SLOW DECLINE, AND THAT WITHIN ANOTHER THREE OR FOUR YEARS THEY MIGHT REACH A SUSTAINABLE LEVEL. ON THE LATTER THE MINISTRY OF FINANCE HAD IDENTIFIED NO INFLATIONARY TENDENCIES WITHIN THE JAPANESE ECONOMY. POLICY COORDINATION WOULD BE DISCUSSED IN BERLIN, BUT THERE WAS NO PRESSING NEED FOR NEW POLICY CHANGES IN ANY OF THE MAJOR INDUSTRIAL COUNTRIES. THE NEED FOR FURTHER EFFORTS TO REDUCE THE US FEDERAL DEFICIT WOULD NEED TO BE MENTIONED, ALTHOUGH EVERYONE RECOGNISED THAT LITTLE MORE WOULD BE DONE UNTIL AFTER THE PRESIDENTIAL ELECTION. KURODA ALSO REFERRED TO "A POTENTIAL NEED" FOR THE UK TO TIGHTEN FISCAL POLICY AT SOME STAGE, BUT THIS WAS EVIDENTLY STILL A PERSONAL VIEW AND IT WAS UNCLEAR WHETHER THIS WILL BE REFLECTED IN THE JAPANESE OFFICIAL LINE AT THE ANNUAL MEETINGS.

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7. KURODA AGREED THAT MIYAZAWA AND OTHERS SHOULD GIVE THEIR BLESSING TO THE MID-TERM REVIEW OF THE URUGUAY ROUND IN MONTREAL AND MENTION THE NEED TO STRENGTHEN THE STRUCTURE OF THE GATT, BUT THERE WAS NO NEED FOR DETAILED DISCUSSION.

8. KURODA WAS NOT OVERLY CONCERNED BY THE QUESTION OF IMF QUOTAS (PARA 7 OF TUR) AND AGREED THAT THERE WAS NO CHANCE OF US ADMINISTRATION ADDRESSING THE ISSUE UNTIL CONGRESS RATIFIED THE WORLD BANK'S GENERAL CAPITAL INCREASE.

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A NEW SCHEME FOR RESOLVING THE DEBT PROBLEMS
OF THE MIDDLE-INCOME COUNTRIES

1. BASIS VIEWS ON THE DEBT PROBLEMS

(1) THE BAKER STRATEGY OF 1985 SUCCESSFULLY AVOIDED A RECURRENCE OF THE DEBT CRISIS AND SUPPORTED GROWTH-ORIENTED ECONOMIC ADJUSTMENT BY DEBTOR COUNTRIES WITH NEW MONEY FROM PRIVATE BANKS AND INTERNATIONAL FINANCIAL INSTITUTIONS ON A CASE-BY-CASE BASIS. THE MENU APPROACH EVOLVED AS PART OF THIS STRATEGY ALSO CONTRIBUTED SIGNIFICANTLY TO BROADENING THE OPTIONS FOR CREDITOR BANKS, AS SHOWN BY THE RECENT MEXICAN DEBT-BOND-SWAP SCHEME.

THIS CASE-BY-CASE APPROACH HAS PROVED ITS WORTH, AND IT IS NEITHER APPROPRIATE NOR REALISTIC TO TRY TO RESOLVE THE DEBT PROBLEMS BY ADOPTING A GLOBAL OR GENERALIZED STRATEGY.

FOLLOWING THIS BASIC STRATEGY, THE TRADITIONAL APPROACH WITHIN THE FRAMEWORK OF BANK ADVISORY COMMITTEE, BASED ON STAND-BY ARRANGEMENTS WITH THE FUND, HAS PROVIDED SHORT-TERM RESPONSES OF ONE TO TWO YEARS. IN ADDITION TO THIS BASIC APPROACH, IT NOW APPEARS USEFUL TO EXPLORE OTHER MEASURES TO STRENGTHEN MEDIUM-TERM RESPONSES ON A CASE-BY-CASE BASIS.

(2) IN CONSIDERING MEDIUM-TERM RESPONSES, THE FOLLOWING POINTS DESERVE SPECIAL ATTENTION.

1) THE MOST IMPORTANT CONSIDERATION IN RESOLVING THE DEBT PROBLEM IS TO SUSTAIN GROWTH THROUGH STRUCTURAL ADJUSTMENT IN THE DEBTOR COUNTRIES AND THEREBY TO RESTORE THE DEBTOR COUNTRIES' ABILITY TO SERVICE THEIR DEBTS. SIMPLY DISCOUNTING THEIR DEBTS OR WRITING THEM OFF IS NOT AN APPROPRIATE SOLUTION.

2) IN ORDER TO SUPPORT ECONOMIC ADJUSTMENT EFFORTS BY DEBTOR COUNTRIES, IT IS NECESSARY TO ENHANCE THE FLOW OF CAPITAL FROM PRIVATE BANKS, INTERNATIONAL FINANCIAL INSTITUTIONS, AND INDUSTRIALIZED COUNTRIES.

3) IN ADDITION TO CONTINUING TO FACILITATE THE DEBTOR COUNTRIES' ECONOMIC ADJUSTMENT EFFORTS THROUGH CONVENTIONAL MEASURES, THE FUND MIGHT EXPLORE SOME NEW SCHEME UNDER WHICH THE FUND AND THE DEBTOR COUNTRIES COULD COOPERATE MORE CLOSELY TO ENHANCE THE CERTAINTY OF REPAYMENT.

(3) GIVEN THESE CONSIDERATIONS AND IN LIGHT OF THE IMPORTANCE OF STRENGTHENING THE MENU APPROACH THAT WAS EMBODIED IN THE RECENT MEXICAN DEBT-BOND-SWAP SCHEME, JAPAN WOULD LIKE TO PROPOSE, AS ONE POSSIBLE MENU ITEM, A NEW SCHEME WHICH WOULD ALLOW FLEXIBLE RESPONSES ON A CASE-BY-CASE BASIS AND PROVIDE FOR FAIR BURDEN-SHARING AMONG THE PARTIES CONCERNED.

2. OUTLINE OF THE SCHEME

THE DEBTOR COUNTRY WOULD FIRST AGREE WITH THE FUND ON A MEDIUM-TERM PROGRAM FOR STRUCTURAL ADJUSTMENT.

II. PREMISED UPON THE FUNCTIONING OF THIS PROGRAM FOR STRUCTURAL ADJUSTMENT, THE DEBTOR COUNTRY AND ITS CREDITOR BANKS WOULD AGREE TO PUT SOME OR ALL OF THE TOTAL DEBT UNDER THIS SCHEME.

III. THE BANKS WOULD BE ABLE TO DECIDE FOR THEMSELVES WHETHER OR NOT THEY PARTICIPATED, AND EVEN PARTICIPATING BANKS WOULD BE ABLE TO OPT FOR PARTIAL PARTICIPATION INVOLVING ONLY SOME OF THEIR CREDITS. THE NON-PARTICIPATING BANKS AND BANKS THAT HAVE OPTED TO KEEP SOME OF THEIR CREDITS OUT OF THIS SCHEME WOULD CONTINUE TO WORK ON TRADITIONAL RESPONSES, INCLUDING THE PROVISION OF NEW MONEY UNDER THE BANK ADVISORY COMMITTEE.

IV. A CERTAIN PORTION OF THE CREDITS UNDER THIS SCHEME WOULD BE SECURITIZED, THE SECURITIZATION RATIO TO BE DECIDED BY TENDER OR THROUGH NEGOTIATIONS BETWEEN THE DEBTOR COUNTRY AND ITS CREDITOR BANKS BASED ON MARKET CONDITIONS. THE SECURITIZATION COULD BE PHASED OVER A PERIOD OF YEARS IN ACCORDANCE WITH THE FUND'S PROGRAM.

V. THE CREDITOR BANKS WOULD THEN RESCHEDULE THE NON-SECURITIZED PORTION'S PRINCIPAL. THE CONDITION OF RESCHEDULING WOULD BE AGREED BETWEEN THE CREDITOR BANKS AND THE DEBTOR COUNTRY ON A CASE-BY-CASE BASIS.

VI. THE DEBTOR COUNTRY WOULD ESTABLISH TWO RESERVE ACCOUNTS TO BE HELD IN TRUST BY THE FUND TO ENHANCE THE CERTAINTY OF REPAYMENT.

A. THE FIRST RESERVE ACCOUNT; FUNDED BY THE DEBTOR COUNTRY'S FOREIGN EXCHANGE RESERVES, AND USED TO GUARANTEE THE PRINCIPAL OF THE SECURITIZED PORTION OF THE DEBT AND ALSO AVAILABLE TO SUPPORT INTEREST PAYMENTS.

B. THE SECOND RESERVE ACCOUNT; FUNDED AS A SINKING FUND FOR THE NON-SECURITIZED PORTION OF THE DEBT BY TRANSFERRING A CERTAIN PERCENTAGE, AS AGREED BETWEEN THE DEBTOR COUNTRY AND ITS CREDITOR BANKS, OF EACH YEAR'S ANTICIPATED BALANCE OF PAYMENT SURPLUS.

3. NEED FOR COOPERATION FROM THE INDUSTRIALIZED COUNTRIES AND MULTILATERAL INSTITUTIONS

THE FLOW OF NEW MONEY FROM THE INTERNATIONAL FINANCIAL INSTITUTIONS AND THE FLOW OF BILATERAL CAPITAL FROM THE INDUSTRIALIZED COUNTRIES SHOULD BE ENHANCED. JAPAN WILL CONTRIBUTE HERE MAINLY WITH UNTIED LOANS FROM THE EXPORT-IMPORT BANK OF JAPAN.

THIS NEW MONEY WOULD NOT HOWEVER BE TO PROVIDE FUNDING TO THE RESERVE ACCOUNTS OUTLINED ABOVE.

THE PARIS CLUB WILL CONTINUE TO SUPPORT DEBTOR COUNTRIES WITHIN THE FRAMEWORK OF MULTI-YEAR RESCHEDULING.

4. FEATURES OF THE SCHEME

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- (1) THIS SCHEME IS BASED ON THE CASE-BY-CASE DEBT STRATEGY.
- (2) PRIVATE BANKS CONTINUE TO PLAY AN IMPORTANT ROLE IN SUPPORTING THE DEBTOR COUNTRIES' STRUCTURAL ADJUSTMENT EFFORTS THROUGH ADEQUATE AND APPROPRIATE FINANCING OPTIONS.
- (3) THIS SCHEME INCLUDES NEITHER GLOBAL DEBT-FORGIVENESS PROPOSALS NOR ANY TRANSFER OF RISK FROM THE PRIVATE SECTOR TO THE INTERNATIONAL FINANCIAL INSTITUTIONS OR CREDITOR GOVERNMENTS.
- (4) FOR THE CREDITOR BANKS, THERE IS A STRONG POSSIBILITY THAT THE TOTAL PRINCIPAL INCLUDING THE NON-SECURITIZED PORTION CAN BE RECOVERED.
- (5) THE DEBTOR COUNTRIES ARE REQUIRED TO MAKE STRONG COMMITMENTS TO REBUILDING THEIR ECONOMIES BY EXECUTING MEDIUM-TERM STRUCTURAL ADJUSTMENT PROGRAM AGREED WITH THE FUND.
- (6) THE DEBTOR COUNTRIES CAN SECURE FINANCING FOR THEIR STRUCTURAL ADJUSTMENT FROM MULTILATERAL AND BILATERAL FINANCIAL INSTITUTIONS.

5. IMPLEMENTATION

THE DETAILS OF THIS SCHEME SHOULD BE FLESHED OUT BASED ON THE INDIVIDUAL CASE BY THE PARTIES CONCERNED WHEN THEY CONSIDER THE SCHEME'S APPLICATION APPROPRIATE.

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- Unemployment was 2.58 million at the end of June, 2.61 at end of July.

- Provisional 1988 Labour Force survey results indicate that employment was 21.5 million in March, 100,000 up on 1987.

The Bourse CAC general index stood at 344.8 on 2 September. Two new independent futures markets started operation: the OMF in July and the CAC 40 in August.

- Interest rates: in line with international rises, the Bank of France raised its intervention rate by 0.25% to 7% and its seven day repurchase rate, also by 0.25%, to 7.45% on 25 August.

- The franc, though reasonably stable, remains vulnerable to the current strength of the D mark.

- Planning in France, moribund in recent years, is to receive new life under the present government. The Tenth Plan, which will run for four years from 1989 to 1992, will concentrate on issues relating to the Single European Market.

SAVING TELEGRAM

UNCLASSIFIED

FRAME ECONOMIC

FROM PARIS SAVING TELNO 41 OF 16 SEPTEMBER 1988

TO FCO

REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENHAGEN, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE: ECONOMIC REPORT FOR JULY/AUGUST 1988

SUMMARY

- Government forecast on economic performance in 1988 suggests that GDP growth this year will reach 3.4% - 3.5%, slowing to 2.5% in 1989. Total investment (10% by volume), and in particular industrial investment (14%) combined with high stock formation are now the motors of the better than earlier predicted performance of the French economy.

- The final preparatory stages of the 1989 general budget are now in place and will be presented to the Council of Ministers on 21 September. The overall budget has been set at F1130 billion approximately (£ 106 billion), an increase of 4.6% in money terms over 1988. Significant increases in spending on Employment, Culture, Overseas Territories, Research, Education, Cooperation and Transport. Tax cuts of between F10 - 12 billion are also planned, divided between VAT reductions and changes and a cut in corporation tax on undistributed earnings from 42% to 39%. Changes in employer contributions to family allowances are also envisaged. A strong expansion in tax receipts means that the government will have no difficulty in constructing a budget to include its target of a F100 billion deficit.

- Two private sector forecasts in line with the upward revision of the performance of the economy.

- The automobile industry has had a good year so far, especially on the export side. In the first half of 1988, overall production is up 8% and exports up 11% over the same period last year.

- Balance of trade was in deficit in June by F0.9 billion, and in deficit by F3.4 billion in July. The balance of payments was in surplus by F6.08 billion in March, and in deficit in April by F450 million (estimate).

- Inflation in July was 0.3% and now stands at an annual rate of 2.7%.

I GENERAL ECONOMIC ACTIVITY

a) Government forecast and the 1989 Budget

1. The government forecast on the performance of the French economy in 1988 and 1989, which it prepares for the annual budget round and which is normally released to the public in the middle of September, was reported in the press at the end of August. According to the Direction de la Prévision, GDP growth this year is expected to be around 3.4%, slowing to 2.5% in 1989. The forecast confirms that investment and high stock formation are the motor of this high growth rate. Total investment this year is expected to grow by 10% (by volume) and industrial investment to increase by 14%. Industrial production, which stagnated in France during the period 1980 to the Spring of 1986, grew at an annual rate of 6% during the first half of 1988. Due primarily to the construction sector, there was also an improvement in the growth of employment. The balance of trade deficit is predicted to be around F25 billion this year, less serious than some predictions a few months ago, through the balance of trade deficit in industrial goods remains of concern to the government. Inflation, which is expected to be close to 3% (it is currently 2.7%) by the end of the year, is predicted to be 2.2% next year. Finally, a strong expansion on fiscal returns means that the budget deficit target of F100 billion will easily be reached.

2. On the 1989 budget, the Prime Minister, Michel Rocard, sent his ministers the annual 'lettres du plafond' at the beginning of August, which set out the ceiling on their expenditure next year. The total budget will be around F1130 billion, an increase of 4.6% in money terms over 1988. According to press reports, the main gainers will be employment, research, education, overseas territories and culture. Industry and agriculture appear to be the main losers - with increases below the overall increase of 4.6%. There are also substantial increases for COFACE, the export credit agency which has seen its budget go up to F6 billion (F2 billion in 1987) and for BFCE, la Banque française pour le commerce extérieur. This appears to be aimed at giving extra state aid to help French exports. Government estimates suggest that the 1989 budget deficit target will be the equivalent to 1.7% of GDP.

3. On proposed tax cuts, agreement was reached on 14 September, at the Council of Ministers, for a F10-12 billion reduction in the forthcoming budget. These will be divided between VAT reductions, primarily by the abolition of the 7% rate where such items as books will now be charged at the lower 5.5% rate, and by reductions in corporation tax. This latter will be reduced from the current rate of 42% to 39% for profits reinvested (Bérégevoy, the Minister of Finance, had originally hoped for an even greater reduction to 37%). A reduction in employers contributions to family allowances from 9% to 7% is also planned, though this will be combined with the abolition of the present pay scale ceiling (currently at F10,110 per month). This will have the effect of reducing the cost of lower paid workers while increasing the costs at the higher end of the pay scale. Bérégevoy also plans a complete overhaul of the French fiscal structure in the lead up to 1992, though this will not start until 1990.

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f) GDP growth in the first half of 1988

10. According to statistics released by INSEE, second quarter 1988 GDP growth was 0.6% following a 1.2 % rise in the first quarter. INSEE now predict that the 1988 annual average GDP rate will be 3.3%.

II BALANCE OF TRADE

11. The balance of trade (sa) in June was in deficit by F0.9 billion (compared to a deficit of F 1.4 billion in May). For the first six months of 1988, the trade deficit (sa) was F9.1 billion compared to a deficit of F19.2 billion for the corresponding period in 1987. Exports in June were valued at F83.6 billion (+1.3% over May) while imports were valued at F84.5 billion (0.5).

12. The balance of trade data for June 1988 was as follows:

Balance	-FO.9 million
Cover rate	99%
Exports	F83.6 billion (sa)
Imports	F84.5 billion (sa)
Balance of Trade:	
a) food and agriculture:	+ F3.4 billion
b) industrial products:	- F2.1 billion
c) energy:	- F5.2 billion

13. While the price of imported energy products has continued to decline, the cost of raw materials has continued to increase. There was a 2.2% rise in prices in July over June, while the increase in imported raw materials in the twelve months to July was 30.3% (compared to the same period in 1987). Industrial raw materials increased in price by 30.9% and foods by 28.9% over the same period.

14. The trade deficit (excluding military sales) with France's trading partners in the European Community was F1.9 billion (against a deficit of F2.7 billion in May), while the deficit with her other OECD trading partners was F2.3 billion (deficit of F2.9 billion in May).

15. The balance of trade (sa) in July was in deficit by F3.4 billion. This bad result was due primarily to a serious deterioration of the balance in industrial products, which were in deficit by F4.1 billion (F2.1 billion in June). For the first seven months of 1988, the trade deficit was revised upwards to F14.8 billion (against a deficit of 21.7 billion for the same period in 1987). The balance of trade data for July 1988 was as follows:

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b) Private Sector Economic Forecasts

4. Two further private sector economic forecasts for 1988 were released in July. The first, by Banque Paribas, points out that French economic growth is strong, non-inflationary and better balanced. Paribas expects GP growth of 3.0% for 1988, due to a significant pick up in manufacturing production (up 4.4% in the first six months of 1988). The bank also points to the recovery in investment, and a favourable international background. Export growth is already up 5.3% this year though they qualify this by the fact that industrial exports (+2.7%) did not keep up with the growth demand in French market (+5.5%) in 1987, thus leading to a loss in world market share.

5. The Institut de Prévisions Economiques et Financières pour le Développement des Entreprises (IPECODE) also released their forecast for the French economy in 1988 and 1989. They were the first forecasting centre this year to predict a GDP growth rate for 1988 that was over 3.0%, at 3.1% with a slowing down of growth in 1989 to 2.0%. A full list of IPECODE's economic indicators is at annex 9.

c) Industrial Production

6. According to INSEE, industrial production in June increased by nearly 2% compared to May, and around 3% compared to June 1987. Leading growth sectors were energy (+5.4%) - with electricity and gas increasing by 7% - and automobiles (+8%). Most other sectors recorded no change, while the agri/foods sector declined by around 1.8% and capital goods declined by 0.9%.

d) Consumer spending

7. The decline in consumer spending, which started at the beginning of the year, continued in June when household consumption of manufactured products declined by 1.3% compared to May. The decline in June was most noticeable in the automobile and textiles sectors, while the tendency in other sectors has been for an increase in consumer spending.

e) Automobile Industry

8. In the first six months of 1988, the automobile sector manufactured 1,742,137 units, which represented an 8% increase over the same period in 1987. Much of this gain was the result of stronger export figures, which grew by 11.2% (1,001,243 units) over the same period. Peugeot SA performed particularly well, with production up 14.7% and exports up 20.5%

9. The internal automobile market grew by 5.6% (1,050,679 registrations), with French manufactured vehicles increasing their share of the market. Foreign manufactured vehicles accounted for 34.8% of vehicle registrations in the first six months of 1988 (as against 35.7% for the same period in 1987).

V INFLATION

19. The inflation rate in July was 0.3% (0.2% in June) according to provisional statistics issued by INSEE, bringing the annual rate of inflation to July to 2.7%. Until the middle of July, Bérégovoy had continued to maintain that the inflation rate would be 2.5% by the end of this year. The Ministry of Finance have now revised upwards their end of year inflation forecast from 2.5% to between 2.5 and 3.0%, with the likelihood that it will be near to 3.0%. The rise in July is due to a combination of factors: increases in the prices of public tariffs, gas (+2.5%), cigarettes (+2%), automobiles (+2.3%) and rentals on property (up 6.5% since the beginning of the year). In particular, the government voiced their concern over the rise in property rentals, and other private sector services which have continued to rise at a level above the average inflation rate. In order to counter the rise in property rentals, the Ministry of Housing introduced, on 15 September, a decree establishing a form of rent control. According to the new law, landlords will not now be allowed to raise rents without giving their tenants prior good reason for the rise.

VI LABOUR MARKET

20. Unemployment (seasonally adjusted) rose to 2,578,300 at the end of June, and 2,613,500 at the end of July. The unadjusted totals were 2,400,500 and 2,469,700. The unemployment rates were 10.2% in June and 10.4% in July.

21. The unemployment rates are part of a revised series, recalculated in the light of 1988 Labour Force Survey provisional data. The principal results were as follows:-

	1983	1984	1985	1986	1987	1988
	(000s)	(000s)	(000s)	(000s)	(000s)	(000s)
Working population	23,458	23,594	23,748	23,981	23,972	23,940
In employment	21,566	21,350	21,319	21,354	21,405	21,508
Unemployed	1,892	2,244	2,429	2,448	2,567	2,431

22. The slight fall in the total working population is considered to be due to lower participation rates by young people, reflecting both a trend towards staying longer at school and the rise in full time training places for the young unemployed. In the 20-24 age range, men's economic activity rate fell from 65.7% to 60.4% and women's from 64.2% to 60.9%. Overall, women's participation continued to rise, particularly in the 25-49 age group, where 72.9% are now in the labour market. 23.8% work part-time.

Balance:	-F3.4 billion
Cover rate:	95.9%
Exports:	F81.3 billion
Imports:	F84.7 billion

Balance of trade in:	
a) food and agriculture:	+F3.5 billion
b) industrial products:	-F4.1 billion
c) energy	-F5.9 billion

III BALANCE OF PAYMENTS

16. The revised current account balance of payments (sa) in March was in surplus by F6.08 billion compared to the revised deficit in February of F3.1 billion (original figure: a deficit of F5.9 billion). The estimated balance of payments (sa) for April was in deficit by F450 million. For the first four months of 1988, the current account (sa) was in surplus by F8.7 billion, as against a surplus of F2.3 billion for the same period last year.

The estimated figures for April (not seasonally adjusted) are as follows,

Exchange of goods:	F-3.5 billion
Services :	F+5.4 billion
Transfers :	F-2.04 billion

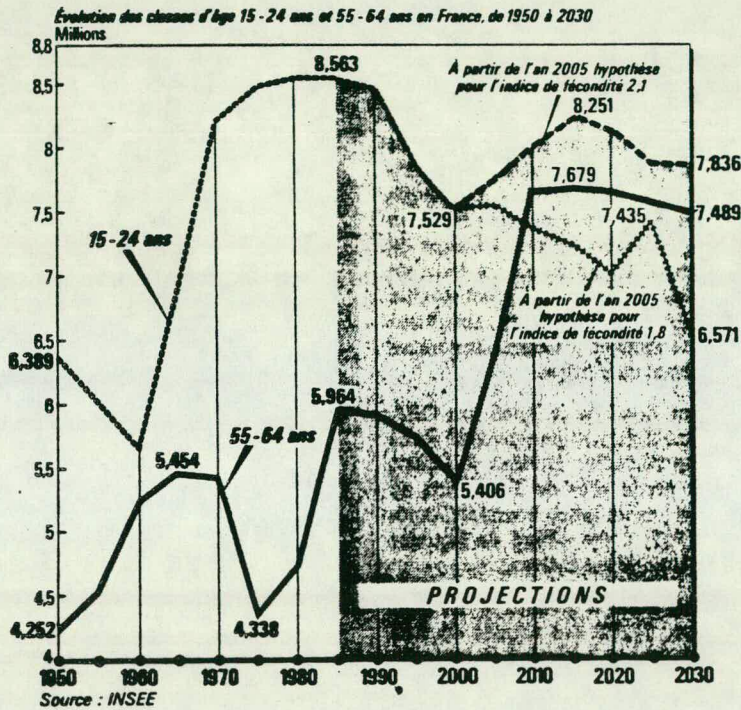
IV FRANCO-GERMAN TRADE

17. In the first half of 1988, France's trade deficit with West Germany deteriorated by 13.8% over the same period in 1987, and now stands at F24.56 billion. German exports to France grew by 10.2% and were valued at F102 billion, while French exports to Germany grew by 9.1% and stood at F77.95 billion during the first six months of 1988.

18. While France has managed to increase its surplus in the agri/foods sector (F8.64 billion compared to F6.28 billion in 1987), the balance of trade in industrial goods and chemicals are the main causes of the deteriorating trade balance in 1988. German export growth was particularly strong in the mechanical engineering (up 16% over 1987) and electrical engineering (up 27.9%) sectors. The deficits in chemical products (valued at F5.22 billion against F3.5 billion in 1987) and automobiles (F9.21 billion against F7.34 billion in 1987) accounted for 55.1% of France's total trade deficit with Germany (compared to 47.1% in 1987).

28. A new training levy - 0.1% of payroll - has been imposed on small firms (under 10 employees) in the craft skills sector (artisanat).

29. A demographic analysis and forecast by INSEE indicates that at present birthrates numbers reaching working age will not fall below numbers reaching retirement age until 2010.



VII PAY

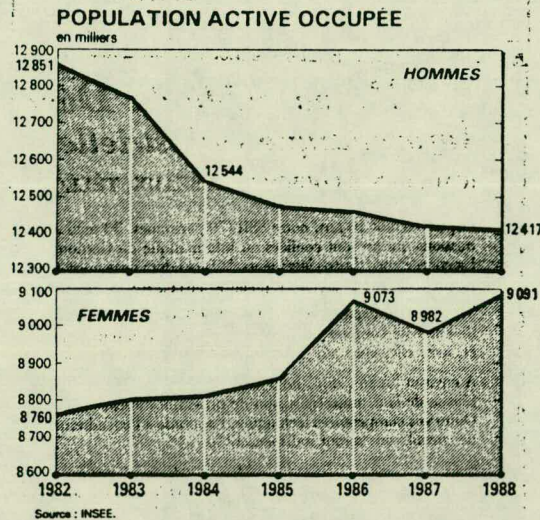
30. Civil Servants have been awarded a 1% rise with effect from 1 September, following an earlier rise of 1% on 1 April. Negotiations now starting will cover pay in 1988 and 1989.

31. A study by the Centre d'Etude des Revenus et des Coûts indicates that young people's pay is declining relative to the national minimum wage (SMIC) and to the average pay of manual workers. The 18-20s earned 19% more than the SMIC, 70% of manual workers' average pay in 1973; 3% more than the SMIC and 66% of average pay of manual workers in 1985.

32. There were violent incidents at the Jean Didier printing works during a strike over the dismissal of trade union representatives in July; and at the Mines de Gardanne in Provence in early August, at the end of a 4 month strike over pay. Strike figures for the first four months of 1988 are comparable to 1984 and 1985, following a fall in 1986 and 1987.

23. Figures from the unemployment benefit service (UNEDIC) and the Labour Ministry's quarterly survey of employment in the non-agricultural market sector confirm the INSEE findings. Analysis of the UNEDIC report for 1987 indicates that the improvement in total employment reflects a rise in jobs in the service sector and in construction. The decline in industrial employment continued, but at a slower rate than in previous years. There was an increase in temporary work, and government employment and training schemes also played an important part.

24. The new jobs went to women rather than men:-



25. The fall in unemployment over the year recorded by INSEE is the first for 15 years. It is confirmed by the 1987 monthly count.

26. In spite of indications that employment continued to rise in the first half of 1988, experts are pessimistic about the outlook. Employment is expected to stabilise or fall in the second half of the year - significant job losses are expected in banking and the financial sector in particular - and the rise in unemployment which began in April is expected to continue. The new Minister of Labour, Jean-Pierre Soisson, has predicted that the end-year count will be 100,000 to 150,000 higher than the present figure.

27. Numbers of places on employment training schemes will be brought up to pre-election levels as soon as possible. Soisson is also expected to announce a new package of employment and training measures in September. It is likely to include a "training credit" for young people aged 16-25 who leave school without any qualifications (about 100,000 each year) and proposals to improve the training content of community programmes and on-the-job training courses for young people (SIVP). Regions will be asked to look again at their 1989 plans with a view to emphasizing the development of employment. A new 250 million franc fund for local employment initiatives is to be established.

38. In July, there were moves to tighten up procedures on the Bourse, following a number of scandals including losses on the MATIF by the Bourse's guarantees fund of F613.7 million which were originally made public in June (see June MER). On 22 July, an announcement was made that two new laws would be introduced early next year. The first concerns the operating practices of the 'remisiers', the middle men who are not allowed to charge a commission but who channel their investments orders through companies who are entitled to charge a commission, such as the Sociétés de bourse. The regulation of the 'remisiers' has been lax in recent years, and a number of scandals have resulted from bad investments made by them. The second proposal law concerns the SICAVs. This investment vehicle has seen a considerable expansion in recent years, with some 450-500 new SICAV units being created every year. The proposed law will regulate this method of investment, and in particular, will protect the individual investor.

39. Finally, on 1 September the Conseil de Bourses de Valeur (the equivalent of the Stock Exchange Council) published its new rule book. The most significant change from the previous one is that there will be a tightening up of the obligatory deposits investors must place with their agent when they make their investment orders (20% in cash, 40% in government bonds or around 25% in gold). This rule has been lax in the recent past and following the October 1987 crash many smaller investors could not cover their positions. This change is primarily aimed at the protection of the Sociétés de bourse, and other investment companies, who had to bear the losses made by small investors who over extended their positions last Autumn, and who were unable to meet their financial liabilities.

40. Jean Farge was appointed in July as the new President of the Commission des Operations de Bourse (COB), the authority responsible for policing the Bourse and other financial markets. The COB has been criticised in the past as being ineffectual and for not having any power of sanction to punish malpractices by those operating on the Bourse. M. Farge's main task in the coming months will be to impose the COB's authority on the operations of the Bourse, not an easy task given the entrenched interests of the other authorities and members of the Bourse.

b) Interest Rates

41. On 25 August, in line with interest rate rises elsewhere in Europe (and especially West Germany), the Bank of France raised its two basic interest rates by 0.25%. The intervention rate now stands at 7% and the seven-day repurchase rate at 7.75%. This is a set-back for Bérégovoy's declared economic policies; one of the cornerstones of which was to make the cost of money cheaper. As recently as 22 July, Bérégovoy had convinced the banks to lower their base lending rate to 9.25% from 9.60%, a rate which has remained unchanged since May 1986. Whether or not this lower rate can be sustained in the coming months remains to be seen.

VIII SOCIAL SECURITY

33. Decisions on reform of the pension system are expected in October. Present forecasts indicate that the fund will be in deficit by 35 billion francs in 1989, 45 billion francs in 1990, 55 billion francs in 1991.

IX FINANCIAL MARKETS

a) The Bourse

34. Throughout most of July and August, the Bourse has been generally quiet with trading taking place in low volumes, partly due to the summer holiday period. However, the main reason is that investors remain nervous about the performance of international markets (especially Tokyo and Wall Street), and uncertainty about further rises in international interest rates. In addition, both private and institutional investors are reluctant to commit new money to stocks and shares, post the October crash, preferring instead to invest in fixed interest savings schemes and those SICAVs (the French equivalent of unit trusts) based on the money markets. This nervousness is expected to remain in the coming months.

35. Since the CAC general index reached a 1988 high of 368.5 on 8 July, there has been a general decline, and the CAC index stood at 344.8 on 2 September.

36. There have been two innovations on the Bourse in July and August. On 21 July, a new independent futures market called OMF (Options Market France) started its operations. This market was originally restricted to fifteen members and between 100-150 clients, all with banking status. The leading Bankers of this initiative are: Crédit Commercial de France, Société Générale, Banque Nationale de Paris and Paribas banks. Since then five Sociétés de bourse (stockbrokers) have also joined the market. At the moment, this remains a private sector initiative, without official recognition from the Bourse authorities. In the meantime OMF transactions are conducted over the counter by bilateral agreement among banks and stockbrokers.

37. In an attempt to head off the competition from the OMF, a new, official futures index, making use of the CAC 40 index was launched, earlier than originally planned, on 17 August. This is only open to clearing members of the MATIF (the financial futures market) and comes under the supervision of the CCIFP, the regulatory authority of the MATIF.

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c) The Franc

42. The franc, though relatively stable in recent months, remains vulnerable to a strong D-Mark. The Bank of France has had to intervene on a number of occasions recently to maintain the franc's position in the EMS. There are suggestions that, given the continued strength of the D-Mark, the Bank of France may have to raise interest rates again in the near future.

X LE PLAN

43. The new government has announced that, in fulfillment of one of President Mitterrand's campaign commitments, it sees a new and enhanced role for 'le Plan' in formulating the government's economic strategy. Although Planning played a significant role in post-war reconstruction and France's rapid industrialisation until the end of the 1960s, in recent years it has been moribund, and the Ministry has not exerted a decisive influence on the government's economic strategy.

44. The main aim of the Tenth Plan, which will run from 1989-1992, will be to coordinate the French Government's approach to the Single European Market in 1992 and to highlight some of the crucial decisions that will have to be made before then. Despite the government's declared support for the Planning process, Lionel Stoleru, the new Secrétaire d'Etat in charge of Planning, will have an uphill struggle to ensure that his Ministry plays a significant coordinating role, given that some other Ministers will wish to defend their own particular responsibilities (in particular Edith Cresson, the Minister for European Affairs).

FRAME ECONOMIC

ECD (1)

NATIONAL ACCOUNTS

	EXPORTS	IMPORTS	TOT GDP	MKTD GDP	MONEY GDP
In FF billions					
1986	689.9	718.2	3,084.6	2,578.0	5,034.9
1987	707.9	772.1	3,151.8	2,639.7	5,288.7
1987 Q1	170.4	187.3	778.3	649.8	1,290.8
Q2	171.6	187.2	785.9	657.0	1,310.7
Q3	177.0	192.6	792.5	663.2	1,329.9
Q4	182.8	197.2	797.8	668.4	1,347.6
1988 Q1	184.1	195.7	805.6	675.5	1,364.3

Percentage change on year earlier

1986	-0.7	7.3	2.1	2.2	7.2
1987	2.6	7.5	2.2	2.4	5.0

Percentage change Q/Q-4

1987 Q1	-0.9	9.7	2.1	2.1	5.1
Q2	-1.0	2.3	1.9	1.9	4.2
Q3	2.4	3.4	2.4	2.6	4.6
Q4	6.4	10.7	2.7	2.9	5.5
1988 Q1	8.0	4.5	3.5	4.0	5.7

Note:

Exports, Imports, Total GDP, Marketed GDP :
at 1980 prices.

Source:

INSEE : Comptes Nationaux, annuels & trimestriels.
(Total GDP definition).

15

NATIONAL ACCOUNTS

	CONS'TION	GOVT CONS	INV'MENT	BUSI'INV	RESI'INV	STOCKS	DOM DD
FF billions, 1980 prices							
1986	1,875.4	599.1	620.6	324.0	173.0	17.8	3,113.0
1987	1,923.0	613.2	643.7	337.9	175.3	36.2	3,216.0
1987 Q1	475.4	153.3	157.1	81.9	43.5	9.4	795.2
Q2	476.1	154.0	159.2	83.7	43.3	12.2	801.5
Q3	482.6	154.8	162.3	85.3	44.4	8.4	808.1
Q4	486.2	155.0	163.4	86.9	43.4	7.6	812.2
1988 Q1	486.6	155.9	167.9	89.5	44.4	6.8	817.2
Percentage change on year earlier							
1986	3.4	2.6	2.9	3.3	-1.0		3.9
1987	2.5	2.4	3.7	4.3	1.4		3.3
Percentage change Q/Q-4							
1987 Q1	2.6	3.7	2.7	2.8	0.7		4.5
Q2	1.5	3.2	2.1	2.7	-0.5		2.6
Q3	2.4	2.9	4.5	5.1	3.5		2.7
Q4	3.2	2.3	4.5	6.6	0.2		3.7
1988 Q1	2.4	1.7	6.9	9.3	2.1		2.8

Columns titles :

Household Consumption, Government Consumption,
Total Investment (of which Business Investment and
Residential Investment), Stocks, Domestic Demand.

Source:

INSEE: Comptes Nationaux, annuels & trimestriels.
(Total GDP definition).

Note:

Annual and quarterly accounts are not necessarily
consistent; the annual figures are more accurate.

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	UNEMPL'NT (TOTAL)	UNEMPL'NT (%)	EMP'T(TOT)	EMP'T(N-A)	EMP'T(IND)	LOC'L DISP	GEN ACTION
----- All figures in Thousands -----							
1985	2,459.2		21,319.0	13,482.8	4,876.8	726.7	158.2
1986	2,515.6		21,354.0	13,488.5	4,755.4	567.7	473.8
1987	2,620.1		21,405.0	13,497.4	4,650.4	511.5	457.5
1987 Q2				13,515.4	4,710.6		
Q3				13,493.6	4,678.2		
Q4				13,497.4	4,650.4		
1988							

FEBRUARY	2,581.9	10.2%				53.0	6.0
MARCH	2,535.1	10.1%	21,508.0	13,539.7	4,644.6	121.4	13.4
APRIL	2,538.6	10.1%				119.4	9.2
MAY	2,558.8	10.2%				120.6	2.2
JUNE	2,578.3	10.2%		13,553.5	4,637.3		
JULY	2,613.5	10.4%					

UNEMPL'NT = Unemployment, total and % , annual average & monthly end period, revised rates, figures seasonally adjusted (1 & 3).

EMP'T(TOT) = Total employment (2).

EMP'T(N-A) = Employment in non-agricultural market sector, end period, sa (1 & 3).

EMP'T(IND) = Employment in industry, excluding construction, end period, sa (1 & 3).

LOC'L DISP & GEN ACTION = Industrial disputes working days lost (excluding agriculture and public administration) : local disputes and general action (3).

Sources:

- (1) INSEE, Informations Rapides.
- (2) INSEE estimates (Labour Force Survey, March of each year).
- (3) Statistiques du travail.

LEADING INDICATORS

	IND PROD	TOT ORD	EXP ORD	PROD PROS	PRICE PROS	RET SALES	HOUS START
<u>Quarterly averages</u>							
1987 Q1	102	-23	-30	4	22	89.0	71.0
Q2	104	-18	-18	7	16	88.6	75.8
Q3	104	-15	-12	3	14	89.9	70.6
Q4	105	-8	-10	5	15	90.9	91.9
1988 Q1	106	-4	-3	9	23	90.3	84.6
Q2	106	5	2	13	15		
<u>Monthly figures</u>							
1988 FEBRUARY	106	-2	2	8	16	91.2	
MARCH	106	-3	-6	16	22	89.3	
APRIL	105	6	3	15	12	89.8	
MAY	106	5	3	15	12	87.2	
JUNE	108	5	3	9	24		
JULY		12	7	11	22		

Source : INSEE :

Industrial Production, excluding building & civil engineering, 1980=100 : Monthly Series (sa).

Total Orders, Export Orders, Production Prospects and Price Prospects : Insee Monthly Surveys (not seasonally adjusted).

Retail Sales (Volume, 1978=100) : Tendances de la Conjoncture, graphiques sur 10 ans & Monthly Series, (sa).

Housing Starts (in 1000s) = Bulletin Mensuel de Statistique.

MONETARY INDICATIONS

	M2	L	3M I RATE	LONG YIELD	FF/\$	FF/£	FF/DM	FF/ECU
1984	9.8	10.0	12.00	12.00	9.00	12.00		
198	6.5	8.5	9.95	10.47	8.99	11.55	3.05	6.80
1986	4.8	7.1			6.93	10.16	3.19	6.80
1987	4.0	11.8			6.01	9.84	3.34	6.93
OCTOBER 87	3.6	11.3	8.33	10.66	6.02	10.00	3.34	6.93
NOVEMBER 87	4.0	11.8	8.79	10.02	5.71	10.14	3.40	7.01
DECEMBER 87	3.9	11.5	8.60	10.00	5.54	10.13	3.39	6.99
1988								
JANUARY	3.7	11.4	8.33	9.86	5.58	10.05	3.38	6.97
FEBRUARY	3.1	10.8	7.68	9.13	5.74	10.07	3.38	6.98
MARCH	2.8	10.4	8.04	9.25	5.69	10.42	3.39	7.03
APRIL	2.7	10.0	8.13	9.16	5.68	10.65	3.39	7.05
MAY			7.93	9.23	5.73	10.72	3.39	7.04
JUNE			7.39	8.91	5.92	10.54	3.37	7.01
JULY			7.44	8.95				

M2= Monetary target, annual growth, % (1).

L = Broad money aggregate, annual growth, % (1).

M2 & L are calculated on the basis of a 3 month average for the same period in each year (Bank of France).

3M I RATE = 3 Month Interest Rate, % average on the money market (TIOP) (1).

LONG YIELD= Government bond yield, % long term TME (2).

FF/\$ = Franc/Dollar (2).

FF/£ = Franc/Pound (2).

FF/DM = Franc/Deutsche-Mark (2).

FF/ECU= Franc/European Currency Unit (2).

Source :

(1) Banque de France, Statistiques Monétaires Provisaires.

(2) Bulletin Mensuel de Statistique (INSEE).

	CONSUMER P	WH'SALE P	WAGES	U LAB COST	PROD'VITY	
	Percentage change					
1985	4.7		6.0	6.0	1967-73	5.2
1986	2.1	-2.9	5.1	4.5	1973-79	3.6
1987	3.1	0.3	3.6	4.7	1979-85	2.5
OCTOBER 87	3.2		4.0	0.4	1985-87	2.3
NOVEMBER 87	3.2	2.6		0.3	1987-91	2.9 (provisional)
DECEMBER 87	3.1			0.0		
1988						
JANUARY	2.4			1.0		
FEBRUARY	2.4	2.9		0.3		
MARCH	2.5			-0.8		
APRIL	2.5			0.2		
MAY	2.5	3.5		0.2		
JUNE	2.6			0.2		
JULY	2.7					

CONSUMER P = Consumer Prices, annual rates, 1980=100 (1).

WH'SALE P = Wholesale Prices (Intermediate goods), annual rates and quarterly rates (q/q-4), 1980=100, (1).

WAGES = Average Earnings (annual figures for April) (2).

U LAB COST = Unit Labour Costs : Mechanical and Electrical Industries, annual & monthly rates. Jan 1973=100. (The index for March 1988 takes account of expenses which are only available at the beginning of each year), (1).

PROD'VITY = Productivity: annual average percentage rate of growth in the hourly productivity of labour for trading sectors, excluding agriculture, housing and financial services (3).

Source

- (1) INSEE, Informations Rapides.
- (2) Statistiques du Travail, Ministère des Affaires Sociales (Salaires et gains, séries chronologiques).
- (3) INSEE, Economie et Statistiques, January 1988.

	EXP-VOL	IMP-VOL	EXP-VAL	IMP-VAL
1986	551.8	633.1	154.6	140.4
1987	553.0	682.0	155.2	138.8
1987				

JULY	46.1	57.7	158.2	139.2
AUGUST	46.7	57.3	159.8	139.0
SEPTEMBER	47.2	57.1	154.3	140.5
OCTOBER	46.4	58.5	156.3	140.2
NOVEMBER	49.0	58.1	156.6	141.7
DECEMBER	49.4	60.6	157.1	139.5

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EXP-VOL = Volume of Exports, billions of 1980
francs FOB .
IMP-VOL = Volume of Imports, billions of 1980
francs CIF .

EXP-VAL = Value of Exports FOB, 1980=100 .
IMP-VAL = Value of Imports CIF, 1980=100 .

Source :

INSEE, Informations Rapides.

	EXP (FOB)	IMP (FOB)	BALANCE	C ACC BAL
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All figures seasonally adjusted

1984	850.100	874.800	-24.700	-7.3
1985	906.000	936.700	-30.700	-1.5
1986	863.600	864.100	-0.500	20.2
1987	889.000	920.500	-31.400	-26.7

1988

JANUARY	79.543	80.135	-0.592	4.8
FEBRUARY	74.590	79.940	-5.350	-3.1
MARCH	82.281	80.425	1.856	6.0
APRIL	79.182	81.539	-2.357	0.5
MAY	82.450	84.421	-1.971	
JUNE	84.086	85.591	-1.505	
JULY	81.300	84.728	-3.428	

=====

EXP (FOB) = Exports, billions of francs FOB (1).
 IMP (FOB) = Imports, billions of francs FOB (1).
 BALANCE = Trade balance, bn of francs FOB/FOB (1).

C ACC BAL = Current Account Balance, billions of francs (annual figures are accumulated) (2).

Source :

- (1) INSEE: Informations Rapides.
- (2) Ministère de l'Economie, des Finances et du Budget (Communiqué).

FORECASTS OF THE FRENCH ECONOMY

	1986	1987	INSEE 88	BIPE 88	CL 88	MIN F 88	EXP 88	IPEC 88	EXP 89	BIPE 89	IPEC 89
	----- Percentage change -----										
CONSUMPTION	3.5	2.4	2.3	2.0	1.8	1.9	2.2	2.0	1.5	1.4	1.9
INVESTMENT	2.9	3.4	5.8	4.2		3.6	5.3		4.4	2.1	
o/w BUSINESS	3.3	4.2	6.8	5.9	6.2	4.0	6.5	7.2	5.0	3.5	5.1
RESIDENTIAL	-1.0	0.9	3.9	1.9		3.2	3.0	2.5	3.0	1.2	2.3
GOVERNMENT	6.2	4.2		1.8		2.2				-2.6	
STOCKS (CONTRIB.)	0.7	1.4	1.5	-0.1				-0.6		0.3	-0.6
DOMESTIC DEMAND	4.4	3.6	3.1	1.1	2.6					2.0	
EXPORTS	-0.7	1.7	5.0	5.1	5.0	3.5	6.5	8.1	2.5	1.8	4.8
IMPORTS	7.3	6.4	5.8	5.3	5.5	4.2	6.0	4.5	3.0	2.9	3.8
MARKETED GDP	2.2	2.3	2.8	2.4	2.5	1.9	3.0	3.1	1.8	1.7	2.0
CONSUMER PRICES	2.1	3.1	3.2	3.1	2.9	2.5	2.7	3.0	2.2	3.1	3.1
WAGES	1.7	0.1	1.0	1.0				1.2		0.0	1.3
SAVING RATE	13.3	12.1	11.9	11.9		12.6		12.0		11.6	11.9
	----- In FF billions -----										
TRADE BALANCE	-0.6	-31.5	-32.8	-29.2	-25.0	-30.5		-29.1		-44.1	-28.1
CURRENT ACCOUNTS	20.2	-26.7		-23.9	-15.0	10.3				-37.8	

23

Source :

1986 & 1987 : INSEE, Comptes Nationaux.

INSEE 88 : Note de conjoncture de l'INSEE, juin 1988.

BIPE 88 & 89 : BIPE, L'économie française en 1988-1989, Présentation des principaux résultats, juin 1988.

CL 88 : Crédit Lyonnais, juillet 1988.

MIN F 88 : Ministère de l'Economie & des Finances, Prévisions de l'économie française, mars 1988.

EXP 88 & 89 : Centre de Prévision de l'Expansion, juillet 1988.

IPEC 88 & 89 : IPECODE, Projections économiques pour 1988-1989, juillet 1988.

	EXP to UK	IMP fr UK	BALANCE
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All figures in billions of francs

1984	64.284	72.888	-8.604
1985	71.592	78.936	-7.344
1986	72.708	58.068	14.640
1987	75.504	67.176	8.328

1988

JANUARY	7.520	5.209	2.311
FEBRUARY	5.942	5.747	0.195
MARCH	7.092	5.990	1.102
APRIL	7.948	6.099	1.849
MAY	7.841	6.511	1.330
JUNE	8.417	6.335	2.082
JULY	8.617	7.142	1.475

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EXP to UK = Exports to UK FOB, sa .
 IMP fr UK = Imports from UK CIF, sa .
 BALANCE = FOB/CIF, sa .

Source :

INSEE, Informations Rapides.

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IMF/IBRD ANNUAL MEETING, BERLIN: 27-29 SEPTEMBER
JAPANESE INITIATIVE

SUMMARY

1. JAPANESE EXECUTIVE DIRECTOR GIVES OUTLINE OF MIDDLE-INCOME DEBT INITIATIVE LIKELY TO BE LAUNCHED IN BERLIN.

DETAIL

2. AT THE END OF TODAY'S BOARD DISCUSSION, APPARENTLY IN RESPONSE TO A LEAK IN THE JAPANESE PRESS (NOT PICKED UP BY THE WIRE SERVICES), THE JAPANESE CHAIR ASKED TO MAKE A STATEMENT REGARDING A MIDDLE-INCOME DEBT INITIATIVE DUE TO BE LAUNCHED IN BERLIN.

IN RESTRICTED SESSION, AND ASKING FOR CONFIDENTIALITY TO BE MAINTAINED (TOKYO WAS REPORTEDLY NOT AWARE THAT THIS STATEMENT WAS BEING MADE), THE JAPANESE DIRECTOR, YAMAZAKI, INFORMED THE FUND BOARD THAT JAPAN WAS PREPARED TO EXTEND ADDITIONAL FINANCE TO MIDDLE-INCOME DEBTORS IN THE FORM OF UNTIED LOANS IN PARALLEL WITH FUND ARRANGEMENTS. THE FUNDS WOULD BE PROVIDED ON A CASE-BY-CASE BASIS BY THE JAPAN IMPORT-EXPORT BANK.

4. YAMAZAKI REPORTED THAT THE GENERAL FRAMEWORK OF THE PARALLEL FINANCING HAD BEEN AGREED WITH THE FUND, BUT DETAILS WOULD HAVE TO BE SORTED OUT. HE HOPED THAT THE INITIATIVE WOULD HELP GROWTH IN DEBTOR COUNTRIES, AND HELP TO RESOLVE THE DEBT PROBLEM. YAMAZAKI THANKED THE FUND STAFF FOR THEIR COLLABORATION ON THE PROPOSALS, AND THE MD FOR HIS SUPPORT.

5. THE PROPOSED LOANS ARE TO GO INTO EFFECT SIMULTANEOUSLY WITH THE APPROVAL OF FUND ARRANGEMENTS BY THE BOARD. THE LOAN SCHEDULES WILL BE DETERMINED IN CONJUNCTION WITH THE FUND ARRANGEMENT, AND THE LOAN WILL REQUIRE CONTINUED PERFORMANCE UNDER THE FUND PROGRAMME. THERE IS, HOWEVER, TO BE NO CROSS-CONDITIONALITY WITH THE FUND ARRANGEMENT, AND THE JAPANESE WILL NOT INTERFERE IN THE CONDITIONS BEING SET FOR THE FUND ARRANGEMENT. THE INTEREST RATE IS TO BE BELOW THE LONG RUN PRIME LENDING RATE OF BANKS

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IN JAPAN. THE OBJECTIVE IS THAT THESE LOANS SHOULD BE ADDITIONAL TO RESOURCES ALREADY COMMITTED, AND SO SHOULD NOT REPLACE LENDING FROM OTHER CREDITORS: THEY SHOULD SERVE TO FINANCE ADDITIONAL STRUCTURAL MEASURES, INCLUDING IMPORT LIBERALISATION.

6. THE IDEA IS THAT THE FUND'S ALTERNATE GOVERNOR FOR JAPAN (CENTRAL BANK GOVERNOR SUMITA) WOULD LAUNCH THE INITIATIVE AT THE AFTERNOON SESSION OF THE INTERIM COMMITTEE. HOWEVER, SOME DETAILS STILL HAD TO BE WORKED OUT, SO THE SCHEDULE MIGHT SLIP.

7. RESPONDING TO QUESTIONS, YAMAZAKI INDICATED HE COULD NOT AT THIS STAGE GIVE DETAILS OF THE MAGNITUDE OF THE PROPOSED FINANCING.

8. CAMDESSUS (FUND MD) WELCOMED THE INITIATIVE WARMLY. IT WOULD BE USEFUL IN RECYCLING SURPLUSES, AND PROVIDING URGENTLY-NEEDED FINANCE FOR DEVELOPED COUNTRIES. IT REFLECTED THE GROWING ROLE OF JAPAN IN FACILITATING INTERNATIONAL FINANCIAL FLOWS. THE LINKAGE WITH THE FUND WOULD SERVE TO IMPROVE THE DEBT STRATEGY, AND WOULD IMPROVE THE ROLE OF THE FUND IN THE STRATEGY. WHILST PROVIDING FINANCING IN PARALLEL TO THE FUND WAS NOT IN ITSELF NEW, THE NEW ELEMENT WAS THAT SUCH LENDING WAS TO BE CONSIDERED SYSTEMATICALLY FOR COUNTRIES ENTERING ARRANGEMENTS WITH THE FUND. CAMDESSUS HOPED SIMILAR ARRANGEMENTS COULD BE CONSIDERED BY OTHER COUNTRIES.

9. A NOTE ON THE INITIATIVE IS BEING PREPARED BY THE JAPANESE, AND WILL BE FINALISED SHORTLY AFTER THE ANNUAL MEETINGS. IT WILL BE CIRCULATED WITH A SHORT FUND PAPER, AND A SHORT EXECUTIVE BOARD DISCUSSION WILL BE SCHEDULED. COMMENT: ALTHOUGH THE SIGNIFICANCE OF THE INITIATIVE CANNOT BE ASSESSED UNTIL ONE HAS SOME IDEA OF ITS MAGNITUDE, THE PROVISION OF SIGNIFICANT ADDITIONAL FINANCING FOR MIDDLE-INCOME DEBTORS, PARTICULARLY IN CONJUNCTION WITH FUND PROGRAMMES, WOULD BE HELPFUL. THE INITIATIVE HELPS RESTORE THE FUND TO A CENTRAL ROLE IN THE DEBT STRATEGY. THE DEGREE OF CROSS-CONDITIONALITY, DEPSITE YAMAZAKI'S ASSERTION ON THIS MATTER, REMAINS UNCLEAR. BUT, IN ANY CASE, THIS IS BOUND TO STRENGTHEN JAPAN'S CASE FOR A LARGE AD HOC QUOTA INCREASE.

10. FCO PLEASE ADVANCE TO P/S CHANCELLOR, WALSH (HMT), P/S GOVERNOR, WARE (BOE), T RICHARDSON (ERD) AND FROST (ODA).

ENOCH

BEREGOVY'S TONE WAS CONCILIATORY AND HE SEEMED PREPARED TO ACCEPT GERMAN ARGUMENTS ABOUT THE LIMITATIONS IMPOSED BY STRUCTURAL CAUSES SUCH AS THE HIGH PROPENSITY TO SAVE AND CAPACITY LIMITS, BOTH OF WHICH MADE IT DIFFICULT TO STIMULATE INTERNAL DEMAND. BEREGOVY PROPOSED THAT THESE PROBLEMS SHOULD BE TACKLED BY EXPERTS (BUT THERE WAS NO AGREEMENT, AS REPORTED IN THE GERMAN PRESS, TO SET UP A SPECIAL COMMITTEE FOR THIS PURPOSE). IT WAS AGREED THAT THESE EXPERTS SHOULD LOOK AT THE PROBLEMS FOR FRANCE OF HOW TO ATTRACT MORE GERMAN CAPITAL INVESTMENT (BEREGOVY), HOW TO MAKE MORE USE OF THE EUROPEAN INVESTMENT BANK (STOLTENBERG) AND ALSO HOW MORE COOPERATION IN INDUSTRY MIGHT BE ACHIEVED (BANGEMANN).

MONETARY POLICY

3. BEREGOVY REFRAINED FROM MAKING THE EXPECTED CRITICISM OF EXCHANGE RATE FLUCTUATIONS, TO WHICH HE SEEMED LARGELY RESIGNED. HIS MAIN CONCERN APPEARED TO BE TO DAMP DOWN PUBLIC SPECULATION ON AN EMS REALIGNMENT (VIDE HIS ANSWERS TO PRESS QUESTIONING). HE WAS MORE CONCERNED ABOUT POSSIBLE MOVEMENTS IN THE VALUE OF THE DOLLAR, WHICH MIGHT COME ABOUT AS A RESULT OF THE NEXT G7 MEETING IN BERLIN. POEHL DEFENDED GERMAN MONETARY POLICY AS DESIGNED MAINLY TO PREVENT INFLATION. DE LA ROSIERE DID NOT DISAGREE. NEITHER DID HE OR BEREGOVY ATTEMPT TO REARTICULATE THEIR CRITICISM OF THE BUNDESBANK'S RECENT INCREASE IN INTEREST RATES. GLESKE SPECULATED THAT THIS MIGHT HAVE BEEN BECAUSE THE FRENCH NOW REALISED THAT THE BUNDESBANK, LIKE OTHER CENTRAL BANKS, HAD MERELY ACTED IN RESPONSE TO WIDER PRESSURES, AS WELL AS REFLECTING THE SPECIAL NATURE OF THE BUNDESBANK DIRECTORATE'S DECISION-MAKING PROCESSES. STOLTENBERG MADE THE POINT THAT A REDUCTION IN THE GERMAN BALANCE OF PAYMENTS SURPLUS ALSO TO SOME EXTENT DEPENDED ON ACTIONS BY OTHERS (BY WHICH HE MEANT, I THINK, NOT ONLY THE FRENCH BUT THE AMERICANS).

LIBERALISATION OF CAPITAL MOVEMENTS

4. THERE WAS A BRIEF DISCUSSION IN WHICH EACH SIDE DEVELOPED ITS OWN PHILOSOPHY. THE GERMANS REITERATED THEIR SCEPTICISM ABOUT THE EFFECTIVENESS OF INTERVENTION MECHANISMS.

BUDGETARY PROBLEMS

5. THE GERMAN SIDE EXPLAINED THE PARTICULAR DIFFICULTIES THEY FACED WITH THEIR DEFICIT AND THE NEED TO TAKE INTO ACCOUNT LAENDER INTERESTS. THE FRENCH EXPRESSED THE FEAR THAT NEW TAXES COULD REDUCE GERMAN GROWTH, AN ASSERTION DISPUTED BY THE GERMANS WHO WERE

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INFO IMMEDIATE DESKBY 210700Z PARIS

FRANCO-GERMAN FINANCE COUNCIL MEETING, FRANKFURT: 16 SEPTEMBER 1988

SUMMARY

1. I CALLED ON DR GLESKE, THE BUNDESBANK DIRECTOR FOR INTERNATIONAL MONETARY AFFAIRS, THIS MORNING. HE GAVE ME AN EXTENSIVE ACCOUNT OF THE MEETING, WHICH HE ATTENDED. THE ATMOSPHERE HAD BEEN BUSINESS-LIKE. ALTHOUGH DIFFERENCES IN THEIR RESPECTED APPROACHES TO MONETARY POLICY AND CENTRAL BANK INTERVENTION WERE CONCEDED, THE FRENCH HAD BEEN CONCILIATORY. BEREGOVY TOOK A FIRM LINE AGAINST AN EMS REALIGNMENT. HE ALSO SHOWED CONCERN AT THE CONTINUING GERMAN SURPLUS IN BILATERAL TRADE WITH FRANCE AND THE GERMAN BUDGETARY DEFICIT, EXPRESSING THE FEAR THAT NEW CONSUMER TAXES COULD ACT AS A RESTRAINT ON GROWTH. THE GERMANS DEFENDED ROBUSTLY. STOLTENBERG'S ASSURANCE TO THE PRESS THAT THE TREATY ESTABLISHING THE COUNCIL WOULD BE RATIFIED BEFORE THE END OF THE YEAR DID NOT IN FACT MEAN THAT AGREEMENT ON THE TEXT ON THE GERMAN SIDE EXISTED SEMI-COLON GENSCHER WAS STILL HOLDING OUT. THERE HAD BEEN NO DISCUSSION OF A EUROPEAN CENTRAL BANK OR EUROPEAN MONETARY UNION SEMI-COLON NOR ANYTHING OTHER THAN A SUPEFICIAL SURVEY OF ISSUES LIKELY TO COME UP AT THE IMF MEETING IN BERLIN.

DETAIL

2. GLESKE, READING FROM HIS NOTES, GAVE A FRANK ACCOUNT WHICH FILLED IN, WITHOUT REVEALING ANY MAJOR GAPS, THE PRESS BIREFING GIVEN AFTER THE MEETING (COPY BEING PASSED TO BONN BY FAX). THE OPENING ECONOMIC SURVEYS BY BANGEMANN AND BEREGOVY HAD BOTH BEEN FAIRLY UP-BEAT. BANGEMANN CLAIMED THAT THE LATEST GROWTH FIGURES SUGGESTED NOT ONLY THAT 1988 WOULD BE EXCELLENT BUT THE PROSPECTS FOR 89 AND 90 WERE GOOD. BEREGOVY CONCEDED THAT FRENCH UNEMPLOYMENT WAS HIGH AND THAT THEY WERE CONCERNED PARTICULARLY ABOUT STRUCTURAL PROBLEMS IN TRADE WHICH WERE THE MAIN REASON FOR THE GERMAN SURPLUS. WHAT WAS NEEDED WAS MORE GERMAN IMPORTS OF FRENCH INVESTMENT GOODS. BUT

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CONVINCED THAT THE OVERALL EFFECTS OF THE TAX REFORM PACKAGE WOULD BE POSITIVE. GLESKE'S IMPRESSION WAS THAT THE FRENCH WERE REASONABLY IMPRESSED BY THE LATEST GERMAN GROWTH FIGURES, BUT WERE DOUBTFUL WHETHER THE TREND COULD BE SUSTAINED.

FRANCO-GERMAN FINANCE COUNCIL AGREEMENT

6. GLESKE SAID THAT THERE WAS NOW AN AGREED TEXT. BUT THERE WAS STILL DIFFICULTY OVER THE LEGAL FORM. THE BUNDESBANK HAD BEEN SURPRISED AT THE FEDERAL GOVERNMENT'S INSISTANCE, MOSTLY INSPIRED BY GENSCHER, ON HAVING A TREATY. IF GENSCHER PERSISTED IN THIS VIEW THEN IT WAS ESSENTIAL THAT IT DID NOT CONFLICT WITH THE CONSTITUTIONAL INDEPENDENCE OF THE BUNDESBANK'S AUTHORITY ENSHRINED IN THE BANKING LAW. THERE WAS STILL NO AGREEMENT ON HOW THIS SHOULD BE RESOLVED, DESPITE STOLTENBERG'S ASSURANCE TO THE PRESS THAT THE TREATY WOULD BE RATIFIED BY THE END OF THE YEAR. (COMMENT. GLESKE'S REMARKS IN THIS CONTEXT REVEALED A DEEP DISTRUST OF GENSCHER'S INTENTIONS.)

EUROPEAN CENTRAL BANK AND EUROPEAN MONETARY UNION

7. THERE WAS NO DISCUSSION ON THESE SUBJECTS, AS CONFIRMED IN THE PRESS CONFERENCE. GLESKE SAID THAT POEHL, AS A RESULT OF HIS RECENT DINNER IN PARIS WITH DE LA ROSIERE, HAD LITTLE DOUBT THAT THE FRENCH WERE JUST AS SCEPTICAL AS THE GERMANS ON BOTH THESE ISSUES. (TODAY'S SUPPLEMENT IN THE FAZ CONTAINS PEOHL'S LATEST PRONOUNCEMENTS IN THIS VEIN.) BEREGOVY, WHATEVER HIS PREDECESSOR'S INTENTIONS MAY HAVE BEEN, DID NOT SEEM INTENT AT THE MOMENT ON TRYING TO PUSH AHEAD WITH THE EUROPEAN MONETARY UNION PROPOSAL (BUT SEE PARA 8 BELOW).

EMS

8. LITTLE SUBSTANTIVE DISCUSSION BUT THE FRENCH DID NOT DISGUISE THEIR ANXIETY TO STRENGTHEN THE EMS. THE GERMAN VIEW REMAINED THAT IT WAS PREFERABLE TO TRY TO DEFINE THE GOAL FIRST SEMI-COLON THEY DID NOT WANT TO SET OUT ON THE WRONG PATH. IT WAS CLEAR THAT IN THIS RESPECT THEIR VIEWS DIFFERED STILL FROM THOSE OF THE FRENCH.

IMF MEETING IN BERLIN

9. THERE WAS NO SUBSTANTIVE DISCUSSION OF EITHER ISSUES OR POSSIBLE TACTICS. BUT GLESKE GAVE A BRIEF RUNDOWN OF THE BUNDESBANK'S PRIORITIES FOR THE MEETING (SEE MIFT).

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IMF/IBRD ANNUAL MEETINGS, BERLIN: POSSIBLE FRENCH INITIATIVE ON
MIDDLE INCOME DEBT

PLEASE AMMEND 2ND SENTANCE OF PARA 3 TO READ QUOTE OUR CONTACTS IN
THE ELYSEE AND BEREGOVY'S CABINET HAVE BEEN TIED UP TO-DAY, AND WE
HAVE NOT BEEN ABLE TO CHECK TO-DAY'S STORY UNQUOTE.

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4. IT IS WHOLLY PLAUSIBLE THAT MITTERRAND AND BEREGOVY SHOULD DECIDE TO PUT FORWARD IDEAS ON MIDDLE INCOME DEBT FOLLOWING - AS THEY WOULD SEE IT - THE SUCCESS OF THE IDEAS THEY LAUNCHED BEFORE THE TORONTO ECONOMIC SUMMIT ON RELIEVING THE DEBT BURDEN OF THE POOREST COUNTRIES. IT IS EQUALLY PLAUSIBLE THAT SUCH IDEAS WOULD BE FORMULATED AT THE LAST MUNUTE BY ADVISERS IN THEIR CABINETS, WITHOUT THE EXPERTS IN THE TRESSOR BEING KEPT IN THE PICTURE - WHICH COULD EXPLAIN WHY SUCH FRENCH IDEAS DID NOT, AS WE UNDERSTAND IT, SURFACE IN RECENT G7 AND OTHER DISCUSSIONS IN PARIS, NOR AT THE INFORMAL ECOFIN AT CRETE. MOUNTFIELD (TREASURY) IS SOUDING OUT TRESOR CONTACTS DURING THE CURRENT PARIS CLUB MEETING HERE. WE WILL PURSUE OUR CONTACTS WITH THE ELYSEE AND BEREGOVY'S CABINET. MEANWHILE IT SEEMS SAFE TO ASSUME, THAT IDEAS ON THE LINES OUTLINED IN TODAY'S PRESS ARE INDEED UNDER CONSIDERATION, AND WILL BE ANNOUNCED EITHER AT BERLIN OR IN NEW YORK.

5. FCO PLEASE ADVANCE LITTLER, BOTTRIL (TSY), BAYNE, RICHARDSON (ERD)

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TO IMMEDIATE FCO

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OF 201637Z SEPTEMBER 88

INFO ROUTINE WASHINGTON, BONN, ROME, TOKYO, OTTAWA, NICOSIA

NICOSIA FOR EVANS, TREASURY.

IMF/IBRD ANNUAL MEETINGS, BERLIN: POSSIBLE FRENCH INITIATIVE ON
MIDDLE INCOME DEBT

SUMMARY

1. PRESS REPORTS OF A FRENCH MIDDLE INCOME DEBT INITIATIVE TO BE
LAUNCHED EITHER BY BEREGOVY IN BERLIN OR BY MITTERRAND AT THE UN
GENERAL ASSEMBLY PROBABLY HAVE SUBSTANCE.

DETIAL

2. TODAY'S PRESS (NOTABLY LES ECHOS) REPORTS THAT A FRENCH
MIDDLE-INCOME DEBT INITIATIVE IS UNDER ACTIVE CONSIDERATION BY THE
ELYSEE AND BY BEREGOVY. THE STORY IS ALSO PICKED UP BY PAUL BETTS
IN TODAY'S FINANCIAL TIMES. BOTH ARE BASED ON AN APPARENTLY
AUTHORITATIVE AFT REPORT YESTERDAY WHICH SUGGESTS THAT THE FRENCH
ARE CONSIDERING A SCHEME UNDER WHICH PRINCIPAL AND INTEREST PAYMENTS
ON NEW SECURITIES ISSUED BY DEVELOPING COUNTRIES IN EXCHANGE FOR
EXISTING DEBTS WILL BE GUARANTEED BY FUNDS RAISED BY A SPECIAL ISSUE
OF SDRS BY THE IMF.

3. AS REPORTED (TELECON JAY/BOTTRILL OF 19 SEPTEMBER), BEREGOVY'S
CABINET TOLD US ON 16 SEPTEMBER, WITHOUT GOING INTO DETAILS, THAT
BEREGOVY WAS LIKELY TO PUT FORWARD SOME NEW IDEAS ON MIDDLE-INCOME
DEBT AT BERLIN. OUR CONTACTS IN THE ELYSEE AND BEREGOVY'S CABINET
HAVE NOT BEEN ABLE TO CHECK ~~THE DETAILS OF TODAY'S REPORTS~~. BUT
BETTS HAS TOLD US THAT NEITHER THE ELYSEE NOR BEREGOVY'S CABINET
TRIED TO DENY THE SUBSTANCE OF THE AFP STORY WHEN HE WAS CHEKING IT
YESTERDAY BEFORE FILING HIS OWN: THE ONLY POINT AT ISSUE SEEMED TO
BE WHETHER THE FRENCH IDEAS WOULD BE PUT FORWARD BY BEREGOVY AT
BERLIN OR MITTERRAND IN NEW YORK. (IT IS INTERESTING IN THIS CONTEX
THAT VEDRINE (ELYSEE) TOLD MINISTER ON 19 SEPTEMBER THAT MITTERRAND
WOULD BE MAKING A MAJOR FOREIGN POLICY SPEECH AT THE UN GENERAL
ASSEMBLY COVERING INTER ALIA NORTH SOUTH ISSUES, BUT THAT THE
SPECIFICS WERE NOT YET AGREED.)

HAVE BEEN
TIED UP
TODAY, AND
WE

COMMENT

FROM: H G WALSH
DATE: 21 September 1988

PS/CHANCELLOR

cc: Sir G Littler
Mr Lankester
Mr Bottrill
Mr Davis
Mr Batt
Ms Life

JAPANESE AND FRENCH INITIATIVES ON DEBT

You asked for a note on the new Japanese debt initiative outlined in telegram 203 from UKDEL IMF/IBRD. The FCO are following this up through the Embassy in Tokyo. But so far we have not been able to find out anything additional to what is contained in the telegram.

2. But it is possible to put the new proposal in context. We have had ~~from~~ Tokyo telegram 831 which says that the Japanese are unlikely to relaunch their Toronto middle income debt proposals in Berlin - although they remain on the table. It reports that, since most of the Toronto Japanese plan depends on the action of creditor banks - the majority of which are American - the Japanese believe it is really up to the US Treasury to decide whether the scheme is worth pursuing.

3. The Americans were of course instrumental in getting discussion of the original Japanese proposal off the Toronto agenda and there seems no reason to believe that they would wish to pursue it in Berlin. Their main reason for not having a discussion remains the same: it would damage the chances of securing Congressional approval for the World Bank's GCI.

4. We have now also had yesterday's Financial Times report about a French plan broadly similar to the Toronto Japanese plan and we have just received the attached confirming telegram 916 from Paris. (The Japanese statement of their Toronto plan and all the relevant telegrams are attached).

5. The Japanese are clearly launching debt initiatives so as to build up credit towards becoming number two at the Fund. The proposal is very similar in concept to the World Bank Special Programme for Africa which provides for co-financing alongside structural adjustment programmes for the poorest. In this case the Japanese would grant untied loans to middle income countries having approved Fund programmes. The basic idea is to increase the resources available for lending to these countries.

6. A note outlining the scheme in detail will not be available until after the Annual Meetings when it will be circulated with a Fund paper. It enjoys the support of Camdessus and links with the Toronto Japanese plan which incorporated the following:-

"The flow of new money from the international financial institutions and the flow of bilateral capital from the industrialised countries should be enhanced. Japan will contribute hers mainly with untied loans from the Export Import Bank of Japan".

So the new Japanese proposal can be viewed as one part - not dependent on the vagaries of the US Congress - of the original Japanese Toronto scheme.

7. We would have no objections to the Japanese putting in more resources alongside approved IMF programmes except to the extent that it might increase pressure on us - either directly or through the Paris Club - to make a still greater official contribution relative to that made by commercial banks to solving the debt problem. In itself it is innocuous but it may be part of a more general move which may not be. In any case we would want there to be firm arrangements for conditionality so as to maintain pressure for sound adjustment programmes.

8. As telegram 916 from Paris makes clear, the new French proposals are very similar to the Japanese Toronto plan which envisaged that two IMF accounts would be set up into which developing countries would deposit resources to guarantee debt service payments on (a) securitised (possibly discounted) and

(b) rescheduled commercial debt. The terms of the rescheduling on the second part of the bank debt would be for the banks and debtors to agree but under some versions there have been suggestions of a below market interest rate on the rescheduled portion. The additional suggestion that the French are now making is that instead of the IMF escrow account (or accounts) under the Japanese Toronto scheme being funded by the LDCs, it would be funded by an allocation of SDRs.

9. The Japanese scheme had earlier been criticised by many commentators because it was not clear that the majority of middle income debtor countries could in fact fund the two escrow accounts at the IMF from their very low reserves. The French have now got around this difficulty, but at the expense of proposing an SDR allocation. This would amount to the IMF bailing out the banks by creating resources to guarantee the repayment of some proportion of existing debt - albeit at the cost to the banks of perhaps providing a discount on any securitised debt and rescheduling on more than usually generous terms the rest of the debt. Nonetheless the proposal continues the case-by-case approach because to be eligible the debtor country would have to agree an approved Fund programme - in the Japanese Tokyo proposals this would have been an EFF (a facility also warmly backed by the French).

10. It seems probable that Camdessus has played a role in all this. It has been obvious for some time that he has been seeking a role for the Fund with middle income debtors as well as low income ones. The setting up of escrow account(s) at the IMF could be regarded as the broad parallel of the Trust Fund set up for the ESAF. Camdessus has also been in favour of an SDR allocation (which we oppose). So there appears to be some more general move to deal with the middle income debt situation, although it is far from clear that this will come to anything in Berlin. Telegram 916 from Paris says it is not clear whether the new middle income debt initiative will be launched by Beregovoy at the Annual Meetings or by Mitterand at the UN General Assembly on 29 September.

11. Many points and inter-relationships on all this are still obscure, and will probably only become clear in Berlin or thereafter, although we shall follow them up in the meantime.

H.W.

H G WALSH

EMPLOYMENT, AID, TRANSPORT, AND CONSUMER AFFAIRS. POST TELECOMMUNICATIONS AND SPACE (PTE) WHICH AS AN EARNING MINISTRY DOES NOT APPEAR AS A SEPARATE ENTRY IN THE GENERAL LIST, HAS SEEN ITS BUDGET GO UP BY 5.5 PER CENT TO F181.4 BILLION. COFACE, THE EXPORT CREDIT AGENCY ALSO RECEIVES A SUBSTANTIAL INCREASE IN GOVERNMENT SPENDING, WITH A BUDGET CEILING OF F6 BILLION. THE MAIN LOSERS ARE INDUSTRY, INTERIOR, AND SOCIAL AFFAIRS.

6. THE MAJOR DEPARTMENTAL SPENDING CEILINGS, IN BILLIONS OF FRANCS, ARE AS FOLLOWS (FIGURES IN BRACKETS SHOW PERCENTAGE CHANGE OVER 1988):

AGRICULTURE	36.2	(3.5)
ECONOMY, FINANCE AND BUDGET (INCLUDING COMMON CHARGES)	264.7	(11.6)
CONSUMER AFFAIRS	0.24	(6.3)
AID	6.97	(6.3)
CULTURE	9.92	(12.5)
DEFENCE	221.8	(4.2)
OVERSEAS TERRITORIES	1.98	(11.7)
EDUCATION	221.1	(5.6)
HOUSING AND INFRASTRUCTURE	63.65	(5.5)
INDUSTRY	17.5	(-0.6)
INTERIOR	61.8	(2.6)
LABOUR AND EMPLOYMENT	83.8	(12.3)
RESEARCH (CIVIL)	42.3	(7.6)
SOCIAL AFFAIRS	35.7	(2.3)
TRANSPORT AND THE SEA	51.8	(5.9)
FOREIGN AFFAIRS	10.8	(2.9)

DEFICIT

7. THE TARGET BUDGET DEFICIT IS SET AT F100.3 BILLION, 1.70 PER CENT OF GDP. TOTAL GOVERNMENT RECEIPTS IN 1989 ARE PREDICTED TO BE F1067.4 BILLION. THIS COMPARES WITH BUDGET DEFICITS, AS A PERCENTAGE OF GDP, OF 2.1 PER CENT IN 1988 AND 2.5 PER CENT IN 1987.

TAXATION

8. THE GOVERNMENT PLANS TAX CUTS OF AROUND F24.6 BILLION, DIVIDED BETWEEN REDUCTIONS IN COMPANY TAXATION (F10.1 BILLION) AND VAT CHANGES AND REDUCTIONS (F14.5 BILLION).

9. THE MAIN CHANGES IN COMPANY TAXATION ARE AS FOLLOWS:
- REDUCTION IN CORPORATION TAX ON UNDISTRIBUTED PROFITS FROM 42 PER CENT TO 39 PER CENT,

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MIPT (NOT TO ALL): FRENCH DRAFT BUDGET 1989.

SUMMARY

1. 1989 DRAFT GENERAL BUDGET APPROVED BY THE COUNCIL OF MINISTERS YESTERDAY. NO MAJOR SURPRISES AND BROADLY IN LINE WITH INFORMATION RELEASED TO THE PRESS IN RECENT WEEKS. TOTAL BUDGET EXPENDITURE IS SET AT F1167.7 BILLION (APPROX POUNDS STERLING 110 BILLION), AN INCREASE OF 4.7 PER CENT IN MONEY TERMS OVER 1988 AND APPROXIMATELY 2.5 PER CENT IN REAL TERMS. SIGNIFICANT INCREASES IN GOVERNMENT PRIORITY AREAS: EDUCATION, CULTURE, RESEARCH, EMPLOYMENT, COOPERATION, TRANSPORT AND OVERSEAS TERRITORIES. INDUSTRY, INTERIOR, AND SOCIAL AFFAIRS ARE THE MAIN LOSERS.

2. THE BUDGET DEFICIT TARGET IS SET AT F100 BILLION, REPRESENTING 1.7 PER CENT OF GDP. TOTAL GOVERNMENT RECEIPTS IN 1989 ARE PREDICTED TO BE F1067.4 BILLION.

3. CUTS IN COMPANY TAXATION AND VAT VALUED AT F24.6 BILLION, DIVIDED BETWEEN F10.1 BILLION FOR INDUSTRY AND F14.5 BILLION FOR THE CONSUMER.

DETAIL
EXPENDITURE

4. THE 1989 FRENCH GENERAL BUDGET WAS APPROVED BY THE COUNCIL OF MINISTERS ON 21 SEPTEMBER. IT IS BROADLY IN LINE WITH INFORMATION GIVEN IN THE PRESS OVER RECENT WEEKS AND THERE ARE NO MAJOR SURPRISES. PLANNED EXPENDITURE AT F1167.7 BILLION (POUNDS STERLING 110 BILLION APPROX) IS 4.7 PER CENT HIGHER THAN IN 1988, AN INCREASE OF 2.5 PER CENT IN REAL TERMS GIVEN THE GOVERNMENT'S FORECAST FOR INFLATION OF 2.2 PER CENT IN 1989.

5. THERE ARE SIGNIFICANT INCREASES PLANNED IN THE GOVERNMENT'S PRIORITY AREAS: EDUCATION, CULTURE AND OVERSEAS TERRITORIES (MAINLY DUE TO ADDITIONAL ECONOMIC ASSISTANCE FOR NEW CALEDONIA), RESEARCH,

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- REDUCTION IN EMPLOYERS' CONTRIBUTIONS TO FAMILY ALLOWANCES FROM 9 PER CENT TO 7 PER CENT, (F3 BILLION WILL BE TRANSFERRED FROM THE GENERAL BUDGET TO THE SOCIAL SECURITY BUDGET TO COVER THIS REDUCTION), AND
- CORPORATION TAX BREAKS FOR COMPANIES CREATED IN 1989 (NO TAX DUE IN 1989 AND 1990, FOLLOWED BY 75 PER CENT REBATE IN 1991, 50 PER CENT IN 1992 AND 25 PER CENT IN 1993).

10. THE MAIN VAT CHANGES ARE:

- ABOLITION OF THE 7 PER CENT VAT RATE, WITH ALL ITEMS (SUCH AS BOOKS, TRANSPORT, ENTERTAINMENT) TRANSFERRED TO THE 5.5 PER CENT RATE
- REDUCTION OF VIDEO CASSETTES AND FILMS FROM 33.3 PER CENT TO 18.6 PER CENT
- REDUCTION FROM 18.6 PER CENT TO 5.5 PER CENT ON GAS AND ELECTRICITY BILLS, AND EQUIPMENT FOR THE HANDICAPPED.

11. OTHER CHANGES INCLUDE THE INDEXATION OF THE INCOME TAX PERSONAL ALLOWANCES TO THE EXPECTED 1988 INFLATION RATE OF 2.6 PER CENT: REDUCTION OF THE TAX ON UNLEADED PETROL BY 20 CENTIMES, AND THE DEDUCTABILITY OF UNION DUES FROM INCOME TAX (TO A LIMIT OF 1 PER CENT OF INCOME).

12. A CREDIT OF F6 BILLION HAS BEEN SET ASIDE FOR THE MINIMUM INCOME PROJECT. THIS WILL GO TO THE SOCIAL AFFAIRS BUDGET. IT WILL BE PARTIALLY FINANCED BY THE RE-INTRODUCTION OF THE WEALTH TAX, THE IMPOT DE SOLIDARITE SUR LA FORTUNE, WHICH IS EXPECTED TO RAISE F4 BILLION.

13. SOME OF THE BENEFITS TO THE INDIVIDUAL FROM THE BUDGET ARE LIKELY TO BE OFFSET BY HIGHER PENSION CONTRIBUTIONS REQUIRED TO AVOID A FORECAST DEFICIT IN THE SOCIAL SECURITY BUDGET OF 33 BILLION FRANCS IN 1989. AN ANNOUNCEMENT IS EXPECTED IN OCTOBER.

14. FCO ADVANCE PS/CHANCELLOR, LITTLER, MATHEWS (TSY), PS/GOVERNOR, LOEHNIS (B/E), BAYNE, RICHARDSON, FCO.

FERGUSON

FCO PASS SAVING UKDEL STRASBOURG
YYYY

THIS IS A BETTER PICUTRE THAN LOOKED LIKELY A FEW MONTHS AGO, PARTICULARLY FOR 1988, LARGELY A RESULT OF FASTER THAN EXPECTED WORLD ECONOMIC GROWTH. BUT THE 1989 FIGURES, THOUGH RESPECTABLE, ARE NOT SPECTACULAR, AND A SLOW DOWN IN THE WORLD ECONOMY COULD PUSH FRANCE BACK INTO THE DOLDRUMS. BEREGOVY IS PARTICULARLY WORRIED ABOUT THE INDUSTRIAL TRADE DEFICIT (ESTIMATED AT AROUND F25 BILLION IN 1988) WHICH IS CURRENTLY THE SUBJECT OF AN INTER-MINISTERIAL REVIEW. AND UNEMPLOYMENT, AT 2.6 MILLION (10.4 PER CENT) IN JULY AND STILL RISING SLOWLY, REMAINS THE BLACK SPOT OF THE ECONOMY, EVEN THOUGH RECENT JOB CREATION FIGURES LOOK REASONABLY POSITIVE.

THE 1989 BUDGET

4. HIGHER THAN EXPECTED TAX REVENUES (1989 ESTIMATES UP 6.7 PER CENT OVER 1988), THE RESULT OF FASTER GROWTH IN 1987 AND 1988, HAVE GIVEN BEREGOVY MORE ROOM FOR MANOEUVRE THAN HE MIGHT HAVE EXPECTED IN PUTTING TOGETHER HIS DRAFT 1989 BUDGET. (DETAILS IN MIFT - NOT TO ALL). THE EXPENDITURE TARGET, AT F1167.7 BILLION, IS UP 4.7 PER CENT OVER 1988, WITH THE MAIN INCREASES IN THE PRIORITY AREAS OF EDUCATION, RESEARCH, EMPLOYMENT AND CULTURE. THE TARGET DEFICIT, AT F100.3 BILLION, IS DOWN FROM THE 1988 BUDGET TARGET OF F115 BILLION. AT THE SAME TIME BEREGOVY IS PROPOSING TO REDUCE THE TAX TAKE BY F24.6 BILLION, MAINLY BY REDUCING COMPANY TAXATION AND VAT. ROUGHLY F10 BILLION OF THIS IS EXPECTED TO BENEFIT BUSINESS, AND ABOUT F14 BILLION HOUSEHOLDS.

5. THE DRAFT BUDGET THEREBY MANAGES TO COMBINE THE GOVERNMENT'S STATED COMMITMENT TO CONTINUE BUDGETARY RIGOUR, WITH ITS COMMITMENT TO INCREASE PUBLIC EXPENDITURE IN CERTAIN KEY SECTORS. IT SHOULD SATISFY THE LEFT WHEN PRESENTED TO PARLIAMENT NEXT MONTH. BUT THE RIGHT ARE ALREADY CRITICISING IT AS TOO SOFT, AND AS WASTING THE OPPORTUNITY PROVIDED BY HIGHER TAX RECEIPTS TO REDUCE THE DEFICIT FURTHER.

ECONOMIC POLICY

6. BEREGOVY CAN PLAUSIBLY ARGUE SUCCESS IN IMPLEMENTING THE OTHER MAIN PLANKS OF THE GOVERNMENTS ECONOMIC POLICY:
TO CONTROL INFLATION, GET INTEREST RATES DOWN AND PRESERVE THE CURRENT EMS FRANC PARITY. INFLATION, THOUGH RISING SLIGHTLY THIS YEAR, IS UNDER CONTROL AND EXPECTED TO FALL NEXT YEAR. BEREGOVY SUCCEEDED IN PUSHING FRENCH INTEREST RATES DOWN SLIGHTLY IN THE SUMMER, THOUGH THE WORLDWIDE RISE HAS SINCE FORCED THEM UP AGAIN. (BEREGOVY'S ROW WITH POEHL OVER THE LACK OF CONSULTATION BEFORE THE GERMAN INTEREST RATE RISE IN JULY, THOUGH PATCHED UP - AS BEREGOVY

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TO IMMEDIATE FCO

TELNO 929

OF 221510Z SEPTEMBER 88

AND TO IMMEDIATE TREASURY, BANK OF ENGLAND

INFO IMMEDIATE NICOSIA

INFO ROUTINE WASHINGTON, BONN, ROME, TOKYO, OTTAWA

NICOSIA FOR EVANS, TREASURY.

THE FRENCH ECONOMY.

SUMMARY

1. BEREGOVY SHOULD BE IN PRETTY CONFIDENT MOOD IN BERLIN. THE CURRENT STRENGTH OF THE WORLD ECONOMY HAS BOOSTED FRENCH ECONOMIC PERFORMANCE, AND MADE POSSIBLE A DRAFT 1989 BUDGET WHICH RAISES PUBLIC EXPENDITURE WHILE CUTTING TAXES AND THE BUDGET DEFICIT. ECONOMIC POLICY - LOW INFLATION, BUDGETARY RIGOUR, LOWER INTEREST RATES AND A STRONG FRANC - IS BROADLY ON COURSE. BUT A DETERIORATION IN THE DOMESTIC OR INTERNATIONAL CLIMATE COULD BRING THE DEEPER-SEATED WEAKNESSES IN THE FRENCH ECONOMY TO THE SURFACE AGAIN, AND WITH UNEMPLOYMENT STILL HIGH AND RISING, DEEPEN THE TENSION, PARTICULARLY ON SOCIAL ISSUES, BETWEEN BEREGOVY AND ROCARD.

DETAIL

ECONOMIC PROSPECTS

2. THE CHANCELLOR SHOULD FIND BEREGOVY IN FAIRLY CONFIDENT MOOD IN BERLIN WITH THE ECONOMY PERFORMING BETTER THAN SEEMED LIKEL A FEW MONTHS AGO, AND A REASONABLY GOOD RECEPTION FOR THE DRAFT 1989 BUDGET PRESENTED TO THE COUNCIL OF MINISTERS YESTERDAY.

3. THE GOVERNMENT'S REVISED FORECASTS, PRESENTED WITH THE DRAFT BUDGET, ARE AS FOLLOWS:

	1988 PERCENTAGE CHANGE	1989
GDP	3.2	2.7
INFLATION	2.8	2.2
CONSUMER SPENDING	2	2.2
TOTAL INVESTMENT	6.5	4.9
- BUSINESS INVESTMENT	9	6.5
IMPORTS	7.6	5.3
EXPORTS	6.7	5.1

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~~PS/CHANCELLOR, HM TRSY~~
LITTLER, HM TRSY
MATHEWS, HM TRSY
PS/GOVERNOR, BANK OF ENGLAND

LOEHNIS, BANK OF ENGLAND
MR BAYNE
HD/ERD
HD/WED

NNNN

INTENDED - AT LAST WEEK'S FRANCO-GERMAN ECONOMIC AND FINANCIAL COUNCIL SHOWS AGAIN THAT FRANCO-GERMAN TENSIONS ON ASPECTS OF ECONOMIC MANAGEMENT ARE NEVER FAR BELOW THE SURFACE). FINALLY, THE RELATIVE TRANQUILLITY IN THE FOREIGN EXCHANGE MARKETS IN RECENT MONTHS AND THE WEAKISH DM, HAVE HELPED KEEP THE FRANC STABLE - THOUGH BEREGOVY WOULD ARGUE THAT THIS IS DUE MORE TO HIS CLEAR COMMITMENT TO A STRONG FRANC AND TO THE MARKET'S APPRECIATION OF FRANCE'S GOOD INFLATION PERFORMANCE.

7. THE GOVERNMENT WILL HOPE THAT THE PRESENT RELATIVE CALM CAN BE PRESERVED THROUGH THE NEXT TWO WEEKS OF LOCAL (CANTONAL) ELECTIONS AND, IF POSSIBLE, THE IMPORTANT MUNICIPAL ELECTIONS NEXT SPRING. THEY WILL BE PARTICULARLY KEEN TO AVOID AN EMS REALIGNMENT FOR AS LONG AS POSSIBLE.

ECONOMIC MANAGEMENT

8. BEREGOVY IS NOT, HOWEVER, HAVING THINGS ALL HIS OWN WAY. WHILE MITTERRAND SETS THE BROAD FRAMEWORK OF ECONOMIC POLICY, THE MORE DETAILED ECONOMIC MANAGEMENT FALLS TO ROCARD AND BEREGOVY, WHOSE RELATIONS WITH EACH OTHER ARE NOT PARTICULARLY EASY. EACH KNOWS THAT BEREGOVY REMAINS A STRONG CANDIDATE TO REPLACE ROCARD, SHOULD MITTERRAND DECIDE TO GET RID OF HIM. ROCARD, PROBABLY WITH MITTERRAND'S BLESSING, ALSO GIVES A HIGHER PRIORITY TO SOCIAL AND EMPLOYMENT QUESTIONS THAN BEREGOVY WOULD WANT, PARTLY THROUGH GENUINE SOCIAL CONCERN AND PARTLY WITH AN EYE ON FORTHCOMING ELECTIONS. ROCARD, FOR EXAMPLE, OF COURSE, HAS TO HOLD THE SOCIALIST PARTY TOGETHER. THAT IS NO DOUBT WHY HE INSISTED ON A HIGHER RISE IN THE MINIMUM WAGE (SMIC) THAN REQUIRED BY LAW AND WHY HE WAS PREPARED TO ARGUE FOR A MORE BROADLY BASED WEALTH TAX THAN BEREGOVY WOULD LIKE TO SEE. HIS DIFFERENCES WITH BEREGOVY OVER VAT HARMONISATION REFLECT TOO A CONCERN ABOUT THE IMPACT ON KEY AREAS OF PUBLIC SPENDING OF POTENTIAL REVENUE LOSSES. ONE SHOULD NOT READ TOO MUCH INTO THESE DIFFERENCES AT PRESENT. BUT SHOULD THE EXTERNAL OR DOMESTIC ECONOMIC SCENE DETERIORATE, THE TENSIONS COULD BECOME MORE ACUTE.

9. FCO ADVANCE PS/CHANCELLOR, LITTLER, MATHEWS, (TSY) PS/GOVERNOR, LOEHNIS (B/E), BAYNE, RICHARDSON (FCO)

FERGUSON

YYYY

FROM: MS S E BURTON
DATE: 27 September 1988

- 1. MR P G F DAVIS
- 2. CHANCELLOR

cc: Chief Secretary
 Sir G Littler
 Mr H Evans
 Mr P Mountfield
 Mr H Walsh
 Mr J May

Chy
Content (I have amended slightly)?
OK -
28/9

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD): MESSAGE FROM M BEREGOVY

Pierre Beregovoy, Minister of State in the French Finance Ministry, wrote to you on 6 September seeking support for the line he proposes to take in the forthcoming negotiations on IFAD's Third Replenishment.

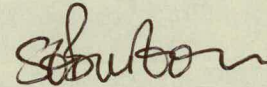
2. IFAD, set up in the wake of the 1973/74 oil crisis, lends on soft terms to enhance the productive capacity of small farmers and the rural poor. It depends, like IDA, on periodic endowments of finance from its members, who are split into three equal voting blocs of Western donors, OPEC donors, and the rest.

3. The French Finance Ministry is responsible for relations with IFAD, as with the other international financial institutions. The ODA are responsible for UK relations with the Fund.

4. IFAD is in the doldrums because, despite a year's discussion and more, Western members (and its Algerian President, Mr Jazairy) have been unable to get its main OPEC members to enter any substantial negotiation on providing new money for its operations. Saudi Arabia and Kuwait, in particular, have refused to play, and without them a collective OPEC offer of anything like the small amount they put in for the last three years (\$184mn.) cannot be reached. Western donors are to consider this, first in G7 on 23 September and then in full array in Hamburg on 1 October.

5. ODA's aim in these negotiations is to keep IFAD going and they are working to preserve OECD unity on this and on the conditions for its continuance. M Beregovoy's detailed proposals might be acceptable to us, but they will certainly antagonise the Americans - going well beyond what the latter can endorse as a common Western offer - and thus may endanger Western unity rather than reinforce it. But the most serious difficulty with these proposals is that they do not make sense unless and until there is a firm OPEC offer on the table, which seems as far away as ever.

6. Although ODA are in the lead on this, it would be courteous to reply briefly to M Beregovoy and I attach a possible draft, which has been cleared with the department.



MS S E BURTON

DRAFT REPLY TO: PIERRE BEREHOVOY

M. Pierre Beregovoy
Minister of Finance
Paris
France

Thank you for your message of 6 September about the International Fund for Agricultural Development.

Although I am not ^{the Minister} responsible for ~~our~~ ^{the UK's} relations with IFAD, I understand that the OECD members of the Fund will meet in Hamburg on 1 October to discuss the latest prospects for its replenishment, and I welcome the importance you attach to maintaining the unity of our group.

I am sure that your ideas will be received by others as constructive, but I believe much will depend upon whether there are yet clear indications of future support for the Fund from its OPEC members and particularly from its largest donors.

I am passing a copy of your letter and this reply to John Patten in our Overseas Development Administration, who is the ^{UK} Minister responsible for relations with IFAD.

Le Ministre d'Etat,
Ministre de l'Economie, des Finances
et du Budget

Mr Gray
Perhaps Miss Burton
could draft. *16/9*

ie next week

John H. Molloy (IFID, ODA)
- for comments by 22 Sept.

Paris, le 6 SEP. 1988

Schubert
20/9

Mr P. Davis

We shd submit a reply before

Berlin

RI
15 9

(So why
WANT IT?)

Cher Collègue,

La négociation en cours sur la troisième reconstitution du Fonds International pour le Développement Agricole (FIDA) se trouve présentement dans une phase délicate.

Je crois très important que nous unissions nos efforts pour permettre un succès de cette négociation en faveur d'un organisme qui est un symbole d'interdépendance et de coopération entre les pays du Nord et du Sud, et dont l'efficacité des interventions n'est pas mise en doute.

C'est pourquoi je vous prie de bien vouloir trouver ci-après, en langue française et anglaise, une page résumant les termes dans lesquels à mes yeux la négociation pourrait réussir.

Je vous prie de croire, Cher Collègue, à l'assurance de ma très haute considération, et à mes sentiments d'amitiés.

ODA
Carter x 0269
Molloy x 0145

Cordialement,

P. Bérégovoy
Pierre BÉRÉGOVOY

Rt. Hon. Nigel LAWSON
Chancellor of the Exchequer

H.M. Treasury
Parliament Street
LONDON SW1P 3AG

14 SEP 1988	14/
Mr Mountfield	15
Mr G. Little	
Mr Lancaster	
Mr H.P. Evans	

78/44

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT : NEGOTIATION ON THE THIRD REPLENISHMENT OF RESOURCES..

a) The two meetings, held in Geneva in april and in Roma in june, allowed to draft the scheme for the replenishment . It consists of two elements :

- the first one relies on a traditional burden sharing between category I (OECD) and II (OPEC), respectively about 60% and 40%, with the idea, however, to accept some flexibility ;

- the second one relies on a flow, bigger than usual from category III (Developing countries). It would be encouraged by category I, which will provide M dollars in addition to each dollar brought by category III. Matching coefficient M is at least 2, but is not yet specified. Category III has made a step forward in announcing its target to gather \$ 75 M in convertible currencies. They ask , in return :

. category II to keep assuming its part and to bring as much as for the second replenishment (\$ 184 M), or nearly so.

. category I to assume a high matching coefficient (M = 3 or 4).

b) The pressure of the negotiation beared initially by category II (OPEC). Category I (OECD) and III (Developing countries) expect a contribution close to the \$ 180 M one brought for the last replenishment. The last meeting in june has reported part of the pressure on our category.

c) IFAD is a symbol of interdependence and cooperation between North and South countries. Everything must be done to negotiate a rapid and satisfactory result.

We think that it would be useful that each G7 member country carries its bilateral contacts on with category II countries with which relationships are close, in order to step up decision process.

We also must take great care to keep a common attitude within our category, firm with respect to the minimum level of contribution of OPEC countries (an amount between US dollars 140 and 180 million could be an acceptable compromise), and open-minded as regards category III (coefficient M around 3).

At last, although the negotiation has already started, in compliance with our suggestion of our last annual meeting in january 1988, a mediator could be chosen, by Président JAZAIRY, among personalities of either category, to visit and coordinate capitals and the negotiation. The same was done, for instance, for the fifth replenishment of the African Development Fund.

✓
\$150?
"no more than 3"

NEGOCIATION SUR LA RECONSTITUTION DES RESSOURCES DU FONDS
INTERNATIONAL DE DEVELOPPEMENT AGRICOLE.

a) Les deux premières réunions, tenues à Genève en avril et à Rome en juin, ont permis d'élaborer le mécanisme de la reconstitution. Il se compose de deux éléments :

- le premier repose sur un partage des charges traditionnel entre catégorie I (OCDE) et II (OPEP), à hauteur de 60% et 40% environ, avec l'idée d'accepter cependant une certaine flexibilité ;

- le second repose sur un apport plus important que d'ordinaire de la catégorie III (Pays en développement), encouragé par la catégorie I qui apportera M dollars par dollar versé par la catégorie III. Le multiple M, au moins égal à 2, n'est pas précisé à ce stade. La catégorie III a fait un pas en avant en affichant l'objectif de réunir 75 M \$ en monnaies convertibles. Elle demande en contrepartie :

. à la catégorie II de continuer à assumer son rôle et d'apporter autant ou presque qu'à la deuxième reconstitution (184 M\$).

. à la catégorie I d'assumer un multiple élevé (M = 3 ou 4).

b) La pression de la négociation portait au départ sur la catégorie II (OPEP) dont les catégorie I (OCDE) et III (PED) attendaient une contribution proche des 180 M \$ apportés lors de la précédente reconstitution. La réunion de Rome a reporté une partie de la pression sur notre catégorie.

c) Le FIDA est un symbole d'interdépendance et de coopération entre les pays du Nord et du Sud. Tout doit être fait pour que la négociation en cours aboutisse rapidement à un résultat satisfaisant.

Nous pensons qu'il serait utile que chacun des pays membres du G7 poursuive ses contacts bilatéraux auprès des pays de la catégorie II avec lesquels il entretient des relations privilégiées pour y accélérer le processus de décision.

Nous devons, par ailleurs, veiller à préserver au sein de notre catégorie une attitude commune, ferme sur le niveau minimum de la contribution des pays de l'OPEP (un montant compris dans la fourchette de 140 à 180 millions de dollars pourrait être à nos yeux un compromis acceptable), et ouverte vis à vis de la catégorie III (Multiple M de l'ordre de 3).

Enfin, bien que la négociation ait déjà débuté, et conformément à ce que nous avons suggéré à la dernière Assemblée Annuelle en janvier 1988, un médiateur pourrait être choisi par le Président JAZAIRY, parmi des personnalités de l'une ou l'autre catégorie, pour jouer les bons offices auprès des capitales et animer la négociation, comme il a été fait, par exemple, pour la cinquième reconstitution du Fonds Africain de Développement.

economy. Another important issue will be trade and agriculture - both because of the Uruguay round and as follow-up to the stress on structural questions which emerged at Toronto. But again much will depend on the new United States Administration. The French may want to use the Summit to launch some international financial initiative, perhaps on exchange rates or international debt. Environmental issues, touched on at previous Summits, may be rather more prominent at Paris. But it is too early to come to judgements here.

The real business for Attali's meeting lies under his last two agenda items. Four Sherpa meetings look to be exorbitant. Allan Wallis has already said that the US would not be able to field a Sherpa for a meeting Attali suggests for January. In any event, that meeting looks unnecessary. Three Sherpa meetings before the Summit look ample.

Attali's discussion will also provide a useful opportunity to interrogate the French on how they intend to run the Summit. They seem to see it as an ingredient in the celebrations of the Bicentenary of the French Revolution. The French Foreign Minister is reported in "Le Monde" on 9 September as saying:

"France will be host to next year's Economic Summit on 14 July 1989, the Bicentenary of the French Revolution ... the developing countries should also in some way be associated with these events, so as to give impetus to the dialogue".

I will ask Attali exactly what this means. We will need to ensure, tactfully, that the Summit is run as a time for business and not as a sideshow to the Bicentenary festivities.

I shall, of course, report the outcome of the discussions. But it would be helpful to have any particular points that you, the Foreign Secretary or the Chancellor of the Exchequer would wish to make.

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PRIME MINISTER

To be discussed @ next meeting mtg on 9/10/88

30/9

efforts

CH/EXCHEQUE	
REC.	30SEP1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON, Sir T. BURNS, Mr LANKESTER, Mr H.P. EVANS, Mr MOUNTFIELD

PREPARATIONS FOR THE 1989 ECONOMIC SUMMIT

29/9/88

The French Sherpa, Jacques Attali, has summoned Sherpas to Paris on Saturday/Sunday 8/9 October for the first meeting to discuss the 1989 Summit. For the agenda, he has suggested:

1. progress in following up decisions taken at the Toronto Summit, and the economic and political situation;
2. possible themes for the 1989 Summit;
3. dates for the four Sherpa meetings which he has suggested;
4. protocol and procedural matters relating to the Paris Summit.

My United States colleague, Allan Wallis, has told Attali, that, in his view, the first two items are not suitable subjects for this first Sherpa discussion. The first - progress with decisions taken at Toronto - is not a proper function for the Sherpas because the Summit should not establish anything resembling a standing directorate. Wallis is also not able to discuss the second item - themes for the 1989 Summit, because of the imminent change in the Presidency.

I agree generally with Allan Wallis. The first item - follow up to the last Summit - would, no doubt, provide material for an interesting chat but is not immediately relevant to the preparation of the next Summit.

On the second item, it is too early to try to identify Summit themes. One important theme will be the cementing of the new United States Administration into the broad economic approach of past Summits. But plans to that end have to await the new President and his team and next summer's outlook for the world

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I am copying this minute to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer and Sir Robin Butler.

N.h.W.

N.L. WICKS

29 September 1988

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MDHIAN 5958

6. ROSEN CONFIRMED, INCIDENTALLY, THAT HE WOULD BE REPLACING SCHNEITER AS FRENCH FINANCIAL COUNSELLOR IN LONDON WITH EFFECT FROM 1 NOVEMBER.

7. FCO PLEASE ADVANCE EVANS, WALSH (TSY), RICHARDSON (ERD), LOEHNIS (B/E)

FERGUSSON

YYYY

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FRENCH IDEAS ON MIDDLE INCOME DEBT

SUMMARY

1. SLIGHTLY MORE PRECISION ON FRENCH IDEAS. NEXT STEPS APPEAR TO BE TO AWAIT REACTIONS FROM OTHERS, AND TO DISCUSS IDEAS WITH MAIN CREDITOR COUNTRIES.

DETAIL

2. WE ASKED DE ROSEN (TRESOR) TODAY WHETHER HE COULD GIVE US ANY FURTHER DETAILS ON THE FRENCH IDEAS ON MIDDLE INCOME DEBT PUT FORWARD BY MITTERRAND IN HIS UNGA SPEECH YESTERDAY.

3. ROSEN SAID HE HAD NOT YET SEEN THE TEXT OF MITTERRAND'S REMARKS AND MIGHT NOT BE ENTIRELY UP TO DATE WITH THINKING IN THE ELYSEE. BUT HE SAID THAT THE TRESOR'S CURRENT THINKING WAS THAT THE INDUSTRIAL COUNTRIES SHOULD CONTRIBUTE THEIR SHARE OF A NEW (NORMAL) SDR ALLOCATION TO A SPECIAL FUND TO BE MANAGED BY THE IMF. THE FUND WOULD BE USED TO GUARANTEE BONDS OR OTHER INSTRUMENTS ISSUED BY HIGHLY-INDEBTED MIDDLE INCOME COUNTRIES, AT A DISCOUNT, IN EXCHANGE FOR EXISTING COMMERCIAL DEBT. ROSEN SAID THAT THE SCHEME WOULD NEED TO TAKE ACCOUNT OF ADJUSTMENT PROGRAMMES IN THE DEVELOPING COUNTRIES CONCERNED: IE SOME SORT OF CONDITIONALITY WOULD BE BUILT IN.

4. ROSEN SAID THAT THINKING HAD NOT YET GONE FURTHER THAN THIS. THERE WERE CLEARLY A LOT OF DETAILS TO SORT OUT, SUCH AS THE RATIO BETWEEN THE GUARANTEE FUNDS AND THE BONDS. HE THOUGHT THAT THE NEXT STEP WOULD BE TO AWAIT REACTIONS FROM CREDITOR AND DEBTOR COUNTRIES. ON CONSULTATION, ROSEN SAID THAT HE ENVISAGED DISCUSSIONS INITIALLY IN G5 OR G7 AND SUBSEQUENTLY THE PARIS CLUB. HE GAVE NO INDICATION OF ANY SEPARATE CO-ORDINATION WITH THE JAPANESE. HE ADDED THAT THE TRESOR WOULD HAVE LIKED TO HAVE SHARED IDEAS EARLIER, BUT HAD BEEN PRECLUDED FROM DOING SO AS THE PLAN WAS ESSENTIALLY MITTERRAND'S.

5. WE SHALL REPORT SEPARATELY ANYTHING FURTHER WE LEARN FROM THE ELYSEE.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 September 1988

Russell Dixon Esq
Assistant Private Secretary to the
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

Dear Russell

. . . I should be grateful if you could forward the enclosed letter from
the Chancellor of the Exchequer to M Pierre Beregovoy.

Yours sincerely

A handwritten signature in black ink, appearing to read "A A DIGHT".

A A DIGHT



Handwritten signature

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 September 1988

M. Pierre Bérégovoy
Minister of Finance
Paris
France

cc. CST
✓ Sir G. LittleR
MR HP Evans
MR Mountheld
MR WALSH.
MR PG. Davis
MR May
Ms. Burton

Handwritten signature

Thank you for your message of 6 September about the International Fund for Agricultural Development.

Although I am not the Minister responsible for the UK's relations with IFAD, I understand that the OECD members of the Fund will meet in Hamburg on 1 October to discuss the latest prospects for its replenishment, and I welcome the importance you attach to maintaining the unity of our group.

I am sure that your ideas will be received by others as constructive, but I believe much will depend upon whether there are yet clear indications of future support for the Fund from its OPEC members and particularly from its largest donors.

I am passing a copy of your letter and this reply to Christopher Patten in our Overseas Development Administration, who is the UK Minister responsible for relations with IFAD.

Handwritten signature

NIGEL LAWSON

FROM: H G WALSH
FROM: 30 SEPTEMBER 1988

PS/CHANCELLOR

cc Economic Secretary
Sir G Littler or
Mr Lankester
Mr Evans
Mr Mountfield
Mr Bottrill
Mr Davis
Mr Batt
Ms Life

Effectively, what this approach is to do is to cut the middle-income countries' payments to the commercial banks. Quite apart from this unacceptable transfer of what the banks & what the taxpayers & this state

FRENCH (MITTERAND) INITIATIVE ON MIDDLE INCOME DEBT

1. Further to my note of ²¹26 September, President Mitterand yesterday made a speech at the United Nations General Assembly which puts forward a new French initiative on the debt of middle income countries. A copy of the debt passage is attached to this note (full text not yet available).

2. As earlier envisaged, the proposal is to create a Fund (escrow account) at the IMF to guarantee LDC repayments on commercial loans converted into bonds. This however relates to interest repayments only. Finance would be provided by the developed countries' share of a new general issue of SDRs.

3. Mitterand also proposes:-

- (i) stabilisation of export earnings of countries in the southern hemisphere; (Australia?!)
- (ii) some new system of regulation for environmental protection in LDCs;
- (iii) a transfer of technology - following the example of the EC's Eureka project; and
- (iv) a programme to stabilise rivers in Bangladesh (potentially very expensive).

where the debtors' actual payments as a claim of Mitterand ex?

Comment

4. The details remain obscure and we have asked the Embassy in Paris to find out more. There is a reference to "all debt must be repaid" but no indication of how security of principal is to be achieved - the Miyazawa proposal could therefore run in parallel.

5. A Fund for Mexico alone - whose annual interest repayments are \$9 billion - would have to cover \$6 billion a year even allowing for a 30 per cent writedown on securitisation. For the Baker 15 as a whole, the amount on the same assumption might be \$29 billion a year. So large contingent liabilities are involved.

6. The fact that it is developed countries SDRs only that are involved in the proposed Fund implies that the LDCs get to keep their share of any general SDR allocation as part of the package - perhaps to bolster their reserves. The proposal involves a transfer of risk from the private sector to the public sector despite Berlin G7 agreement to the contrary.

7. There is no reference to conditionality.

*but it must clarify
or emphasize*

8. There is an erroneous reference to the Mexico debt exchange scheme which may annoy both the Americans and the Mexicans. President Mitterand said that the United States guaranteed a portion of the principal on Mexico's commercial loans. In fact it was the Mexicans using their own reserves that did this, although they used US Treasury ZCBs as the mechanism.

9. The Embassy in Paris has been asked to try to find out more about French intentions and how the speech relates to the various statements that Beregovoy made in Berlin.

H.W.

H G WALSH

That there is no such thing as fate, that man can always master the course of evolution and that it is urgent to do so. I see in the persistence of the current imbalances the most harmful cause of an enormous unhappiness which will, more assuredly than any other danger, push the world towards the endless chaos of war or something even worse.

And yet, international, multilateral or bilateral aid is stagnating or regressing. France -which, of all the industrially advanced countries, allocates the highest percentage of its gross national product to development aid- believes that it has not yet fulfilled its duty : the target of 0.7 % remains its ambition. *Sweden? (but time for G7)*

The debt burden, in particular, calls for immediate action. A number of very interesting initiatives have been launched by one country or another. For my part, I suggested to the major industrialized countries, at their Toronto meeting, that they make the terms of repayment considerably easier for the poorest countries. As for France, it has chosen to cancel one third of the debt owed to it by these countries. This significant stride is but the beginning.

For other heavily indebted countries, particularly in Latin America and Africa, debt also represents an intolerable burden and, in certain cases a threat to democracy. In the face of this situation, the international community must show that it can be more realistic and more imaginative. All debt incurred must be repaid, but the cost can be reduced without passing on the burden to the taxpayers of the creditor countries.

Hence, the United States, in a bold move, last year guaranteed a portion of the principal on Mexico's commercial loans. Several countries and many experts have thought of creating a multilateral fund which would lower the cost by guaranteeing the interest payments. Various methods of financing this fund have been put forward.

In France's view, the best technique would be to create a fund in the IMF to guarantee the payment of interests charged on certain commercial loans converted into bonds. This fund would significantly lower the finance charges

*How does a guarantee lower interest costs?
Is it just that G7 credit rating*

.../...

X

able by debtor countries and would integrate them more actively into world trade.

In order to finance it, the developed countries would set aside their share of a new issue of special drawing rights for use by the developing countries.

I realize that the implementation of this project would represent a significant legal and financial innovation. It would require lengthy preparatory work and many consultations among creditors and with their debtors. However, this alone would seem to be equal to the challenge.

But development has to be based on many other things:

- stabilizing the export earnings of countries in the southern hemisphere, diversifying and increasing the value of their productions. The Uruguay Round must take these into account;

- environmental protection, which was endangered only a short time ago by industrial wastes from the North being disposed of in the South; the international community will have to agree on the regulations and necessary precautions;

- by a massive transfer of technology and know-how from the North to the South. I should like to suggest a new approach, modeled after Europe's Eureka project in which government stimulus, together with initiatives freely taken by companies and universities, lead to cooperation on an equal basis;

- by major programs of universal interest which can mobilize our energies to bring help to regions facing catastrophes--natural or otherwise. Stabilizing the rivers that have flooded Bangladesh would be an appropriate place to begin a project of this kind. France, for its part, is ready to contribute.

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