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PREM 19/1761

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PART 2

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Internal Situation.

FRANCE

Part 1: April 1979

Part 2: February 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~13.6.86~~							
~~18.6.86~~							
~~24.6.86~~							
~~14.8.86~~							
~~15.9.86~~							
~~16.9.86~~							
24.9.86							
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PART 2 ends:-

Pairs Tel No 948 24.9.86

PART 3 begins:-

Pairs Saving Tel No SS 7.10.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(86) 12th Meeting minutes, item 2	20/03/1986
CC(86) 10th Meeting minutes, item 2	13/03/1986
CC(84) 28th Meeting minutes, item 2	26/07/1984
CC(84) 27th Meeting minutes, item 2	19/07/1984

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed S. Gray Date 10/9/2014

PREM Records Team

Foreign and Commonwealth Office document

1. Letter from The Ambassador to Secretary of State dated 18 January 1984 "France: Annual Review for 1983"

2. Letter from The Ambassador to Secretary of State dated 2 December 1985 "The French Political Scene: Anxieties and Ambitions of the Socialists"

The above FCO documents, which were enclosed on this file have been removed and destroyed.

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Signed O Wayland Date 5 March 2015

PREM Records Team

Foreign and Commonwealth Office document

Reference: DD 1985/436
Western European Department

Description: The French Political Scene: The Anxieties and Ambitions on the Right.

Date: 2 December 1985

Reference: Departmental Series DS No 27/84
Western European Department

Description: Mauroy: Mitterrand's First Prime Minister.

Date: 24 August 1984

Reference: Diplomatic Report No 49/84

Description: Mitterrand at Mid-Way: Foreign Policy

Date: 24 July 1984

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Signed J. Gray Date 10/9/2014

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FRENCH EXCHANGE CONTROLS : ANNOUNCEMENT DELAYED

SUMMARY

1. AS REPORTED IN FINANCIAL TIMES OF 24 SEPTEMBER, THE MINISTER OF FINANCE HAS PUT OFF THE ANNOUNCEMENT PLANNED FOR TODAY OF A FURTHER RELAXATION OF FRENCH FOREIGN EXCHANGE CONTROLS. HE HAS GOT COLD FEET.

DETAIL

2. BALLANDUR IS QUOTED IN THE FRENCH PRESS AS HAVING SAID ON 23 SEPTEMBER THAT HE HAS DELAYED THE ANNOUNCEMENT TO GIVE HIMSELF SOME WEEKS FOR FURTHER THOUGHT ON THE MATTER, AND TO CONSIDER THE SITUATION ON FOREIGN EXCHANGE MARKETS. HIS NEXT ANNOUNCEMENT WOULD REVEAL WHETHER OR NOT THE GOVERNMENT WOULD GO ALL THE WAY IN ABOLISHING CONTROLS.

3. CONTACT WITH THE BANK OF FRANCE AND BALLADUR'S CABINET IN THE LAST TWO WEEKS HAS REVEALED TO US A SERIOUS DISAGREEMENT OVER THE EXTENT TO WHICH CONTROLS SHOULD BE ABOLISHED. THE BANK OF FRANCE HAS BEEN MOST ANXIOUS ABOUT THE EFFECT ON THE BALANCE OF PAYMENTS, WHILE BALLADUR'S CABINET FAVOURED A LARGER MEASURE OF LIBERALISATION. TWO POINTS AT ISSUE HAVE BEEN FREEDOM FOR RESIDENTS TO LEND FRANCS TO NON-RESIDENTS AND FREEDOM FOR INDIVIDUALS TO OPEN ACCOUNTS IN FOREIGN CURRENCIES. THE BANK ARUGES THAT THE FORMER COULD INCREASE SPECULATION AGAINST THE FRANC AND THE LATTER LEAD TO A MASSIVE OUTFLOW OF PORTFOLIO INVESTMENT, SIMILAR TO THAT WHICH HAS OCCURRED IN THE UK. BALLADUR'S CABINET CLAIMED LAST WEEK THAT THE DECISION HAD BEEN TAKEN AGAINST GRANTING THE FIRST AND IN FAVOUR OF GRANTING THE SECOND. THIS SUBSTANTIAL CHANGE WOULD HAVE GIVEN CREDIBILITY TO BALLADUR'S CLAIM, MADE REPEATEDLY IN THE RECENT SPATE OF PUBLICITY ENGINEERED FOR HIM, THAT HE IS A CONVINCED LIBERAL.

4. THERE IS NO DOUBT THAT THIS MEASURE WOULD HAVE MUCH IMPRESSED, AND BEEN HIGHLY POPULAR AMONG, THE UNDER-FORTY-FIVES WHO HAVE NEVER KNOWN FREEDOM FROM EXCHANGE CONTROLS AND WHO FIND IT SHAMING THAT FRENCH CITIZENS DO NOT HAVE THE RIGHT TO DECIDE WHERE TO INVEST THEIR SAVINGS.

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3. SUPPORTERS IN THE ADMINISTRATION OF LIBERALISATION INSIST THAT FURTHER BOLD STEPS WILL BE TAKEN SOONER OR LATER, BUT THE LIKELIHOOD OF FREEDOM FOR INDIVIDUAL SAVERS WOULD SEEM TO HAVE BEEN SUBSTANTIALLY DIMINISHED BY THIS WEEK'S HESITATION. WITH FRANCE'S SURPLUS IN ITS TRADE OF MANUFACTURED GOODS STEADILY DECLINING, THERE IS NO GREAT CONFIDENCE THAT THE RECENT RETURN TO AN OVERALL SURPLUS ON THE TRADE ACCOUNT WILL ENDURE. THIS UNCERTAINTY, COUPLED WITH THE BEHAVIOUR OF THE GERMAN MARK AND GERMAN INTEREST RATES, COMBINE TO CREATE A CLAIM UNFAVOURABLE TO THE COMPLETE DISMANTLEMENT OF SUCH CONTROLS AS NOW REMAIN.

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INFO SAVING LUXEMBOURG, MADRID, THE HAGUE

FRAME ECONOMIC
FRANCE: DRAFT 1987 CENTRAL GOVERNMENT BUDGET
SUMMARY

1. FOR THE FIRST TIME IN NEARLY 30 YEARS GOVERNMENT SPENDING (INCLUDING INTEREST PAYMENTS) WILL DECREASE IN REAL TERMS. THE LARGEST REDUCTION IS IN STATE AIDS TO INDUSTRY. DEFENCE EXPENDITURE IS INCREASED. AS A PERCENTAGE OF GDP, TAXES AND SOCIAL SECURITY CONTRIBUTIONS (BUDGETTED SEPARATELY) REMAIN CONSTANT, BUT THE LOAD HAS BEEN REDISTRIBUTED, TO THE BENEFIT OF THOSE AT THE TOP AND BOTTOM OF THE INCOME TAX NET. THE DETAILED CHANGES EXPRESS THE GOVERNMENT'S POLITICAL PHILOSOPHY, BUT EXCEPT FOR PRIVATISATION RECEIPTS THE MAIN EFFECT OF THIS BUDGET FOLLOWS TRENDS SET BY THE PREVIOUS GOVERNMENT LAST YEAR.

DETAIL

2. THE DRAFT CENTRAL GOVERNMENTAL BUDGET FOR 1987 WAS APPROVED BY THE GOVERNMENT AND PUBLISHED ON 15 SEPTEMBER (FULL DOCUMENTATION BY BAG TO MATHEWS, EF2 DIVISION, HM TREASURY) IT IS SHAPED BY THE SAME PRUDENT MIXTURE OF CONTINUITY AND CHANGE THAT HAVE MARKED THIS GOVERNMENT'S ECONOMIC POLICY IN ITS FIRST SIX MONTHS IN OFFICE.

3. COMPARISON WITH BEREGOVOY'S LAST BUDGET SHOWS A LARGE DEGREE OF CONTINUITY IN THE GOALS PURSUED. THE EFFORT TO REIN IN PUBLIC EXPENDITURE HAS BEEN CARRIED FORWARD, AIDED BY THE FALL IN OIL PRICE AND INTEREST RATES, TO THE POINT WHERE EXPENDITURE WILL DECREASE EVEN WHEN THE INTEREST PAYMENTS ARE INCLUDED (WHICH WAS NOT SO IN THE 1986 BUDGET). THE MAIN SAVINGS WILL COME FROM A REDUCTION IN STATE AIDS TO INDUSTRY, WHICH WERE ALSO CUT LAST YEAR. DEFENCE SPENDING WAS MADE AN EXCEPTION TO LAST YEAR'S SEARCH FOR SAVINGS, BEING INCREASED BY 2 PERCENT IN REAL TERMS, WHILE THIS YEAR IT GOES UP BY 3 PERCENT IN REAL TERMS. TRAINING AND SECURITY ARE BOTH AGAIN GIVEN PRIORITY. THE EFFORT TO UNWIND THE INCREASE IN INCOME TAX IMPOSED AT THE START OF MITTERRAND'S TERM OF OFFICE IS ALSO PURSUED. MOST HOUSEHOLDS WILL ENJOY A 3 PERCENT REDUCTION IN THEIR TAX BILL UNDER THIS BUDGET AS UNDER THE LAST. (TWO MILLION WILL BE TAKEN OUT OF THE NET).

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4. THE GOVERNMENT CLAIMS TO BE THE FIRST IN THE DEVELOPED WORLD TO HAVE CUT TAXES AND THE DEFICIT SIMULTANEOUSLY. ITS OPPONENTS HAVE NOT BEEN SLOW TO POINT OUT THAT THE INCOME TAX CUTS OF 1.5 BILLION POUNDS ARE MATCHED BY AN INCREASE IN EMPLOYEES' SOCIAL SECURITY CONTRIBUTIONS OF THE SAME AMOUNT. WITHOUT PRIVATISATION RECEIPTS THERE WOULD BE LITTLE OR NO REDUCTION IN THE DEFICIT.

5. NEVERTHELESS, THE GOVERNMENT HAS FOUND THE BUDGETARY MEANS TO DRAMATISE ITS POLITICAL PHILOSOPHY, EVEN IF THE SUMS INVOLVED ARE NOT LARGE. IT HAS ABOLISHED THE WEALTH TAX AND GRANTED UPPER INCOME GROUPS AN ABOVE-AVERAGE REDUCTION IN TAX RATES BY LOWERING THE MAXIMUM RATE FROM 65 TO 58 PERCENT, WHICH BALLADUR HAS PROMISED WILL BE REDUCED TO 50 PERCENT IN THREE YEARS. THE TAX CONCESSIONS TO COMPANIES TAKE THE FORM OF LOWER TAXATION OF PROFITS FOR ALL, INSTEAD OF SELECTIVE AIDS. MARRIED COUPLES ARE NO LONGER TO BE AT A FISCAL DISADVANTAGE COMPARED TO COMMON LAW PARTNERS. THE TAX CONCESSIONS TO LARGE FAMILIES ARE TO BE INCREASED. INHERITANCE TAXES (ALREADY MUCH LOWER THAN THE UK) ARE LIGHTENED BY PARTIAL RESTORATION OF INCENTIVES TO LIFE-TIME GIVING. THERE ARE NEW INCENTIVES TO HOME-PURCHASE AND CONSTRUCTION OF ACCOMMODATION FOR LETTING.

6. DISRESPONDING ANY IDEOLOGICAL RESERVATIONS THE GOVERNMENT HAS INCREASED FUNDING FOR SOCIAL MEASURES TO ALLEVIATE UNEMPLOYMENT.

7. THE REDUCTION IN COMPANY TAXATION (1.1 BILLION POUNDS OUT OF TOTAL TAX CUTS OF 2.7 BILLION) IS MUCH LESS THAN EARLIER SEEMED INTENDED, BUT THE GOVERNMENT ARGUES THAT IT HAS ALLOWED COMPANIES TO BE THE PRIME BENEFICIARIES OF THE LOWER OIL PRICE, BY REFRAINING FROM INCREASING PETROL TAX WHEN THE PRICE DROPPED. IN ANY CASER IT IS NOT PROFITS TAX WHICH WEIGHS MOST HEAVILY ON COMPANIES, AMOUNTING ONLY TO 1.9 PERCENT OF GDP IN FRANCE COMPARE TO 4.4 PERCENT IN THE UK(1984 FIGURES), BUT SOCIAL SECURITY CONTRIBUTIONS WHICH CAN ADD AS MUCH AS 75 PERCENT TO BASIC WAGES. THE GOVERNMENT IS PLEDGED TO MAINTAIN SOCIAL SECURITY BUT IS LOOKING FOR SOLUTIONS TO THE LONG TERM PROBLEM OF UNDERFUNDING OF OLD AGE PENSIONS.

8. THE 1987 BUDGET IS BASED ON THE FOLLOWING ECONOMIC FORECAST FOR FRANCE, EXPRESSED AS PERCENTAGE INCREASES OVER 1986:

GDP (TRADE)	2.8
CONSUMPTION	2.0
COMPANY INVESTMENT	5.0
EXPORTS	4.8
IMPORTS	4.8
RETAIL PRICES (AVERAGE)	2.0

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3 THUS, COMPANY INVESTMENT AND EXPORT GROWTH ARE EXPECTD TO TAKE OVER FROM CONSUMPTION AS THE ENGINES OF GROWTH. (INVESTMENT RECOVERED CONSIDERABLY IN THE SECOND QUARTER OF THIS YEAR AND THE GOVERNMENT WILL BE HOPING FOR ITS CONTINUATION WHILE FEARING THAT IN THE ABSENCE OF A NEW INTERNATIONAL ROUND OF INTEREST RATE REDUCTIONS, COMPANIES WILL CONTINUE TO GIVE PRIORITY TO DEBT REDUCTION OR INVESTEMENT IN FINANCIAL INSTRUMENTS.) THE PERSISTENT DECLINE IN THE SURPLUS ON TRADE IN MANUFACTURED GOODS MAKES THE FORECAST FOR EXPORTS LOOK OPTIMISTIC, AND BALLADUR IS NOT HIDING HIS UNCERTAINTY OVER THE PROSPECTS FOR WORLD TRADE.
FCO ADVANCE TO MATHEWS EF2 DIV, HMT.

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(BY BAG)

FRANCE: ECONOMIC REPORT FOR AUGUST 1986

Summary

1. There was better economic news for the government in August, with figures showing notably stronger second quarter growth, a July trade surplus, industrial production recovering and inflation at a 20-year low. But unemployment rose again.

2. There was a small foreign trade surplus in July following four months of deficits. The balance of payments is also improving. However the surplus in trade in manufactured goods continues to decline, heightening anxiety about French industry's competitivity.

3. Industrial production rose again in June after a holiday-affected slump in May. Meanwhile the national accounts for the second quarter showed unexpectedly strong GDP growth of 1.1%, Q2 on Q1.

4. The annual rate of inflation fell to 2%, the lowest figures since 1966, following an 0.1% increase in retail prices in July. This is below the government 1986 target of 2.3%.

5. Unemployment rose in July to a new record level of 2,474,000 sa, 2.5% higher than a year ago, taking the unemployment rate to 10.5%. The government fear that the figure will continue to rise, at least for the next few months.

6. Further liberalisation measures are promised for later this year, relaxing controls on prices, foreign exchange and credit.

7. The Bourse rose to a new record high in August.

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SAVING TELEGRAM
FROM PARIS
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TO FCO TELNO SAVING 48 OF 14 AUGUST
SAVING TO (FOR INFO) CONSULATES GENERAL IN FRANCE

(COLLAR)

PARIS TELNO SAVING 45: FRENCH POLITICS

SUMMARY

1. Parliament has at last ended its long and busy session with a final burst of activity. The government has fulfilled over half of the majority's platform objectives. Press comment generally gives Chirac good marks for this, although plenty more difficulties lie ahead, including electoral reform.

DETAIL

2. The parliamentary session wound to its close during the night of 12-13 August. It has been a long haul by French standards: the extraordinary session has meant that Parliament has sat almost without interruption since 2 April when Chirac's government first took office. Business has been conducted at a cracking pace: 26 major bills have been debated, of which 16 have already passed into law; and extensive use has been made of Article 49/3 of the Constitution (guillotine) to shorten the discussion.

3. We have already reported in detail the main achievements (summarised in MacRae's letter of 3 July to Dain on Chirac's first hundred days). But the major landmarks have been:

2 June: enabling law to allow the government to legislate by decree on certain key economic and social matters. Guillotined.

24 June: retroactive budget to modify the existing budget for the rest of the year. Guillotined.

25 June: law on redundancies, freeing employers from the previous administrative procedures.

27 June: press law (for greater transparency). Guillotined.

9 July: law altering the constitutional prospects for New Caledonia.

11 July: enabling law to allow changes to the electoral system to be introduced by decree. Guillotined.

29 July: law on police controls of identity, etc.

/31 July

31 July: law on privatisations. Should normally have been dealt with by decree; but Mitterrand refused to sign and the matter had therefore to go back to Parliament.

7 August: laws on crime (stiffer sentences for certain crimes), sentences (reductions to be more strictly controlled), foreigners (reducing the categories of foreigners who cannot be expelled; halting the automatic issue of 10-year residence cards for certain categories of foreigners, etc) and terrorism (increasing time during which suspected terrorists can be held without charge to 48 hours, etc).

12 August: law on audiovisual reform which inter alia will lead to the privatisation of 1 of the 3 national TV channels, and the cancelling of the contract for 2 of the 3 private channels.

4. Press comment on this achievement has been generally positive. Predictably, Figaro's headline today proclaims: «La France désocialisée». It goes on to emphasise that the government won no less than 6 votes of confidence despite its slim majority, and claims that 12 out of the 20 fundamental objectives of the government's platform have already been attained. More surprisingly, Libération (left wing) also agrees that Chirac has won Round One. It argues that in ramming through the main parts of its platform so fast, Chirac's government has proved that cohabitation is no obstacle to action and that power has shifted decisively to Matignon. Mitterrand's hope that the presence of the Front National would break the unity of the majority has not been fulfilled. Nor has the return to proportional representation produced a parliament where the shifting alliances of the Fourth Republic have reappeared. However, the government has yet to prove that the new reforms are good ones. So the next stage of cohabitation will not necessarily prove any easier.

5. The next hurdle for the government (and test for cohabitation) is the redrawing of the electoral boundaries, on which we shall be reporting separately. Already, the 6-man commission appointed by the government has raised numerous objections. Private negotiations with Mitterrand now seem likely, before the draft law is taken by the Council of Ministers, probably on 10 September. There is already speculation as to what will happen if Mitterrand then refuses to sign the decree.

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THE FRENCH POLITICAL SCENE

INTRODUCTION

1. YOU MAY FIND IT USEFUL TO HAVE A BRIEF ROUND-UP OF THE FRENCH POLITICAL SCENE, BEFORE THE EUROPEAN COUNCIL AT THE HAGUE.

SUMMARY

2. SOME UNFAVOURABLE ECONOMIC TRENDS AND DISCOURAGING OPINION POLLS HAVE PROVOKED DISQUITE ON THE RIGHT. CHIRAC REMAINS FIRM AND REASSURING, BUT THERE IS A DEBATE BETWEEN THOSE WHO WANT THE GOVERNMENT TO PRESS ON ENERGETICALLY AND THOSE WHO WANT IT TO TRIM FOR EVENTUAL ELECTORAL REASONS. COHABITATION CONTINUES TO WORK RELATIVELY SMOOTHLY, ALTHOUGH WITH SOME SKIRMISHING OVER FOREIGN POLICY, NOT LEAST OVER THE EUROPEAN COUNCIL. THE SOCIALISTS ARE HOLDING A CONVENTION TO DISCUSS FUTURE STRATEGY.

DETAIL

3. THE GOVERNMENT HAS BEEN GOING THROUGH A ROUGH PATCH. POST-ELECTION EUPHORIA HAS WANED AS MINISTERS AND THE NEW MAJORITY HAVE COME TO APPRECIATE THE SCALE OF THE PROBLEMS. RECENT ECONOMIC FORECASTS HAVE SUGGESTED THAT THINGS WILL GET WORSE BEFORE THEY GET BETTER, PARTICULARLY ON UNEMPLOYMENT, WHICH HAS PROMPTED FEARS OF LABOUR UNREST. OPINION POLLS INDICATE THAT CHIRAC HAS LOST GROUND AND THAT OPPOSITION TO THE GOVERNMENT'S POLICIES HAS GROWN, BUT THAT MITTERRAND IS NOW MORE POPULAR THAN SINCE THE EARLY MONTHS OF HIS PRESIDENCY.

4. CHIRAC AND HIS IMMEDIATE ENTOURAGE HAVE BEEN STEADYING THE TROOPS. THEY AFFECT TO BE UNCONCEREND BY THE POLLS: STESS THAT RESTORING FRANCE'S FORTUNES WILL BE NEITHER QUICK NOR EASY: AND WARNED THAT THE NECESSARY POLICIES WILL NOT ALWAYS PROVE POPULAR. THEY ALSO INSIST THAT THE GOVERNMENT MUST FOLLOW A LONG-TERM STRATEGY IF IT IS TO SUCCEED IN ITS AIMS OF HIGHER GROWTH AND EMPLOYMENT. THEY SOUND TOUGH AND DETERMINED BUT THEIR ARGUMENTS HAVE NOT ENTIRELY MUFFLED THE DEBATE ON THE RIGHT BETWEEN THOSE HOW FAVOUR PRESSING AHEAD ENERGETICALLY WITH THE GOVERNMENT'S PROGRAMME AND THOSE WHO COUNSEL CAUTION WITH AN EYE TO THE PRESIDENTIAL ELECTIONS.

5. MEANWHILE COHABITATIONS BETWEEN THE PRESIDENT AND THE PRIME MINISTER HAS CONTINUED TO RUN RELATIVELY SMOOTHLY, ALTHOUGH IN RECENT DAYS CHIRAC SEEMS TO HAVE BEEN TRYING TO EMPHASISE HIS ROLE IN FOREIGN AFFAIRS AT THE EXPENSE OF MITTERRAND. MATIGNON HAS BEEN INSISTING THAT IT WILL BE CHIRAC WHO TAKES THE PRACTICAL DECISION AT THIS WEEK'S EUROPEAN COUNCIL, A VIEW CONTESTED BY THE ELYSEE WHO STRESS MITTERRAND'S ROLE AS THE SUPREME ARCHITECT OF EUROPEAN POLICY. A PRACTICAL ARRANGEMENT WILL PROBABLY BE FOUND AS IT WAS AT THE TOKYO SUMMIT, ALTHOUGH CHIRAC WILL WANT A MORE VISIBLE ROLE THAN HE GOT THEN. MEANWHILE THE RELEASE OF TWO OF THE FRENCH HOSTAGES IN LEBANON IS RATED A SUCCESS FOR THE GOVERNMENT AND MAY WELL INCREASE CHIRAC'S FOREIGN POLICY APPETITE.

6. THE SOCIALISTS (PS) HHAD DONE WHAT THEY CAN TO PLAY UPON THE STRAINS WITHIN THE MAJORITY, BUT NOT IN THE EXPECTATION OF AN EARLY END TO COHABITATION. NOR WOULD ITS DEMISE NECESSARILY BENEFIT THEM. MITTERRAND'S IMPROVED RATING MAINLY SEEMS TO REFLECT THE FACT THAT BECAUSE HE IS NOT GOVERNING, HE IS NOT HAVING TO TAKE RESPONSIBILITY FOR CONTROVERSIAL MEASURES. THERE IS NO EVIDENCE THAT THE LEFT HAS CLOSED THE 10 PERCENT GAP WITH THE RIGHT REVEALED IN THE MARCH ELECTIONS. DOUBTS ABOUT CHIRAC AND HIS POLICIES HAVE NOT SO FAR TRANSLATED INTO ANY OBVIOUS SURGE OF SUPPORT FOR THE PS.

7. AT THE PS NATIONAL CONVENTION NEXT WEEKEND BEHIND THE SCENES INTEREST WILL CENTRE ON WHETHER MITTERRAND WILL FORCE EARLY PRESIDENTIAL ELECTIONS, AND WHETHER HE WILL RUN AGAIN. NO ONE IS SURE, BUT NONE OF THE PS CONTENDERS FOR THE SUCCESSION IS TAKING ANY CHANCES THEY HAVE BEEN JOCKEYING FOR POSITIONS FOR MONTHS, AND THESE MANOEVRES WILL CONTINUE AT THE CONVENTION. WITH THE ANIMOSITY BETWEEN ROCARD AND FABIUS GROWING, IT LOOKS AS IF ONLY ANOTHER MITTERRAND CANDIDACY CAN SPARE THE SOCIALISTS A BITTER SUCCESSION STRUGGLE. THAT WOULD BE QUITE A STRONG ARGUMENT, IF HE ACTUALLY NEEDED ANY CONVINCING.

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TELNO 620
OF 181647Z JUN 86
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INFO ROUTINE UKREP BRUSSELS
SIC EEA
MITTERRAND/KOHL MEETING : 17 JUNE

SUMMARY

1. ANOTHER GENERAL DISCUSSION OF CURRENT INTERNATIONAL AND BILATERAL ISSUES.

DETAIL

2. MITTERRAND AND KOHL MET AT RAMBOUILLET YESTERDAY FOR LUNCH AND AN AFTERNOON OF TALKS IN TETE-A-TETE. ACCORDING TO PRESS REPORTS THE MAIN SUBJECTS COVERED WERE:

(A) NUCLEAR SAFETY. KOHL CALLED ON THE FRENCH GOVERNMENT TO TAKE FULL ACCOUNT OF THE ANXIETIES CREATED IN GERMANY THE CONSTRUCTION OF THE CATTENOM NUCLEAR POWER STATION IN FRANCE CLOSE TO THE BORDER. THIS WAS THE OBJECT OF A DEMONSTRATION DURING THE WEEKEND BY GERMANS CONCERNED ABOUT NUCLEAR SAFETY. KOHL ALSO URGED THE FRENCH TO SUPPORT HIS PROPOSAL FOR AN INTERNATIONAL CONFERENCE IN VIENNA THIS AUTUMN ON THE SAFETY OF NUCLEAR POWER PLANTS. MITTERRAND SAID THAT IF EVERYONE TOOK AS MANY PRECAUTIONS AS THE FRENCH AT CATTENOM, ONE WOULD SPEAK MUCH LESS OF THIS AFFAIR.

(B) THE FRANCO-GERMAN HELICOPTER PROJECT. MITTERRAND SPOKE OF HIS DETERMINATION TO FIND A WAY THROUGH THE TECHNICAL DIFFICULTIES SURROUNDING THIS PROJECT. KOHL TOO EXPRESS POLITICAL SUPPORT FOR IT AND ACCEPTED THE OPTION OF DEVELOPING EUROPEAN TECHNOLOGY FOR THE VISIONICS. MEANWHILE NEGOTIATIONS CONTINUE BETWEEN THE TWO MINISTERS OF DEFENCE. SOURCES HERE INDICATE THAT A SOLUTION WILL BE FOUND BUT IT IS UNCLEAR WHETHER THERE WILL BE A LINKAGE TO A COMMON TANK PROGRAMME AS HAS BEEN OCCASIONALLY SUGGESTED.

(C) THE EUROPEAN COUNCIL. MITTERRAND AND KOHL BRIEFLY COVERED THE PROBLEMS OF EC/US AGRICULTURAL TRADE AND SOUTH AFRICA.

(D) MITTERRAND'S VISIT TO MOSCOW ON 7-10 JULY.

3. THESE INFORMAL FRANCO-GERMAN SUMMITS ARE THUS KEEPING UP ALMOST A MONTHLY RHYTHM. THE HABIT OF EXCHANGING VIEWS REGULARLY AT THIS LEVEL IS PROBABLY MORE IMPORTANT THAN THE PRECISE CONTENT OF THE DISCUSSION. IN FRENCH DOMESTIC TERMS, MITTERRAND HAS STRUCK A SMALL BLOW IN ADVANCE OF THE EUROPEAN COUNCIL IN IS COMPETITION WITH CHIRAC TO REPRESENT FRANCE INTERNATIONALLY. THERE IS A HINT THAT CHIRAC MAY NOW BE THINKING OF A FURTHER MEETING WITH KOHL ALSO. WE SHALL REPORT FURTHER WHAT EMERGES FROM DEBRIEFING THE ELYSEE AND THE GERMAN EMBASSY, WHO HAVE NOT BEEN APLE TO GIVE US AN ACCOUNT TODAY.

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SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 39 OF 13 June 1986
TO FCO
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FRANCE : ECONOMIC REPORT FOR MAY 1986

SUMMARY

1. May was a month of mostly bad news for the French economy. The foreign trade figures went from bad to worse, unemployment increased again, the rate of GDP growth was seen to have slowed, INSEE forecast some mediocre results for 1986 and French share prices slumped. Although in April there was a further fall in the annual rate of inflation, there was a significant increase in the retail price index. But industrial production, excluding energy, reversed its decline and turnover in the retail trade increased.

2. There was a large balance of trade deficit in April which confounded expectations of a significant improvement in the monthly figures.

3. Unemployment increased for the second consecutive month and there were signs of more tension in industrial relations, after the long period of calm.

4. Preliminary figures for 1986 Q1 show that GDP growth has slowed for the second consecutive quarter. INSEE has warned that an increase in industrial investment, which it expects to fall in 1986, is vital for the French economy.

5. There have been two sharp falls in French share prices.

6. The annual rate of inflation fell to 2.6% in April.

7. The Government has responded to criticism that it has been tardy in implementing its programme of economic reform.

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DETAIL

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FURTHER LIBERALISATION OF THE FRENCH ECONOMY

SUMMARY

1. ON 15 APRIL THE FRENCH MINISTER OF FINANCE, M. BALLADUR, ANNOUNCED FUTHER MAJOR MEASURES TO LIBERALISE THE ECONOMY. THE CENTRALISED SYSTEM OF CREDIT ALLOCATIONS IS TO BE ABOLISHED, OTHER IMPORTANT CONSTRANTS ON THE BANKING SYSTEM ARE BEING REMOVED, FOREIGN EXHANGE CONTROLS ARE BEING FURTHER RELAXED AND REGULATION OF THE FINANCIAL MARKETS IS BEING EASED. IN ADDITION INTEREST RATES HAVE BEEN REDUCED ON SAVING BANK DEPOSITS AND ON SUBSIDISED LOANS. THE GOVERNMENT IS REPAYING A FURTHER TRANCHE OF THE EUROPEAN COMMUNITY LOAN BEOFRE THE DUE DATE.

DETAIL

2. ON 15 APRIL, M. BALLADUR ANNOUNCED ''A SECOND PHASE OF LIBERALISATION'' TO FOLLOW THE MEASURES OF 6 APRIL, WHEN THE FRANC WAS DEVALUED. OUR TELNO 372).

3. THEY ARE:

BANKING

I) FROM 1 JANUARY 1987 THE BANKS WILL NO LONGER REQUIRE OFFICIAL AUTHORISATION TO OPEN, CLOSE OR TRANSFER BRANCHES. HOWEVER THE GOVERNMENT WILL NEGOTIATE WITH THE BANKS ON THE CONDITIONS WHICH WILL APPLY AND IN PARTICULAR WILL TAKE STEPS TO PREVENT A SHARP INCREASE IN MARKET SHARE BY BANKS WHO CAN OFFER SUBSIDISED CREDIT AND SPECIAL TAX FREE DEPOSIT ACCOUNTS (THIS CONCERNS CHIEFLY THE MUTALIST BANKS)

II) THE GOVERNMENT WILL ABOLISH ON 1 JANUARY 1987 THE QUANTITATIVE CONTROL OF CREDIT PROVIDING THE GOVERNMENT'S INFLATION AND MONEY SUPPLY TARGETS ARE OBTAINED.

EXCHANGE CONTROLS

III) THE LIMIT FOR FORWARD BUYING OF CURRENCY BY IMPORTERS TO COVER AGAINST EXCHANGE RISKS WILL BE INCREASED TO 6 MONTHS FROM 3 MONTHS AND (IN ADDITION TO IMPORTERS OF GOODS) WILL BE EXTENDED TO : IMPORTERS OF SERVICES, COMMERCIAL DEBTS, COMMODITY DEALING, COMMODITY FUTURES AND COMMODITY ABRITRAGE.

IV) THE PERIOD FOR WHICH EXPORTERS CAN RETAIN FOREIGN CURRENCY EARNED FROM SALES IS INCREASED FROM 8 DAYS TO ONE MONTH.

/v)

V) THE FOREIGN CURRENCY PREMIUM (DEVISE TITRE) ON THE PURCHASE OF FOREIGN SHARES IS ABOLISHED.

VI) PRIVATE INDIVIDUALS NO LONGER REQUIRE OFFICIAL AUTHORISATION TO BUY SECOND HOMES ABROAD, TO EXPORT THEIR ASSETS IF THEY MOVE ABROAD TO LIVE OR SEND GIFTS ABROAD.

FINACIAL MARKETS

VII) THE MINIMUM LIFE OF CERTIFICATES OF DEPOSIT WILL BE REDUCED FROM 6 MONTHS TO 3 MONTHS ON 1 JUNE AND TO 10 DAYS ON 1 MARCH 1987.

VIII) THE MAXIMUM DURATION OF COMMERCIAL PAPER WILL BE INCREASED FROM 6 MONTHS TO 2 YEARS ON 1 JUNE.

IX) THE FINANCIAL INSTITUTIONS (EXCLUDING BANKS) WILL BE PERMITTED TO ISSUE A NEW TYPE OF BOND CALLED BONS DE SOCIETES FINANCIERES, WITH A LIFE OF BETWEEN 2 AND 7 YEARS.

INTEREST RATES

X) INTEREST RATES ON SAVINGS BANK DEPOSITS HAVE BEEN REDUCED BY 1.5 PERCENT (THE NEW RATES ARE BETWEEN 4 AND 6 PERCENT ACCORDING TO THE TYPE OF SCHEME). INTEREST RATES HAVE ALSO BEEN REDUCED ON SUBSIDISED LOANS TO INDUSTRY TO THE LOCAL GOVERNMENT AND FOR HOUSE BUYING BY VARYING AMOUNTS WITH THE NOTABLE EXCEPTION OF THE FONDS INDUSTRIEL DE MODERNISATION (FIM) WHICH HAS BEEN LEFT UNCHANGED AT 8.75 PERCENT. 'LES ECHOS', A FINANCIAL DAILY SEES THIS AS AN INDICATION THAT THE GOVERNMENT INTENDS TO PHASE OUT THE FIM, 60 PERCENT OF WHOSE LOANS GO TO SMALL FIRMS.

EXTERNAL DEBT

3. FRANCE WILL REPAY BEFORE THE DUE DATE DOLLARS 1.8 BN OF THE 4BN ECU 1983 EUROPEAN COMMUNITY LOAN. THIS FOLLOWS A 400 MILLION DOLLAR REPAYMENT IN APRIL.

COMMENT

4. THE PROMISED END OF QUANTITATIVE CONTROL OF CREDIT AND GREATER FLEXIBILITY FOR BANK BRANCHING ARE MAJOR STEPS TOWARDS A LIBERAL ECONOMY BU THE MONEY SUPPLY HAS BEEN GROWING ABOVE TARGET AND THE TECHNICAL CONSEQUENCES OF SOME OF THE REFORMS ANNOUNCED COULD ACCELERATE THIS, IN WHICH CASE THE GOVERNMENT ENVISAGES REIMPOSITION OF QUANTITATIVE CONTROL (SHADES OF BRITAIN 1971-3). /5.

5. THE GREATER FREEDOM TO ADJUST BANK BRANCH NETWORKS COULD HAVE FAR-REACHING RESULTS. IT WILL MAKE IT EASIER TO CLOSE UNPROFITABLE BRANCHES OF WHICH THERE ARE MANY (ALTHOUGH REDUCING PERSONNEL WILL STILL BE HARD). CREDIT AGRICOLE WILL HOPE TO USE ITS GREATLY SUPERIOR FINANCIAL STRENGTH TO CAPTURE A LARGE PART OF THE RICH PARIS MARKET, BUT BALLADUR WILL NEGOTIATE TO RESTRAIN IT. BARCLAYS BANK WHICH HAS A WELL-ESTABLISHED SMALL NETWORK MAY AT LAST FIND IT POSSIBLE TO EXPAND, AND OTHER FOREIGN BANKS TO LAY THE FOUNDATIONS OF ONE.

6. THE FOREIGN EXCHANGE CONTROL RELAXATION MAY PERMIT THE GOVERNMENT TO END RECOURSE TO THE CAPITAL MOVEMENTS SAFEGUARD CLAUSE OF THE TREATY OF ROME, FOR THE FIRST TIME SINCE 1986.

FRETWELL

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FROM PARIS SAVING TELNO 32 OF 9 MAY 1986

TO FCO

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

FRANCE: ECONOMIC REPORT FOR APRIL 1986

Summary

1. Following a good start to 1986, figures for the French economy published in March were mixed . The annual rate of inflation continued to fall and industrial production increased, but the balance of trade deteriorated and unemployment increased.

2. The annual rate of inflation declined to 3.0% in March.

3. The increase in industrial production was due solely to an increase in energy output.

4. There was a large trade deficit in March following surpluses in January and February, and the performance of exports caused renewed expressions of concern.

5. Although unemployment increased in March, the figures published for 1985 show that the rate of job losses has slowed significantly.

6. National Accounts figures for 1985 record another year of low growth and a deterioration of performance in foreign trade; but progress on disinflation was striking, there was some improvement in the situation of companies and a (very) limited recovery of investment. The Government has published an assessment of the state of the Frencn economy by the previous Governor of the Bank of France.

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INFO ROUTINE UKREP BRUSSELS, BONN, THE HAGUE, WASHINGTON, TOKYO
INFO ROUTINE UKDEL IMF/IBRD WASHINGTON, UKDEL NATO, BANK OF ENGLAND
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INFO SAVING CONSULS GENERAL IN FRANCE

MIPT (NOT TO ALL) : THE NEW GOVERNMENT'S ECONOMIC PROGRAMME

SUMMARY

1. CHIRAC DISPLAYED HIS GOVERNMENT'S RESOLVE TO IMPLEMENT THE ESSENTIALLY LIBERAL ECONOMIC PROGRAMME ON WHICH IT WAS ELECTED: PRIVATISATION OF ALMOST ALL THE NATIONALISED ENTERPRISES IN THE COMPETITIVE SECTOR, EASING OF STATE-IMPOSED REGULATION OF COMPANIES, AND ELIMINATION OF PRICE AND FOREIGN EXCHANGE CONTROLS. HIS PRESENTATION HIGHLIGHTS THE GOAL OF JOB CREATION.

DETAIL

2. THE TIMETABLE ESTABLISHED PROVIDES FOR THE PRESENTATION TO PARLIAMENT WITHIN THE NEXT FEW DAYS OF ENABLING LEGISLATION WHICH WILL EMPOWER THE GOVERNMENT TO ISSUE ORDINANCES PRIVATISING NATIONALISED COMPANIES, ABOLISHING PRICE CONTROLS AND INTRODUCING MEASURES TO INDUCE JOB CREATION. AN AMENDMENT TO THE 1986 BUDGET WILL ALSO BE PRESENTED TO PARLIAMENT BY THE END OF APRIL TO PROVIDE FOR A REDUCTION IN PLANNED EXPENDITURE OF F10 BILLION, OUT OF THE F15 BILLION ANNOUNCED BY BALLADUR FOLLOWING THE DEVALUATION OF THE FRANC ON 6 APRIL (MY TELNO 366).

3. BETWEEN NOW AND THE SUMMER, DRAFT LAWS WILL BE PRESENTED TO PARLIAMENT WHICH WILL:

A). INCREASE THE FLEXIBILITY OF EMPLOYMENT
B) ENCOURAGE INVESTMENT IN CONSTRUCTION AND FACILITATE HOUSE BUYING.
C) CONTAIN MEASURES TO DEVELOP THE ECONOMIES OF FRANCE'S OVERSEAS TERRITORIES.

4. IN THE AUTUMN THE GOVERNMENT WILL PRESENT ITS 1987 DRAFT BUDGET WHICH PROMISES CUTS IN PUBLIC EXPENDITURE, TAXATION AND THE BUDGET DEFICIT. THE GOVERNMENT WILL THEN REVOKE THE 1945 ORDINANCE ON WHICH PRICE CONTROLS ARE BASED, AND INTRODUCE NEW COMPETITION LEGISLATION. IT WILL GIVE EFFECT PROGRESIVELY TO ITS PROMISE TO ABOLISH PRICE CONTROLS. THE MINISTER OF INDUSTRY IS QUOTED AS SAYING THAT SERVICE PRICES, OMITTED FROM THE MEASURES ACCOMPANYING THE DEVALUATION, WILL BE FREED IN THE MONTHS FOLLOWING THE REVOCATION OF THE 1945 ORDINANCE.

5. EARLIER IN THE DAY, THE GOVERNMENT PRESENTED DETAILS OF THE ENABLING LEGISLATION TO THE COUNCIL OF MINISTERS. IT IS IN 2 PARTS:

I) FIRST, IT WILL ENABLE THE GOVERNMENT TO ENCOURAGE THE EMPLOYMENT OF YOUNG PEOPLE, PARTICULARLY BY REDUCING EMPLOYERS' COSTS, AND TO IMPROVE THE PUBLIC JOB-PLACING SERVICE. THERE WILL BE PROVISION FOR RELAXATION OF RESTRICTIONS ON PART-TIME AND TEMPORARY WORK AND ON FLEXIBLE WORKING PATTERNS. SPECIAL MEASURES (PROBABLY FISCAL) WILL ENCOURAGE JOB CREATIN IN PARTICULARLY HARD HIT AREAS. EMPLOYEE SHAREHOLDING AND PROFIT-SHARING WILL BE ENCOURAGED, AND HERE WILL BE POROVISION TO ALLOW PRIVATE COMPANIES TO HAVE EMPLOYEE REPRESENTATION ON OR MONITORING OF THE BOARDS.
II) SECOND, IT PROVIDES FOR THE PRIVATISATION WITHIN 5 YEARS OF THE BANKS AND INSURANCE COMPANIES NATIONALISED IN 1945/46, THE ADVERTISING AGENCY HAVAS AND THE OIL COMPANY ELF AQUITAINE, AND THOSE BANKS AND FIRMS NATIONALISED IN 1982. TRANSITIONAL ARRANGEMENTS WILL BRING THEIR STATUTES INTO LINE WITH THOSE OF PRIVATE COMPANIES, WHILE GUARANTEEING EMPLOYEE REPRESENTATION (THE FORM IS NOT SPECIFIED).

6. IN THE NATIONAL ASSEMBLY, CHIRAC ARGUED THAT THE FRENCH ECONOMY WAS NOT IN SUCH GOOD SHAPE AS THE SOCIALISTS HAD CLAIMED. A FORMER GOVERNOR OF THE BANK OF FRANCE, RENAUD DE LA GENIERE, HAD BEEN APPOINTED TO MAKE AN INDEPENDANT REPORT ON THE EXACT FIGURES OF THE NATIONAL DEBT, THE BUDGETARY DEFICIT, AND THE ACCOUNTS OF THE SOCIAL SECURITY. FRANCE HAD LOST GROUND TO ITS MAIN COMPETITORS. (THE NEED TO MAKE THE COUNTRY MORE COMPETITIVE IS MADE MORE EXPLICIT BY THE RIGHT THAN BY THEIR PREDECESSORS.) THE CONSTRAINT IMPOSED BY FRANCE'S POOR FOREIGN TRADE PERFORMANCE REMAINED AND AS A RESULT THE GOVERNMENT HAD TO BE CAREFUL NOT TO BOOST CONSUMPTION BECAUSE THIS WOULD INCREASE IMPORTS. BUT MOST WORRYING OF ALL WAS THE LEVEL OF UNEMPLOYMENT, ON WHICH FRANCE, HE SAID, HAD -THE SADDEST RECORD IN EUROPE-, ESPECIALLY OVER THE NUMBER OF YOUNG PEOPLE OUT OF WORK. JOB CREATION WOULD BE A LEADING OBJECTIVE FOR THE GOVERNMENT. HE ALSO EMPHASISED THE GOVERNMENT'S INTENTION TO PROCEED IN CONSULTATION WITH THE TRADE UNIONS AND TO WORK WITH THEM TO SAFEGUARD THE SOCIAL SECURITY SYSTEM.

COMMENT

7. THE START MADE BY THE GOVERNMENT IN ECONOMIC AFFAIRS HAS BEEN DECISIVE AND COHERENT, AND HAS STRUCK A CAREFUL BALANCE BETWEN GIVING IMPETUS TO CHANGE IN A LIBERAL DIRECTION AND SAFEGUARDING THE PROGRESS MADE BY THE PREVIOUS GOVERNMENT IN DEALING WITH INFLATION AND INDUSTRIAL RELATIONS.

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OUR TELNO 366 OF 4 APRIL
FRANCE: EMS REALIGNMENT AND ACCOMPANYING MEASURES

SUMMARY

1. FOLLOWING THE DEVALUATION OF THE FRANC AGAINST THE DEUTSCHEMARK OF 5.8 PERCENT, THE GOVERNMENT HAS ANNOUNCED A PACKAGE OF ECONOMIC MEASURES TO MAINTAIN DOWNWARD PRESSURE ON INFLATION AND HELP FRENCH COMPANIES. BOTH THE DEVALUATION AND THE ACCOMPANYING MEASURES HAVE BEEN WELL RECEIVED BY MOST OF THE FRENCH PRESS AND BY INDUSTRY, BUT OPPOSITION LEADERS HAVE CONDEMNED THE DEVALUATION AS UNNECESSARY. TRADE UNION LEADERS ARE CAUTIOUS.

DETAIL
2. THE GOVERNMENT HAS ANNOUNCED THE FOLLOWING ACCOMPANYING MEASURES:
I) CUTS IN PLANNED GOVERNMENT EXPENDITURE OF F15 BILLION, WHICH HAVE NOT YET BEEN IDENTIFIED.

II) A RELAXATION OF EXCHANGE CONTROLS, WHICH THE PREVIOUS GOVERNMENT HAD ALREADY BEGUN TO DISMANTLE. IMPORTERS WILL BE PERMITTED TO COVER AGAINST EXCHANGE RISKS BY BUYING FOREIGN CURRENCY UP TO 3 MONTHS AHEAD AND EXPORTERS WILL NO LONGER BE OBLIGED TO ANTICIPATE RECEIPTS FROM EXPORTS BY BUYING THE EQUIVALENT AMOUNT OF FOREIGN CURRENCY AHEAD OR DEPOSITING IT WITH THE AUTHORITIES. RESTRAINTS ON COMPANIES INVESTING AND BORROWING ABROAD WILL BE ABOLISHED. PERSONAL FOREIGN EXCHANGE ALLOWANCES AND CEILINGS ON THE USE OF CREDIT CARDS ABROAD ARE BEING INCREASED. IN ADDITION AN UN-NAMED OFFICIAL OF THE FINANCE MINISTRY IS QUOTED AS SAYING THAT THE STOCK EXCHANGE FOREIGN CURRENCY PREMIUM ON THE PURCHASE OF FOREIGN SHARES AND BONDS WILL BE ABOLISHED BY THE END OF THE YEAR.

III) THE CONTROLS REMAINING ON AROUND 10 PERCENT OF INDUSTRIAL PRICES (WITH A FEW EXCEPTIONS) AND THE CONTROLS ON THE MARK-UP OF THREE-QUARTERS OF THE COMPANIES WILL BE REMOVED, BUT THE CONTROLS ON FOOD PRICES AND SERVICES WHICH FORM AN IMPORTANT PART OF THE RETAIL PRICE INDEX WILL REMAN AT LEAST FOR THE TIME BEING. PHARMACEUTICAL PRICES, IMPORTANT FOR GOVERNMENT EXPENDITURE, WILL ALSO REMAIN SUBJECT TO CONTROL.

IV) RESTRICTIONS WILL BE IMPOSED ON PUBLIC SECTOR PAY WHICH AMOUNT TO A FREEZE. THE GOVERNMENT CLAIM THAT THE PURCHASING POWER OF

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PUBLIC SECTOR PAY =EN MASSE= WILL BE MAINTAINED BUT WARN THAT THIS MEANS THERE IS NO SCOPE FOR A GENERAL PAY INCREASE BECAUSE THE GLOBAL PURCHASING POWER OF CIVIL SERVANTS IN 1986 WILL EXCEED THAT OF 1985 BY MORE THAN THE FORECAST RATE OF INFLATION OF 2.4 PERCENT. THE KNOCK ON EFFECTS OF THE STAGED 1985 CIVIL SERVICE PAY INCREASE (WHICH WAS IN LINE WITH 1985 INFLATION) MEAN THAT PAY COSTS IN 1986 WILL BE 2.1 PERCENT HIGHER THAN 1985: WAGE DRIFT (INCLUDING INCREMENTAL INCREASES) ACCOUNTS FOR A FURTHER 0.5 PERCENT RISE IN COSTS. HOWEVER, THE GOVERNMENT HAVE NOT RULED OUT INDIVIDUAL PAY INCREASES.

V) THE PREVIOUS GOVERNMENT'S TARGETTING FOR MONEY SUPPLY GROWTH (M3) IN 1986 OF 5 PERCENT WILL BE RESPECTERD. THE PRESS ESTIMATES THAT M3 GROWTH IN 1985, WHICH IS YET TO BE ANNOUNCED, WAS BETWEEN 9 AND 10 PERCENT BUT A SIGNIFICANT PROPORTION OF THIS WAS DUE TO THE INFLUX OF FOREIGN FUNDS ATTRACTED BY THE HIGH INTEREST RATES NECESSARY TO DEFEND THE FRANC.

3. BEFORE THE REALIGNMENT, A NUMBER OF SOCIALIST MINISTERS AND SOME OFFICIALS, WERE ARGUING THAT A DEVALUATION OF THE FRANC WOULD ONLY BE A PALLIATIVE AND WOULD NOT SOLVE FRANCE'S BASIC FOREIGN TRADE PROBLEMS. HOWEVER THERE WERE A NUMBER OF SOLID ARGUMENTS IN FAVOUR. FRENCH EXPORTS WERE SUFFERING IN COMPETITION WITH GERMAN AND OTHER GOODS AND IN THE WEST GERMAN MARKET (FRANCE'S BIGGEST) BECAUSE OF THE 12 PERCENT ACCUMULATED DIFFERENCE IN INFLATION BETWEEN THE 2 COUNTRIES SINCE THE LAST ADJUSTMENT TO THE FRANC/DEUTSCHEMARK PARITY IN MARCH 1983. ALTHOUGH OPPOSITION LEADERS ARE CLAIMING THAT THE FRANC WAS STRONG, IT HAS BEEN SUPPORTED BY HIGH INTEREST RATES, WHICH WERE A CONSTRAINT ON INVESTMENT, AND BY BANK OF FRANCE DIRECT INTERVENTION IN THE FOREIGN EXCHANGE MARKETS. THE TASK OF FRENCH NEGOTIATORS IN THE CURRENT AGRICULTURAL PRICE FIXING ROUND WILL BE FACILITATED AND AN INCREASE IN REVENUE ACCEPTABLE TO FRENCH FARMERS ACHIEVED IF THE MCAS ARE REMOVED. BALLADUR, THE MINISTER OF FINANCE, IS QUOTED IN AN INTERVIEW WITH LE FIGARO AS SAYING THAT HE HAS NOTIFIED THE OTHER MEMBERS OF THE EUROPEAN COMMUNITY THAT FRANCE WILL SEEK A RAPID DISMANTLING OF FRANCE'S NEGATIVE MCA.

4. THE DEVALUATION HAS BEEN GENERALLY WELL RECEIVED IN THE PRESS, EXCEPT FOR THOSE PAPERS CLOSE TO THE OPPOSITION, AND BY INDUSTRY, BUT THE OPPOSITION PARTIES HAVE CRITICISED IT AS THE EASY WAY OUT AND CLAIM THAT IT WAS ENGINEERED BY THE GOVERNMENT. THE TRADE UNIONS ARE CONCERNED ABOUT THE RESTRICTIONS ON PAY. AFP COMMENTS THAT IF THE POUND HAD ENTERED THE EXCHANGE RATE MERCHANISM IT WOULD HAVE BEEN PROOF OF BRITISH COMMITMENT TO EUROPE.

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INFO ROUTINE DUBLIN, LISBON, LUXEMBOURG, MADRID, PARIS, ROME
INFO ROUTINE THE HAGUE
INFO SAVING WASHINGTON

FRANCE/GERMANY

1. THE NEW FRENCH FOREIGN MINISTER VISITED BONN ON 3 APRIL TO INTRODUCE HIMSELF TO GENSCHER. THE DISCUSSIONS LASTED ABOUT TWO HOURS. DISCUSSION TOUCHED ON A WIDE RANGE OF SUBJECTS INCLUDING EAST-WEST RELATIONS, CDE, CSCE, THE FUTURE OF THE EUROPEAN COMMUNITY, CAP AND PREPARATIONS FOR THE TOKYO ECONOMIC SUMMIT. AS REGARDS THE CAP, THE PRESS SAY THE EMPHASIS WAS ON THE NEED FOR FRANCE AND GERMANY TO WORK CLOSELY TOGETHER BUT NO ATTEMPT WAS MADE TO RECONCILE EXISTING POINTS OF DISAGREEMENT E.G. OVER MCAS.

2. RAIMOND TOLD THE PRESS THAT THE ATMOSPHERE HAD BEEN EXCELLENT AND EXPRESSED HIS APPRECIATION FOR THE CORDIAL WELCOME HE HAD HAD, WHICH ''CORRESPONDED TO THE QUALITY AND SIGNIFICANCE OF OUR RELATIONS''. GENSCHER SAID THE TWO AGREED ON THE NEED TO PREVENT ANY FURTHER WORSENING OF EC-US DISAGREEMENTS OVER TRADE BECAUSE OF THE POTENTIALLY SERIOUS IMPLICATIONS FOR RELATIONS BETWEEN WESTERN EUROPE AND AMERICA AS A WHOLE.

3. OFFICIALS IN THE AUSWAERTIGES AMT EMPHASIZE THAT THE TALKS WERE OF A VERY GENERAL CHARACTER AND WERE SIGNIFICANT MAINLY AS A DECLARATION OF INTENT BY BOTH SIDES TO MAINTAIN THE CLOSEST POSSIBLE COOPERATION. IN HIS PRESS STATEMENT GENSCHER MADE MUCH OF THE FACT THAT RAIMOND HAD CHOSEN TO COME TO BONN SO SOON AFTER HIS APPOINTMENT AND BEFORE UNDERTAKING ANY OTHER VISITS.

4. CHIRAC IS EXPECTED HERE ON 17 APRIL. IT IS REPORTED THAT HE AND KOHL HAVE ALREADY HAD TWO CONVERSATIONS ON THE PHONE SINCE THE CHANGE OF GOVERNMENT IN PARIS. THE TWO FOREIGN MINISTERS AGREED TO MEET FOR THE FIRST FORMAL ROUND OF CONSULTATIONS IN MAY.

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THE FRANC AND THE EMS

SUMMARY

1. INCREASING PRESS SPECULATION ABOUT THE NEW GOVERNMENT'S INTENTIONS TOWARDS THE FRANC. FEW CLEAR SIGNS OF THE GOVERNMENT'S THINKING, BUT THE AGRICULTURE MINISTER TODAY STATED THAT BALLADUR HAD RULED OUT A DEVLUATION.

DETAIL

2. THE NEW GOVERNMENT MUST HAVE GIVEN THOUGHT TO THE POSSIBILITY OF A RAPID DEVALUATION OF THE FRANC (OR REVALUATION OF THE MARK, AS THEY WOULD NO DOUBT HOPE TO PRESENT IT). A QUICK DEVALUATION, BLAMED ON THE FOLIES OF THE PREVIOUS GOVERNMENT, SEEMED TO BE PART OF OPPOSITION PLANS SOME MONTHS AGO, BUT THEIR SPOKESMAN SUBSEQUENTLY WENT QUIET, PRESUMABLY FOR FEAR OF BEING ACCUSED OF ENCOURAGING SPECULATION. IN THE MARKETS, THE FRANC HAS LOST SOME GROUND ON THE DEUTSCHMARK BUT IN GENERAL HAS BEEN HOLDING UP WELL, WITH ONLY OCCASIONAL INTERVENTION TO SUPPORT IT, NOTABLY BEFORE WEEKENDS WHEN EXCHANGE DEALERS SEEK TO COVER THEIR POSITIONS. THE FALL IN OIL PRICES HAS REMOVED, AT LEAST TEMPORARILY, ANY CONCERN OVER THE BALANCE OF PAYMENTS. AND MOST EXPERTS HERE SEEM AGREED THAT, ON PAST FORM, A DEVALUTION WOULD DO NOTHING TO CURE THE UNDERLYING LACK OF COMPETITIVITY OF FRENCH INDUSTRY AND COULD EVEN DELAY NECESSARY ACTION.

3. HOWEVER IT REMAINS THE CASE THAT SINCE THE LAST EMS ADJUSTMENT IN 1983, INFLATION IN FRACNE HAS SIGNIFICANTLY OUTPACED THAT OF HER BIGGEST TRADING PARTNER, THE FRG, SO THAT A FURTHER ADJUSTMENT MAY ULTIMATELY BE NECESSARY. MOREOVER LOWERING THE FRANC COULD, THROUGH ITS EFFECT ON GREEN CURRENCIES, BRING POLITICALLY IMPORTANT COMPENSATION TO FRENCH FARMERS IT CAP PRICE-FIXING DECISIONS FALL SHORT OF THEIR NOW HIGH EXPECTATIONS. REMOVAL OF CONCERN ABOUT THE FRANC MIGHT ALSO MAKE IT EASIER TO LOWER FRENCH INTEREST RATES, HISTORICALLY HIGH IN REAL TERMS AND A DISCOURAGEMENT TO THE INVESTMENT THE ECONOMY NEEDS, ALTHOUGH THIS WOULD CLEARLY DEPEND ON THE SHAPE OF THE PACKAGE OF MEASURES WHICH WOULD HAVE TO ACCOMPANY A DEVALUATION.

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4. THE GOVERNMENT HAD SAID LITTLE OR NOTHING ON THE ISSUE UNTIL TODAY, WHEN GUILLAUME TOLD A PRESS CONFERENCE THAT BALLADUR, THE MINISTER OF ECONOMY AND FINANCE, HAD RULED OUT A DEVALUATION. IN ANY EVENT THE NEW GOVERNMENT WILL NEED TO ACT QUICKLY IF THEY WISH TO TAKE ADVANTAGE OF THE SOCIALIST HERITAGE ARGUMENT TO CHANGE THE PARITY OF THE FRANC. THEY WILL ALSO NEED TO CONCERT WITH THE GERMANS, PARTICULARLY SINCE ACCORDING TO THE FRENCH PRESS THE LATTER REMAIN OPPOSED TO REVALUING THE MARK. THE ODDS MUST NOW BE ON PRESERVATION OF THE STATUS QUO FOR THE TIME BEING. WHEN I SAW BALLADUR ON MONDAY HE DID NOT SOUND LIKE A MAN WITH AN EARLY DEVALUATION ON HIS MIND.

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INFO SAVING LUXEMBOURG, LISBON, MADRID

NEW FRENCH GOVERNMENT : PRIVATISATION PROGRAMME

SUMMARY

1. BALLADUR SUGGESTS EARLY DISCUSSIONS ON FRENCH PRIVATISATION PROGRAMME.

DETAIL

2. BALLADUR, THE NEW FRENCH MINISTER OF FINANCE AND VIRTUAL ECONOMIC OVERLORD, TOLD ME OVER LUNCH TODAY THAT HE WOULD LIKE TO SEND EXPERTS TO LONDON TO DISCUSS BRITISH EXPERIENCE OF DENATIONALISATION. (THIS WAS A PRIVATE LUNCH ARRANGED BEFORE BALLADUR ASSUMED HIS PRESENT FUNCTIONS). HE HAD THREE PARTICULAR SUGEGESTIONS:

(A) THAT CABANA, MINISTER RESPONSIBLE FOR PRIVATISATION, SHOULD SPEND A FULL DAY IN LONDON TO DISCUSS ALL ASPECTS OF THE BRITISH PROGRAMME OF DENATIONALISATION. CABANA WOULD BE ACCOMPANIED BY A MEMBER OF BALLADUR'S CABINET.

(B) THAT A SENIOR FRENCH OFFICIAL SHOULD VISIT LONDON TO DRAW ON UK EXPERIENCE OF DEREGULATION.

(C) THAT A THIRD FRENCH OFFICIAL OR A MEMBER OF BALLADUR'S CABINET SHOULD VISIT LONDON TO DRAW ON BRITISH EXPERIENCE OF WHAT HE TERMS ''DEMUNICIPALISATION'' IE THE SALE OF COUNCIL HOUSING.

3. I HOPE THAT IT WILL BE POSSIBLE GIVE AN EARLY AND POSITIVE RESPONSE TO THESE THREE REQUESTS. THEY IMPLY A WELCOME DEGREE OF OPEN-MINDEDNESS AND READINESS TO DRAW ON BRITISH EXPERIENCE.

4. BALLADUR SAID HE IS MUCH LOOKING FORWARD TO MEETING THE CHANCELLOR OF THE EXCHEQUER AND WOULD BE READY TO COME TO LONDON OR TO INVITE THE CHANCELLOR TO PARIS IF THAT WERE MORE CONVENIENT. (AN EARLY ENCOUNTER IS IN ANY EVENT LIKELY AT A EUROPEAN OR INTERNATIONAL MEETING: THIS MIGHT PROVIDE AN OCCASION TO ARRANGE A PROPER BILATERAL DISCUSSUION). IF THE CHANCELLOR HAS NOT YET SENT A PERSONAL MESSAGE TO BALLADUR I THINK IT WOULD BE APPROPRIATE TO INCLUDE IN IT A REFERENCE TO THESE VARIOUS REQUESTS AND SUGGESTIONS AND TO INDICATE THAT WE ARE VERY READY TO WELCOME FRENCH MINISTERS AND OFFICIALS TO LONDON TO DISCUSS THE APPLICATION OF OUR POLICIES.

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5. I TOOK THE OCCASION TO EMPHASISE THE IMPORTANCE WE ATTACH TO MAINTAINING BUDGETARY DISCIPLINE IN THE EUROPEAN COMMUNITY AND TO WARN OF THE IMPOSSIBILITY OF ANY INCREASE IN THE 1.4 PERCENT VAT CEILING. BALLADUR THOUGHT THAT THE QUESTION OF AGRICULTURAL PRICES AND COSTS WOULD BE ONE OF THE MOST THORNY DOSSIERS HE WOULD HAVE TO DEAL WITH. HE COMMENTED A LITTLE RUEFULLY ON GUILLAUME'S APPOINTMENT AND ON THE CLOSE PERSONAL INTEREST WHICH CHIRAC TOOK IN THE SUBJECT. HE HAS CLEARLY NOT YET HAD TIME TO GET TO GRIPS WITH IT. THE ONLY OTHER SUBJECT ON WHICH HE FORESAW DIFFICULTIES BETWEEN BRITAIN AND FRANCE WAS THAT OF NEW ZEALAND, LINKED ORE TO THE FATE OF THE TURENCES THAN TO AGRICUTLURE QUESTIONS. I POINTED OUT THAT THE UK WAS NOT DIRECTLY INVOLVED IN THIS QUESTION AT ALL, BUT IT IS CLEAR THAT BALLADUR, LIKE MANY OTHER FRENCHMEN, IS WONDERING IF WE CAN PLAY A HELPFUL ROLE.

6. ON INTERNAL MATTERS, HE SEES THE NEXT CRITICAL PROBLEMS AS BEING THE SELECTION OF THE NEW PRESIDENT OF THE NATIONAL ASSEMBLY (WHERE HE HOPES THAT AN ACCEPTABLE COMPROMISE WILL EMERGE BETWEEN GISCARD AND CHABAN-DELMAS ON THE THIRD ROUND OF VOTING) AND THE PASSAGE OF ENABLING LEGISLATION FOR BOTH ELECTORAL AND ECONOMIC REFORM. HE CONSIDERS THAT HE HAS ABOUT SIX WEEKS TO DECIDE HOW TO HANDLE THE ECONOMY BEFORE THE PROPOSED LEGISLATION IS IN PLCAE. THIS SHORT TIMESPAN IS AN ADDITIONAL REASON FOR HIS WANTING EARLY VISITS BY HIS ADVISERS TO LONDON.

7. ON GENERAL COMMUNITY MATTERS HE VOICED DISAPPOINTMENT, WHICH IS COMMON AMONGST PEOPLE WHO WORKED CLOSE TO POMPIDOU, WITH THE COURSE OF FRANCO-BRITISH RELATIONS BETWEEN 1973-79. HE GAVE THE IMPRESSION OF ACCEPTING, EVEN IF A SHADE RELUCTANTLY, THE DECISIONS TAKEN AT THE FONTAINEBELAU SUMMIT. HE EMPHASISED THE IMPORTANCE OF NOT LEAVING THE FUTURE OF THE COMMUNITY TO BE DETERMINED SOLELY BY A FRANCO-GERMAN MOTOR. I SAID THAT ONE HAD TO BE CAUTIOUS ABOUT APPEARING TO CREATE TRIPARTITE GROUPING, BUT THAT IN PRACTICE CLOSE CONSULTATION BETWEEN BRITAIN, FRANCE AND GERMANY WAS ESSENTIAL TO KEEP THE COMMUNITY MOVING FORWARD AND TO HANDLE FOREIGN POLICY QUESTIONS IN THE REST OF THE WORLD. BALLADUR FIRMLY AGREED.

8. MY IMPRESSION AT THIS STAGE IS THAT WE SHALL FIND HIM VERY GOOD TO WORK WITH. HE IS PROBABLY IN SOME DIFFICULTY ABOUT HANDLING THE QUESTION OF AGRICULTURAL EXPENDITURE IN THE COMMUNITY BECAUSE OF CHIRAC'S OWN POLITICAL PRIORITIES, BUT HE APPEARS TO START OUT FROM A POSITION FAIRLY CLOSE TO OUR OWN.

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OF 211400Z MARCH 86
INFO IMMEDIATE ATHENS (FOR PRIVATE SECRETARY)
INFO SAVING OTHER EC POSTS, WASHINGTON, UKDEL NATO

(57)
MIPT: MESSAGE FROM THE PRIME MINISTER TO MONSIEUR JACQUES CHIRAC

MESSAGE BEGINS

I SEND YOU MY WARMEST CONGRATULATIONS ON YOUR SUCCESS IN THE RECENT ELECTIONS AND ON YOUR APPOINTMENT AS PRIME MINISTER OF FRANCE. I WISH YOU EVERY SUCCESS IN YOUR NEW RESPONSIBILITIES AND LOOK FORWARD TO WORKING CLOSELY WITH YOU AND YOUR GOVERNMENT.
MESSAGE ENDS

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ATHENS FOR PRIVATE SECRETARY
MY TWO IPT'S: MESSAGE FROM THE PRIME MINISTER TO M LAURENT FABIUS

MESSAGE BEGINS
AS YOU LEAVE THE MATIGNON, MAY I SAY HOW GREATLY I HAVE APPRECIATED THE CLOSE AND SUCCESSFUL COOPERATION BETWEEN OUR TWO GOVERNMENTS DURING YOUR TENURE OF OFFICE. MY COLLEAGUES AND I SEND YOU OUR BEST WISHES.
MESSAGE ENDS

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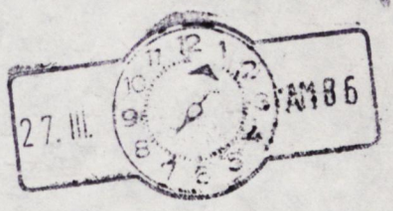
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ATHENS FOR SECRETARY OF STATE'S PARTY

MY TELNOS 319, 323 AND 324: CHIRAC'S GOVERNMENT

SUMMARY

1. A GOVERNMENT COMMITTED TO CHIRAC'S PRIORITIES. CONCESSIONS TO MITTERRAND OVER THE FOREIGN AND DEFENCE PORTFOLIOS IN RETURN FOR HIS AGREEMENT TO SIGN ORDINANCES ON ECONOMIC POLICY AND ELECTORAL REFORM. CHIRAC'S MEN IN THE KEY ECONOMIC JOBS AND AT INTERIOR AND AGRICULTURE. THE UDF HAVE TO MAKE DO WITH LESS IMPORTANT MINISTRIES. SOME OLD FACES, BUT A LOT OF NEW ONES, SOME OF THEM YOUNG. CHIRAC OFF TO A GOOD START, BUT PLENTY OF DIFFICULTIES AHEAD: GISCARD, CHABAN, SIMONE VAIL, BARRE, NONE OF WHOM ARE IN THE GOVERNMENT, WILL BE READY TO CAPITALISE ON MISTAKES. SO WILL MITTERRAND.

DETAIL

2. CHIRAC'S STATEMENT LAST NIGHT (TUR) SUGGESTS THAT MITTERRAND HAS GIVEN HIM WHAT HE WANTED IN TWO CRITICAL AREAS: THE ECONOMY AND ELECTORAL REFORM. IN RETURN FOR A COMMIMENT TO RESPECT MITTERRAND'S PREROGATIVES, CHIRAC HAS APPARENTLY SECURED A PRESIDENTIAL UNDERTAKING NOT TO BLOCK IMPLEMENTATION BY ORDINANCE OF THE NEW MAJORITY'S ECONOMIC POLICIES, OR ITS COMMITMENT TO RETURN TO A SYSTEM OF MAJORITY VOTING. ENABLING LEGISLATION WILL APPARENTLY BE PASSED BY THE NEW PARLIAMENT, AND THEREAFTER THE NECESSARY MEASURE WILL BE DECREED BY ORDINANCE (A PROCEDURE REQUIRING THE PRESIDENT'S SIGNATURE).

3. CHIRAC EVIDENTLY UNDERTOOK THAT OTHER REFORMS WOULD BE INTRODUCED BY MEANS OF SPECIFIC LEGISLATION ACCORDING TO NORMAL PARLIAMENTARY PROCEDURES. BUT THIS IS A CONCESSIONN HE WILL HAVE BEEN READY TO MAKE: HE BELIEVES THE SUCCESS OF HIS GOVERNMENT (AND HIS PRESIDENTIAL PROSPECTS) DEPENDS ON MAKING RAPID ECONOMIC PROGRESS, AND THAT ORDINANCES ARE THE BEST MEANS. SIMILARLY, HE ATTACHES GREAT IMPORTANCE TO RETURNING TO A MAJORITY VOTING SYSTEM: IN PART BECAUSE IT IS A TENET OF THE GAULLIST FAITH, AND IN PART BECAUSE HE CALCULATES THAT THE RPR STAND TO DO WELL OUT OF IT. (WITH THE PS AT OVER 31 PERCENT OF THE VOTE MITTERRAND MAY NOW SEE ADVANTAGE IN IT TOO.) THE SMALLER UDF PARTIES WITHIN THE GOVERNMENT WILL BE LESS ENTHUSIASTIC, BUT BY SECURING PRESIDENTIAL AGREEMENT TO PROCEED BY ORIDNANCE, CHIRAC APPEARS TO HAVE OUT-MANOEUVRED THEM. IT WILL NOT HOWEVER BE EASY TO SECURE THE NECESSARY MAJORITY FOR THE ENABLING LEGISLATION.

4. THE GOVERNMENT IS NOT ONLY COMMITTED TO CHIRAC'S PRIORITIES, MOST OF THOSE APPOINTED TO THE KEY ECONOMIC PORTFOLIOS ARE FROM THE RPR AND ARE CLOSE TO HIM PERSONALLY. BALLADUR, WHO TAKES ON THE

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SUPER MINISTRY OF ECONOMY, FINANCE AND PRIVATISATION, IS A PARTICULAR CONFIDANT AND FRIEND. I AM TELEGRAPHING SEPARATELY ABOUT HIM: BUT HE HAS CLEARLY EMERGED AS THE PRINCIPAL MEMBER OF THE CABINET AFTER CHIRAC HIMSELF, AND HIS PERFORMANCE WILL BE CRUCIAL TO THE GOVERNMENT'S SUCCESS. HE IS ASSISTED BY JUPPE (BUDGET), NOIR (FOREIGN TRADE) AND CABANA (NOT AS GARBLED IN TUR) FOR PRIVATISATION, THREE OF THE ABLEST AND MOST PRAGMATIC OF CHIRAC'S CLOSE FOLLOWERS. IT LOOKS A STRONG TEAM.

5. SEGUIN IS A CLEVER CHOICE FOR SOCIAL AFFAIRS AND EMPLOYMENT. ON THE LEFT OF THE RPR, HE SHOULD BE AS CAPABLE AS ANYONE OF REDUCING THE FRICTION BETWEEN A LIBERALISING CHIRAC ADMINISTRATION AND TRADE UNIONS HOSTILE TO SOME, AT LEAST, OF THE NEW GOVERNMENT'S REFORMS (E.G. OBOLITION OF CONTROLS GOVERNING REDUNDANCIES). SEGUIN'S PERFORMANCE WILL ALSO BE CRITICAL: THE NEW GOVERNMENT DOES NOT WANT TO USHER IN A WAVE OF STRIKES, PARTICULARLY AFTER THE SOCIALIST GOVERNMENT'S IMPRESSIVE RECORD IN THIS AREA.

6. CHIRAC HAS SIMILARLY PUT HIS OWN MEN INTO THE INTERIOR MINISTRY. PASQUA IS APPOINTED MINISTER, AND SEEMS LIKELY TO CONCENTRATE, ANYWAY INITIALLY, ON ELECTORAL REFORM: WHILE PANDRAUD (A FORMER DIRECTER-GENERAL OF THE NATIONAL POLICE) TAKES ON LAW AND ORDER AND TERRORISM. BOTH ARE ON THE RIGHT OF THE RPR AND BOTH ARE SEEN AS TOUGH AND UNCOMPROMISING. IT WILL BE THEIR JOB TO GIVE SUBSTANCE TO THE RPR'S ELECTION PROMISES TO ACT DECISIVELY IN COMBATTING CRIME. (THIS IS AN AREA WHERE CHIRAC WILL BE PARTICULARYY CONSCIOUS OF THE THREAT TO HIS RIGHT FROM LE PEN.)

7. GUILLAUME, THE NEW MINISTER OF AGRICULTURE, IS NOT A MEMBER OF THE RPR, BUT HE HAS APPEARED VERY CLOSE TO CHIRAC IN RECENT YEARS. GUILLAUME ALSO HAS THE REPUTATION OF BEING TOUGH, AND HAS PROBABLY BEEN CHOSEN BY CHIRAC TO BE JUST THAT, IN LINE WITH THE RPR'S CAMPAIGN RHETORIC ON AGRICULTURAL ISSUES. (I HAVE TELEGRAPHED SEPARATELY ABOUT THIS IN VIEW OF MONDAY'S AGRICULTURAL COUNCIL IN BRUSSELS.)

8. THE CHOICE OF MONORY FOR EDUCATION WILL PROBABLY REINFORCE THE MOVMENT STARTED BY THE SOCIALISTS TO ENSURE THAT SCHOOLS TEACH THE BASICS AND COME TO TERMS WITH ECONOMIC REALITIES. HE IS A MAN OF ABUNDANT COMMON SENSE WHOSE FORMAL EDUCATION NEVER WENT BYOND PRIMARY SCHOOL BUT WHO BECAME A RESPECTED MINISTER OF INDUSTRY AND THEN FINANCE.

9. TH UDF HAVE DONE LESS WELL THAN THEIR RPR COUNTERPARTS IN THE IMPORTANCE OF THE MINISTRIES THEY HAVE SECURED, IF NOT IN THEIR NUMBER. THE PARTI REPUBLICAIN (PR) HAS TWO FULL MINISTERS, LEOTARD AT CULTURE AND COMMUNICATION (AND APPARENTLY FIFTH IN ORDER OF PRECEDENCE), AND MADELIN AT INDUSTRY, POSTS AND TELECOMMUNICATIONS AND TOURISM. CULTURE IS A PRESTIGOUS MINISTRY IN FRANCE, BUT EVEN SO LEOTARD WILL BE DISAPPOINTED THAT MITTERRAND APPARENTLY VETOED HIM FOR DEFENCE. THERE WILL HOWEVER BE PLENTY OF SCOPE IN THE COMMUNICATIONS HALF OF HIS PORTFOLIO FOR REDUCING THE CONTROLS THAT NOW GOVERN THE MEDIA, AND PERHAPS FOR PRIVATISING ONE AT LEAST OF THE STATE CONTROLLED TELEVISIONS CHAINS, SOMETHING TO WHICH THE PR IS HEAVILY COMMITTED. THERE SHOULD ALSO BE PLENTY OF SCOPE FOR MADELIN'S ENTHUSIASM FOR DEREGULATION OF INDUSTRY. IN ADDITION TO THESE TWO YOUNG TURKS OF THE PR, THE PARTY HAS FIVE OTHER JUNIOR MINISTERIAL POSTS.

10. THE CDS HAVE TWO SENIOR MINISTERS (MEHAIGNERIE AND MONORY) AND FOUR JUNIOR ONES. THEIR PARTICIPATION IN FORCES IS OF CONSIDERABLE INTEREST SINCE THE PARTY IS HEAVILY BARRISTE IN SYMPATHY AND THERE WAS SPECULATION BEFORE THE ELECTIONS ABOUT WHAT ATTITUDE THEY WOULD ADOPT TO COHABITATION. THERE ARE STILL CONSIDERABLE DIFFERENCES AMONG THEM: BUT CHIRAC WILL BE PLEASED THAT THE LURE OF OFFICE HAS TEMPTED SO MANY ABOARD. HE HAS ALSO FOUND PLACES FOR TWO RADICALS (ROSSINOT AND BARIANI), AND FOR SANTINI OF THE TINY SOCIAL DEMOCRAT PARTY.

11. WHERE CHIRAC HAS NOT HAD HIS WAY IS OVER FOREIGN AFFAIRS AND DEFENCE. HERE MITTERRAND HAS SUCCESSFULLY INSISTED ON PEOPLE ACCEPTABLE TO HIM. RAIMOND (SEE SEPARATE TELEGRAM) WHILE NOT CHIRAC'S FIRST CHOICE, MAY NOT HAVE CAUSED HIM MANY PROBLEMS. APART FROM HIS DIPLOMTIC EXPERIENCE, HE SHARES A QUALIFICATION WITH A NUMBER OF OTHER IMPORTANT MEMBERS OF THE NEW GOVERNMENT, INCLUDING CHIRAC HIMSELF: HE WORKED DIRECTLY FOR POMPIDOU IN THE EARLY 1970S. GIRAUD IS AT FIRST SIGHT AN UNEXCITING AND UNIMPRESSIVE CHOICE FOR DEFENCE, BUT HE HAS EXPERIENCE OF GOVERNMENT AND IT IS RUMOURED THAT PART AT LEAST OF THE MILITARY ESTABLISHMENT ASKED FOR HIM - ALTHOUGH OTHERS SEEM DISAPPOINTED.

12. ALTHOUGH CHIRAC HAS IN EFFECT HAD TO ACCEPT SOME CONTINUING PRESIDENTIAL ROLE IN FOREIGN AFFAIRS AND DEFENCE, HE HAS NEVERTHELESS MANAGED TO PUT HIS ALLIES INTO JOBS THAT ARE RELATED OR SUBORDINATE. BARIANI, THE JUNIOR MINISTER AT THE QUAI, IS A RADICAL, BUT HE IS CLOSE TO CHIRAC PERSONALLY 'AS ONE OF THE DEPUTY MAYORS OF PARIS), AND WILL BE A USEFUL ALLY ON THIS COHABITATIONIST BATTLE-GROUND. (WE DO NOT YET KNOW WHAT HIS SPECIFIC RESPONSIBLITIES WILL BE.) PONS, FORMER SECRETARY GENERAL OF THE RPR, BECOMES MINISTER FOR THE OVERSEAS DEPARTMENTS AND TERRITORIES WHICH, IF TECHNICALLY A DOMESTIC MINISTRY, IS ONE WITH INTERNATIONAL IMPLICATIONS (E.G. NEW CALEDONIA). AURILLAC AS MINISTER FOR COOPERATION WILL BRING TO OVERSEAS AID POLICY A WIDE RANGE OF EXPERIENCE INCLUDING DIRECTLY ON AFRICA. THE APPOINTMENT OF FLOSSE WITH SPECIAL RESPONSIBILITY FOR THE PROBLEMS OF THE PACIFIC UNDERLINES THE NEW GOVERNMENT'S STRONG FEELING ABOUT THIS AREA (MURUROA, THE TURENGES, ETC), AND MME. MICHAUX-CHEVRY'S RESPONSIBILITY FOR ''FRANCOPHONIE'' HIGHLIGHTS THE RPR'S COMMITMENT TO FRANCE AS A WORLD POWER, AND FRENCH AS A WORLD LANGUAGE. AS THE TOKEN NON-WHITE IN THE GOVERNMENT, SHE MAY BE INTENDED TO SOFTEN THE IMAGE CREATED BY THE HARD MEN AT INTERIOR.

13. THERE ARE A NUMBER OF OLD FACES (CHALANDON, GIRAUD, MONORY), BUT

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A LOT OF YOUNG BLOOD TOO. SEGUIN STANDS OUT PARTICULARLY, BUT OTHER RISING RPR STARS ARE INCLUDED SUCH AS JUPPE, NOIR, CARIGNON, DEVAQUET AND MICHELE ALLIOT-MARIE. THEIR ARRIVAL IS MATCHED BY THE INCLUSION OF LEOTARD, MADELIN AND LONGUET OF THE PR.

CONCLUSION

14. CHIRAC SEEMS TO HAVE GOT MUCH OF WHAT HE WANTED. HE CAN APPARENTLY PURSUE HIS PRIORITIES BY ORDINANCE AND HE HAS CLOSE ALLIES IN MOST OF THE KEY JOBS. BUT PLENTY OF DIFFICULTIES LIE AHEAD. THERE MAY BE TENSIONS WITH THE UDF OVER THE ALLOCATION OF THE MINISTRIES: EVEN IF THERE ARE NOT, HOLDING THE MAJORITY TOGETHER WILL BE A DIFFICULT AND DEMANDING TASK (WHICH MAY BE WHY TOUBON HAS BEEN LEFT AS THE SECRETARY GENERAL OF THE RPR). RAPID IMPLEMENTATION OF THE NEW MAJORITY'S ECONOMIC POLICY MAY POSSIBLY PRODUCE QUICK AND POPULAR RESULTS AS CHIRAC HOPES: BUT IT MIGHT INITIALLY LEAD TO HIGHER INFLATION AND UNEMPLOYMENT AND AN EARLY OPPORTUNITY FOR MITTERRAND TO STRIKE. AS CHIRAC KNOWS, MISTAKES COULD QUICKLY PROVE DISASTROUS. NOT ONLY IS MITTERRAND LYING IN WAIT,, BUT GISCARD, CHABAN, SIMONE VEIL BARRE AND LECANUET WILL BE TOO: NONE OF THEM IS IN THE NEW GOVERNMENT, AND ALL SEE A BRIGHTER FUTURE FOR THEMSELVES IF CHIRAC FAILS THAN IF HE SUCCEEDS.

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INFO SAVING BONN, UKREP BRUSSELS, BRUSSELS, COPENHAGEN, DUBLIN
INFO SAVING LISBON, LUXEMBOURG, MADRID, ROME AND THE HAGUE

MY TELNO 324: NEW GOVERNMENT .

1. FOLLOWING ARE BIOGRAPHICAL NOTES ON KEY MEMBERS OF THE NEW GOVERNMENT NOT COVERED IN 1985 LEADING PERSONALITIES REPORT.

BALLADUR, EDOUARD

MINISTER OF THE ECONOMY, FINANCE AND PRIVATISATION.

AS THE ONLY MINISTER OF STATE IN THE GOVERNMENT, CLEARLY THE MOST IMPORTANT FIGURE AFTER CHIRAC. HE WILL SUPERVISE JUNIOR MINISTERS FOR THE BUDGET, PRIVATISATION AND FOREIGN TRADE. BORN 1929. ENA. 1963-74 WORKED FOR POMPIDOU, FIRST AS SOCIAL AFFAIRS ADVISER (ALONGSIDE CHIRAC) WHEN POMPIDOU, WAS PRIME MINISTER, LATER ASSISTANT SECRETARY-GENERAL OF THE ELYSEE IN 1969 AND SECRETARY-GENERAL IN 1973. AFTER POMPIDOU'S DEATH IN 1974, HEAD OF A SUBSIDIARY OF THE CGE ELECTRONICS GROUP BEFORE MOVING BACK INTO THE POLITICAL WORLD IN THE LATE 1970S AS AN INCREASINGLY INFLUENTIAL ADVISER TO CHIRAC.

ALTHOUGH LARGELY UNKNOWN TO THE FRENCH PUBLIC (HE HAD NOT STOOD FOR ELECTED OFFICE BEFORE LAST SUNDAY), HE IS INTELLIGENT, CALM AND DISCREET AND HAS A HIGH REPUTATION FOR EFFICIENCY AND GOOD SENSE. HE HAS LITTLE DIRECT EXPERIENCE OF THE MINISTRY HE NOW DIRECTS OR OF FINANCIAL AFFAIRS AND, WHILE OPEN-MINDED, IS GENERALLY SEEN AS PRUDENT RATHER THAN PARTICULARLY LIBERAL IN HIS APPROACH TO ECONOMIC AFFAIRS. THIS IS IN CONTRAST TO THE MORE OBVIOUSLY LIBERAL APPROACH OF OTHER MINISTERS IN THE ECONOMIC FIELD, NOTABLY JUPPE (BUDGET), NOIR (FOREIGN TRADE) AND MADELIN (INDUSTRY).

RAIMOND, JEAN-BERNARD

MINISTER OF FOREIGN AFFAIRS.

CAREER DIPLOMAT, WHICH SHOULD RAISE QUAI MORALE. BORN 1926. ENA. SERVED QUAI 1956-67, ADVISER TO PRIME MINISTER (POMPIDOU) 1968-69, THEN MOVED WITH HIM TO THE ELYSEE, 1969-73, AS ADVISER ON EAST-WEST AFFAIRS. AMBASSADOR RABAT 1973-77, BRIEFLY DIRECTOR FOR NORTH AFRICA AT THE QUAI, THEN DIRECTEUR DE CABINET TO MINISTER (DE GUIRINGAUD) 1977-78, DIRECTOR FOR CULTURAL RELATIONS 1979-82. AMBASSADOR WARSAW 1982-85, MOSCOW SINCE SPRING 1985.

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AN EAST-WEST SPECIALIST, WITH PREVIOUS EXPERIENCE OF HANDLING RELATIONS BETWEEN ELYSEE, MATIGNON AND THE QUAI. DESCRIBED BY HMA WARSAW IN 1984 AS GOOD COLLEAGUE, FORTHCOMING, SOUND AND RELAXED. SEE ALSO MOSCOW TELNO 336. HIS APPOINTMENT DOUBTLESS REFLECTS A DESIRE BY BOTH MITTERRAND AND CHIRAC TO HAVE AT THE QUAI A MINISTER WHO WILL EFFICIENTLY EXECUTE RATHER THAN INITIATE POLICY. BUT RAIMOND WILL NOT HAVE AN EASY TIME SERVING TWO MASTERS WHO ARE COMPETING FOR CONTROL OF FOREIGN POLICY. IT IS ALMOST CERTAIN THAT CHIRAC'S FIRST NOMINEE FOR THE JOB WAS LECANUET AND THAT HE WAS VETOED BY MITTERRAND, WHO WANTED SOMEONE LESS POLITICALLY COMMITTED AND MORE RESPONSIVE TO ELYSEE DIRECTION.

GIRAUD, ANDRE

MINISTER FOR DEFENCE.

BORN 1925. QUALIFIED AS ENGINEER AT THE PRESTIGIOUS ECOLE POLYTECHNIQUE. ROSE FAST IN THE FRENCH PETROLEUM INSTITUTE: TECHNICAL DIRECTOR BY 30, DEPUTY DIRECTOR GENERAL BY 33. 1964 JOINED GOVERNMENT AS DIRECTOR, FUEL DIVISION, MINISTRY OF INDUSTRY, COMBINING THIS WITH A SEAT ON THE BOARD OF RENAULT. DIRECTEUR DE CABINET TO MINISTER OF EDUCATION, 1968-70, ADMINISTRATOR-GENERAL ATOMIC ENERGY COMMISSION, 1970-78. MINISTER OF INDUSTRY 1978-81, ADVISER TO ST. GOBAIN SINCE 1981.

REPORTED IN THE PRESS TO BE A STRONG PARTISAN OF FRENCH NUCLEAR DETERRENT AND SCEPTICAL OF SDI. BUT HE HAS LITTLE EXPERIENCE OF STRATEGIC AFFAIRS. HE MAY FIND IT DIFFICULT TO CARRY MUCH WEIGHT IN TUG OF WAR BETWEEN ELYSEE AND MATIGNON FOR CONTROL OF DEFENCE POLICY. WITH HIS INDUSTRIAL EXPERIENCE HE MAY TAKE A KEEN INTEREST IN DEFENCE PROCUREMENT ISSUES. AMBITIOUS AND STRONGLY AWARE OF HIS OWN ABILITIES. EXCELLENT ENGLISH.

2. NOTES ON OTHER MINISTERS FOLLOW BY BAG.

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OF 211113Z MARCH 86
INFO IMMEDIATE UKREP BRUSSELS,
INFO PRIORITY OTHER EC POSTS, WASHINGTON AND WELLINGTON
[COLLAR]

NEW FRENCH AGRICULTURE MINISTER

1. PARIS TELNO 324 OF 20 MARCH REPORTED THE APPOINTMENT OF FRANCOIS GUILLAUME AS AGRICULTURE MINISTER IN THE NEW FRENCH GOVERNMENT. GUILLAUME IS WELL KNOWN AS PRESIDENT OF THE FEDERATION NATIONALE DES SYNDICATS D'EXPLIITANTS AGRICOLES (FNSEA), A POST HE HAS HELD SINCE 1979. HIS APPOINTMENT IS SEEN AS CONFIRMATION THAT A CHIRAC GOVERNMENT WILL ACCORD GREATER NATIONAL PRIORITY TO AGRICULTURE AND TAKE A TOUGH LINE IN DEFENCE OF FRENCH INTERESTS IN THE CAP.

2. GUILLAUME IS 54 YEARS OLD, COMES FROM A FARMING FAMILY, AND HIMSELF FARMS A MIXED HOLDING OF 115 HECTARES (INCLUDING DAIRYING) IN LORRAINE. HE IS MARRIED WITH 4 CHILDREN. HE HAS ACHIEVED PUBLIC PROMINENCE THROUGH HIS TENURE OF OFFICE IN THE PROFESSIONAL FARMING ORGANISATIONS, FIRST AS SECRETARY OF THE CENTRE NATIONAL DES JEUNES AGRICULTEURS, THEREAFTER AS SECRETARY-GENERAL, SUBSEQUENTLY PRESIDENT, OF THE FNSEA. HIS REPUTATION AS A EUROPEAN FARM LEADER HAS BEEN BUILT ON HIS STOUT DEFENCE OF THE PRINCIPAL TENETS OF THE CAP AND HIS ABILITY TO BRING FRENCH, OFTEN EUROPEAN, FARMERS ON TO THE STREETS IN LARGE SCALE DEMONSTRATIONS. HE HAS RECENTLY CAST HIMSELF IN THE ROLE OF DEFENDER OF EUROPEAN FARMING INTERESTS AGAINST THE THREAT OF AMERICAN ENCROACHMENT ON THE EC'S TRADITIONAL EXPORT MARKETS. A CLOSE COLLEAGUE OF CHIRAC, GUILLAUME HAD DIFFICULT RELATIONS WITH THE 3 AGRICULTURE MINISTERS OF THE SOCIALIST GOVERNMENT, MOST NOTABLY WITH MME CRESSON.

3. AGRICULTURE MINISTRY STAFF FULLY EXPECT THEIR NEW MINISTER TO ATTEND THE AGRICULTURE COUNCIL ON 24/25 MARCH. GUILLAUME WILL NOT PROVE AN EASY COLLEAGUE THERE. HE TAKES ON HIS ROLE AS AGRICULTURE MINISTER WITH A CONSIDERABLE LEGACY OF COMMITMENTS TO THE DEFENCE OF FRENCH AGRRICULTURE AND RESISTANCE TO REFORM OF THE CAP AND CONTROL OF AGRICULTURAL EXPENDITURE. AS FORESHADOWED IN THE ELECTION CAMPAIGN, NEW ZEALAND IMPORTS ARE LIKELY TO BE ONE OF HIS SPECIAL TARGETS. FRENCH FARMERS WHO HAVE GENERALLY WELCOMED HIS APPOINTMENT WILL EXPECT GUILLAUME TO PROVE A VERY TOUGH NEGOTIATOR ON THEIR BEHALF. HIS PERFORMANCE ON THE PRICES PACKAGE (SEE PARIS TELNO 187

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OF 19 FEBRUARY FOR GUILLAUME'S REACTION TO THE COMMISSION'S PROPOSALS) WILL PROVE AN IMMEDIATE TEST OF STRENGTH FOR HIM. A STRONG PERSONALITY, BORDERING ON THE AGGRESSIVE IN NEGOTIATIONS, GUILLAUME NONETHELESS HAS A GOOD DEAL OF PERSONAL CHARM.

4. NO JUNIOR AGRICULTURE MINISTER HAS BEEN APPOINTED. I RECOMMEND THAT MR JOPLING SHOULD WRITE BOTH TO M. NALLET AND TO M. GUILLAUME.

5. FCO PLEASE PASS IMMEDIATE TO PS MR JOPLING, PS SIR MICHAEL FRANKLIN, ANDREWS AND HADLEY, MAFF.

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21 March 1986

FORMATION OF THE NEW FRENCH GOVERNMENT: MESSAGES

Thank you for your letter of 20 March enclosing draft messages from the Prime Minister to President Mitterrand, M. Chirac and M. Fabius.

The Prime Minister does not think it would be appropriate for her to send a message to President Mitterrand. She is certain that he himself would not welcome it.

She agrees, however, to send messages to M. Chirac and M. Fabius and I enclose revised texts which may be despatched.

(C. D. POWELL)

Len Appleyard, Esq., C.M.G.,
Foreign and Commonwealth Office.

CONFIDENTIAL

OUTWARD TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

TC — SECURITY CLASSIFICATION ..... CONFIDENTIAL .....

CAVEAT — PRIVACY MARKING/RESTRICTIVE PREFIX .....

FM — FM (post) .....

TO — TO (precedence/post) ..... TO IMMEDIATE PARIS .....

TELNO — TELNO/TELELETTER .....

OF — OF (Time of origin) ..... Z (Month) ..... (Year) .....

AND TO — AND TO (precedence/post) .....

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.....

AND TO SAVING .....

INFO — INFO (precedence/post) .....

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INFO SAVING .....

Distribution:–

European Political

cc No 10
Downing Street

MESSAGE FROM THE PRIME MINISTER TO MONSIEUR JACQUES CHIRAC

MESSAGE BEGINS

I send you my warmest congratulations on your success in the recent elections and on your appointment as Prime Minister of France. I wish you every success in your new responsibilities and look forward to working closely with you and your Government.

MESSAGE ENDS

Catchword:

File number	Department	Drafted by : (block capitals)	Telephone no.
	WED	C A MUNRO	233 4759

OUTWARD TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

TC
CAVEAT
FM
TO
TELNO
OF
AND TO
INFO

SECURITY CLASSIFICATION ..... CONFIDENTIAL .....

PRIVACY MARKING/RESTRICTIVE PREFIX .....

FM (post) .....

TO (precedence/post) TO IMMEDIATE PARIS .....

TELNO/TELELETTER .....

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AND TO (precedence/post) .....

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AND TO SAVING .....

INFO (precedence/post) .....

.....

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INFO SAVING .....

Distribution:–

European Political
cc No.10 Downing Street

MESSAGE FROM THE PRIME MINISTER TO MONSIEUR LAURENT FABIUS

MESSAGE BEGINS

As you leave the Matignon, may I say how greatly I have appreciated the close and successful cooperation between our two Governments during your tenure of office. My colleagues and I send you our best wishes.

MESSAGE ENDS

Catchword:

File number	Department	Drafted by : (block capitals)	Telephone no.
	WED	C A MUNRO	233 4759

GRS 1000

CONFIDENTIAL

[COLLAR]

CONFIDENTIAL

FM PARIS

TO FCOLN

TELNO 319

OF 201751Z MARCH 86

INFO IMMEDIATE ATHENS (FOR THE SECRETARY OF STATE'S PARTY)

INFO PRIORITY EC POST, WASHINGTON, UKDEL NATO

INFO PRIORITY CONSULS GENERAL IN FRANCE

MY TELNO 313: THE FRENCH LEGISLATIVE ELECTIONS SUMMARY

1. MITTERAND HAS APPOINTED CHIRAC AS PRIME MINISTER.APPARENTLY HE WANTED SIMONE VEIL: BUT SHE FAILED TO SECURE THE BACKING OF OTHER UDF LEADERS WHO PREFERRED TO SAFEGUARD THEIR ALLIANCE WITH CHIRAC. MITTERAND HAS SINCE SOUGHT TO PUT CHIRAC'S APPOINTMENT IN THE CONTEXT OF SCRUPULOUS RESPECT FOR THE ELECTORATE'S VERDICT: BUT HE WAS LEFT WITH LITTLE CHOICE IF HE WAS TO AVOID THE RISK OF A PROTRACTED POLITICAL CRISIS. THERE APPEARS TO HAVE BEEN HARD BARGAINING BETWEEN MITTERAND AND CHIRAC OVER CABINET APPOINTMENTS AND THE IMPLEMENTATION OF ECONOMIC POLICY. CHIRAC'S APPINTMENT CARRIES RISKS FOR MITTERRAND. HE HAS NO CONSTITUTINAL POWERS TO DISMISS HIM, AND CHIRAC MIGHT PROVE A SUCCESS. MITTERAND WILL TRY TO PREVENT THIS. CHIRAC IS LIKELY TO ANNOUNCE THE NEW GOVERNMENT SHORTLY. IT IS WITH HIM THAT WE MUST EXPECT TO DEAL IN THE NEXT FEW MONTHS. I RECOMMEND A MESSAGE OF CONGRATULIONS.

DETAIL

2. I HAVE HEARD FROM AN EXCELLENT SOURCE THAT MITTERAND SECRETLY OFFERED THE PREMIERSHIP TO SIMONE VEIL ON SUNDAY, BUT THAT SHE WAS OBLIGED TO REFUSE IT WHEN SHE FOUND THE FOLLOWING MORNING THAT THE OTHER UDF LEADERS WOULD NOT SUPPORT HER. THE APPARENTLY PREFERRED NOT TO JEOPARDISE THEIR ALLIANCE WITH THE RPR, WHO HAD MADE IT CLEAR THAT CHIRAC MUST HAVE FIRST REFUSAL.

3. ASSUMING THIS ACCOUNT IS ACCURATE, MITTERRAND MUST HAVE REALISED THAT HE RISKED A TRIAL OF STRENGTH WITH THE NEW MAJORITY IF HE CHOSE SOMEONE OTHER THAN CHIRAC. THEY MIGHT HAVE REFUSED A PARLIAMENTARY VOTE OF CONFIDENCE TO HIS NOMINEE, WHICH COULD HAVE LEFT FRANCE WITHOUT EFFECTIVE GOVERNMENT FOR WEEKS AND MIGHT ULTIMATELY HAVE OBLIGED MITTERAND TO CALL NEW ELECTIONS. THIS WOULD HAVE BEEN HIGHLY UNPOPULAR AND THE PRESIDENT WOULD HAVE RISKED TAKING MUCH OF THE BLAME.

4. HE THEREFORE ACCEPTED THE LOGIC OF THE SITUATION AND OFFERED THE JOB TO CHIRAC DURING A TWO HOUR MEETING ON TUESDAY EVENING. CHIRAC LEFT THE ELYSEE WITHOUT ACCEPTING AND WENT TO CONSULT HIS UDF PARTNERS, AS HE WAS OBLIGED TO DO UNDER THE TERMS OF THE JOINT STATEMENT ISSUED BY BOTH RPR AND THE UDF THE DAY BEFORE (MY TELNO 304).

5. THERE IS NO CERTAINTY ABOUT WHAT MITTERRAND AND CHIRAC SAID TO EACH OTHER. HOWEVER IT SEEMS LIKELY THAT MITTERAND RESISTED SOME OF CHIRAC'S PROPOSED CABINET APPOINTMENTS, AS WELL AS HIS WISH TO IMPLEMENT MUCH OF THE NEW MAJORITY'S ECONOMIC PROGRAMME RAPIDLY AND BY ORDINANCE (MY TELNO 290). THERE IS ALSO SPECULATION THAT MITTERAND REITERATED EARLIER DEMANDS FOR A SAY IN FOREIGN AND DEFENCE POLICY AND INSISTED THAT BOTH PORTFOLIOS SHOULD GO PEOPLE WHO WERE ACCEPTABLE TO HIM PERSONALLY, AND THAT AN ELYSEE FOREIGN POLICY ADVISER SHOULD HAVE DIRECT ACCESS TO THEM. HE APPARENTLY WARNED CHIRAC SPECIFICALLY AGAINST LECANUET AS FOREIGN MINISTER, AND LEOTARD AS DEFENCE MINISTER, PARTLY ON THE GROUNDS THAT BOTH HAD MADE PARTICULARLY VIRULENT ATTACKS ON HIM DURING THE CAMPAIGN AND WOULD NOT, THEREFORE, BE SUITABLE FOR MINISTRIES WHERE COHABITATION IS LIKELY TO PROVE PARTICULARLY IMPORTANT. IT IS ALSO REPRTED THAT HE TURNED DOWN DAILLY FOR JUSTICE. WHATEVER THE TRUTH OF THESE ACCOUNTS, THERE HAS OBVIOUSLY BEEN ENOUGH OF A SPIRIT OF ACCOMMODATION ON BOTH SIDES FOR CHIRAC TO ACCEPT MITTERAND'S OFFER, WHICH HE DID EARLY THIS EVENING. IN THE END CHIRAC MAY HAVE MADE CONCESSIONS ON APPOINTMENTS IN RETURN FOR ASSURANCES FROM MITTERRAND OVER THE USE OF ORDINANCES. IT IS NEVERTHELESS SIGNIFICANT THAT THE PROCESS TOOK 48 HOURS.

6. THIS HORSE-TRADING HAS PROVIDED EARLY EVIDENCE OF MITTERAND'S CONTINUING CAPACITY TO INFLUENCE EVENTS. IT WILL HAVE LEFT SOME DISGRUNTLED RIGHT WING POLITICIANS, LECANUET AND LEOTARD AMONG THEM (EVEN IF IN LECANUET'S CASE, CHIRAC MAY SECRETLY HAVE BEEN RELIEVED BY THE PRESIDENT'S VETO). CHIRAC WILL NOW HAVE TO BE ALL THE MORE CAREFUL TO TAKE THEIR SENSITIVITIES INTO ACCOUNT. NEVERTHELESS, HE PROBABLY CALCULATES THAT THE VITAL THING IS TO CONSTITUTE A GOVERNMENT WITHOUT FURTHER DELAY AND START IMPLEMENTING THE NEW MAJORITY'S PROGRAMME: HIS HAND SHOULD BE STRONGER VIS-A-VIS THE PRESIDENT ONCE HIS TEAM IS IN PLACE. HE IS EXPECTED TO ANNOUNCE THE COMPOSITION OF THE NEW GOVERNMENT VERY SHORTLY. (FOR BIOGRAPHY OF CHIRAC SEE LPR.)

7. MITTERAND HAS SOUGHT TO GIVE THE IMPRESSION THAT HIS CHOICE OF CHIRAC, THE LEADER OF THE LARGEST PARTY WITHIN THE NEW MAJORITY, STEMS FROM A DETERMINATION TO ACT IN COMPLETE CONFORMITY WITH THE LETTER AND SPIRIT OF THE CONSTITUTION. THIS IS A STANCE WHICH HE JUDGES WILL BE WELL RECEIVED IN FRANCE AS A WHOLE, AND WHICH HE HOPES WILL INCREASE HIS MORAL AUTHORITY AND HIS POPULARITY.

8. BUT THE FACT THAT MITTERAND APPARENTLY TRIED TO AVOID NOMINATING CHIRAC ILLUSTRATES HIS AWARENESS OF THE RISKS AND DIFFICULTIES WHICH HIS APPOINTMENT PRESENTS. THE FIRST IS THAT HE MAY HAVE SADDLED HIMSELF WITH A PRIME MINISTER HE CANNOT GET RID OF. BY A CURIOUS CONSTITUTINAL QUIRK, THE PRESIDENT CAN APPOINT THE PRIME MINISTER BUT CANNOT DISMISS HIM. UNLESS THE PRIME MINISTER RESIGNS, THE PRESIDENT'S ONLY RECOURSE IS TO DISSOLVE THE ASSEMBLY.

9. ANOTHER RISK FROM MITTERAND'S POINT OF VIEW IS THAT DESPITE THE NEW GOVERNMENT'S SLIM MAJORITY AND INTERNAL TENSIONS, CHIRAC MAY MAKE A SUCCESS OF MATIGNON, REAPING BENEFITS FROM FALLS IN THE OIL PRICE AND THE DOLLAR. MITTERRAND WILL BE WATCHING CHIRAC'S POPULARITY RATINGS CLOSELY, CONSCIOUS OF THE RISK THAT HE MAY OVERTAKE BARRE (PARTICULARLY AFTER THE LATTER'S POOR SHOWING IN LYONS), AND THEN BE TEMPTED TO PROVOKE A POLITICAL CRISIS IN THE HOPE OF FORCING, AND WINNING, PREMATURE PRESIDENTIAL ELECTIONS. MITTERAND WILL MANOEUVRE TO TRY TO ENSURE THAT THIS DOES NOT HAPPEN AND THAT CHIRAC DOES NOT BENEFIT UNDULY FROM HIS OCCUPANCY OF MATIGNON. HE WILL BE LOOKING FOR OCCASIONS TO TRIP HIM UP AND WIL KEEP OPEN THE POSSIBILITY OF HIMSELF CALLING EARLY PRESIDENTIAL ELECTIONS IF HE THINKS HE CAN WIN THEM.

10. IT IS IMPOSSIBLE TO SAY HOW LONG COHABITATION WILL LAST. (BARRE SAID YESTERDAY THAT HE GIVES IT UNTIL THE AUTUMN.) BUT I DO NOT EXPECT A CHIRAC GOVERNMENT TO HAVE DIFFICULTY IN SECURING A VOT OF CONFIDFENCE AND WE SHOULD THEREFORE WORK ON THE ASSUMPTIN THAT IT IS WITH SUCH A GOVERNMENT THAT WE SHALL HAVE TO DEAL, ANYWAY FOR THE NEXT FEW MONTHS.

11. I RECOMMEND THAT THE PRIME MINISTER SEND A MESSAGE OF CONGRATULATION.

FRETWELL

EUROPEAN POLITICAL
WED.

GRS 450

UNCLASSIFIED
FM PARIS
TO IMMEDIATE FCO
TELNO 323
OF 201845Z MARCH 86
INFO PRIORITY ATHENS (FOR SECRETARY OF STATES PARTY), OTHER EC POSTS
INFO PRIORITY WASHINGTON, UKDEL NATO, CONSULS GENERAL IN FRANCE
[COLLAR]

MY TELNO 319: STATEMENT BY CHIRAC
SUMMARY

1. CHIRAC HAS INDICATED THE BASIS ON WHICH HE AND MITTERRAND WILL COHABIT RESPECT FOR THE CONSTITUTION AND THE PRESIDENT'S PREROGATIVES TO BE BALANCED BY ACCEPTANCE OF THE GOVERNMENT'S RIGHT UNDER THE CONSTITUTION TO DETERMINE NATIONAL POLICY. ECONOMIC ISSUES AND ELECTORAL REFORM WILL BE PUSHED THROUGH BY ORDINANCE.

DETAIL

2. FOLLOWING HIS APPOINTMENT AS PRIME MINISTER, CHIRAC MADE A BRIEF ANNOUNCEMENT OUTLINING THE BASIS ON WHICH HIS GOVERNMENT WILL COHABIT WITH THE PRESIDENT, AND THE POLICIES TO WHICH IT WILL GIVE PRIORITY.

3. HE SAID HE HAD DISCUSSED THE MODALITIES OF GOVERNMENT WITH MITTERRAND: BOTH THE RULES LAID DOWN BY THE CONSTITUTION AND THE ELECTORAL VERDICT WOULD BE RESPECTED. THIS MEANT THE PREROGATIVES AND COMPETENCES BESTOWED ON THE PRESIDENT WOULD BE UNTOUCHED. AT THE SAME TIME, ACCORDING TO ARTICLE 20 OF THE CONSTITUTION, IT WAS THE GOVERNMENT THAT DETERMINED AND CONDUCTED NATIONAL POLICY. THE GOVERNMENT WOULD THEREFORE USE ALL THE MEANS PUT AT ITS DISPOSAL BY THE CONSTITUTION TO IMPLEMENT ITS POLICIES.

4. TWO AREAS IN PARTICULAR WERE PRIORITIES AND WOULD BE PUT INTO EFFECT BY ORDINANCE. THE FIRST WAS THE WHOLE NEXUS OF ISSUES IN THE ECONOMIC SOCIAL AND PRIVATISATION FIELDS. PUTTING THE NEW GOVERNMENTS POLICIES INTO EFFECT QUICKLY IN THESE AREAS SHOULD PROVIDE A BOOST TO THE ECONOMY AND IMPROVE EMPLOYMENT PROSPECTS. THE SECOND PRIORITY WAS TO RETURN TO THE FORMER ELECTORAL SYSTEM (MAJORITY VOTING OVER TWO ROUNDS BY CONSTITUENCY). THE NEW GOVERNMENT'S OTHER REFORMS WOULD BE INTRODUCED THROUGH PARLIAMENTARY LEGISLATION.

5. FOR THE COMPOSITION OF THE NEW GOVERNMENT SEE MIFT.

FRETWELL
EUROPEAN POLITICAL
WED

GRS 1000
COLLAR
UNCLASSIFIED
FM PARIS
TO IMMEDIATE FCO
TELNO 324
OF 201900Z MARCH 86
AND TO IMMEDIATE ATHENS (FOR SECRETARY OF STATES PARTY)
INFO ROUTINE OTHER EC POSTS, WASHINGTON, UKDEL NATO
INFO ROUTINE CONSUL GENERALS IN FRANCE

MIPT : THE NEW GOVERNMENT

1. THE COMPOSITION OF THE NEW GOVERNMENT WAS ANNOUNCED THIS EVENING. IT IS AS FOLLOWS:

PRIME MINISTER	: JACQUES CHIRAC
MINISTER OF THE ECONOMY FINANCE AND PRIVATISATION (THE ONLY MINISTER TO BE GIVEN THE SPECIAL STATUS OF MINISTRE D'ETAT	: EDOUARD BALLADUR
MINISTER OF EXTERNAL AFFAIRS	: JEAN-BERNARD RAIMOND (CURRENTLY AMBASSADOR IN MOSCOW) [an official]
MINISTER OF DEFENCE	: ANDRE GIRAUD
MINISTER OF THE INTERIOR	: CHARLES PASQUA
MINISTER OF JUSTICE	: ALBIN CHALANDON
MINISTER OF CULTURE AND COMMUNICATION	: FRANCOIS LEOTARD
MINISTER OF EQUIPMENT, HOUSING, LOCAL GOVERNMENT AND TRANSPORT	: PIERRE MEHAIGNERIE
MINISTER FOR OVERSEAS DEPARTMENTS AND TERRITORIES	: BERNARD PONS
MINISTER OF EDUCATION	: RENE MONORY
MINISTER OF SOCIAL AFFAIRS AND EMPLOYMENT	: PHILIPPE SEGUIN
MINISTER OF INDUSTRY, POSTS AND TELECOMMUNICATIONS AND TOURISM	: ALAIN MADELIN
MINISTER OF AGRICULTURE	: FRANCOIS GUILLAUME /MINISTER

MINISTER OF COOPERATION	: MICHEL AURILLAC
MINISTER FOR RELATIOINS WITH PARLIAMENT	: ANDRE ROSSINOT

JUNIOR MINISTERS

ATTACHED TO THE PRIME MINISTER WITH RESPONSIBILITY FOR THE CIVIL SERVICE AND THE PLAN	: HERVE DE CHARETTE
MINISTRY OF THE ECONOMY RESPONSIBLE FOR THE BUDGET	: ALAIN JUPPE
MINISTRY OF THE ECONOMY RESPONSIBLE FOR EXTERNAL TRADE	: MICHEL NOIR
MINISTRY OF THE ECONOMY RESPONSIBLE FOR PRIVATISATION	: CAMILE CABANIA
MINISTRY OF THE INTERIOR RESPONSIBLE FOR SECURITY	: ROBERT PANDRAUD
MINISTRY OF EQUIPMENT, HOUSING LOCAL GOVERNMENT AND TRANSPORT RESPONSIBLE FOR TRANSPORT	: JACQUES DOUFFIAGUES
MINISTRY OF EQUIPMENT, HOUSING, LOCAL GOVERNMENT AND TRANSPORT RESPONSIBLE FOR THE ENVIRONMENT	: ALAIN CARIGNON
MINISTRY OF EDUCATION RESPONSIBLE FOR RESEARCH AND HIGHER EDUCATION	: ALAIN DEVAQUET
RESPONSIBLE TO THE PRIME MINISTER FOR ''FRANCOPHONIE''	: MME LUCETTE MICHAUX-CHEVRY
RESPONSIBLE TO THE PRIME MINISTER FOR FOR HUMAN RIGHTS	: CLUADE MALHURET
RESPONSIBLE TO THE PRIME MINISTER FOR YOUTH AND SPORTS	: CHRISTIAN BERGELIN
MINISTRY OF CULTURE AND COMMUNICATION	: PHILIPPE DEVILLIERS
MINISTRY OF EXTERNAL AFFAIRS	: DIDIER BARIANI
MINISTRY OF THE INTERIOR RESPONSIBLE FOR LOCAL GOVERNMENT	: BERNARD BOSSON
MINISTRY OF OVERSEAS DEPARTMENT AND TERRITORIES RESPONSIBLE FOR PROBLEMS OF THE SOUTH PACIFIC	: GASTON FLOSSE

/MINISTRY

MINISTRY OF EDUCATION WITH RESPONSIBILITY FOR TEACHING	: MME MICHELE ALLIOT-MARIE
MINISTRY OF EDUCATION WITH RESPONSIBILITY FOR TRAINING	: MME NICOLE CATHALA
MINISTRY OF SOCIAL AFFAIRS WITH RESPONSIBILITY FOR SOCIAL SECURITY	: ADRIEN ZELLER
MINISTRY OF SOCIAL AFFAIRS AND EMPLOYMENT WITH UNSPECIFIED RESPONSIBILITY	: JEAN ARTHUIS
MINISTRY OF INDUSTRY, POST AND TELECOMMUNICATIOINS AND TOURISM, RESPONSIBLE FOR POSTS AND TELECOMMUNICATIONS	: GERARD LONGUET
MINISTER RESPONSIBLE FOR WAR VETERANS	: GEORGES FONTAINE
MINISTER RESPONSIBLE FOR ''REPATRIES''	: ANDRE SANTINI
MINISTER FOR THE SEA	: AMBROIS GUELLEC

2. COMMENT FOLLOWS TOMORROW.

3. FCO PLEASE PASS TO WHITEHALL DEPARTMENTS AS APPROPRIATE.

FRETWELL

EUROPEAN POLITICAL

WED

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

20 March 1986

Dear Charles.

Formation of the New French Government: Messages

M. Chirac's acceptance of President Mitterrand's invitation to form the next French Government has now been announced. Sir Geoffrey Howe believes it would be appropriate for the Prime Minister to send a message of congratulation to M. Chirac on his appointment as Prime Minister; a message to the outgoing Prime Minister, M. Laurent Fabius; and a message to President Mitterrand.

We shall now know definitively until just before Easter at the earliest that Chirac has been able to form a Government that commands a working majority in the National Assembly. But all the signs are that he will succeed. It would therefore be appropriate for the Prime Minister to send him a message of congratulations without delay. We also recommend that the Prime Minister send a farewell message to the outgoing Prime Minister M. Fabius. M. Fabius is likely to continue to play a leading role in the Socialist Party (the largest single party in the new National Assembly) and he could well eventually return to the front of the political stage. The Prime Minister sent a message to M. Fabius' predecessor M. Mauroy when the latter resigned in July 1984.

A message to President Mitterrand would balance the message to Chirac and recognise the continuing importance of his role. In view of the delicacy and unpredictability of the political situation in France the message needs to be so framed as not to be open to unfavourable interpretation by the new Government. The lines of the proposed text have been agreed with Sir John Fretwell.

On publicity we suggest that, if asked, your press office confirm that the Prime Minister has sent messages to President Miterrand and M. Chirac, but that the contents are private. We shall inform the French of this if you agree. We see no need for any public reference to the Prime Minister's message to M. Fabius.

I enclose draft telegrams to Paris including the texts.

I am copying this letter to Michael Stark.

Yours ever.

Len Appleyard

(L V Appleyard)

C D Powell Esq
10 Downing Street

OUTWARD TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

TC

CAVEAT

FM

TO

TELNO

OF

AND TO

INFO

SECURITY CLASSIFICATION ..... CONFIDENTIAL .....

PRIVACY MARKING/RESTRICTIVE PREFIX .....

FM (post) .....

TO (precedence/post) TO IMMEDIATE PARIS .....

TELNO/TELELETTER .....

OF (Time of origin) ..... Z (Month) ..... (Year) .....

AND TO (precedence/post) .....

.....

.....

AND TO SAVING .....

INFO (precedence/post) .....

.....

.....

INFO SAVING .....

Distribution:–

European Political

cc: No 10 Downing Street

FORMATION OF NEW FRENCH GOVERNMENT: MESSAGES

1. My three immediately following telegrams contain texts of messages from the Prime Minister to President Mitterrand, M Chirac and M Fabius. Please ensure that the messages to Mitterrand and Chirac are delivered as nearly as possible at the same time. Signed originals follow by bag.

2. Number 10 will confirm, if asked, that the Prime Minister has sent messages to Mitterrand and Chirac but that the contents are private. We do not propose to refer publicly to the Prime Minister's message to Fabius.

Catchword:

File number	Department	Drafted by : (block capitals)	Telephone no.
	WED	C A MUNRO	233 4759

53842 (21688) DD.0532043 100M 9/78 GWB LTD. GP.870

XY 42

File No. .....

Department .....

Drafted by (Block Capitals) .....

Tel. Extn. .....

OUTWARD

TELEGRAM

Security Classification
CONFIDENTIAL
Precedence
IMMEDIATE
DESKBY .....Z

FOR COMMS. DEPT. USE

Despatched (Date) .....

(Time) .....Z

POSTBY .....Z

PREAMBLE

(Time of Origin) ..... Z (G.M.T.)

(Security Class.) CONFIDENTIAL

(Codeword) .....

(Restrictive Prefix) .....

(Caveat/ Privacy marking) .....

(Deskby) ..... Z

TO IMMEDIATE (precedence) PARIS (post) Tel. No. .....of .....

AND TO (precedence/post) .....

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AND SAVING TO .....

REPEATED TO (for info) .....

.....

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SAVING TO (for info) .....

Distribution:-

European Political

cc: No 10

Copies to:-

[Too much of a hostage - Chirac will want it to be less close.]

[TEXT]

MESSAGE FROM THE PRIME MINISTER TO PRESIDENT MITTERRAND

Message Begins

I have followed with great interest the recent elections to the National Assembly in France and have ~~today~~ now heard learned of your appointment of Monsieur Chirac as Prime Minister. I shall of course be sending him a message of congratulations but I wanted at the same time to send you my warmest personal good wishes for the future. I look ~~forward to working with you as closely as ever on the many occasions we shall be meeting.~~

~~With warm personal regards~~

Message Ends

OUTWARD TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

TC
CAVEAT
FM
TO
TELNO
OF
AND TO
INFO

SECURITY CLASSIFICATION ..... CONFIDENTIAL .....

PRIVACY MARKING/RESTRICTIVE PREFIX .....

FM (post) .....

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.....

AND TO SAVING .....

INFO (precedence/post) .....

.....

.....

INFO SAVING .....

Distribution:–

European Political

cc: No 10
Downing St

MESSAGE FROM THE PRIME MINISTER TO MONSIEUR JACQUES CHIRAC

Message Begins

On your success in the recent elections

I send you my warmest congratulations on your appointment as Prime Minister of France. I wish you every success in your new responsibilities and look forward to working closely with you and your Government. ~~I have every confidence that, together, we shall be able to strengthen still further the friendly relations between our two countries.~~

Message Ends

A good one

Catchword:

File number	Department	Drafted by : (block capitals)	Telephone no.
	WED	C A MUNRO	233 4759

OUTWARD TELEGRAM

Classification	Caveat	Precedence
CONFIDENTIAL		IMMEDIATE

TC
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AND TO SAVING .....
INFO (precedence/post) .....
.....
.....
INFO SAVING .....

Distribution:–
European Political

cc: No 10
Downing Street

MESSAGE FROM THE PRIME MINISTER TO MONSIEUR LAURENT FABIUS

Message Begins

As you leave the Matignon, ~~I send you my very best wishes for the future. My colleagues and I have~~ may I say how I have greatly appreciated the close and ~~fruitful~~ successful cooperation between our two Governments during your tenure of office. My colleagues + I send you our best wishes

~~Message Ends~~

MJB

Catchword:

File number	Department	Drafted by : (block capitals)	Telephone no.
	WED	C A MUNRO	233 4759

XY42 (Rev. 1983)

NOTHING TO BE WRITTEN IN THIS MARGIN

Printed in the UK for HMSO Dd 8422057 2/84 (28592)

GRS 1100

CONFIDENTIAL

CONFIDENTIAL
FM PARIS
TO IMMEDIATE FCO
TELNO 290
OF 172330Z MARCH 86
INFO PRIORITY OTHER EC POSTS, WASHINGTON, UKDEL NATO
INFO PRIORITY CONSUL GENERALS FRANCE

MY 2 IPT : THE FRENCH ELECTIONS : THE PROSPECTS

SUMMARY

1. A SHARP SWING TO THE RIGHT: BUT WITH THE EFFECT PARTLY NEUTRALISED BY PROPORTIONAL REPRESENTATION, ONLY A VERY SLIM RPR/UDF MAJORITY. INTERNAL DIVISIONS A THREAT, ALTHOUGH BARRISTES WILL HESITATE BEFORE BRINGING A NEW GOVERNMENT DOWN. MITTERRAND HAS CONSIDERABLE LATITUDE IN CHOICE OF PRIME MINISTER WITHIN NEW MAJORITY. IT MAY BE WEEKS BEFORE IT IS CLEAR WHETHER NEW GOVERNMENT CAN FUNCTION EFFECTIVELY. WITH EYE ON PRESIDENTIAL ELECTIONS, NEITHER MITTERRAND NOR HIS NEW PRIME MINISTER WILL WANT TO BE BLAMED FOR CREATING A CRISIS, BUT POLITICAL SITUATION LOOKS PRECARIOUS.

DETAIL

2. THE NARROSPIMBNYSSOUWLLEJDPT MAJORITY IN THE NEW ASSEMBLY DOES NOT FULLY REFLECT THE MARKED SWING TO THE RIGHT IN FRANCE. THE VOTE HAS SPLIT APPROXIMATELY 54.5% TO THE RIGHT AND 44.5% TO THE LEFT, WITH THE REMAINING ONE PERCENT FOR THE ECOLOGISTS. HAD THESE ELECTIONS BEEN HELD UNDER THE OLD SYSTEM OF MAJORITY VOTING IN CONSTITUENCIES, RATHER THAN UNDER THE SYSTEM OF PROPORTIONAL REPRESENTATION (PR) INTRODUCED BY MITTERRAND LAST YEAR, THE RPR AND UDF WOULD HAVE WON A LANDSLIDE MAJORITY. (FOR PURPOSES OF COMPARISON: THE PS SECURED A DECISIVE MAJORITY OVER ALL OTHER PARTIES IN THE ASSEMBLY IN 1981 WITH ONLY 37% OF THE VOTE).

3. THE EFFECT OF PR HAS THUS BEEN TO DENY THE RIGHT A CONVINCING VICTORY, JUST AS MITTERRAND INTENDED. IT HAS NOT, HOWEVER, PREVENTED THE RPR/UDF SECURING AN OVERALL MAJORITY. THE 5 SEAT MARGIN IS SMALL: BUT ON A WIDE RANGE OF ISSUES THE NEW MAJORITY WILL NOT NORMALLY FACE COMBINED OPPOSITION FROM ALL THE OTHER PARTIES IN THE ASSEMBLY. THE FRONT NATIONAL IS LIKELY TO SUPPORT THEM OR TO ABSTAIN ON A NUMBER OF QUESTIONS, AND WILL CERTAINLY NOT WISH TO FIND ITSELF VOTING AGAINST THE NEW GOVERNMENT IN COMPANY WITH THE COMMUNISTS. (ON THOSE ISSUES WHERE THE FN DOES SUPPORT THE GOVERNMENT, THERE WILL BE A COMBINED MAJORITY OF ABOUT 70).

4. IN ADDITION, THE RPR/UDF MAJORITY WILL NOT BE VULNERABLE TO BY-ELECTIONS IN THE WAY IT WOULD BE IN THE UK. IF A DEPUTY BECOMES A MINISTER (WHICH OBLIGES HIM TO GIVE UP HIS SEAT UNDER THE FRENCH SYSTEM), OR IF HE DIES OR RESIGNS, HE IS SIMPLY REPLACED BY THE NEXT ELIGIBLE CANDIDATE FROM HIS PARTY'S DEPARTMENTAL LIST. NOR IS IT A

PROBLEM.

PROBLEM TO ENSURE THAT THERE IS ALWAYS A GOVERNMENT MAJORITY ON HAND IN THE PARLIAMENT AS IT WOULD BE FOR A BRITISH GOVERNMENT WITH A SIMILARLY SMALL MAJORITY: IN FRANCE, ONE DEPUTY MAY VOTE ON BEHALF OF ALL THOSE BELONGING TO HIS OWN PARLIAMENTARY GROUP.

5. THE NEW MAJORITY WILL THEREFORE FACE GREATER THREATS FROM INTERNAL DIVISIONS THAN FROM ELECTORAL OR INSTITUTIONAL CONSTRAINTS. THE DEGREE OF SOLIDARITY IT DISPLAYS WILL BE CRUCIAL TO ITS SUCCESS. IT MAY BE THAT THE VERY NARROWNESS OF THE MAJORITY WILL PROVE A DISCIPLINE, ANYWAY INITIALLY, AS RPR AND UDF DEPUTIES RECOGNISE THAT THEIR COHESION WILL DETERMINE THEIR SURVIVAL PROSPECTS. THIS COULD LEAD THE NEW GOVERNMENT TO CONCENTRATE ON THOSE ISSUES IN THE COMMON PLATFORM ON WHICH THEY ARE MOST UNITED (EG REMOVING THE FINANCIAL AND ADMINISTRATIVE CONTROLS ON BUSINESS), WHILE GOING SLOWLY ON MORE CONTENTIOUS ELEMENTS OF THEIR PROGRAMME (EG A RETURN TO THE PREVIOUS ELECTORAL SYSTEM, FOR WHICH THE SMALL PARTIES WITHIN THE UDF HAVE LITTLE GENUINE ENTHUSIASM AND WHICH THE FN WOULD OPPOSE). THE STABILITY OF THE NEW MAJORITY IS POTENTIALLY AT RISK FROM THE BARRISTES WITHIN THE UDF (A GROUP OF PERHAPS 15 - 25) WHO FOLLOW BARRE IN OPPOSING COHABITATION. IN THEORY, THEY MIGHT BE ABLE TO BRING THE GOVERNMENT DOWN AT A MOMENT OF BARRE'S CHOOSING. IN PRACTICE THEY MAY BE RELUCTANT TO BE SEEN AS THE WRECKERS OF THEIR OWN SIDE, PARTICULALRY SINCE BARRE'S RELATIVELY POOR SHOWING YESTERDAY WILL DENT HIS CREDIBILITY AND AUTHORITY, ANYWAY IN THE SHORT TERM (INSTEAD OF THE 5 OR 6 SEATS HIS LIST WAS EXPECTED TO WIN IN THE RHONE, HE FINISHED WITH ONLY 3). MITTERRAND'S READINESS TO EXPLOIT ANY DIVISIONS SHOULD ALSO ENCOURAGE THE RIGHT TO TREAD WARILY.

6. THERE IS NO INDICATION YET WHO MITTERRAND WILL NOMINATE AS THE NEW PRIME MINISTER, EXCEPT THAT IT WILL BE SOMEONE FROM THE NEW MAJORITY. FABIUS HAS WRITTEN TO MITTERRAND SAYING THAT HIS GOVERNMENT IS READY TO RESIGN WHENEVER THE PRESIDENT WISHES. THERE HAVE BEEN HINTS TODAY FROM THE ELYSEE THAT MITTERRAND MAY DECIDE TO MOVE QUICKLY: AN ANNOUNCEMENT MAY COME ON 18 MARCH.

7. IT IS TOO EARLY TO PREDICT WHAT ATTITUDE THE NEW GOVERNMENT WILL TAKE TOWARDS MITTERRAND. MUCH MAY DEPEND ON THE CHARACTER OF THE NEW PRIME MINISTER: CHIRAC WOULD BE MORE COMBATIVE THAN CHABAN DELMAS, GISCARD OR SIMONE VEIL, WHO ARE STILL ALL IN THE RUNNING. A LESSER KNOWN FIGURE FROM THE RPR/UDF CANNOT BE EXCLUDED. WHOEVER IS CHOSEN WILL WANT TO TRY TO PUSH AS MUCH OF THE RPR/UDF PROGRAMME THROUGH AS HE OR SHE CAN, IN ORDER TO SHOW THAT THE NEW GOVERNMENT IS IN CHARGE, AND ENERGETICALLY FULFILLING ITS ELECTION PLEDGES. BUT THE NEW PRIME MINISTER WILL BE CONSTANTLY AWARE OF THE NEED TO SAFEGUARD HIS RATHER FRAGILE MAJORITY AND TO GUARD AGAINST COUNTER-STROKES FROM MITTERRAND.

8. THE GOVERNMENT IS LIKELY TO TRY TO IMPLEMENT MUCH OF ITS PROGRAMME THROUGH PARLIAMENTARY LEGISLATION. THIS CAN BE DELAYED BUT NOT BLOCKED BY THE PRESIDENT. BUT IT MAY ALSO TRY TO PUSH MEASURES THROUGH BY ORDINANCE, SOMETHING PERMITTED UNDER THE CONSTITUTION BUT

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WHICH REQUIRES THE PRESIDENTIAL SIGNATURE. THERE COULD BE SCOPE HERE FOR CLASHES BETWEEN MITTERRAND AND A NEW GOVERNMENT INTENT ON DOING THINGS FOR WHICH MITTERRAND HAS LITTLE ENTHUSIASM.

9. IT MAY WELL BE SOME WEEKS BEFORE WE KNOW WHETHER COHABITATION WILL WORK RELATIVELY SMOOTHLY, WITH DIFFICULTY, OR NOT AT ALL. IT COULD BEGIN WITH PROTESTATIONS OF GOOD FAITH ON BOTH SIDES, BUT DEGENERATE RAPIDLY INTO CONFRONTATION: OR IT COULD LAST FOR MONTHS, OR EVEN IN THEORY FOR TWO YEARS. THE PROSPECTS ARE HIGHLY UNCERTAIN. BUT INITIALLY AT LEAST, NEITHER MITTERRAND NOR THE RIGHT (INCLUDING BARRE) MAY WISH TO BE SEEN AS RESPONSIBLE FOR PLUNGING THE COUNTRY INTO A POLITICAL AND INSTITUTIONAL CRISIS WHICH COULD PROVOKE NEW ELECTIONS. THE PRINCIPAL ACTORS MAY WELL WANT TO TAKE EACH OTHERS MEASURE, AND ASSESS THE MOOD OF THE COUNTRY BEFORE CONFRONTING ONE ANOTHER, NOT LEAST BECAUSE EVERY MOVE THEY NOW MAKE WILL HAVE TO BE CALCULATED WITH A VIEW TO ITS EFFECT ON THEIR PRESIDENTIAL PROSPECTS. NEVERTHELESS, THE ELECTIONS HAVE PRODUCED A PRECARIOUS POLITICAL SITUATION, WITH THE PROSPECT OF A WEAK GOVERNMENT, BASED ON A FRAGILE MAJORITY, FACING A WILY PRESIDENT WHOSE OVERRIDING OBJECTIVE WILL BE TO STOP THE LEADERS OF THE GOVERNMENT WINNING PUBLIC FAVOUR AND EMERGING AS CONVINCING CANDIDATES FOR THE PRESIDENCY.

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TELNO 289

OF 171831Z MARCH 86

INFO PRIORITY EUROPEAN COMMUNITY POSTS, WASHINGTON, UKDEL NATO

INFO PRIORITY CONSULS GENERAL FRANCE

[COLLAR]

MIPT: THE FRENCH LEGISLATIVE ELECTIONS: THE RESULTS

SUMMARY

1. A SLENDER MAJORITY FOR THE RPR/UDF, MUCH SMALLER THAN THEY HOPED AND THE SOCIALISTS FEARED. THE FURTHER DECLINED IN THE COMMUNIST VOTE HELPED THE PS TO SUSTAIN A RESPECTABLE OUTCOME AS STILL COMFORTABLY THE LARGETST PARTY IN THE NEW ASSEMBLY: THE UNEXPECTEDLY STRONG SHOWING BY THE FRONT NATIONAL TOOK VOTES FROM THE RPR/UDF. RIGHT WING INDEPENDENTS ARE LIKELY TO BE LOYAL TO THE NEW MAJORITY.

DETAIL

2. THE RPR/UDF HAVE WON THE ELECTION: BUT DESPITE ALL PREDICTIONS THEY CAME WITHIN AN ACE OF FAILING TO GAIN AN OVERALL MAJORITY OF SEATS IN THE NEW ASSEMBLY. THE FRONT NATIONAL'S UNEXPECTEDLY STRONG SHOWING PROBABLY DEPRIVED THEM OF TWO OR THREE VITAL PERCENTAGE POINTS, AND OVER-CONFIDENCE MAY HAVE PERSUADED SOME OF THEIR SUPPORTERS THAT THEY NEED NOT BOTHER TO VOTE. (LE FIGARO SPLASHED AN EVE OF POLL FRONT PAGE FORECAST THAT THE RPR/UDF WERE VIRTUALLY CERTAIN OF A MAJORITY OF 90 SEATS.) THE 19 SEAT DIFFERENCE BETWEEN THE RPR AND UDF IS BIGGER THAN THE UDF HAD HOPED, AND WILL GO SOME WAY TO JUSTIFY A CLAIM BY THE RPR TO PRE-EMINENCE WITHIN THE NEW MAJORITY.

3. THE SOCIALISTS AND THEIR ALLIES HAVE DONE MUCH BETTER THAN THEY DARED TO HOPE. ON SATURDAY AFTERNOON, WE KNOW THAT THE MINISTRY'S OWN POLLS WERE SUGGESTING THAT THE PS WOULD WIN ONLY 27-28 PER CENT OF THE VOTES (AN ESTIMATE IN LINE WITH THE PRIVATE POLLS TO WHICH WE HAD ACCESS). INSTEAD, THEY HAVE WON OVER 31 PER CENT AND REMAIN COMFORTABLY THE LARGEST GROUP IN THE ASSEMBLY. THE SURPRISE AND DELIGHT ON THE FACES OF PS LEADERS AND THEIR SUPPORTERS LAST NIGHT WAS VERY CLEAR: THEY HAVE SECURED AN HONOURABLE DEFEAT RATHER THAN THE HUMILIATING SET-BACK FOR WHICH THEY HAD BRACED THEMSELVES ONLY 24 HOURS EARLIER. THE HOSTAGES AFFAIR SEEMS TO HAVE DONE THE SOCIALIST LITTLE HARM: PARADOXICALLY IT MAY MARGINALLY HAVE HELPED THE FN AND HENCE DAMAGED THE RPR/UDF. THE ONLY MINISTERS WHO FAILED TO BE RE-ELECTED WERE BAYLET (JUNIOR MINISTER FOR FOREIGN AFFAIRS) AND GATEL (JUNIOR MINISTER FOR DEFENCE).

4. ONE REASON WHY THE PSE HAS DONE RELATIVELY WELL, RATHER THAN RELATIVELY BADLY, IS THAT A SIGNIFICANT PROPORTION OF COMMUNIST VOTERS APPEAR TO HAVE BEEN PERSUADED BY THE SOCIALIST ARGUMENT THAT THEY SHOULD NOT WASTE THEIR VOTE ON THE PCF BUT INSTEAD SUPPORT THE PS AS THE ONE EFFECTIVE BULWARK AGAINST THE RIGHT. AS A RESULT, THE PCF SECURED LESS THAN 10 PER CENT OF THE VOTE, ITS WORST SHOWING FOR OVER 50 YEARS. THERE IS NOW LIKELY TO BE RENEWED DEBATE WITHIN THE PARTY: MARCHAIS' LEADERSHIP MAY BE AT RISK.

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5. THE FRONT NATIONAL, ON THE OTHER HAND, HAVE MUCH TO BE PLEASED ABOUT. THEY WON NO SEATS IN THE LAST ASSEMBLY, BUT WILL HAVE 35 IN THE NEW ONE, 5 MORE THAN NECESSARY TO ACHIEVE FORMAL PARLIAMENTARY GROUP STATUS, THEY PRECISELY MATCH THE COMMUNISTS IN BOTH VOTES AND SEATS. NEVERTHELESS, LE PEN WILL BE DISAPPOINTED THAT THE RPR AND UDF WILL NOT NEED TO RELY ON FN VOTES, AS HE HAD HOPED THEY WOULD. MITTERRAND AND THE PS WILL SHARE HIS DISAPPOINTMENT. THEY CALCULATED THAT A RIGHT WING MAJORITY DEPENDENT ON FN SUPPORT WOULD EITHER PROVE IMPOSSIBLE TO CONSTITUTE, OR WOULD QUICKLY BECOME DISCREDITED. AS IT IS, LE PEN WILL BE A FORCE IN THE NEW ASSEMBLY, BUT HE WILL NOT BE IN A POSITION TO DICTATE TERMS TO THE NEW MAJORITY. THE FN WILL, HOWEVER, HOLD THE BALANCE IN SOME OF THE REGIONAL COUNCILS (ON WHICH WE SHALL REPORT SEPARATELY).

6. A QUESTION-MARK HANGS OVER THE ATTITUDE OF THE INDEPENDENTS ON BOTH LEFT AND RIGHT: BUT PROBABLY ONLY A FAINT ONE. FOR THE MOST PART THEIR ALLEGIANCES ARE NOT IN DOUBT. THEY ARE MAINLY COMPOSED EITHER OF LONG-STANDING INDEPENDENTS, OR OF DISSIDENTS WHO STOOD SEPARATELY IN THE ELECTIONS BECAUSE THEY FAILED TO FIND PLACES ON THE OFFICIAL PARTY LISTS IMPOSED FROM PARTY HEADQUARTERS IN PARIS. AT THIS STAGE, THEY SEEM UNLIKELY TO UPSET THE PARLIAMENTARY ARITHMETIC SET OUT IN MIPT.

7. THE ECOLOGISTS, THE EXTEME LEFT, AND MOST OTHER INDEPENDENT LISTS (EG MARIE-FRANCE GARAUD IN PARIS) FAILED TO CLEAR THE 5 PER CENT THRESHOLD, OR COULD NOT MUSTER ENOUGH VOTES TO CAPTURE SEATS. SO THE NEW SYTEM OF VOTING BY PR DID NOT, AS SOME HAD ORIGINALLY FEARED, LEAD TO A PROLIFERATION OF SMALL PARTIES.

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TELNO 283

OF 170016Z MARCH 86

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MY TELNOS 273 AND 282: THE FRENCH ELECTIONS.

SUMMARY.

1. A RIGHT-WING VICTORY, BUT MUCH NARROWER THAN EXPECTED, THAT LEAVES MITTERRAND CONSIDERABLE LATITUDE. THERE IS NOW A RISK OF WEAK AND UNSTABLE GOVERNMENT.

DETAIL.

2. RESULTS AT MIDNIGHT SUGGEST THAT THE ELECTORATE HAS PARTIALLY DISAVOWED THE POLLSTERS. THE RPR/UDF (AND THEIR ASSOCIATES) APPEAR TO HAVE WON, BUT WITH A MAJORITY OF ONLY ABOUT A DOZEN RATHER THAN THE 40 - 50 WE EXPECTED, OR THE 60 - 90 THAT THE FINAL, UNPUBLISHED POLLS SUGGESTED YESTERDAY MORNING.

3. IT IS TOO EARLY TO BE SURE WHY THE RIGHT HAVE DONE LESS WELL THAN EXPECTED. IN PART IT MAY BE THE RESULT OF OVER-CONFIDENCE. THE ABSTENTION RATE WAS NOTABLY HIGH BY FRENCH STANDARDS WITH ONLY 77 PERCENT VOTER PARTICIPATION. IT IS POSSIBLE THAT, ASSUMING VICTORY WAS IN THE BAG, AN APPRECIABLE NUMBER OF RIGHT-WING SUPPORTERS DID NOT BOTHER TO VOTE. TWO OTHER FACTORS MAY HAVE CONTRIBUTED: THE DECLINE IN THE COMMUNIST VOTE TO THE BENEFIT OF THE SOCIALIST PARTY, AND THE RISE OF THE FRONT NATIONAL AT THE EXPENSE OF THE RPR/UDF. HOWEVER NO SERIOUS ANALYSIS OF SHIFTS IN VOTING PATTERNS OR OF THE EFFECT OF THE HIGH RATE OF ABSTENTIONISM IS YET POSSIBLE.

4. ALTHOUGH THE RIGHT APPEAR TO HAVE WON, THE NARROWNESS OF THEIR VICTORY LEAVES MITTERRAND WITH CONSIDERABLE LATITUDE IN THE CHOICE OF THE NEW PRIME MINISTER. CHIRAC, CHABON-DELMAS, SIMONE VEIL AND GISCARD HAVE ALL MADE TELEVISED DECLARATIONS THIS EVENING WHICH CONVEY A CLEAR IMPRESSION THAT THEY ARE READY AND WILLING, IF THE CALL COMES. IT IS MUCH TOO EARLY TO KNOW WHAT MITTERRAND WILL CHOOSE TO DO, BUT HE WILL BE DELIGHTED, AND I SUSPECT SURPRISED, THAT HIS TACTIC OF INTRODUCING PROPORTIONAL REPRESENTATION FOR THESE ELECTIONS HAS IN THE END DENIED THE RIGHT A SUBSTANTIAL MAJORITY, AND LEAVES THE SOCIALISTS AS THE LARGEST SINGLE PARTY IN THE ASSEMBLY, PROBABLY WITH OVER 200 SEATS. THE OTHER STRIKING RESULT OF PROPORTIONAL REPRESENTATION HAS BEEN TO ENSURE THE SIZEABLE REPRESENTATION OF THE FRONT NATIONAL IN THE NEW ASSEMBLY. THEY NOW LOOK LIKELY TO HAVE MORE THAN 30 SEATS AND THEREFORE TO ACHIEVE FORMAL PARLIAMENTARY GROUP STATUS.

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5. IF THESE RESULTS ARE CONFIRMED (AND THEY ARE ONLY ESTIMATES), THERE IS A RISK OF WEAK AND INEFFECTIVE GOVERNMENT. THE POSITION OF THE BARRISTES WITHIN THE NEW MAJORITY WILL BE CRUCIAL. BARRE HAS SAID ON TELEVISION THIS EVENING THAT HE WILL DO NOTHING TO COMPLICATE LIFE FOR THE NEW MAJORITY. NEVERTHELESS HE MAY EFFECTIVELY BE THE ARBITER OF WHAT IS POSSIBLE FOR THE NEW GOVERNMENT. IT WILL HAVE TO LOOK OVER ONE SHOULDER AT WHAT HE IS DOING, AND OVER THE OTHER AT LE PEN. HOWEVER BARRE'S OWN POSITION HAS BEEN WEAKENED BY THE POOR RESULT OF HIS OWN LIST IN THE RHONE.

6. IF THE NEW GOVERNMENT PROVES UNSTABLE, THIS MIGHT INCREASE THE TEMPTATION FOR MITTERRAND TO OPT FOR AN EARLY DISSOLUTION OF PARLIAMENT AND PERHAPS FOR PREMATURE PRESIDENTIAL ELECTIONS. THE FRENCH VOTERS APPEAR TO HAVE MADE A HESITANT CHOICE: A PERIOD OF GREAT UNCERTAINTY IS NOW BEGINNING.

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MY TELNO 250 (PARA 4): FRENCH ELECTIONS: MITTERRAND.

SUMMARY.

1. MITTERRAND APPEARS FIT ENOUGH TO STAY IN THE ELYSEE AND HAS UNDIMINISHED APPETITE FOR POWER. HE IS KEEPING THE RPR/UDF UNCERTAIN AND ANXIOUS ABOUT HOW HE WILL PLAY HIS HAND AFTER THE ELECTIONS.

DETAIL

2. MITTERRAND OCCASIONALLY LOOKS TIRED AND JADED, AND THERE ARE RECURRENT RUMOURS ABOUT HIS HEALTH. HOWEVER WHEN I HAD THE OPPORTUNITY TO OBSERVE HIM CLOSELY AT AN ELYSEE INVESTITURE CEREMONY ON 11 MARCH HE APPEARED RELAXED, CONFIDENT AND VERY MUCH IN CONTROL. THE CEREMONY INVOLVED THE PRESENTATION OF VARIOUS AWARDS TO EIGHT INDIVIDUALS. MITTERRAND GAVE AN ACCOUNT OF THE LIFE AND WORKS OF EACH OF THEM WITHOUT A NOTE OR PAUSE, BEFORE CALLING THEM FORWARD BY THEIR FULL NAMES (AGAIN FROM MEMORY) TO BE DECORATED: IT WAS A REMARKABLE AND FLAWLESS 40 MINUTE PERFORMANCE. HE STAYED ON TO TALK TO GUESTS FOR ANOTHER HOUR, GIVING NO HINT OF BEING IN THE MIDDLE OF EITHER AN ELECTION CAMPAIGN OR A GRAVE HOSTAGE CRISIS.

3. IN PRIVATE CONVERSATION HE EXPRESSED SATISFACTION ABOUT THE STATE OF ANGLO-FRENCH RELATIONS: HE EVIDENTLY REGARDS IT AS AN AREA WITH NO REAL PROBLEMS ABOUT WHICH HE NEED CONCERN HIMSELF AT PRESENT. I SUGGESTED TO HIM THAT IT WAS IMPORTANT TO CONCLUDE THE DETAILED NEGOTIATIONS WITH THE PROMOTERS ON THE CHANNEL FIXED LINK SO THAT THE DOSSIER COULD BE TIDIED AWAY THIS WEEK. HE RESPONDED UNHESITATINGLY THAT THE NEGOTIATIONS SHOULD INDEED BE CONCLUDED THIS WEEK AND THAT HE WAS NOT HIMSELF FUSSED ABOUT THE OUTSTANDING DETAILS. (WE HAVE SINCE BEEN TRYING TO ENSURE THAT FRENCH OFFICIALS ARE AWARE OF AND ACT ON THIS STATEMENT.) I ALSO SUGGESTED TO HIM THAT THE PRESENT HOSTAGE CRISIS POINTED TO THE NEED FOR CLOSER AND MORE WHOLE-HEARTED COOPERATION BETWEEN WESTERN GOVERNMENTS IN DEALING WITH TERRORIST MOVEMENTS. HE WAS NOT PREPARED TO TALK ABOUT THIS BEYOND SAYING THAT HE DID NOT SEE WHAT WAS TO BE DONE IN THE PRESENT SITUATION OTHER THEN RESIST BLACKMAIL. (IT IS IN FACT CLEAR THAT HE IS MAKING A FINAL ALL-OUT EFFORT TO SECURE THE RELEASE OF AT LEAST SOME OF THE FRENCH HOSTAGES BEFORE 16 MARCH.)

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4. MY IMPRESSION IS THAT HE IS PHYSICALLY AND MENTALLY CAPABLE OF CONTINUING AS PRESIDENT AND THAT HE HAS AN UNDIMINISHED WILL TO DO SO. HIS RESPONSE TO THE ELECTION RESULTS ON SUNDAY WILL NOT LACK RESOURCEFULNESS. THE RUMOUR THAT HE MIGHT CONTEMPLATE EARLY RESIGNATION IN ORDER TO FORCE A PRESIDENTIAL ELECTION (MY TUR) HAS NOW BEEN PICKED UP IN THE PRESS AND IS BEING TAKEN MORE SERIOUSLY. I WILL ATTEMPT TO EVALUATE THIS AND OTHER POSSIBILITIES IN A FINAL PRE-ELECTION ROUND-UP TOMORROW.

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BY BAG
SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 21 of 13 MARCH 1986
TO FCO
REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE: ECONOMIC REPORT FOR FEBRUARY 1986

SUMMARY

1. Some encouraging economic results have been published in the run-up to the legislative elections on 16 March. There was a substantial foreign trade surplus in January, inflation has slowed significantly and industrialists forecast that production will begin to increase again during the coming months. But unemployment has risen.

2. There was a large trade surplus in January and INSEE forecasts that there will be a balance of trade surplus of F15 billion in 1986 Hl following a deficit of F23.8 billion in 1985.

3. The annual rate of inflation has fallen to an estimated 3.4% in February and the Government has revised its target for 1986 down to 2.0% from 2.9%.

4. INSEE estimates that the fall in industrial production reported in the two most recent monthly surveys is due to destocking and industrialists forecast that production will increase during the coming months.

5. Unemployment increased in January following 4 months of decrease, but it is below the level of January 1985. INSEE estimates that total employment increased in 1985 following decreases in 1984 and 1983.

6. Company bankruptcies continue at a high level.

7. The Bank of France reduced its intervention rate to 8.25% from 8.5%.

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DETAIL

Foreign Trade and the Balance of Payments

8. In January there was a balance of trade surplus of F3.456 billion FOB/FOB sa following a revised deficit of F2.558 billion in December because INSEE has up-dated its seasonal adjustments to the trade figures. In January imports fell by F3.983 billion to F72.874 billion and exports increased by F2.031 billion to F76.330 billion.

9. The breakdown of imports for January, which is only available in CIF values, shows that imports of energy fell by F4.0 billion to F13.8 billion, well below the monthly average for 1985 of F17.8 billion, imports of semi-finished goods fell by F0.7 billion to F19.7 billion and imports of capital goods fell by F1.3 billion to F13.4 billion. The breakdown of exports which is in FOB values shows that agricultural exports increased by F0.6 billion to F7.01, significantly higher than the 1985 monthly average of F6.2 billion, exports of semi finished goods increased by F0.4 billion to F19.8 billion and exports of capital goods increased by 0.6 billion to F20.1 billion.

10. On the basis of provisional figures the Government estimates that France had a current account surplus of F3.1 billion in 1985, the first current account surplus since 1979. In 1984 France had a current account deficit of F6.6 billion. The improvement of the current account in 1985 was due chiefly to an increase in the surplus on tourism to F31.5 billion from FF27.7 billion in 1984.

11. INSEE blames France's poor foreign trade performance in 1985 when the deficit of F23.8 billion was almost the same as in 1984 on:

i) Rising internal demand coinciding with falling world demand;

ii) A deterioriation in the competivity of French exports since mid-1983;

iii) A fall in exports by the armaments and aviation industries;

iv) Higher than normal imports of raw materials and semi-finished goods in the second half of 1985 by companies concerned that the depreciation of the dollar would be followed by a strengthening of the deutschmark and lead to a devaluation of the franc.

Only an improvement in the terms of trade prevented a deterioration in the balance of trade in 1985.

12. France's foreign trade in manufactured goods deteriorated in 1985: exports increased in volume by only 1.8% while imports increased by 5.9%. If large contracts, which were at an exceptionally low level in 1985, are excluded exports of manufactured goods in 1985 increased in volume by 3.7%, but INSEE points out that this is still considerably less than the increase in the volume of exports of manufactured goods by both West Germany and the UK of around 9%.

13. INSEE predicts that there will be a substantial improvement in France's balance of trade in 1986 as a result of the fall in the price of oil and the depreciation of the dollar. On the basis of an average oil price of $20 per barrel and an exchange rate against the dollar of F7.50 they forecast a balance of trade surplus in 1986 H1 of F15 billion FOB/FOB sa. This compares with a deficit of

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MY SAVING TELEGRAM 20 OF 7 MARCH: THE FRENCH ELECTIONS.

SUMMARY.

1. THE END OF AN UNEXCITING ELECTION CAMPAIGN DOMINATED BY THE ECONOMY AND UNEMPLOYMENT, LAW AND ORDER, IMMIGRATION AND AGRICULTURE. THE SOCIALISTS BUILT THEIR CAMPAIGN ON THE THEME OF RALLYING ROUND MITTERRAND. AFTER A NERVOUS START, THE RPR AND UDF CLOSED RANKS, WITH CHIRAC MAKING THE RUNNING. THE RIGHT ARE EXPECTED TO EMERGE THE CLEAR WINNERS. BOTH THE COMMUNISTS AND THE FRONT NATIONAL APPEAR TO HAVE BEEN SQUEEZED. CHIRAC IS THE FRONT-RUNNER FOR PRIME MINISTER, BUT THERE ARE OTHER POSSIBILITIES. A DIFFICULT PERIOD LIES AHEAD. AS SOON AS THE PARLIAMENTARY ELECTIONS ARE OVER, THE 1988 PRESIDENTIAL ELECTION CAMPAIGN WILL BEGIN. AN EARLY MITTERRAND RESIGNATION - IN ORDER TO RUN AGAIN - IS POSSIBLE BUT NOT PROBABLE.

DETAIL.

THE CAMPAIGN

2. FRANCE GOES TO THE POLLS ON SUNDAY TO ELECT 577 DEPUTIES TO THE NEW ASSEMBLY. IT HAS BEEN AN UNEXCITING CAMPAIGN WHICH HAS EVOKED LITTLE POPULAR INTEREST OR ENTHUSIASM, DESPITE EXTENSIVE MEDIA COVERAGE. IN PART THIS IS BECAUSE THE ARGUMENTS HAVE BEEN GOING ON SO LONG AND NO ONE HAS FOUND ANY NEW ONES: IN PART BECAUSE THE SYSTEM OF PROPORTIONAL REPRESENTATION INTRODUCED FOR THESE ELECTIONS HAS ABOLISHED THE OLD CONSTITUENCIES AND WITH THEM MUCH OF THE LOCAL INTEREST: IN PART BECAUSE THE POLICIES OF LEFT AND RIGHT ARE CLOSER TOGETHER THAN HAS BEEN THE NORM FOR MANY YEARS. THE BAD WEATHER HAS NOT HELPED.

THE ISSUES.

3. THE MAIN ISSUE HAS BEEN UNEMPLOYMENT AND THE HUGE RISE THAT HAS TAKEN PLACE UNDER A SOCIALIST (PS) GOVERNMENT ELECTED ON PROMISES TO REDUCE IT. BUT THIS HAS OFTEN BEEN SUBSUMED IN A WIDER DEBATE ABOUT THE ECONOMY AS A WHOLE. THE SOCIALISTS HAVE BEEN TAKING CREDIT FOR REDUCING INFLATION AND MODERNISING INDUSTRY: THE OPPOSITION HAVE BEEN ATTACKING THEM FOR BURDENING INDUSTRY WITH FINANCIAL AND ADMINISTRATIVE CONTROLS, AND FOR MISMANAGING THE ECONOMY SO THAT FRANCE HAS MISSED OUT ON THE RECOVERY HER PARTNERS HAVE BEEN ENJOYING. LAW AND ORDER, AND IMMIGRATION HAVE ALSO FIGURED PROMINENTLY, PARTICULARLY IN THE CITIES: WHILE IN RURAL FRANCE THE OPPOSITION HAS PLAYED TO, AND PLAYED UP, STRONG FEELING ON AGRICULTURAL ISSUES. FOREIGN POLICY HAS HARDLY RATED A MENTION

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EXCEPT FOR NEW ZEALAND AND THE TURENGES AND, IN THE LAST WEEK, THE PROBLEM OF THE HOSTAGES IN LEBANON. THE OPPOSITION HAVE BEEN CAREFUL NOT TO EXPLOIT THE LATTER (NOT LEAST BECAUSE IT MAY FALL TO THEM TO FIND A SOLUTION AFTER THE ELECTIONS), BUT THEY HOPE PRIVATELY THAT IT WILL HELP DENT THE SOCIALISTS' CLAIMS TO BE EFFECTIVE MANAGERS AND CONVINCE THE VOTERS THAT THERE HAS BEEN A DECLINE IN FRANCE'S INTERNATIONAL STANDING UNDER THE SOCIALISTS, WHICH IS SOMETHING THEY CLAIM THEY WILL BE ABLE TO CORRECT.

THE PARTIES.

4. THE PS HAS FOUGHT BACK HARD SINCE THE NEW YEAR AND MADE UP GROUND. BUT THEIR CAMPAIGN HAS FALTERED IN THE LAST TWO OR THREE WEEKS, DESPITE MITTERRAND'S EFFORTS TO GIVE IT NEW MOMENTUM. HIS DECISION TO TAKE A PROMINENT ROLE DETERMINED THE PS'S STRATEGY: APART FROM JOSPIN (PARTY FIRST SECRETARY), COMPARATIVELY LITTLE HAS BEEN HEARD OF OTHER LEADING SOCIALISTS (INCLUDING FABIUS AND ROCARD). INDEED, THE PS ENDED UP OFFERING THE ELECTORATE NOT SO MUCH A PROGRAMME AS THE PRESIDENT. BEFORE THE CAMPAIGN, THEY SET THEMSELVES TWO TARGETS: WINNING 30 PERCENT OR MORE OF THE VOTES, AND REMAINING THE LARGEST PARTY IN THE NEW ASSEMBLY. THEY MAY FALL JUST SHORT OF 30 PERCENT BUT SHOULD CERTAINLY REMAIN THE LARGEST SINGLE PARTY - ALTHOUGH THAT HAS LITTLE PRACTICAL SIGNIFICANCE.

5. THE RPR AND UDF WATCHED NERVOUSLY AT THE BEGINNING OF THE CAMPAIGN AS THEIR LEAD IN THE OPINION POLLS NARROWED. THERE WERE OBVIOUS STRAINS BETWEEN THEM: AND BARRE THREATENED TO BE A MAJOR EMBARRASSMENT. BUT THEY CLOSED RANKS, AND IN RECENT WEEKS THE SOCIALISTS HAVE FOUND IT MORE DIFFICULT TO EXPLOIT THE RIGHT'S DIVISIONS THAN THEY HAD HOPED OR EXPECTED. CHIRAC HAS BEEN THE OPPOSITION'S DOMINANT PERSONALITY, CAMPAIGNING INDEFATIGABLY AND MAKING SOME GOOD SPEECHES AND TELEVISION APPEARANCES WHEN IT MATTERED. LEOTARD HAS ALSO PERFOMED WELL. AT THE END OF LAST WEEK, THE RPR/UDF POLL RATING WAS STEADY ON 43 - 44 PERCENT WHICH WOULD GIVE THEM 300 - 310 SEATS IN METROPOLITAN FRANCE. THEY CAN HOPE FOR ANOTHER 12 - 15 IN THE DOM-TOMS, WHICH WOULD GIVE THEM A COMFORTABLE BUT NOT OVERWHELMING OVERALL MAJORITY OF 50 TO 60 SEATS.

6. SUPPORTERS OF THE FRENCH POLITICAL EXTREMES ARE NOTORIOUSLY COY ABOUT ADMITTING IT TO THE POLLSTERS, WHICH MAKES AN ASSESSMENT OF THE COMMUNISTS (PCF) AND FRONT NATIONAL (FN) PARTICULARLY DIFFICULT. HOWEVER, IT SEEMS LIKELY THAT BOTH HAVE SEEN THEIR VOTE SQUEEZED. THE PCF, WHICH AS LATE AS 1978 STILL WON 20 PERCENT OF THE VOTE, IS WORRIED THIS TIME THAT IT MAY NOT EVEN MANAGE 10 PERCENT. LE PEN, A YEAR AGO, WAS HOPING FOR MORE THAN 50 - 70 SEATS, IS NOW WORRIED THAT THE FN WILL FAIL TO WIN THE 30 THEY NEED FOR FORMAL PARLIAMENTARY GROUP STATUS. MY GUESS IS THAT THE PCF MAY JUST REACH THEIR MODEST TARGET BUT THAT LE PEN WILL NOT REACH HIS.

THE PROSPECTS.

7. IF, AS THEY NOW EXPECT, THE OPPOSITION WIN ON SUNDAY, CHIRAC REMAINS THE FRONT-RUNNER TO BECOME PRIME MINISTER. DESPITE OCCASIONAL DISCLAIMERS, HE WANTS THE JOB AND HAS TRIED TO AVOID

/SAYING.

SAYING OR DOING ANYTHING DURING THE CAMPAIGN WHICH WOULD GIVE MITTERRAND A GOOD EXCUSE FOR DENYING IT TO HIM. CHIRAC RECKONS THAT THE POST HAS BECOME AN EVEN MORE ATTRACTIVE PROSPECT WITH THE FALL IN OIL PRICES AND THE DOLLAR. HE THINKS HE COULD MAKE A SUCCESS OF IT, CATCH UP BARRE IN THE POLLS, AND SO RE-EMERGE AS THE RIGHT'S LEADING PRESIDENTIAL CONTENDER. HE COULD THEN CHOOSE HIS MOMENT TO CAUSE A CRISIS WHICH WOULD FORCE A PRESIDENTIAL ELECTION.

8. BUT MITTERRAND DISLIKES MAKING THE OBVIOUS CHOICE, DISLIKES CHIRAC, AND REALISES THAT HE WILL BE THE MOST UNCOMFORTABLE PARTNER TO ''COHABIT'' WITH. OTHER OPTIONS ARE OPEN TO HIM. ONE IS TO RESIGN AT ONCE BEFORE A NEW GOVERNMENT IS FORMED. THERE HAVE BEEN RUMOURS IN RECENT DAYS THAT IN THE EVENT OF AN OPPOSITION VICTORY, THIS IS WHAT HE WILL DO, THUS FORCING A QUICK PRESIDENTIAL ELECTION WHICH HE BELIEVES HE WOULD HAVE A FIGHTING CHANCE OF WINNING. BUT MITTERRAND HAS SOME GOOD CARDS IN HIS HAND AND I WOULD EXPECT HIM TO PLAY THESE BEFORE RISKING ALL ON A SINGLE THROW. IT IS A POSSIBILITY WHICH CANNOT ENTIRELY BE EXCLUDED, BUT IT LOOKS AT PRESENT MORE LIKE PSYCHOLOGICAL WARFARE DESIGNED TO KEEP THE OPPOSITION OFF BALANCE.

9. ANOTHER OPTION, AND ONE MUCH CANVASSED, IS TO NOMINATE SOMEONE OTHER THAN CHIRAC AS PRIME MINISTER. CHABAN-DELMAS, GISCARD, SIMONE VEIL AND LEOTARD ARE AMONG THE POSSIBILITIES. EACH OF THEM HAS HIS OR HER ATTRACTIONS AS FAR AS MITTERRAND IS CONCERNED: AND THE CHOICE OF ANY OF THEM WOULD PUT GREAT STRAINS ON RPR/UDF COHESION, WHICH WOULD SUIT MITTERRAND NICELY. IT WOULD BE IN CHARACTER FOR HIM TO TAKE A LITTLE TIME AND EVEN TO SOUND OUT A NUMBER OF ALTERNATIVE CANDIDATES BEFORE COMMITTING HIMSELF.

CONCLUSION.

10. OPINION POLLS ARE BANNED IN THE LAST WEEK OF THE CAMPAIGN, SO THERE IS NO WAY OF TELLING WHETHER VOTING INTENTIONS HAVE CHANGED IN RECENT DAYS. THE SOCIALISTS STILL HOPE FOR LATE GAINS. THEY TAKE COMFORT FROM GONZALEZ'S REFERENDUM VICTORY AGAINST THE ODDS IN SPAIN: THEY HOPE THAT MITTERRAND'S RESIGNATION THREATS WILL FRIGHTEN SOME VOTERS INTO THEIR CAMP: THEY WILL BE CROSSING THEIR FINGERS THAT MITTERRAND WILL PULL OFF SOME DEAL (AT NO MATTER WHAT COST) WHICH BRINGS THE HOSTAGES TRIUMPHANTLY HOME FROM LEBANON ON THE EVE OF POLLING DAY.

11. THEIR HOPES COULD YET BE REALISED: BUT MY GUESS IS THAT THEY WILL NOT BE. DESPITE THE RECENT IMPROVEMENT IN THEIR RATINGS, THE SOCIALISTS REMAIN GENERALLY UNPOPULAR AND DO NOT LOOK CAPABLE OF DENYING THE OPPOSITION A CLEAR VICTORY. OUR OWN OBSERVATIONS OF THE CAMPAIGN AROUND THE COUNTRY TEND TO CONFIRM THIS. I THEREFORE STILL EXPECT THE RPR/UDF TO WIN WITH A CLEAR MAJORITY, OF PERHAPS 40-50 SEATS: AND FRANCE TO HAVE A PRESIDENT AND PARLIAMENTARY MAJORITY OF DIFFERING POLITICAL PERSUASIONS FOR THE FIRST TIME IN THE HISTORY OF THE FIFTH REPUBLIC. (A WAVE OF EUPHORIA AND OF SYMPATHY FOR MITTERRAND AS HE GREETS RETURNING HOSTAGES AND TEARFUL RELATIVES ON NATIONWIDE TELEVISION COULD REDUCE BUT NOT, I THINK, ELIMINATE THE MARGIN.)

12. IF THIS IS THE OUTCOME, A PERIOD OF GREAT POLITICAL UNCERTAINTY LIES AHEAD. EVEN IF THE RPR/UDF ARE THE CLEAR VICTORS, THEY FACE THE PROBLEM OF TRYING TO GOVERN WITH MITTERRAND, WHILE AT THE SAME TIME MAINTAINING THEIR OWN PRECARIOUS UNITY. NEITHER TASK WILL BE EASY. BOTH WILL BE MADE ALL THE MORE DIFFICULT BY THE FACT THAT THEY WILL HAVE TO MANAGE AGAINST THE BACKDROP OF THE 1988 PRESIDENTIAL ELECTION CAMPAIGN, WHICH WILL BEGIN IN EARNEST ON MONDAY EVEN IF MITTERRAND DOES NOTHING TO BRING IT FORWARD.

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SAVING TELEGRAM

BY BAG
SAVING TELEGRAM [COLLAR]
CONFIDENTIAL
FROM PARIS SAVING TELNO 20 OF 7 MARCH 1986
TO FCO
REPEATED FOR INFORMATION TO EC POSTS, UKDEL NATO, WASHINGTON, CONSULS GENERAL IN FRANCE

MY SAVING TELEGRAM NO 18 OF 28 FEBRUARY : THE FRENCH ELECTIONS

SUMMARY

1. Another week of hard electoral grind, with more arguments and speculation about cohabitation, stirred up by Mitterrand's final pre-election television interview. He warned of difficulties if a Right-wing majority were elected, but also appeared to signal his readiness to make cohabitation work if the Right respected his presidential prerogatives. Chaban-Delmas subsequently issued a reminder that Chirac is not the only RPR candidate for Prime Minister. The opposition are quietly confident of a comfortable but not overwhelming victory. Their optimism is not fully borne out by the polls which show the gap narrowing. However, France is probably only a week away from electing a Right wing majority to govern with a socialist President.

DETAIL

2. The past week has been largely dominated by renewed argument on cohabitation, stimulated by Mitterrand. In an effort to give the socialists' faltering campaign new momentum, he appeared in an hour-long television interview on 2 March, for what he said was to be his last intervention before polling day. He claimed to speak as the President, above party politics; but saw no difficulty in combining this with explicit support for the socialists and with a warning that the election of a Right-wing majority could cause serious political difficulties.

3. He balanced this attempt to frighten voters away from the RPR/UDF, however, by declaring for the first time in public that, if the Right won, he would respect the popular will and appoint a Prime Minister from within the new majority. (This has for the moment stilled speculation that he might call on a socialist to try to form a minority government if, as seems almost certain, the PS remains the largest single party in the new Assembly.) But he added that he would do this without any intention of allowing his own presidential role to be diminished; and, in the most widely remarked passage of the interview, he went on to say that he would resign rather than allow his powers to be compromised.

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4. Barre was quick to pick this up and, at a large UDF rally in Paris two days later, argued that by raising the possibility of resignation Mitterrand was admitting that cohabitation was unnatural and unworkable (something which of course Barre has been arguing for months). In fact it seems more likely that Mitterrand's intention was to warn the Right that cohabitation will have to be a process of give and take, and that they should not set out to humiliate him or try to reduce his presidential prerogatives (with the further implication that if they went too far, he could always cut short his mandate, which Chirac must avoid while Barre has such a lead in public opinion). In other words, rather than implicitly subscribing to Barre's thesis, he was signalling that cohabitation can be made to work, anyway for a time.

5. Mitterrand gave no hint during the interview as to whom he would choose as Prime Minister, if the Right won. The RPR insist it must be Chirac, who is conducting himself in a way designed to show that he would be a determined but nevertheless 'cohabitable' Prime Minister. But it is not only the UDF who are challenging what they see as his presumption (see my TUR). Chaban-Delmas, also of the RPR, but foe of Chirac and friend of Mitterrand, reminded everyone of his ambitions this week when he gave an interview to a Swiss newspaper restaking his claim to Matignon. He did it in such terms that it was easy to disavow afterwards. But he captured the headlines for a day and his purpose was served.

6. Despite Mitterrand's personal efforts to tilt the scale in the PS's favour, there is now a greater sense of confidence among the RPR and UDF than there was two or three weeks ago that they will win a clear majority; and a greater mood of pessimism among the socialists that they are not going to be able to stop them. The polls continue to bear this out. The most recent one to appear puts the PS at 30% and the RPR/UDF at 45% which, when the Dom-Toms are included, would give the socialists and their MRG allies about 208 seats and the RPR and UDF a combined score of about 313 seats, or a majority over all other parties of about 49. The same poll puts the communists at 11% with 39 seats, and the Front National at 6.5% with 15 seats; but some commentators believe that there may be a tendency to overestimate support for the communists and to underestimate it for the FN (as was the case before the 1984 European elections). If so, the FN could yet run the communists closer in votes and seats than the polls are now predicting. More seats for the FN could also bite into the prospective RPR/UDF majority.

CONCLUSION

7. Candidates and electorate alike enter the home-straight relieved that the tape is in sight. The campaign has never really caught fire, partly because it has been going on so long; partly because by abolishing constituencies the new

/system

system of proportional representation has taken a good deal of the interest out of the election at the local level; and partly because, for much of the time, it has been fought in atrocious weather. The socialists have made up ground in recent weeks, but not enough. The RPR/UDF have lost ground; but if the opinion polls and our own observations are anything to go by, not enough to prevent them from winning. Barring a late swing of opinion, or some major and unexpected development, France appears to be a week away from electing a Right-wing majority, to govern with a Left-wing President.

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INFO IMMEDIATE BONN
INFO ROUTINE UKDEL NATO, WASHINGTON
[COLLAR]
BONN TELNO 165: FRANCO-GERMAN SUMMIT: 27/28 FEBRUARY

SUMMARY.

1. NOTHING VERY NEW: BUT RECENT AGREEMENTS ON MILITARY COOPERATION, DIPLOMATIC EXCHANGES AND A CULTURAL SUMMIT HAVE BEEN FORMALISED.

DETAIL.

2. AS EXPECTED, BILATERAL MILITARY COOPERATION WAS A MAJOR THEME OF THE SUMMIT. THE PRESIDENT AND CHANCELLOR PUBLISHED A JOINT DECLARATION, IN WHICH MITTERRAND FORMALLY EXPRESSED HIS WILLINGNESS ''TO CONSULT THE CHANCELLOR OF THE FRG ON THE POSSIBLE USE OF FRENCH PRE-STRATEGIC WEAPONS ON GERMAN SOIL''. THE TWO LEADES AGREED TO ACQUIRE THE TECHNICAL MEANS FOR AN ''IMMEDIATE AND SURE CONSULTATION'' IN TIME OF CRISIS. AT THE JOINT PRESS CONFERENCE, MITTERRAND EXPLAINED THAT CONSULTATION WAS NOT THE SAME AS DECISION. THE TECHNICAL MEANS WERE AVAILABLE TO CONSULT ALMOST INSTANTANEOUSLY AND THAT WAS WHAT HE WOULD DO BEFORE LAUNCHING FRENCH PRE-STRATEGIC FORCES, ''WHETHER NUCLEAR OR NOT'', ONTO GERMAN SOIL.

3. THE DECLARATION ALSO CONFIRMED RECENT AGREEMENTS ON CONVENTIONAL MILITARY COOPERATION - BOTH THROUGH JOINT EXERCISES AND OPERATIONAL COOPERATION INCLUDING THE FORCE D'ACTION RAPIDE, AND THROUGH THE ESTABLISHMENT OF TRAINING COURSES FOR YOUNG OFFICERS TO BE RUN ALTERNATELY IN FRANCE AND GERMANY FROM THIS YEAR.

4. THE TWO GOVERNMENTS HAVE ALSO CONFIRMED THE AGREEMENT BETWEEN DUMAS AND GENSCHER IN JANUARY TO IMPROVE CONCERTATION ON FOREIGN POLICY, INCLUDING EXCHANGES OF OFFICIALS BETWEEN THE TWO FOREIGN MINISTRIES. THESE EXCHANGES ARE TO START SHORTLY, WILL BE FOR 3 MONTHS TO A YEAR AND WILL INCLUDE SENIOR LEVELS OF THE TWO ADMINISTRATIONS.

5. CULTURAL COOPERATION IS ALSO TO BE GIVEN A HIGHER PROFILE, WITH A FRANCO-GERMAN FORUM OF INTELLECTUALS AND ARTISTS IN AVIGNON IN JULY AND A STRONG CULTURAL BIAS TO THE OCTOBER SUMMIT IN FRANKFURT.

6. ON INDUSTRIAL COOPERATION, THE POSITION ON HERMES WAS UNCHANGED. THE GERMANS SAID PUBLICLY THAT THEY AGREED ''TO EXAMINE WITH THE FRENCH GOVERNMENT THE CONDITIONS AND SIZE OF THEIR PARTICIPATION''. THEIR FINAL DECISION WOULD BE TAKEN IN AUTUMN 1986 SO THAT WORK ON THE PROJECT COULD START IN MID 1987 AS AGREED AT THE ESA CONFERENCE IN ROME IN JANUARY 1985. ON THE FRANCO-GERMAN HELICOPTER AND AIRBUS, SOME PROGRESS WAS CLAIMED - BUT IT IS NOT YET CLEAR WHAT SUBSTANCE THERE IS IN THIS.

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7. DURING THE SUMMIT, MITTERRAND AND KOHL MET VOLUNTEERS FOR THE JOINT PROGRAMME TO SEND YOUNG PEOPLE TO WORK ON THIRD WORLD AID PROJECTS.

COMMENT.

8. THE ABOVE IS BASED ON MEDIA REPORTS. WE HAVE NOT YET BEEN ABLE TO DEBRIEF OFFICIALS PROPERLY BUT SHALL DO SO EARLY NEXT WEEK. BEFOREHAND, THOSE INVOLVED HERE (AS IN BONN) SAW THIS AS A ROUTINE OCCASION AND EXPECTED LITTLE NEW TO EMERGE. THAT PREDICTION APPEARS LARGELY TO HAVE BEEN BORNE OUT. BUT THE PUBLIC CATALOGUING OF RECENT AGREEMENTS GIVES THE IMPRESSION OF A CERTAIN DEPTH TO THE RELATIONSHIP: AND INITIAL REACTIONS FROM THE FRG EMBASSY HERE AND THE QUAI ARE THAT IT WAS A USEFUL EVENT DESPITE THE TIMING. THIS WILL BE WELCOME TO MITTERRAND IN THE ELECTORAL CAMPAIGN, EVEN IF KOHL'S CLAIM TO HAVE AVOIDED ANY INTERFERENCE IN IT IS JUSTIFIED. THE EMPHASIS ON THE PRESIDENT'S PRIMACY IN LAUNCHING NUCLEAR WEAPONS WILL ALSO STAND MITTERRAND IN GOOD STEAD AFTER THE ELECTIONS, IN THE BATTLE OVER COHABITATION.

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SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 12 OF 11 FEBRUARY 1986
TO FCO
REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE: EOCNOMIC REPORT FOR JANUARY 1986

SUMMARY

1. Although the improvement in the French economy begun in the autumn has faltered, prospects are good provided that the lower oil price and the depreciation of the dollar are sustained. Although unemployment has fallen for the fourth month running and the annual rate of inflation continued to decrease, the recent improvement in the balance of trade was reversed in December and industrial production is falling.

2. At the end of December there were 2.322 million s.a. out of work. During 1985 unemployment decreased: the unadjusted figure fell by 88,600.

3. The annual rate of inflation fell again in December to reach 4.7% the lowest annual rate in France since 1967.

4. There was a large trade deficit for December, to give a 1985 trade deficit of F23.8 billion, i,e. no improvement over 1984. A substantial improvement is likely in 1986 if the price of oil and the value of the dollar do not rise much above present levels.

5. In December industrial production fell and although industralists expect production tofall during the next few months they remain optimistic. The financial situation of companies is improving but much ground lost during a 10 year deterioration in companies finances has still to be recovered..

6. The joint electoral platform published by the UDF and RPR political parties on 16 January promised denationalisation, deregulation, lower public spending and lower taxation. It also promised to safeguard the existing social security system and defend the EC Common Agricultural Policy.

/DETAIL

DETAIL

Foreign Trade and the Balance of Payments

7. The trend towards an improvement in the monthly foreign trade figures was reversed in December when there was a deficit of F3.435 billion FOB/FOB s.a. following a deficit of only F0.486 billion in November and a surplus of F0.982 in October. INSEE had predicted that there would be an improvement over the whole of the last quarter (see paragraph 8 of the MER for December). The deterioration in December was due to a F1.387 billion increase in imports to F77.053 billion and a F1.562 billion decrease in exports to F73.618 billion.

8. More detailed figures, which at present are only available in CIF/FOB terms, show that in December compared with November, seasonally adjusted, the deficit in energy increased by F1.0 billion to F14.9 billion, the surplus on processed food fell by F1.1 billion to F0.6 billion, and the surplus on manufactured goods fell by F0.6 billion to F5.7 billion. The December surplus on manufactured goods was well below the monthly average for 1985 of F7.5 billion.

9. The balance of trade deficit for the whole of 1985 of F23.786 billion is only slightly less than the F24.450 deficit in 1984, and is substantially worse than the F12 to F15 billion deficit forecast by the government in September 1985.

10. In 1985 a F11.3 billion CIF/FOB improvement in the balance on agriculture, food and energy compensated for a F11.1 billion CIF/FOB deterioration in the balance on capital goods. Imports of capital goods increased by F17.8 billion CIF, probably as a result of the increase in the volume of investment in industry in 1985, estimated by INSEE at 9%; exports of capital goods increased by only F6.9 billion FOB. The surplus on agriculture and food increased by F5.5 billion CIF/FOB and the deficit on energy decreased by 5.8 billion CIF/FOB.

11. In 1985 France's balance of trade with the European Community and OPEC worsened, but it improved with the United States. France's total trade deficit CIF/FOB with the European Community increased by F4.0 billion to F60.9 billion, chiefly because of a F4.0 billion increase in its deficit with the Benelux to F8.6 billion, but the deficit with West Germany, France's most important trading partner, remained virtually unchanged at F28.1 billion. France's trade with non-OECD countries remained little changed, decreasing by only F0.7 billion to give a deficit of F14.6 billion CIF/FOB, but this includes an increase of F4.4 billion in its deficit with the OPEC countries. Imports from OPEC countries fell by F10.8 billion CIF but exports to OPEC countries fell by F15.2 billion FOB. France's trade balance CIF/FOB with the United States improved by F7.0 billion to give an annual surplus of F3.0 billion. This helped to reduce its deficit with OECD countries outside the European Community by F4.4 billion to F14.8 billion CIF/FOB.

12. Thus a F7.0 billion CIF/FOB improvement in France's trade with the United States almost compensated for a F8.4 billion CIF/FOB deterioration in its trade with the Benelux and the OPEC countries.

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INFO SAVING BRUSSELS, BONN, CG LILLE, CG BORDEAUX, CG LYON
INFO SAVING CG MARSEILLE
(COLLAR)
CFL CEREMONY AT CANTERBURY : PRESIDENT MITTERRAND'S CURRENT PREOCCUPATIONS

SUMMARY

1. THE ELECTIONS INCREASINGLY DOMINATE MITTERRAND'S THINKING AS HE MOVES MORE DIRECTLY INTO THE FRAY. BUT POLLS STILL SHOW THE RPR/UDF LIKELY TO WIN A CLEAR MAJORITY. TERRORISM HAS BECOME AN ELECTION ISSUE IN THE LAST WEEK.

DETAIL

2. MITTERRAND'S PREOCCUPATIONS HAVE NOT CHANGED GREATLY SINCE THE LILLE CEREMONY (MY TELNO 55). THERE IS NOW LITTLE MORE THAN A MONTH TO GO UNTIL THE ELECTIONS, WHICH INCREASINGLY DOMINATE HIS ACTIONS. THE CAMPAIGN HAS NOT GONE WELL FOR THE OPPOSITION IN THE LAST FORTNIGHT (MY SAVING TELNO 11 OF 7 FEBRUARY), LARGELY BECAUSE OF BARRE'S DETERMINED REJECTION OF THE IDEA OF THE RPR/UDF GOVERNING WITH MITTERRAND AFTER THE ELECTIONS. BUT THE SOCIALIST SCORE IN THE OPINION POLLS HAS NOT IMPROVED SIGNIFICANTLY.

3. MITTERRAND HIMSELF HAS BEEN INCREASINGLY ACTIVE IN THE CAMPAIGN. HE FOLLOWED UP HIS MAJOR APPEARANCE AT GRAND-QUEVILLY (FABIUS' FIEF) JUST BEORE THE PRIME MINISTER LAST MET HIM (MY SAVING TELNO 7 OF 24 JANUARY), WITH ANOTHER POWERFUL PERFORMANCE ON 7 FEBRUARY IN LILLE (MAUROY'S STRONGHOLD). INEVITABLY, THE OPPOSITION ARGUE THAT HAVING RE-ENTERED THE FRAY AS LEADER OF THE SOCIALIST PARTY, HE CAN NO LONGER PRETEND TO BE ACTING AS PRESIDENT OF ALL THE FRENCH PEOPLE, AND THAT HIS POSITION AFTER THE ELECTION WILL BE CORRESPONDINGLY WEAKENED. MITTERRAND, MEANWHILE, HAS BEEN REDOUBLING HIS EFFORTS TO STAKE OUT THE GROUND IN THE AREAS WHERE HE INTENDS TO RETAIN THE MAXIMUM CONTROL. FOR EXAMPLE, HE PUBLISHED ON 30 JANUARY, A COLLECTION OF HIS FOREIGN AFFAIRS SPEECHES PREFACED BY 135 PAGES OF STYLISHLY WRITTEN COMMENT ON FOREIGN POLICY, VERY MUCH ALONG TRADITIONAL LINES (MY SAVING TELNO 9 OF 3 FEBRUARY). HE HAS ALSO OVER THE WEEKEND EMPHASISED HIS PRIMACY IN DEFENCE MATTERS BY

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REMINDING EVERYONE THAT IT IS HIS FINGER ON THE NUCLEAR BUTTON.

4. MITTERRAND HAS NOW REVISED HIS EARLIER PLEDGE TO DESIST FROM CAMPAIGNING THE LAST THREE WEEKS BEFORE THE ELECTIONS. NOT ONLY WILL HE EXPLOIT DOMESTIC EVENTS TO MAKE PUBLIC PRONOUNCEMENTS (THE NEXT IN SIGHT IS AT NEVERS ON 14 FEBRUARY), BUT HE CONTINUES TO APPEAR AT MAJOR INTERNATIONAL OCCASIONS TIMED WITH THE ELECTIONS IN MIND. LAST WEEK, IT WAS THE FRENCH-INSPIRED INTERNATIONAL CONFERENCE ON FORESTS, WHICH MR RAISON ATTENDED. NEXT WEEK, IT WILL BE THE SUMMIT CONFERENCE (ALSO IN PARIS) OF HEADS OF STATE OF FRANCOPHONE COUNTRIES. THESE HELP KEEP MITTERRAND IN THE PUBLIC EYE THROUGHOUT THE ELECTORAL CAMPAIGN.

5. BUT SUCH ACTIVITY DOES NOT ALTER THE FACT THAT THE RPR/UDF ALLIANCE STILL LOOKS SET TO WIN A CLEAR VICTORY ON 16 MARCH. THE LATEST OPINION POLLS SHOW THE RELATIVE SCORES REMAINING STABLE. DESPITE THE CONTINUED RECOVERY IN MITTERRAND'S PERSONAL POPULARITY, THE RPR/UDF ALLIANCE AT PRESENT LOOKS SET TO WIN SOME 46% OF THE TOTAL VOTES (AGAINST ABOUT 29% FOR THE SOCIALISTS). THERE IS STILL SOME UNCERTAINTY, GIVEN THAT UP TO A QUARTER OF THOSE POLLED CLAIMED THEY HAD NOT DECIDED HOW TO VOTE OR MIGHT CHANGE THEIR MINDS. BUT AT THIS STAGE, THE SIGNS ARE THAT THE RPR/UDF ALLIANCE WILL HAVE A COMFORTABLE OVERALL MAJORITY IN THE NATIONAL ASSEMBLY.

6. ONE PARTICULAR ISSUE WHICH HAS COME TO THE FORE IN THE LAST WEEK IS TERRORISM. AFTER THE 3 BOMB ATTACKS IN PARIS LAST WEEK, WHICH HAVE PROVOKED A SHARP POLITICAL DEBATE, THE FRENCH GOVERNMENT HAS CONVENED A MEETING OF THE TWELVE ON 12 FEBRUARY TO DISCUSS EC COOPERATION AGAINST TERRORISM (MY TELNO 143). MITTERRAND MAY WELL ALLUDE TO THIS.

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FCO PLEASE PASS SAVING BRUSSELS, BONN (REPEATED AS REQUESTED)

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BY BAG
SAVING TELEGRAM
CONFIDENTIAL [COLLAR]
FROM PARIS SAVING TELNO 11 OF 7 FEBRUARY 1986
TO FCO
REPEATED FOR INFORMATION TO EC POSTS, WASHINGTON, UKDEL NATO, CONSULS GENERAL IN FRANCE

MY SAVINGRAM NO 7 OF 24 JANUARY : INTERNAL FRENCH POLITICS

SUMMARY

1. The election campaign has not been going well for the opposition. Barre's determined independence and sustained hostility to cohabitation has embarrassed them, and offered an easy target to the socialists (PS). By contrast, the latter have seemed more united, more coherent and better-led than their opponents, and their morale has improved accordingly. The Right need to close ranks and turn their fire on the PS rather than themselves if they are to be sure of a clear-cut victory.

DETAIL

2. The election campaign has not been going well for the Right. In recent days their internal divisions have been glaringly apparent, so much so that some commentators have been asking sarcastically whether they are fighting the socialists or each other.

3. The principal cause of the Right's discomfort is Barre, who continues to pursue an independent and frequently contentious course, to the dismay and embarrassment of the opposition as a whole. In the last ten days he has thrown his weight behind a dissident Barriste list in a department near Paris, which will take votes from the official UDF/RPR candidates; he has reitereated his opposition to a government of the Right cohabiting with Mitterrand after the elections, and says he will not support it; and he has refused an invitation from Giscard to opposition leaders to attend a joint rally at Clermond-Ferrand before the elections to demonstrate UDF/RPR unity. This, he says, would be inappropriate since he and his colleagues do not agree about the fundamental question of cohabitation.

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4. Barre runs the risk of being seen by the public as the wrecker of the opposition's campaign. But so far, despite attacks on him by members of Chirac's and Giscard's immediate entourages, there is no sign of this happening. Instead the electorate seem to take the view that Barre is to be admired for his independent stance and for the strength of his convictions. The socialists meanwhile have been revelling in the Right's difficulties, with Mitterrand paying ironic tribute to Barre for the help he has been giving to the socialists' cause, and PS leaders generally pointing to the opposition's divisions as evidence that the UDF/RPR are incoherent, and unfit to govern.

5. This squabbling has distracted the Right from their main task: that of attacking the government and of explaining their own policies. They have appeared preoccupied, defensive, and lacking in direction. With Chirac largely absent from Paris, Giscard in the Auvergne, and Barre making unhelpful headlines, the socialists have seemed more united, better organised, and better led. Mitterrand has increasingly emerged as one of the dominant figures of a campaign in which he originally said he would take no part. Pleased by the impact of his recent interventions, he has reversed an earlier commitment to say nothing during the official campaign (beginning on 24 February), and has announced that he will now participate as and when he chooses until the campaign closes on 14 March.

6. Encouraged by the Right's divisions, the socialists have also taken heart from some better opinion poll results. Even allowing for the fact that one poll giving them 30% has now been discredited, two others which have appeared in recent days have given them and their MRG allies 28%; and a poll published in Le Monde last week, on the basis of a larger than usual sample, gave them and the MRG 31%. The Le Monde poll was particularly encouraging for the PS since it showed the UDF/RPR at 42%, a score which might not be enough to give them a clear victory. But, as the UDF/RPR are quick to point out, the other polls give them a significantly better reading of between 45 - 48%, enough for a comfortable majority. The accuracy and importance of the polls will no doubt continue to be debated, and to affect the calculations of all the parties, but recent results have helped reinforce a sense among socialists that, after months in the doldrums, they have at last regained momentum and perhaps the political initiative. They have begun to hope that they may after all emerge as the largest single party, and to speculate about the chances of the UDF/RPR failing to win a clear majority.

7. With this in mind the PS have continued to try to squeeze the communists, by appealing to PCF supporters not to waste their vote but to support the only party on the Left that offers any real obstacle to the Right's ambitions. There are signs that some communist voters find this argument persuasive, more so indeed than their own party's line that there is nothing to choose between the socialists and the

/Right

Right. The PCF leadership has been sufficiently exercised by the socialists' siren call, and by the PCF's own poor showing in the campaign (some polls have suggested that the party could fall below the psychologically crucial threshold of 10% of the vote), to hold a special Central Committee meeting on 3 February. The upshot was a decision to remain critical of the PS but to balance this with more vigorous attacks on the Right, in the hope that this will prevent large-scale defections to the socialists.

8. As for the Front National, on their present showing of 6 - 8%, they might just fall short of the 30 seats in the new National Assembly that are necessary for formal recognition as a Parliamentary group. If so, their scope for disrupting the new Parliament, and for embarrassing any UDF/RPR majority, would be reduced.

CONCLUSION

9. With five weeks to go until polling day, the UDF/RPR remain on course for a majority. But their margin of advance over the socialists and their own self-confidence have diminished. They have fought an inept campaign in recent weeks, and have begun to look vulnerable. They now badly need to close ranks and focus the electorate's attention on the socialists' shortcomings rather than on their own, if they are to ensure that a clear-cut victory does not elude them.

FRETWELL

EUROPEAN POLITICAL

WED

SUBJECT
cc Master
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 27/86

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OF 061245 FEBRUARY 86

TERRORISM: MESSAGE FROM PRIME MINISTER

1. PLEASE PASS FOLLOWING MESSAGE FROM PRIME MINISTER TO PRESIDENT MITTERRAND:

BEGINS

I HAVE BEEN OUTRAGED TO READ OF THE RECENT SPATE OF TERRORIST BOMBINGS IN PARIS OVER THE PAST FEW DAYS. I WANTED TO LET YOU KNOW THAT WE IN BRITAIN SHARE YOUR CONCERN AT THE APPALLING THREAT TO INNOCENT LIVES FROM SUCH VIOLENCE AND ADMIRE THE SKILL WITH WHICH YOUR PEOPLE AVERTED WHAT MIGHT HAVE BEEN A TERRIBLE TRAGEDY AT THE EIFFEL TOWER. SUCH EVENTS CAN ONLY REINFORCE OUR DETERMINATION TO WORK WITH YOU TO IMPROVE OUR DEFENCES AGAINST TERRORISTS OF WHATEVER KIND AND TO USE EVERY LEGITIMATE MEANS TO CURB THEIR ACTIVITIES.

ENDS

2. SIGNED ORIGINAL FOLLOWS BY BAG.

HOWE

LIMITED
WED
SCD
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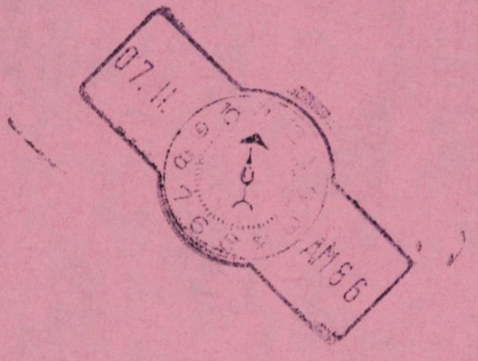
NEWS D
PS
PS/LADY YOUNG
PS/PUS
MR DEREK THOMAS
MR DAVID GOODALL
MR RATFORD
MR O'NEILL

COPIES TO:
PS/HOME SECRETARY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AM56

10 DOWNING STREET

From the Private Secretary

6 February 1986

I enclose a message from the Prime Minister to President Mitterrand. I should be grateful if it could be despatched as soon as possible.

C D POWELL

Colin Budd, Esq.,
Foreign and Commonwealth Office

Ade MJ
cc FCO
(T 27/86)

10 DOWNING STREET

THE PRIME MINISTER

6 February 1986

Dear Mr President:

I have been outraged to read of the recent spate of terrorist bombings in Paris over the past few days. I wanted to let you know that we in Britain share your concern at the appalling threat to innocent lives from such violence and admire the skill with which your people averted what might have been a terrible tragedy at the Eiffel Tower. Such events can only reinforce our determination to work with you to improve our defences against terrorists of whatever kind and to use every legitimate means to curb their activities.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur Francois Mitterrand

RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

5 February 1986

Dear Charles,

You will be aware of the recent spate of terrorist incidents in Paris. It is not yet clear who was responsible for them but they will certainly be causing a great deal of concern to President Mitterrand and the French Government. In the circumstances, a message of sympathetic concern and solidarity would certainly be well received in Paris. I enclose a draft message in case the Prime Minister decides she would like to send one.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

RESTRICTED

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

DEPARTMENT: **TEL. NO:**

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO:
President Mitterrand

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

I have been outraged to read of the recent spate of terrorist bombings in Paris over the past few days. I wanted to let you know that we in Britain share your concern at the appalling threat to innocent lives from such ~~mindless~~ violence and ~~we~~ admire the skill with which your people averted what might have been a terrible tragedy at the Eiffel Tower. Such events can only reinforce our determination to work with you to improve our defences against terrorists of whatever kind and to use every legitimate means ~~at our disposal~~ to curb their activities.

Enclosures—flag(s).....

BNC

BY BAG.

SAVING TELEGRAM
FROM PARIS
CONFIDENTIAL
TO FCO SAVING TELNO 7 OF 24 JANUARY 1986
REPEATED FOR INFORMATION TO SAVING EC POSTS, WASHINGTON, UKDEL NATO, CONSULS GENERAL IN FRANCE

(COLLAR)

MY SAVINGRAM NO 2 OF 10 JANUARY : INTERNAL FRENCH POLITICS

SUMMARY

1. The campaign is slowly warming up. The RPR/UDF alliance have published their joint manifesto; Giscard has expounded powerfully on cohabitation; and Mitterrand has continued to dominate the socialists' campaign with a strong performance at Grand-Quevilly. His personal popularity is still edging up, but there is argument as to whether the socialists are also improving their score. The Front National may be fading.

DETAIL

2. The election campaign is now in practice under way, although officially it does not start for another 3 weeks. Although Parliament has been recalled in extraordinary session to discuss a government bill on flexible working hours, the major political figures are already on the campaign trail.

3. The main event of the last fortnight has been the publication of the RPR/UDF joint manifesto. I am reporting separately and in detail on this (my saving telegram numbers 4 and 5), since it represents the most authoritative statement yet on the policies which any right-wing coalition emerging from the election is likely to follow. Although the manifesto tries not to give too many hostages to fortune, the section on economic policy represents a marked shift away from traditional French ideas on the role of the State in controlling economic activity.

4. Other noteworthy events on the right of the political spectrum have included the decision of Jean-Maxime Lévêque (who set up the Union Nationale pour l'Initiative et Responsibilité in 1982 after his bank was nationalised by the socialists) to abandon his bid for separate lists for the UNIR group and throw his weight behind the RPR. On 14 January, Giscard held a major press conference in which he presented an intellectually impressive interpretation of the Constitution to buttress his view that cohabitation was not only possible but proper. (Of practical interest to the UK was his comment that it should be possible to discuss calmly the question of France's representation at EC Summit meetings : the RPR have been arguing that after the elections, it should be the Prime Minister, not Mitterrand, who attended). Giscard's unspoken message was that he would be the man best able to ensure that a new government would act both in the spirit and the letter of the Constitution; and a suitably qualified candidate for high office. Meanwhile, Chirac, after

/signing

signing the joint manifesto (paragraph 3 above) promptly disappeared from Paris to start a marathon speaking tour which is planned to take him to some 50 towns throughout the country. The malicious are commenting that he is opting out of Paris - although he is Mayor - during much of the election campaign, because he prefers perpetual motion to the challenge of the TV. Barre has maintained his longely stance, but continues his apparently inexorable rise in the polls despite his opposition to cohabitation, which is what most Frenchmen say they favour. He is seen by many as the man waiting in the wings, on whom France will call in the hour of need. But his line · makes it harder for the RPR/UDF alliance to present themselves as a convincing prospective government for 16 March.

5. Mitterrand's hand is increasingly evident behind the socialists' campaign. Not only has he kept himself much in the public eye (e.g. the CFL ceremonies at Lille), but he also made a powerful speech on 17 January at a large meeting arranged specifically to give him this platform, at Grand-Quevilly in Seine-Maritime, the département where Fabius is standing as a candidate. Although this was an overtly electioneering performance, Mitterrand pitched his appeal ostensibly to «the entire French people», while defending vigorously the «major reforms and good administration» of the socialist government. He warned the nation against allowing what had been achieved to be swept away, were the present opposition to gain power. This offensive seems to have rattled the opposition, who promptly announced their decision to counter-attack, but have not yet managed to do so. Mitterrand supposedly has only 3 weeks' more active involvement, for he has proclaimed that unlike his predecessors he will abstain once the election campaign opens officially : but even if he is less in evidence on the battlements, he will still no doubt be actively marshalling his troops and lobbing the odd missile at the Opposition.

6. One theme which the PS is deploying is that of «le vote utile». They argue that a vote of 30% for them would be enough to deny the RPR/UDF a clear majority («the blocking third») and that a vote for the communists is a wasted vote. Whether this would in fact be true would depend very much on how evenly spread PS votes were around the different departments: an effective block might well need 32 - 35% overall to be translated into enough seats; and the RPR/UDF would probably need to drop below 42% to lose a clear majority - which at present seems unlikely. Be that as it may, the argument could hold attraction for left wing voters. It has spurred Marchais into retorting that a vote for the PS is tantamount to supporting the RPR/UDF opposition since the socialists' policies have become almost indistinguishable.

7. The socialists have been claiming that not only is Mitterrand's personal popularity continuing to rise, but so is that of the PS. The former is confirmed by the latest figures which show the number of Frenchmen who approve of Mitterrand's performance as being in balance with those who disapprove (at 42%) - his best rating since 1982. On the PS's popularity,

/there is

there is conflicting evidence from the opinion polls. Of the four most recent polls, two have shown the PS score stuck at 26%, while the two others have shown it up at 30%. It may be no accident that the first two were commissioned by right wing publications and the last two by journals on the left or centre. Meanwhile, the RPR/UDF is still steady at 44% (only one poll gave it 47%), and the Communists are hovering around 10 - 11%. There are signs that the Front National's score is down : two polls put it at only 5% (although two others had it still at 8 - 9%). Le Pen alleges that opinion polls traditionally underestimate the level of support for the FN (presumably because those polled may hesitate to admit an intention to vote FN); but the idea of «le vote utile» may be beginning to bite with right-wing voters as well.

MF

ACDSM

FRETWELL

EUROPEAN POLITICAL

WED

BY BAG

SAVING TELGRAM
FROM PARIS
UNCLASSIFIED
TO FCO
SAVING TELNO 4 OF 23 JANUARY 1986
REPEATED FOR INFORMATION SAVING TO FRAME (ECONOMIC AND SOCIAL), MODUK, EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO, UKREP BRUSSELS, CONSULS GENERAL IN FRANCE
(COLLAR) - i.e. Chirac/Giscard.

RPR/UDF ELECTION PLATFORM : CONTENTS

SUMMARY

1. A key document, on which the right-wing government likely to emerge from the elections next March will initially base its policies. Three main sections:

(a) Economic: A wide range of liberalising measures is promised, including abolition of price and exchange controls, a far-reaching privatisation programme, tax cuts and a more flexible labour market.

(b) Social: Deals with personal security, education, culture and information, immigration.

(c) Foreign affairs and defence: Increased defence spending; consultation with the UK and FRG on SDI and use of tactical nuclear weapons; solidarity with the US and vigilance towards the USSR.

DETAIL

2. The RPR/UDF alliance formally published on 16 January their joint electoral platform, signed by Chirac (RPR) and Lecanuet (UDF). It contained no surprises, having been extensively leaked beforehand. However, this 33-page manifesto is a key document in that it defines the policies which the traditional right-wing parties, who are likely to form the next government as a coalition of some sort, intend to follow when they come to power. The main points are summarised below. (The full text has been sent by bag to WED, lest it is thought useful to have it translated and circulated more widely in Whitehall.) Comment follows in MIFT.

A. ECONOMY

3. The overall aims are to cut back the grip of the state, encourage the initiative of individuals and companies, return to a rate of growth equal to or above that of France's European partners, reduce overseas debt and restore order to public finances. Specific promises include:

(i) Deregulation: Immediate abolition of price controls and their legal basis; progressive abolition of exchange controls; removal of current credit restrictions and

/promotion

promotion of a free and unified financial market; greater competition is also promised in areas such as energy, transport and telecommunications.

(ii) Denationalisation: A framework law to be passed quickly, the aim being the denationalisation within the five-year legislature of banks and finance houses, insurance companies, television and radio and the five major industrial groups nationalised in 1981. All other state shareholdings capable of being sold, to be sold. In the long term, the entire competitive sector of the economy (i.e. including Renault) to be privatised. Foreign participation in the purchase of state assets foreseen. Individual shareholding to be encouraged, by granting the same generous income tax allowance for share dividends as now for interest on bonds.

(iii) Public Expenditure: Its weight in the economy will be progressively reduced, including notably a review of services provided by the state. Cuts amounting to 1% of GDP (i.e. £3.5 billion) promised for 1986 and again for 1987. Taxes and the budget deficit to be reduced in parallel.

(iv) Taxation: The system must reward risk-takers and weigh less heavily on both individuals and companies, by progressive reduction of top rate of income tax to 50%, abolition of wealth tax in 1987, and immediate reduction of taxe professionelle (a form of pay-roll tax).

(v) Monetary Matters: The Bank of France to be given autonomy under new statutes and to make use of market mechanisms in pursuit of its credit policy; EMS to take a new step forward, with increased use of the ECU leading to an international monetary system based on the dollar, the yen and the ECU.

(vi) Industrial and Trade Policy: Aids to sectors in difficulty to be degressive and non-protectionist; service sector to be encouraged; efforts to create genuine Community internal market to be stepped up.

(vii) Housing: Selective and progressive decontrol of rents.

(viii) Agriculture: The sector's previous priority should be restored and attempts to undermine the basic principles of the CAP resisted; new outlets for production, e.g. ethanol, to be sought; protection for French farmers from the consequences of enlargement will need to be re-examined.

Employment and Labour Legislation

4. The objective is to create jobs by increasing growth and competitivity, introducing greater flexibility into the labour market and encouraging small businesses. But most changes introduced by the socialists in 1981 (e.g. the 39 hour week) are to be left in place. Specific promises include:

/(i)

(i) Youth Employment: Companies to offer productive jobs with training in flexible forms; wages should depend on specific conditions, with social charges reduced.

(ii) Flexibility: Prior government authorisation of redundancies to be abolished; companies no longer to be subject to greater social obligations as the number of their employees reaches certain thresholds; regulations governing part-time and temporary work and short-term contracts to be relaxed.

(iii) Minimum Wage: To be retained in principle, but modified in application to reflect circumstances of the company, sector and whole economy.

Social Security

5. No radical dismantling or reform proposed. Growing deficits to be tackled realistically; more management responsibility to be transferred from the state to those involved; greater freedom of choice and competition in health care; encouragement of private pension provisions based on investment of premium income.

B. A FREE SOCIETY

6.(i) Reconstruction of the Republican State:

National unity emphasised (with insistence that the DOM/TOMs are an integral part of the Republic). Administrative decentralisation should be continued, but more coherently. Personal security must be improved (e.g. by better deployment of the police). Pressure should be taken off the prisons (e.g. by substituting community work for imprisonment in the case of petty crimes). The right of asylum should be revised; and the laws covering extradition should be modernised, together with greater European cooperation in this area.

(ii) An Active Family Policy:

France is facing a serious demographic situation in which the under 20s constitute less than 20% of the population and the index of reproduction is only 1.8. Measures must be taken to change this (e.g. by promoting the third child, through increased family benefits, flexible or half-time working hours for mothers, etc).

(iii) Education:

The main principle must be that while the State must guarantee equality of opportunity, parents should be free to choose the schools to which their children go. Schools should have greater autonomy in adapting their curricula to the needs of the students and their environment. Greater attention should be given in primary schools

/and the

and the first two years of the secondary cycle, to the acquisition of basic general knowledge. General studies should include a serious introduction to modern technology.

(iv) Freedom of Culture and Communications:

Culture should not be imposed by the State: it concerns everyone, and priority should be given to individual initiative. The State should help the development of patronage by the private sector; and local government should be freely responsible for the choice of cultural initiatives. Freedom of communication should apply as much to the audio-visual sector and telecommunications as to the written press: this implies the abolition of monopolies over television, with a new authority to be set up to guarantee the freedom of audio-visual communication. The State should generally disengage from functions other than assuring the educational and cultural side of radio and television, and strengthening the image and voice of France abroad.

(v) National Identity:

Reasonable solutions must be found to the problems of cohabitation with the 4.5 million foreigners living in France. Immigration must be more firmly controlled (and in conjunction with EC partners, there needs to be harmonisation of frontier controls, visa policy, etc). Cladestine immigrants should be expelled and those who organise «black» labour prosecuted. Foreigners who live in France legitimately should either accept the rights and duties of French citizens (i.e. integrate themselves into French society), or leave (agreements to be negotiated bilaterally with countries concerned, greater financial incentives to go, etc).

C. FRANCE'S PLACE IN THE WORLD

7.(i) Defence:

France's policy of dissuasion basically depends on the credibility of its nuclear forces and their diversification should be set in hand; but the importance of conventional forces is also recognised. The next government should enter into negotiations with its European partners, especially the FRG and the UK, to reach a common position on participation in the SDI. Conventional forces must also be modernised. The defence of France is part of European defence: France should take the initiative in 1986 to promote a real defence dialogue among fellow Europeans, especially on the use of tactical nuclear weapons. To start with, this should be with the FRG and the UK, in close consultation with the US. National service to be retained and re-thought. The aim is for defence to take 4% of GNP when this is possible.

/(ii)

(ii) Foreign Policy:

The Atlantic Alliance has contributed decisively to maintenance of peace in Europe for over 30 years. It presupposes close solidarity with the US, with which France shares same basic ideals (liberty, progress, human rights). Policy towards USSR, on the other hand, should be firm and vigilant. The respect of human rights is fundamental. The construction of Europe is essential: Franco-German solidarity has allowed it to get this far, so must remain at the heart of future efforts. A strong European identity, appealing to the young, is needed. Links with Africa are important and should be reinforced: but primarily with traditional partners. France has an active role to play in the Near East and particular moral obligations to Lebanon. It should defend its rights and strategic interests in the Pacific firmly, if unprovocatively.

CONCLUSIONS

8. There follow, by way of conclusions, the 20 fundamental commitments which the RPR/UDF alliance undertake to pursue as their priority objectives. (Translation of this relatively short section follows by bag.)

FRETWELL

EUROPEAN POLITICAL

WED

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 1 OF 9 JANUARY 1986
TO FCO
REPEATED FOR INFORMATION TO : BONN, BRUSSLES, DUBLIN, THE HAGUE, COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR DECEMBER 1985

SUMMARY

1. Results for the French economy published in December show that the improvement visible since the beginning of the autumn has continued. Unemployment has fallen again; the annual rate of inflation continues to decrease; there is a moderate improvement in the balance of trade, and, according to industrialists, the trend of industrial production is still rising. But there has been press speculation about a reduction in the parity of the franc.

2. Industrial production continues to increase and demand both in France and from abroad remains firm. Industrialists are optimistic. Turnover in the retail trade is substantially higher than a year ago.

3. Unemployment continues to diminish and the number of job losses in 1985 was significantly less than in 1984. The annual rate of inflation has decreased again and is below the EC average.

4. There was only a small balance of trade deficit in November and INSEE forecast that following a deficit of around F22 billion in 1985 there will be a small surplus in 1986 HI.

5. In December there was renewed speculation that the franc might soon be devalued against the deutschmark. Eurofranc interest rates thereupon increased.

6. The Stock Exchange had a bumper year : the value of transactions increased by a third and the CAC index rose by 45%.

/DETAIL

DETAIL

Foreign Trade and the Balance of Payments

7. In November there was a balance of trade deficit FOB/FOB of only F0.486 billion s.a. following a surplus of F0.982 billion in October. The results for October and November are an improvement over those for the first 9 months of 1985. The slight deterioration in November is due to a drop in the surplus on manufactured goods to F6.3 billion CIF/FOB s.a. from F8.4 billion in October. (Only CIF/FOB figures are available so far for goods.) The surplus on food and agricultural products and the deficit in energy remained virtually unchanged. There is a trade deficit for the first 11 months of 1985 of F20.351 billion.

8. In early December (before the November trade figures were available) INSEE had already forecast that there would be an improvement in the trade figures in the fourth quarter and that there would be a balance of trade deficit for 1985 of F22 billion, which is only just over F1 billion more than the deficit for the first 9 months of the year. INSEE predicted that the balance of trade would improve because of an increase in the surplus on food and agricultural products and manufactured goods and a decrease in the deficit on energy. In October and November as a result of a good harvest the monthly average trade surplus on food and agriculture rose to F4.2 billion CIF/FOB s.a. from F2.2 billion during the first 9 months of 1985. Over the same periods the monthly average deficit on energy fell to F14.0 billion from F15.4 billion because of the fall in oil prices and the depreciation of the dollar. In October the surplus on manufactured goods improved but the size of the November surplus was disappointing.

9. INSEE forecast that the improvement in the balance of trade will continue during the first half of 1986, to give a surplus of F2.7 billion, compared with a deficit of F14.4 billion for the first half of 1985. Their forecast is based on the franc/dollar exchange rate of mid-November of F8 (by the beginning of January the rate had fallen to around F7.50) and «spot» North Sea oil prices of $27 per barrel in Q1 and $26 in Q2.

10. INSEE predicts that in 1986 HI food and agricultural exports will continue at a high level and the value of energy imports will be F22 billion less than during the same period of 1985. They also predict that the export of manufactured goods will increase to the level of 1985 HI, because arms contracts signed for a record value in 1984 and a recovery in the level of contracts for large civil projects abroad signed in 1985 will begin to show in the export figures.

11. However, in December two of the largest French banks, the «Banque Nationale de Paris» and the «Banque de Paris et des Pays Bas» both pointed out that France's share of the world market in manufactured goods is slowly but steadily diminishing.

/They

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RESTRICTED

Foreign and Commonwealth Office

London SW1A 2AH

7 January 1986

N L Wicks Esq
No 10 Downing Street

Dear Nigel,

FRENCH INDUSTRIAL POLICY

NO TRACE

Following our recent exchange about Concorde I think that you might be interested to see the enclosed copies of two letters from Roger Garside, our Financial Counsellor in Paris.

2. Although as you know I have a certain prejudice in favour of the French approach, Roger's letters bring out very strongly that not all systems work well all the time, and that at the moment the French system is functioning somewhat less well than it used to in the 1950s and 1960s. Certainly under Mitterrand the grip has relaxed: one sees that in the lack of coordination of the French performance in the Community as well as elsewhere.

Yours ever,
Rodric

R Q Braithwaite

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(28)

BRITISH EMBASSY
PARIS

2 December 1985

P.a.312.

J W Healey Esq
Branch 1, General Policy Division
Department of Trade & Industry
1 Victoria Street
LONDON SW1H OET

MTX 120|312

Dear Healey,

HOUSE OF LORDS SELECT COMMITTEE ON OVERSEAS TRADE : FRANCE'S TRADE IN MANUFACTURES : PART II

1. In my letter to you on this subject on 28 November, I assessed France's current performance in trade in manufactures. This letter looks at the explanation which the Select Committee gave for French superiority over the UK in this field, and gives my own view of the question.

2. The Committee argued that France along with Germany and Japan displays most, if not all, of the eight characteristics which the Committee regards as essential to success in industrial development and trade in manufactures. These, as you will recall, are :

(i) A sense of national purpose

(ii) Close links between different groups in society

(iii) A long term view of the economy

(iv) Good education and training

(v) An active industrial policy

(vi) Financial institutions that take a long view of their relationship with industry

(vii) A readiness to erect barriers to trade

(viii) Good operating characteristics of firms.

THE COMMITTEE'S EXPLANATION OF FRENCH SUCCESS

3. Since the Committee's explanation embraces three very different societies, it is not surprising that the description of their qualities remains at a high level of generality. But these are generalities which, at least in the case of France, have featured

/prominently

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prominently in public debate on this subject, and, given their intrinsic importance, are likely to continue to do so for as long as public attention focuses on the state of our industry. They therefore deserve scrutiny.

4. First, the Committee writes of «the way in which all main economic agents - government, employers, unions and banks - were united in their determination to advance the industrial success of their country despite what could be strong divergences of political opinion and diverging sectional interests». Few would question that for a long period from about 1950 and particularly after de Gaulle came to power in 1958, Frenchmen showed remarkable unity on the essentials of national life, in many ways displaying greater zeal for the national cause than the British, and that this often worked to their advantage. Nevertheless the Committee's Panglossian description needs qualification. First it was truer ten and twenty years ago than it is now. Today close examination shows some important conflicts of sectional interest. The financial sector provides examples : if French banks really put the success of French industry above their own interests they would long ago have achieved those great improvements in efficiency for which the Minister of Finance is now campaigning. The fact is that the larger French banks, particularly those which have been nationalised for forty years, are comfortable, swollen bureaucracies of a most unadventurous and conservative disposition whose service both to French industry and to private clients falls short of that offered by British counterparts. M. Bérégovoy has had to take the bankers by the scruff of their neck and drag them into creating financial products which have been available to industry elsewhere for a decade or more. Then again French «agents de change» (stockbrokers/jobbers) are today engaged in a rearguard action to defend their monopoly of dealing in securities against the ambition of the banks to enter the market. The result is that the Paris Bourse is falling further behind London; it is cramped, compartmentalised and provincial. If the health of French industry was the over-riding priority of the agents de change, they would by now have joined with banks to create security houses capable of channelling the vast sums required (and available) for industrial investment, at the lowest possible cost. They have done nothing of the kind.

5. «In France», the Committee also observed, «prosperity was recognised to be inextricably connected with manufacturing and the export of manufactured goods». This comment would surprise some Frenchmen. I have grown used to hearing prominent men as different as Michel Rocard and the Governor of the Bank of France say «les français n'aiment pas leur industrie». They will tell you that while their fellow countrymen are glad that Rita beat Ptarmigan and wanted the Mirage to keep the Tornado out of the Arabian Sky, that indeed they care intensely that France, in any manifestation from footballers to rockets, should beat the foreign competition,

/they

they are much more attached to, have greater confidence in, the land and its produce than the nation's manufactured goods: that the Frenchman believes in the superiority of a Camembert in a way that he does not believe in a Renault. It is a fact that the myth of France as an agricultural country enables farmers even today to pre-empt vast sums of public money that could earn a higher rate of return in industry. Nevertheless, industry enjoys a higher standing in France than in the UK. Products like the TGV and nuclear power stations are sources of pride and symbols of national prowess. The post-war rise of French industry is seen as largely responsible for the great increase in national wealth. When a Frenchman thinks of exports he thinks of the products of industry and agriculture, not services, even though the country earns about as much from services as the UK does. The Ecole Polytechnique, which is a technical school, enjoys a prestige that is only matched by two other Grandes Ecoles; one has the impression that a higher proportion of intellectual talent is attracted to engineering in France than in the UK.

6. In the Committee's view, France, like Japan, benefits from the close links established between people in their student days (at the Grandes Ecoles in France) and maintained when some enter the civil service and others manufacturing industry. The practice of people moving from the civil service into industry is thought to be a strength of the French system. No-one would deny that close personal links between civil servants and industrialists, however formed, can be exploited for the common good. My impression is that they have been put to good use in France in many fields since World War II. The existence of a tight-knit, self-confident elite, selected on grounds of intelligence, and of capacity for hard-work and clarity of expression, was surely a powerful factor for success in big projects with clear-cut goals : the modernisation of the telephone system, the building of motorways, the construction of nuclear power-stations (of essentially American design) and aerospace projects. This was «dirigisme» and «étatisme» at their best. But moving people from the civil service into the top levels of industry (and finance) can bring an administrative cast of mind into places where it does not belong, and old-boy networks can be used to make cosy arrangements that work against the public interest. Big firms in the private and public sectors whose financial performance is poor have found it easier to put off the evil day of adjusting to market realities because their top management knows how to persuade a civil servant or a minister, who was in their class as ENA, to grant them a subsidy or a tax relief. The US or British stock markets, for whom the Committee have only hard words, would have been much less indulgent - and French industry would be more competitive with the Germans now.

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7. The close personal links forged at the Grandes Ecoles have indeed been an integral part of the dirigiste, étatiste and centralist system, and have contributed to its successes. But the failures of this system have been as spectacular as its successes. They have been less publicised because France does not have a strong tradition of independent, investigative journalism. These failures include computers - the building of a national computer industry was one of the highest priorities of industrial policy for two decades and huge resources were allocated to the Plan Calcul. Wrong choices in the chemical industry in the 1970's wasted billions of pounds. Two comments suggest themselves. First, in complex markets where the customers are many and their requirements fast-changing, dirigiste and étatiste systems are at a disadvantage; and second, in France as elsewhere, the centralisation of decision-making magnifies mistakes as well as successes.

8. The Committee pays tribute to the system of five-year plans as one way in which France, like West Germany and Japan, takes a long term view of economic development. France pioneered indicative planning, and in the 1950's and 1960's the plans were very important. They were the product of broad consultation as well as intensive cerebration by planning experts. They gave expression to the intelligent sense of national purpose then felt so strongly. They certainly stimulated leaders in many fields to form a view on what would and should be done, and how. The process continues today, and is still of considerable value. But the Plan is much less influential and less quantitative now. It is no longer the «ardent obligation» that de Gaulle called it. The most interesting documents published by the Commissariat-Général du Plan these days are perhaps not the five-year plans but papers on specific problems. The Commissariat would like to play a direct role in the allocation of state funds, but has been consistently excluded. No official document in France remotely matches the detail of the British government's White Paper on Public Expenditure, and some say that one reason why the Ministry of Finance does not publish such a document is that the Commissariat would insist on being allowed a voice in the forward planning of expenditure.

9. The Committee judged France to have an exemplary industrial policy, and praised French financial institutions for their contribution to industrial development; in particular the provision of loans to French industry at rates of interest subsidised by the government was thought to stand as a lesson for the UK. The remark about industrial policy is curious, because the whole notion of industrial policy has been downgraded in the past two years and has, over a much longer period, gone through an evolution that parallels that of planning. Neither «picking winners» nor the drawing up of master plans for industry, both of which have been

/fashionable

fashionable at different times in the past, are in favour today. Instead, since M. Fabius became Minister of Industry in March 1983, emphasis has been on creating a climate in which industry can flourish. The stress is on three fundamentals : investment, research and training. Investment implies profits and the socialist government is not shy of publicising the recovery in the general level of profitability. Policy specifics are not all the same as in the UK but the philosophy is remarkably similar.

10. As to the subsidisation of loans to industry, both the government and the employers' federation now argue that the right strategy is to reduce subsidies and lighten the fiscal burden on companies. The amount of money being made available by government to subsidise interest rates has been reduced in nominal terms and will be reduced further. With numerous large employers in difficulties, the government has leant on the banks to finance their restructuring, but the banks dislike it and government hopes it will not last long.

11. Moving from broad questions of strategy to institutional specifics, the Committee were particularly struck by the speed and flexibility of French institutions engaged in support for exports. This is right. It is our impression that the French official machinery for the financial support of exports is unusually rapid and dynamic. COFACE, the export credit guarantee agency, appears to have a smaller, more highly paid staff than ECGD, and to process applications more quickly. (Two years ago ECGD were hoping to make an organizational study of COFACE on the spot in Paris; if that has not been done, it deserves to be.) The way the French developed the «crédite mixte» demonstrates both the political priority given to exporting in France and the capacity of the civil service to translate that will into action. Another manifestation of the same political will was the way French political leaders were among the first in the industrialised democracies to act as salesmen for their national products, at a time when others considered it beneath their dignity.

12. It is clear that in the mid-70's the French government moved quickly and effectively to play its part in the drive to increase exports, including manufactures, to pay for the rapidly increasing energy import bill. Confident that the economy would continue to grow rapidly and that the state could easily find the money to «support» (ie subsidise) the export drive, the machinery to do so was put in place and run at full throttle. The combination of political salesmanship and crédit mixte worked very well in the Third World and Eastern Europe. It is irrelevant in OECD countries. France is painfully conscious that she must look to the latter, because they are now the more dynamic markets.

13. From the above it should be apparent that the Committee's explanation of France's surplus in manufactures is incomplete and not wholly accurate. It is incomplete in three respects. First it fails to make clear that while France has in the past enjoyed

/very

very high rates of growth in industry and agriculture, its cost structure is such today that - as I argued in Part I of this letter - the profitability of many French exports is today highly questionable; and the low competitivity of French products now condemn the country to a rate of growth below that of her major partners. Secondly, it makes no mention of some very important factors which contributed to the great expansion of industry. Thirdly, it does not point out that some of those very factors which made for success in earlier decades have become handicaps today, either through exaggeration or because they are no longer adapted to the tasks of today. The Committee could not be expected to cover all these because they were not writing the history of the French economy since World War II. Nor am I! But my meaning should become clearer if I list what I see as some of the decisive features and developments of that history.

14. The essential fact is that the thirty years from 1945 to 1975, «les trente glorieuses» as they are now known, brought France's first full industrial revolution. In 1945 about 30% of the labour force was still in agriculture, compared with 8% today. France emerged from World War II without great damage to her economy or loss of manpower, but with a burning resolve to efface through economic success the humiliation of June 1940. The «French miracle» gave her an industrial structure and plant which are still relatively modern.

We, by contrast, lived off our "victory"

15. The miracle was not worked through protectionism, subsidies to industry and its exports, and deficit-financing of a high-spending government. Although dirigisme and étatisme set the framework of society, three of the most decisive economic acts of the period were liberal in character : de Gaulle's 1958 decisions to commit France to honour her Common Market obligations, to impose on her a rigorous fiscal strategy of balanced budgets and to make the franc convertible. The idea of state leadership was not associated with egalitarianism : in the thirty years of high growth, economic agents enjoyed the lightest direct taxation in Western Europe, and senior and middle management progressively developed the highest salary differentials. Inheritance taxes were low, and the wealth tax did not yet exist. A premium was placed on strong, even authoritarian leadership, civil servants were heirs to a tradition of respected and dedicated servants of the State. The high-flyers among them were given maximum responsibility and fast promotion; they were expected to display imagination as well as mastery of bureaucratic technique. Health care was financed on the insurance principle. Public housing was very limited and mainly provided to the poor. There was no comprehensive safety net for those who failed or suffered ill-fortune in the economy. Union membership was low and union power fragmented. Society placed a high value on learning and the schools turned out people who were relatively literate, numerate and motivated to make a place for themselves in the rather well-ordered society that was France.

contrast ?

rightly !

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16. This orderly society was shaken in 1968, but rapidly resumed normal working with some fairly unprofound «New Frontier»-type reforms. Things started to go wrong in the mid 1970's just when the Hudson Institute was forecasting that France would soon overtake Germany. The response to the first oil-shock was crucial. In some ways it was magnificent : the nuclear power programme to cut energy imports was boldy conceived and brilliantly executed. In other ways there was a refusal to pay the price : Chirac tried to relaunch growth through deficit-financed reflation, and companies drastically increased the share of their value added which they paid out as salaries, reducing proportionally their investments over the next ten years. The courage, dynamism and hard work were adulterated by illusion and self-indulgence. A situation emerged in which the big companies most closely linked to the State became vulnerable giants, living high on the hog with too little care for the cost.

e.g. UK post 1945 ?

17. By the time the Socialists came to power in 1981, the economy was less strong than they, and many others, realized. The over-confident policies of their first twelve months exposed its shortcomings. But the period of socialist government has also occasioned an ideological change of importance : for the first time since Colbert people are turning against étatisme and dirigisme.

18. Any attempt in a couple of paragraphs to draw lessons for the UK from the performance of French industry and from French industrial policy would sound as platitudinous as the advice of Polonius to Laertes. This letter will therefore end with just one (unexciting) conclusion : French performance in trade in manufactures cannot be explained in terms of particular mechanics, institutions or even policies which would transform our performance if copied piece-meal : good and bad chioces on all of these made a contribution, but the very choices were an expression of much larger trends in French society.

✓

Yours sincerely,

Roger Garside.

R R Garside

cc :

C W Kelly Esq, EF1 Divn, HMT
S W Matthews Esq, EF2 Divn, HMT
P N Sedgwick Esq, Under Secretary, Finance Economic Unit, HMT
J E W Kirby Esq, Bank of England
T E Allen Esq, Bank of England
P Fox Esq, Bank of England
Hds/TRED & WED, FCO
J M C Rollo Esq, Economic Advisers, FCO
Mr Warwick, Economic Advisers, FCO
J Arrowsmith Esq, Bank of England

bcc : M Jay Esq, Cabinet Office
H of C, UKdel OECD

BRITISH EMBASSY
PARIS

28 November 1985

J W Healey Esq
Branch 1 , Department of Trade & Industry
General Policy Division
1 Victoria Street
LONDON SW1H OET

SELECT COMMITTEE ON OVERSEAS TRADE : FRANCE'S TRADE IN MANUFACTURES : PART I

1. The House of Lords Select Committee on Overseas Trade points to France as a country which is successful in its trade in manufactures, and you told me that a letter on this subject could prove useful to officials supporting Lord Young in the debate, if any of their Lordships raise this aspect of their report.

2. By comparison with the UK, France is in the enviable position of enjoying a surplus on trade in manufactures. In 1984, this was almost £9 billion (CIF/FOB) when arms sales are included.

3. For two reasons, it would, however, be unwise to conclude from this bare fact that the UK should remodel its policies and institutions on those of France. First because the differences of history between our two societies and the differences of character and temperament between our two peoples caution against a facile belief that what works for the French will work for the British. As we all know France is deeply imbued with the dirigiste, étatiste tradition that dates back to Colbert and his King Louis XIV. Secondly because while in the first thirty years after World War II France achieved very high rates of industrial growth and is now enjoying considerable success in the export of manufactures, on neither count is her current performance so brilliant as to prove the superiority of the French way of doing things. Indeed there is a radical rethink underway in France about the relationship between the State and industry.

4. The French have not been noticeably more successful than the British in preserving or transforming their older industries such as steel, coal, shipbuilding and textiles. Indeed the restructuring of the French steel industry lags behind our own. Where newer industries are concerned they have had some successes and some disappointments. The successes have included the nuclear power programme, telecommunications and aerospace; there have been disappointments in, for example, computers, machine tools and chemicals.

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5. The French performance in trade in manufactures needs to be assessed with care. For a start, France, like the UK, has a very large structural deficit on trade in manufactures with the European Community, compared with a German surplus of US$ 20 billion in 1983. Indeed, France has an overall trade deficit with all OECD countries except Switzerland. She achieves her surplus in manufactures by her exports to Less Developed Countries and Eastern Europe. The National Statistical Institute (INSEE) calculates that in constant prices the surplus in manufactures has not increased over the past ten years, and that France has lost and is still losing world market share in this field (1-2% in 1984). The French Government is concerned at this and is urging industry to make greater effort to develop more products better adapted for sale in industrial countries.

6. The history of the past four years shows this will not be easy. Since 1981 the franc has been devalued three times against the deutschmark in the EMS, and, like other major currencies, has depreciated heavily against the US dollar. The improvement in price competitivity obtained by this currency depreciation has produced only one marked change in French performance : exports of goods to the United States have increased by 9% in volume. French trade with Germany is perhaps the best single point of observation for the overall competitiveness of French manufactured goods, since barriers to trade are at a minimum and Germany is France's largest trading partner. Here we observe that there has been no fundamental improvement in French performance despite the three devaluations : France remains heavily in deficit. French experts suggest that the root problem is that few French manufactures are outright winners in quality and design terms in the open competition of industrialised markets.

7. Employment and profit figures also caution against too readily accepting French industry and industrial policy as models for the UK. Employment in French manufacturing industry declined in 1984 by 144,000, and in the years 1980-1984 inclusive it declined on average each year by 123,400. In 1983 (the last year for which full figures are available), 101 out of the 450 largest French industrial companies recorded a pre-tax loss, compared to 2 of the 450 largest UK companies (in all categories) in the 1983-4 financial year. The 100 largest French companies registered a combined deficit of 700 million pounds. Of the top 30 French exporters only 2 recorded a profit in 1983 of more than 40 million pounds.

HOW PROFITABLE ARE FRENCH EXPORTS?

8. Important question marks hang over the profitability of French exports. This is an area shrouded in uncertainty but the question marks cannot be ignored, since they concern the sectors and companies

/which

which contribute most to the surplus in manufactures. Arms sales are the largest contributor, but how far is the arms industry dependent for its profits on the generosity of the French taxpayer expressed through the prices set for public procurement? The second largest contribution comes from the motor industry, ie Renault and the PSA group (Peugeot, Citroen and Talbot). Last year Renault recorded a loss of over a billion pounds; this was the company's fourth successive year in the red. The third largest comes from the agri-food insutry. In 1984 French agriculture received 10 billion pounds of public money, which heavily subsidised the price of raw materials to the agri-food industry. Agricultural exports benefitted from subsidies from the European Community which ran to several billion pounds and part of this money directly subsidised the export of manufactures such as flour, dried milk and sugar. The fourth largest contribution to the surplus came from the steel sector, which consists largely of the companies which recorded a combined loss in 1983 of one billion pounds, almost equal to the sector's trade surplus. Until the EC Commission took action, the textile industry, which is in substantial surplus also, was the beneficiary of social security rebates.

9. French exports whose profitability seems to owe little or nothing to public subsidy, public procurement or fiscal privilege include pharmaceuticals, clothing, wines and spirits, household equipment, substantial branches of engineering and, more generally, the products of small and medium-sized manufacturing firms.

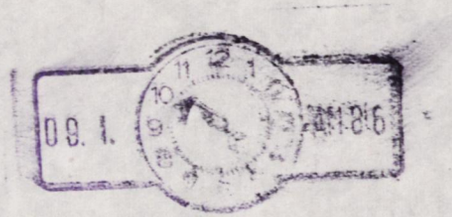
10. A second part of this letter will follow by a later bag since it is not suitable for use in the debate. It examines the Committee's explanation of the performance of French industry and French trade in manufactures.

Yours ever,

R R Garside

cc :

C W Kelly Esq, EF1 Divn, HMT
S W Matthews Esq, EF2 Divn, HMT
P N Sedgwick Esq, Under Secretary, Finance Economic Unit, HMT
J E W Kirby Esq, Bank of England
T E Allen Esq, Bank of England
P Fox Esq, Bank of England
Hds/TRED & WED, FCO
J M C Rollo Esq, Economic Advisers, FCO
Mr Warwick, Economic Advisers, FCO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MY TELNO 1128 : KOHL/MITTERRAND MEETING

SUMMARY

1. FOCUS, AS EXPECTED, ON DEFENCE COOPERATION WITH PROSPECT OF DISCUSSION OF USE OF FRENCH TACTICAL NUCLEAR WEAPONS. NEW BILATERAL WORKING GROUP IS SET UP ON SPACE. IN THE ABSENCE OF SIGNIFICANT PUBLIC RESULTS, THE PRESS AGAIN UNDERLINES THE ''EMPTINESS'' OF PRESENT FRANCO-GERMAN RELATIONS, HOWEVER MUCH EACH SIDE MAY EMPHASISE THAT POLITICAL WILL REMAINS CONSTANT.

DETAIL

2. KOHL AND MITTERRAND MET YESTERDAY AFTERNOON FOR AN HOUR AND HALF WITH ONLY ATTALI AND TELTSCHIK PRESENT. GENERALS ALTENBURG AND SAULNIER MET SEPARATELY, THEN JOINED THE TWO PRINCIPALS FOR DINNER. KOHL AND MITTERRAND TOL DTHE PRESS AFTERWARDS THAT THEY HAD A GENERAL DISCUSSION OF POLITICAL AND STRATEGIC ISSUES WITHOUT GOING INTO DETAILS. THEY AGREED TO GIVE A NEW IMPETUS TO THE MILITARY PROVISIONS OF THE ELYSEE TREATY AND IN PARTICULAR TO INCREASE THE EXCHANGES OF PERSONNEL BETWEEN THEIR ARMED FORCES, PARTICULARLY FOR SENIOR OFFICER TRAINING. THE QUESTION OF GERMAN PARTICIPATION IN HERMES REMAINED OPEN.

3. THE GERMAN EMBASSY HERE HAVE CONFIRMED TO US THAT MOST OF THE TIME WAS DEVOTED TO A GENERAL REVIEW OF DEFENCE COOPERATION, BASED ON THE WORK OF THE THREE BILATERAL WORKING GROUPS (ARMS COOPERATION, STRATEGIC QUESTIONS, MILITARY TACTICAL COOPERATION), WHO HAVE BEEN MEETING SINCE 1983 UNDER THE ELYSEE TREATY. KOHL TOLD THE FRG AMBASSADOR THAT HE HAD BEEN PLEASED THAT MITTERRAND HAD AGREED THAT THE STRATEGIC QUESTIONS GROUP SHOULD CONSIDER MATTERS RELATING TO THE USE OF FRENCH NUCLEAR WEAPONS IN GERMANY (PLUTON AND THE FUTURE HADES MISSILES, BUT NOT THOSE ON THE PLATEAU D'ALBION OR THE STRATEGIC DETERRENT). KOHL WANTED TO ACHIEVE THE SAME LEVEL OF COORDINATION ON THESE QUESTIONS WITH FRANCE AS CURRENTLY WITH OURSELVES AND THE US. THE FRG AMBASSADOR UNDERSTANDS THAT TH EGROUP WOULD ALSO EXAMINE POSSIBLE FRENCH FORWARD DEPLOYMENT IN GERMANY.

4. MY GERMAN COLLEAGUE TOLD ME THAT ON SDI KOHL HAD EXPLAINED THE DECISION TO BE TAKEN BY THE GERMAN CABINET THIS MORNING. THE FRENCH REFERRED TO THE GREAT DIFFICULTY OF EXPLAINING TO THE FRENCH PEOPLE THAT THEIR IMMENSE EFFORT TO CREATE A NUCLEAR DETERRENT MIGHT BE OVERTAKEN BY NEW TECHNICAL DEVELOPMENTS, AND WARNED AGAINST MOVING INTO A PERIOD OF STRATEGIC INSTABILITY. THE GERMANS HAD REPLIED THAT ONE COULD NOT STOP TECHNICAL PROGRESS AND THAT THE PERIOD OF INSTABILITY WAS ALREADY HERE, DUE IN LARGE PART TO SOVIET WORK ON /BALLISTIC

BALLISTIC MISSILE DEFENCE. THERE WAS NO MEETING OF MINDS, BUT THE GERMANS HAVE REASSURED THEMSELVES THAT LIKELY ALTERNATIVE PRIME MINISTERS FOLLOWING THE LEGISLATIVE ELECTIONS WILL TAKE A LESS NEGATIVE APPROACH TO THE AMERICAN SDI. THEY THERFORE REGARD THIS AS A SHORT-TERM PROBLEM IN FRANCO-GERMAN RELATIONS.

5. KOHL HAD REITERATED THAT THERE WAS NO MONEY FOR HERMES IN 1986. THE GERMANS WOULD LOOK AT IT AGAIN IN 1987. A FOURTH BILATERAL GROUP WOULD BE ESTABLISHED TO DISCUSS SPACE.

6. ONE OTHER FEATURE, ACCORDING TO MY GERMAN COLLEAGUE, WAS AN INDICATION BY MITTERRAND THAT THE FRENCH WOULD BECOME LESS DOGMATIC ABOUT STANDING ON THEIR RIGHTS AS AN OCCUPYING POWER IN BERLIN AND WOULD MOVE CLOSER TO THE BRITISH AND US POSITION IN ACKNOWLEDGING THAT BERLIN EXISTS ALSO BY VIRTUE OF ITS LINKS WITH THE FRG.

7. WE ARE PROMISED A READOUT FROM THE ELYSEE TOMORROW MORNING.

8. PROTESTATIONS BY BOTH KOHL AND MITTERRAND THAT THEIR RELATIONS WERE BASICALLY GOOD, HAVE NOT STOPPED THE PRESS FROM PRESENTING THE MEETING AS ANTOHER IN A SERIES OF FAILURES TO RELAUNCH FRANCO-GERMAN COOPERATION ON A SOLID BASIS. LIBERATION (LEFT-WING) SAYS THAT KOHL WISHES TO BE THE MOST FAITHFUL ALLY OF THE US. IT IS MORE REALISTIC AND RELIABLE FOR TH EFRG TODAY TO BASE ITS SECURITY ON THE AMERICANS, WHEREAS THE STRATEGIC POSITIONS OF FRANCE AND GERMANY ARE ALMOST IMPOSSIBLE TO RECONCILE. FRANCOIS-PONCET IN FIGARO SAYS THAT PARIS AND BONN DISAGREE ON THE MAIN INTERNATIONAL PROBLEMS - STAR WARS, GATT, AGRICULTURAL POLICY, EUROPEAN MONEY. IN FIVE YEARS, EXCEPT WHAT HOPES EXIST FOR HERMES, NO MAJOR COMMON INITIATIVE HAS BEEN CARRIED OUT EFFECTIVELY. FRANCOIS-PONCET ATTRIBUTES THIS ESSENTIALLY TO THE RELATIVE DECLINE OF THE ECONOMIC AND POLITICAL STRENGTH OF FRANCE UNDER THE PRESENT GOVERNMENT: THE SUBJECT OF FRANCO-GERMAN RELATIONS IS THUS OPENED UP AS A POSSIBLE ELECTION ISSUE. ALTHOUGH MITTERRAND CLAIMED THAT SDI WAS NOT DISCUSSED AT THE MEETING, THE PRESS GENERALLY SEES THE EXPECTED GERMAN DECISIOIN AS A VOTE IN FAVOUR OF STRATEGIC COOPERATION WITH THE US AND AGAINST EUREKA. A CONTRAST IS MADE BETWEEN THIS DECISION AND AN INTERVIEW WITH QUILES YESTERDAY, WHICH INCLUDES A FULL RESTATEMENT OF FRENCH OBJECTIONS TO SDI (COPIES BY BAG). LE MONDE'S EDITORIAL TODAY HOWEVER, WHILE AGREEING THAT DIFFERENCES OVER SPACE HAVE ADDED TO FRANCO-GERMAN DIFFFERENCES, RECALLS THE SUBSTANCE OF THE CAMP DAVID FOUR-POINTS TO SHOW THAT EUROPEAN COUNTRIES HAVE SIMILAR RESERVATIONS ON THE STRATEGIC ASPECTS OF SDI: AND POINTS OUT THAT GERMANY HESITATED A LONG TIME BEFORE SEEKING AN AGREEMENT ON PARTICIPATION, WHILE FRENCH FIRMS ARE AS KEEN AS ANY TO WIN SDI CONTRACTS.

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FRANCE : ECONOMIC REPORT FOR NOVEMBER 1985

SUMMARY

1. The improvement of the economy, evident since the beginning of the autumn, continues, sustained by increases in consumer spending and investment. The trend of industrial production is still rising, and company bankruptcies and unemployment (s.a.) have fallen. The annual rate of inflation continues to decrease, and the purchasing power of hourly wages has risen.

2. Although a survey of industrialists shows that the rate of increase in production has slowed, they forecast that in most sectors it will continue during coming months.

3. Company bankruptcies decreased for a fourth consecutive month but this trend may soon be reversed, and this year's total will probably be higher than last year's. Unemployment has fallen for the second consecutive month, on a seasonally adjusted basis, and since January there has been a decrease on both s.a. and non-s.a. basis. Job losses in 85HI were far fewer than in 84 HI. There was a small balance of trade surplus in October, but the deficit for January to October is almost F20 billion.

4. France's large external debt decreased by F44 billion between the end of June and the end of September, partly because of debt repayments but mostly because of the depreciation of the dollar against the franc.

/DETAIL

I N D E X

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CC/PC (2)

Prime Minister
You may like to glance at the underlined passages of the despatch about the Right in France.
CDP 13/12.

Foreign and Commonwealth Office
London SW1A 2AH

12 December 1985

Dear Charles,

The French Political Scene: Anxieties and Ambitions

I enclose advance copies of two despatches we have just received from Sir John Fretwell. They may be of interest to the Prime Minister.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

SUMMARY

THE FRENCH POLITICAL SCENE:
ANXIETIES AND AMBITIONS ON THE RIGHT

1. Opinion polls and the Socialists' record in government encourage the Right (RPR and UDF) to think that the March elections will give them back control of the National Assembly. But they are uncertain of holding on to their apparent lead, and torn by differences of personalities and policies. (Paras 1-7.)

2. Barre, Chirac and Giscard all hope to use an election victory by the Right to their own advantage. Barre rejects the idea of a right-wing government "cohabiting" with Mitterrand, arguing that if the Right win substantially, Mitterrand should resign. He calculates that with his level of personal support he would be well placed to win the ensuing Presidential election. If cohabitation is nonetheless attempted and works as badly as he predicts, he would still hope to be well placed for a later contest. (Paras 9-12.)

3. Chirac also hopes for a convincing victory, with a strong RPR showing, to force Mitterrand to call on him to be Prime Minister. He would probably introduce energetic, radical policies: economic liberalism at home, spirited defence of French interests abroad. He hopes these policies would prove popular enough for him to overtake Barre. If they seem not to be achieving this result, he might try to provoke a show-down with Mitterrand. But it is not certain

/that

that the electorate would be behind him if he did so. (Paras 13-19.)

4. Giscard would prefer a hung outcome. He has come up a long way from defeat in 1981, and now speaks firmly in favour of cohabitation. He hopes that if Mitterrand felt it appropriate to choose a Prime Minister from the centre, who could attract support also from some of the Socialists, he might call on Giscard. But Giscard's public appeal remains limited; and there are others who could fit that bill. (Paras 20-24.)

5. The Presidential election campaign will start as soon as the legislative elections are over. The Right will need to make a success of Government, whoever the Prime Minister, if they are to regain the Presidency in 1988. Policy differences, personal rivalries, and Mitterrand's manoeuvrings may all pose problems for them: hence their nervousness. (Paras 25-27.)

PERSONAL AND CONFIDENTIAL

LDB AFR

10 DOWNING STREET

From the Private Secretary

25 November, 1985.

Many thanks for your letter of 19 November with its very interesting account of your meeting with Giscard d'Estaing. I have showed it to the Prime Minister who was fascinated. She saw Giscard in the summer when he delivered himself of a long homily on the EMS. Your description of our views on membership is right: we are ready to join when the conditions are right.

Giscard's assessment of the Summit prospects is shown to have been pretty good. As regards the Channel Brunnel, there's enthusiasm but no decision will be taken on which project - if any - is to get the go-ahead before January.

Giscard's account of politics in France was not dissimilar to that which he gave to the Prime Minister in July except, as you say, his personal hopes for a role after the National Assembly elections were clearly higher in the summer.

The Prime Minister has asked me to say how much she enjoyed your letter. She hopes you will find time to let us know of any further such conversations.

Shall we see you both again at the Diplomatic Reception?

Charles Powell

The Rt. Hon. The Earl of Cromer, K.G., G.C.M.G., M.B.E.

PERSONAL AND CONFIDENTIAL

from: The Rt. Hon. The Earl of Cromer, K.G., G.C.M.G., M.B.E., P.C.

Beaufield House,
St. Saviour, Jersey,
Channel Islands.
TELEPHONE: (0534) 61671

19 November 1985.

CONFIDENTIAL.

Dear Charles,

Last week I was in Paris for an IBM (Europe) meeting and at his invitation called on Giscard d'Estaing who you may remember was a good friend of mine when he was Minister of Finance since when we have kept in fairly regular and close touch. I spent about an hour with him.

Although most of what we discussed will be known to you through 'the proper channels' there was one thing he , so to speak, commissioned me to do. If you were not at No 10 I would ordinarily have written to the Prime Minister but knowing how burdened she must be it seemed kinder to her to land you with the need to react or not react as the case may be !

The first topic that Giscard introduced was the EMS and the Ecu. The PM knows my views on this, but it was Giscard who raised it. He said that he was meeting with with Helmut Schmidt on December 2nd, whom he regarded as his fellow co-sponsor of the EMS and that he hoped it might be possible as soon as convenient after that to have some private meeting with the PM (without publicity) to discuss the matter.

He asked me if I knew where in the UK lay the opposition to Britain joining the EMS. I told him in all honesty that I did not know; I knew that the Bank of England was in favour, my best and recent information was that the Treasury bureaucracy was not opposed and the PM had been reported as not being opposed "at the right time". Certainly those in the circles I moved in, in the City and in Industry thought we should join but it was not a topic that seemed to arouse any great enthusiasm for or against. To his enquiry as what was likely to prove the right time I had to confess that I was mystified as within this year we had seen the sterling/dollar exchange rate fluctuate between just over $1 to some $1.44 within which band it might have been expected somewhere lay "the right time." It might be true that the Socialists might try to exploit such a move as tying ourselves to German deflationary tendencies thereby worsening unemployment in the UK but this seemed a pretty thin argument and certainly not such a real threat to employment as "a hard fall for the $." For some reason there seemed to be lack in the UK of the political initiative and lure to make this move forward and a reluctance to to accept the degree that sterling must look to the EMS countries when there is a dollar crisis.

Giscard did not believe (any more than I do) that the American initiative collectively to try to rig the dollar exchange rate is likely to work over any length of time as the scale of

intervention necessary over time will inevitably exceed the volume of support that the G5 will be willing (or perhaps able within their judgment of prudence) to make available. [Although I did not mention this, our experience of trying to support the sterling rate in the past makes one's mind boggle to think of the voulme of intervention that would be called for to affect the much larger dollar overhang.]

On the disarmament front he thought that the most that could be expected of the Geneva meetings would be an agreement to continue talking (but not about the French or British independent deterrent.

Giscard asked if there was any widespread interest in the UK in the Channel Tunnel to which I replied not yet as the public interest was only just being aroused by the potential participant groups. We both agreed on the desirabiliy of the principal but feared that political lobbying of steel interests and unemployment might lead to the wrong choice of alternatives.

In France he thought that M. Mitterand would of course soldier on after losing the Parliamentary Elections in March. He pointed out that although the French and the American Constitutions were wholly different and there could be no comparison between a White House of one party complexion and Congress of the opposite, nonethelss under the Constitution of the Fifth Republic (based on identical wording in this respect to the 1875 Constitution) the President could quite well carry on provided he does not attempt to introduce any controversial legislation. The President apparently does not have the power of veto. He said that one of the useful things that Mitterand had inadvertently accomplished was the demise of the Communist Party as a political force in France. The move to the right intellectually of much traditional Socialist support would not be helpful electorally to the genuine traditional right. He thought that Mitterand would appoint Chirac Prime Minister - said with an element of contempt.

I got the impression although naturally we did not speak about it that Giscard's own expectations for his own future have been diminishing since I last saw him in the Summer although his interest in the political scene is as lively as ever. He is, as I am sure you are aware a great admirer of Mr T although not always agreeing. He did go out of his way to pay respect to Mrs T's policy on South Africa with which he personally agreed and I naturally expressed my strong support.

Knowing how well HMG is served in reporting this letter is probably largely superfluous but maybe you may find in this ragbag one or two shreds of interest.

ever

Rowley

Charles Powell Esq.,
10 Downing Street,
London. SW1.

Best regards to Carla

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 43 OF 13 NOVEMBER 1985
TO FCO
REPEATED FOR INFORMATION TO : BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR OCTOBER 1985

SUMMARY

1. Increases in consumer spending and investment appear to be having an impact on other aspects of the economy: industrial production continues to increase, company bankruptices have decreased, unemployment has fallen, and the high level of imports has kept the trade deficit large. Inflation is at its lowest level for 13 years, but the overshooting of the money supply target is causing concern.

2. In July and August industrial production seasonally adjusted rose to its highest level since April 1980. Industrialists are optimistic about short term prospects.

3. Although the number of company bankruptcies is still high it fell in September for the third consecutive month. Also in September, unemployment fell to its lowest level since November 1984.

4. In September there was another monthly trade deficit because of the high level of imports but INSEE estimates that French industry is now, somewhat belatedly, responding to increased demand in France and that in the fourth quarter exports will grow faster than imports to give a marked improvement in the balance of trade. But most French economic institutes expect the balance of trade to remain in deficit in 1986, and have warned the Minister of Finance that the acceleration of growth threatens the restoration of balance to the nation's external accounts.

5. In November changes in monetary policy were announced.

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CCPC

Prime Minister
CDP
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Ref. A085/2828

MR POWELL

In my conversation with Monsieur Attali we had some discussion of the French political scene.

2. Monsieur Attali said that, although the latest opinion polls appeared to show a turn in voting intentions back towards the Socialist Party, the general view (from which he did not dissent) was that that trend was not strong enough to produce Socialist majority for the elections to the National Assembly on 16 March 1986. The most likely outcome was probably that the Right would secure an absolute majority without the support of the extreme Right. In that case Monsieur Chirac would become the Prime Minister and Monsieur Giscard d'Estaing the Finance Minister. If the outcome of the election was that the Right did not have an absolute majority without the extreme Right, then the situation would be more open, because the Right would not be prepared to work with the extreme Right; the President would then be freer in his choice of Prime Minister. I had the impression that this was the outcome which the President would regard as best of all. Monsieur Attali said that President Mitterrand would complete his mandate, whatever happened in the Assembly elections. This was for "high political" reasons: if the President gave up because the Assembly elections had gone against his Party, it would mean that Parliament was supreme and could turn out the President at will. That would never do. The only circumstances in which the President might have to go prematurely would be if, during the two years between the Assembly elections and the next Presidential election, another Assembly election was called, either because the President

RTAABI

decided to call it or because the Prime Minister resigned, and that election went very much against the President and his Party.

3. I am sending copies of this minute to Len Appleyard and Sherard Cowper-Coles.

RS

ROBERT ARMSTRONG

Approved by Sir Robert and signed in his absence

5 November 1985

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 39 OF 9 OCTOBER 1985
TO FCO
REPEATED FOR INFORMATION TO : BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENAHGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR SEPTEMBER 1985

SUMMARY

1. Industrial production is increasing, industrial investment appears to be rising. Demand for manufactured goods is at a high level, and the annual rate of inflation is down to its lowest level for many years. There has been a surplus on trade in two recent months. Predictably, unemployment continues to rise slowly.

2. Industrial production has been increasing since June and is expected to continue to increase during the rest of the year. The monthly rate of bankruptcies in industry dipped in July and August but is expected to rise again. The annual rate of inflation fell to 5.6% at the end of August, a decrease of almost 1 percentage point over 2 months.

3. There was a very small surplus on the balance of trade in August, the second surplus in three months.

4. Thanks to a large differential in real interest rates, the franc remained firm against the deutschmark and other EMS currencies, despite the fall in the dollar.

5. At a time when other continental exchanges were reaching new peaks, the Paris Bourse was on a downward path, with investors discouraged by several factors: prospective capital issues, the anticipated effect of the opposition's privatisation plans, and a general pre-electoral political uncertainty.

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Seen by DN

DETAIL

Foreign Trade and the Balance of Payments

6. In August there was a foreign trade surplus of F0.004 billion FOB/FOB seasonally adjusted and of F0.177 billion unadjusted. This follows a deficit of F3.837 billion seasonally adjusted in July. The improvement was due to a decrease in imports of F3.221 billion, to F74.919 billion. Exports increased by only F0.62 billion to F74.923 billion. For the first 8 months of 1985 there is a deficit of F18.232 seasonally adjusted.

7. This is only the second monthly surplus since the beginning of 1985. (There was a surplus of F1.995 billion in June.) In July INSEE commented that the balance of trade would improve during the summer because of a temporary drop in energy imports, but would deteriorate towards the end of 1985. Average monthly energy imports for June to August of F15.5 billion, were F4.6 billion down on the monthly average for January to May. INSEE forecast a trade deficit of F20.0 billion for the whole of 1985 but this was based on an average exchange rate of F9.40 to the dollar. At the beginning of October the exchange rate was F8.15 to the dollar.

8. A new monthly series of volume and constant price trade figures published by INSEE in September includes arms sales, ship building and oil rig construction, which were excluded from the previous series. These figures show that a substantial drop in arms sales has had a significantly adverse effect on the balance of trade. Over the first half of 1985 compared with the average level of 1984 in volume total exports increased by only 1.3% while imports increased by 2.7%. If arms sales are excluded exports increased by 2.1%. Arms exports fell by 16.9% in volume during the first half of 1985 compared with the average for 1984. This reflects the low value of arms contracts concluded abroad in 1983: F29.1 billion. The financial press estimates that the full effect of the record F61.8 billion of arms export contracts signed in 1984 will be seen in the balance of trade in 1986.

9. Another exceptional grain harvest may boost exports during the last few months of 1985 but the international market is more difficult that in 1984 when a record grain harvest made an exceptional contribution to exports.

10. An increase of 5.7% in the volume of capital goods imported over the first half of 1985 compared with the average level of 1984 suggests that investment may be increasing.

Industrial Production

11. INSEE industrial production index for July has not been published yet.

/12.

12. Industrialists replying to an INSEE survey completed in September report that the production is increasing in all sectors except in the car industry where it is stable and that demand has reached a level not attained for several years. The increase in production costs continues to be moderate. Industrialists are optimistic about prospects.

13. According to industrialists the rise in the production of capital goods begun six months ago continues, but at a slower rate. Stocks continue to decrease and demand both in France and for exports is growing. Industrialists forecast that there will be a further slow increase in production during the fourth quarter.

14. The increase in the production of consumer goods begun 3 months ago continues, with the exception of domestic equipment and publishing. Stocks have continued to fall and are now below normal levels. Demand, both in France and for export, is stable at a high level, following an increase during the second quarter. Industrialists forecast that production will continue to increase during the coming months.

15. Car production is stable following the drop in production recorded in the previous survey. Demand in France has fallen, but export demand is increasing. Stocks have decreased slightly and industrialists forecast that production will remain stable during the coming months.

16. The increase in the production of semi-finished goods which started at the beginning of the second quarter continues except in the paper and non-ferrous metals sectors. Stocks are still below normal levels. Demand both in France and for exports is increasing. Industrialists forecast that production will increase during the fourth quarter.

17. In August the cost of raw materials imported by industry was 20.2% lower in francs than at the end of 1984 and 12.3% lower in foreign currency.

Industrial Sectors : Textiles and Clothing

18. The MER will henceforth include a brief report on the state of one or two industrial sectors, the first being textiles and clothing.

19. The French industry now employs some 450 - 460,000 people (2.2% of the active labour force) compared with 700,000 10 years ago, and 540,000 in 1980. The reduction in jobs continues but at a slower rate of some 10 - 15,000 annually in the last two or three years. Taking 1970 as a base (= 100), the production index for the industry is now 91, compared with 117 in 1973 and 107 in 1979 (the overall industrial production index stands at 132). The industry's share of total GDP in 1983, the last year for which reliable statistics are available, was 1.4%. In the same year its share of total French exports was 4.1%, while imported goods in the sector accounted for 4.6%

/of French

of French imports. Some 31% of the French market is taken by imports, while the overall ratio of exports to imports is 85%. The sectoral deficit in 1984 was some F8 billion.

20. After the steep decline of the 1970s and early 1980s, the industry is now in a relatively stable period. It was helped from 1982 - 84 by government aids (reduction of social charges, soft loans) which pushed up investment - F3.8 billion or 4% of turnover in 1984 - and slowed down job losses. Modern production methods and equipment are beginning to penetrate the industry. However, its health remains fragile. Domestic demand has been in decline for the last two years, because of the drop in household purchasing power, but this has so far been compensated for by higher demand from other recovering OECD economies, notably the US (exports up some 60% in 1984). Clothing has suffered in all areas from the fall in domestic demand and more recently from unseasonal weather but this has been at least partly compensated for by exports.

21. Profit levels are generally recovering after several lean years, although the picture remains patchy. Most of the bigger names, with the notable exception of Boussac St Frères (still restructuring but beginning to look healthier) and Rhone Poulenc Textile/Fibre, are now doing reasonably well.

22. Future prospects are not encouraging. A lower dollar is likely to affect exports directly and also increase import pressures because of diversion of cheap Far Eastern goods from the US market. This may be partly matched by an increase in domestic demand if the wider economy recovers significantly. But a continuing slow decline is likely unless efficiency and competitivity improve markedly. Against this background, the industry's main concerns are potential threats from the forthcoming renegotiation of the Multi-Fibre Arrangement, where they are opposed to any significant liberalisation, and from mounting protectionist pressures in the US. They are also continuing to press the government for a new textile aids scheme, despite the known Brussels complications, and (an old claim) for a lasting reduction in the heavy social charges to which they are subject in France as a labour-intensive industry.

Demand

23. Signs of increased demand have been visible in the retail trade since July. Spending by households has increased in anticipation of the reduction in income tax levels effective in the autumn. An INSEE survey completed in September shows that in the non-food trade, following a drop in sales in May and June, sales rose sharply in July-August to well above the level for January to April. Stocks are low and retailers are increasingly optimistic about prospects. Sales in the food trade which had been stable from January to June decreased in July and August. (Sales in the food trade also decreased in July and August 1984, but by a larger amount.)

/Prices and Wages

Prices and Wages

24. The annual rate of inflation (over 12 months) decreased to 5.6% at the end of August from 6.1% at the end of July. The annual rate has fallen by almost 1 percentage point since the end of June, when it was 6.4%, following six months during which the rate remained almost stable. The government's target for inflation at the end of 1985 is 4.5% to 5.0%. In August the retail price index rose by only 0.1%.

Unemployment and Industrial Relations

25. The number of unemployed increased in August by 10,700 to 2,424,900 seasonally adjusted and by 50,700 unadjusted to 2,309,000.

26. The effect of the government's special measures for young people is reflected in the unemployment statistics. Since August 1984 the number of unemployed under 25 years old has decreased, seasonally adjusted from 984,700, 41.7% of the total unemployed to 918,600, 37.9% of the total unemployed. Over this period unemployment in all other age groups has increased except in the over 50s group where it has remained stable.

27. In the five months to August 1985 new vacancies, seasonally adjusted, averaged 31,260 per month compared with 33,140 during the same period in 1984. In the five months to August 1985 deletions from the unemployment registers, seasonally adjusted, averaged 382,000 per month, 67,000 more per month than over the same period in 1984.

28. In a television appearance on 4 September, the Prime Minister estimated that 200,000 - 400,000 new jobs a year would have to be created to solve the unemployment problem over 15 years, and emphasised the need to promote economic growth and productivity by means of more flexible working patterns. A Parliamentary report (le rapport Taddei) published on 26 September recommended a number of measures based on this approach to promote a better utilisation of capital equipment. One of its main recommendations was implemented immediately: with effect from 1 October certain state aids to companies for training and employment, soft loans for investment, and loans for industrial modernisation are to be available on condition that negotiations on flexible working patterns are undertaken.

29. A draft law to increase fiscal disincentives for retirement pensioners (aged over 60) who take paid employment has been put to Parliament. Commentators are sceptical about likely effects on job vacancies and tax revenues.

30. The TUC scheme (work of community benefit by young people) continued to grow: 146,000 young people were taking part at the end of August, 4,600 more than at end-July. Employers and unions agreed to relaunch training for young people by companies ('formation en alternance'). They aim to provide

/300,000

300,000 places by April 1986.

31. A survey published by the research institute ADIA found that in 1983 French companies spent some 2.11% of payroll on training, compared with 2.04% in 1979.

32. Government spokesmen played down the problems of the Social Security system, taking the line that the general fund (pensions, health, family allowances) would be in surplus at the end of 1985, and that it is too early to take a view on 1986. But commentators on the draft 1986 budget noted that proposed savings in state expenditure in this field would increase the deficit expected in the social security funds at the end of 1986.

33. The Employment Minister agreed to suspension of repayment of the unemployment benefit fund's capital debt until March 1986, provided the employers and unions define a plan for financial stability, and to consider rescheduling the debt with effect from April 1986 provided that a new long-term agreement is reached on the financing of unemployment benefit. However, negotiations were broken off on 1 October when the Communist-dominated CGT gave the press a tape-recording of the employers' proposals.

34. Basic unemployment benefit was increased by 2.5% with effect from 1 October to a daily minimum of 104,55 francs.

35. The number of days lost in localised industrial action rose to 39,840 in June, involving 80,680 people in 25,582 establishments. In July 36,450 days were lost by 39,631 people in 14,383 establishments. In addition, 10,365 days were lost in June and 1,809 in July in strikes affecting more than one region. There were a number of strikes in September: two by air traffic controllers on 4 and 18/19 September grounded most internal and European flights. An official railstrike on 27/29 September disrupted traffic, but was overshadowed by a wildcat strike by drivers which spread throughout France on 1 October, bringing railways to a virtual standstill. A return to work was achieved only after management withdrew their decision that drivers' knowledge of safety procedures should be tested: a meeting to discuss all aspects on safety on railways is to be held on 18 October. The CGT continued to encourage strikes and stoppages, and called for a general day of action on 24 October.

36. Barge-owners blocked the Seine and took violent action in a number of other areas of France during the first three weeks of September, protesting against unfair competition from other freight carriers.

The Situation of Companies

37. In July 2,253 company bankruptcies seasonally adjusted were recorded and in August 2,166. Although these figures are below the monthly average of 2,310 for the first six months of 1985 INSEE estimates that there is an underlying trend towards a gradual increase in the number of bankruptcies.

/38.

38. There has been a total of 18,279 company bankruptcies, seasonally adjusted recorded during the first 8 months of 1985, 990 more than during the same period in 1984. Bankruptcies in the services are around 20% higher, but bankruptcies in industry are almost 7% lower.

39. In a report published in September INSEE remarks that although company results have improved on average over the last three years, the general situation of companies is still far from good. Company finances have benefitted from moderate wage increases and a rise in the level of exports, but investment is increasing only in industry, and by a far greater amount in the nationalised industries than in privately owned firms. INSEE comments that a combination of weak demand and high real long term interest rates (5 - 6%) is discouraging investment by companies which would have to borrow to invest, and encouraging companies with funds to put them in the money markets rather than into new plant or equipment.

Denationalisations

40. RPR Banque, an RPR study group, has published a document refuting claims in some quarters of the financial press that the Paris financial markets would not have the capacity to finance the denationalisation of state enterprises. The study group has however omitted from its calculation several large companies such as Air France, Renault, Framatome, SNECMA, SNIAS and Machines Bull, on the basis that these companies' losses in 1983 and 1984 make it difficult to calculate their likely capitalisation. The group estimates at F145 billion francs the stock market capitalisation of the remaining state enterprises in the opposition's denationalisation programme. This is equivalent to just over 9% of the total French stock market capitalisation of F1,600 billion. The group suggests that the French financial markets could finance the opposition's denationalisation programme without difficulty if it were spread over three years.

1986 Draft Central Government Budget

41. The 1986 draft central government budget was approved by the Council of Members in September and some of its details published. Planned government expenditure excluding debt servicing will increase by only 2.8% in 1986 compared with a government forecast for an average annual rate of inflation of 3.4%. For probably the first time since the Second World War, there will be a real decrease in public spending other than for debt service. If debt service, which has grown rapidly since 1981, is included planned expenditure will increase by 3.6% to F1,030 billion. Only the Ministries of Defence, Research, Education, Interior and Culture will enjoy real increases. The biggest cut has been made in the Ministry of Industry's vote.

42. The planned deficit of F145.3 billion would be equivalent to the 3% of the GDP ceiling set for budget deficits by President Mitterrand, but opposition spokesmen have pointed out that F12 billion of expenditure has been debudgetised. F11 billion of the debudgetisation takes for the form of a reduction in social security transfers.

/43.

43. Several newspapers have pointed out that if the opposition win the Legislative elections due in March 1986 they will find it extremely difficult to make radical amendments to the budget without making unpopular cuts in public spending in, for example, education or defence, or increasing government borrowing.

44. The budget is based on the following forecasts for the economy in 1985 and 1986.

/INTERNATIONAL ENVIRONMENT

INTERNATIONAL ENVIRONMENT	1984	1985	1986
franc/dollar exchange rate	F8.73	F9.10	F8.50
GDP growth of France's principal trading partners (weighted according to importance of French exports) %	2.7	2.4	2.2
Official oil price (dollars per barrel)	28.5	26.3	25.0
Inflation (average of France's 8 principal trading partners) %	5.5	4.6	4.0

FRENCH ECONOMY	%	%	%
GDP (marketed)	1.5	1.3	2.1
Consumption	0.5	1.3	1.6
Investment by companies	-2.9	1.8	4.0
Exports	6.3	3.0	3.4
Imports	1.6	2.7	3.7
Retail price rise (over 12 months)	6.7	4.5-5.0	2.9
Purchasing power of disposible income	-0.7	1.1	1.3
Total number of employed	-1.4	-0.8	-0.4
Balance of trade (billions of francs)	-25.0	-12/15	5
Balance of payments (billions of francs)	-6.6	0 to 5	10 to 15

45. This is a slightly more optimistic forecast for the French economy in 1986 than that published by the government in June (paragraph 49 of the MER for June) perhaps partly because it is based on a more favourable forecast for the international environment: a greater depreciation of the dollar against the franc, lower oil prices and lower average inflation in France's main trading partners.

46. The principal changes in the forecast are for 1985 consumption growth (1.3% instead of 0.8%, export growth 3.0% instead of 4.1%) and for investment by companies in 1986 (4.0% increase instead of 1.8%) and for a balance of trade surplus of 5 billion instead of 2. The government has also added a forecast of a balance of payment surplus in 1986 of F10 to F15 billion.

The Stock Exchange

47. Dealing on the Stock Exchange is becoming subdued with the approach of the Legislative elections due in March 1986, and prices are on a downward trend. Calls for fresh capital, a large programme of government borrowing, the growing popularity of short-term money market funds, general pre-electoral uncertainty, and questions over the effect on French companies of the dollar's decline are all factors in this situation. In addition, dealers are anticipating a substantial increase in the volume of shares on the market if the opposition parties win the elections and put their denationalisation programme into effect.

48. The CAC index of French shares which rose by 30% during the first five months of 1985, following rises of 16% in 1984 and 57% in 1983, has fallen by 9% since the beginning of June. A recovery in the CAC index in August was short lived and was followed by a 5% fall in September. At the beginning of October the volume of share offers continues to exceed demand and Le Monde's stock exchange correspondent has reported steady selling of shares from abroad. The trend of the Paris Bourse is in sharp contrast to other Continental exchanges such as Frankfurt, Milan and Brussels.

49. A F15 billion government bond issue on 16 September has been received with circumspection. Investors have calculated that interest rates will rise if there is pressure on the franc with the approach of the Legislative elections. Some leading members of opposition parties have spoken of the need to devalue the franc after the elections.

Monetary Policy

50. No figures for the money supply have been published since July when the March figures were announced. In June the Bank of France announced that preliminary figures for the first five months of 1985 showed that M2R, the main French money supply measure was growing at an annual rate of 8%, well above the government's target range of 4% to 6% and that corrective measures were being taken.

/51.

51. The Director of the Tresor, Monsieur Lebègue, said in a speech on 17 September that the changes taking place in the world's financial markets would inevitably lead to a change in the methods used to control the money supply, particularly in France. The setting of quantative ceilings would have to give way progressively to control by interest rates and open market dealing by central banks.

The Exchange Rate

52. For the first three weeks of September the rate of exchange of the franc against the dollar varied between F8.70 and F9.00, then, following the G-5 meeting in New York on 22 September, the franc together with the other main currencies, strengthened rapidly against the dollar. By 3 October, the exchange rate had fallen to F8.07, the lowest rate for 18 months and substantially below the record F10.61 attained on 26 February 1985.

53. The franc has remained strong within the exchange rate mechanism of the E.M.S. It rose slowly from near its ceiling rate at the beginning of September to reach the ceiling rate at the end of September, and has remained there during the first few days of October.

54. The franc, supported by relatively high interest rates, has remained firm against the deutschmark, despite the sharp depreciation of the dollar.

55. At the end of September rumours that the pound was to join the exchange rate mechanism of the EMS caused it to depreciate against the franc. Over two days the rate fell from FF11.81 on 25 September to around F11.40 where it has remained over the first few days of October.

Interest Rates

56. The Bank Base Rate remained unchanged at 10.85% during September.

FRETWELL

FRANCE ECONOMIC
ECD(I)

FRANC VALUES IN PARIS IN SEPTEMBER 1985

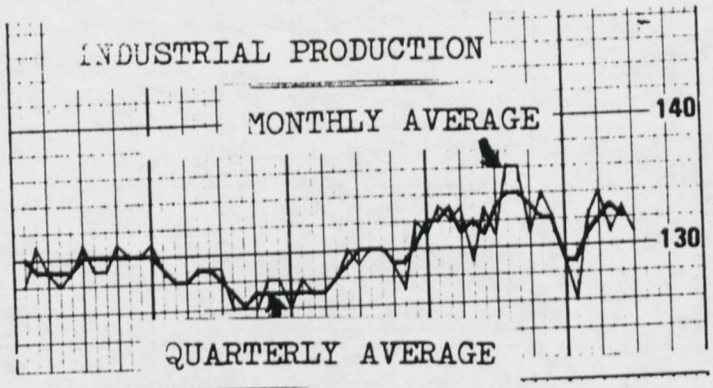
(weekly closing prices)

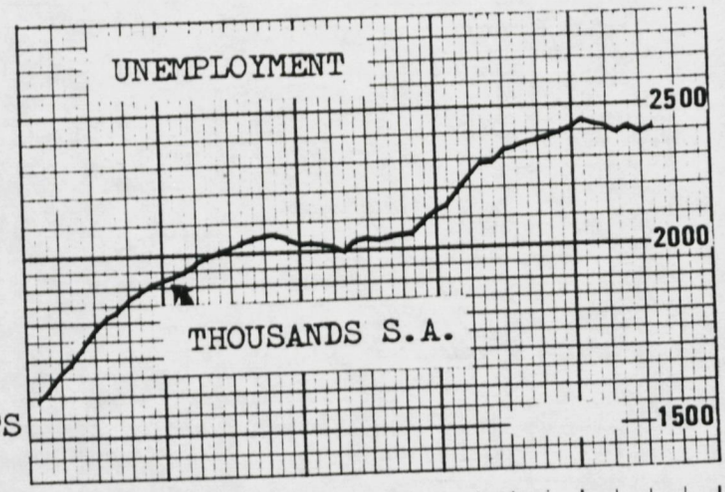
US$	8.96	8.86	8.73	8.18
100 SF	370.86	369.16	371.59	372.60
100 DM	305.28	304.68	305.28	305.26
£	11.88	11.87	11.90	11.50

FRENCH ECONOMIC INDICATORS

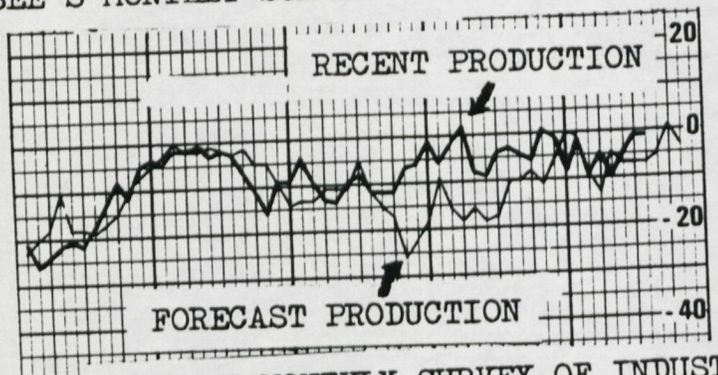
(Seasonally adjusted, except as noted)

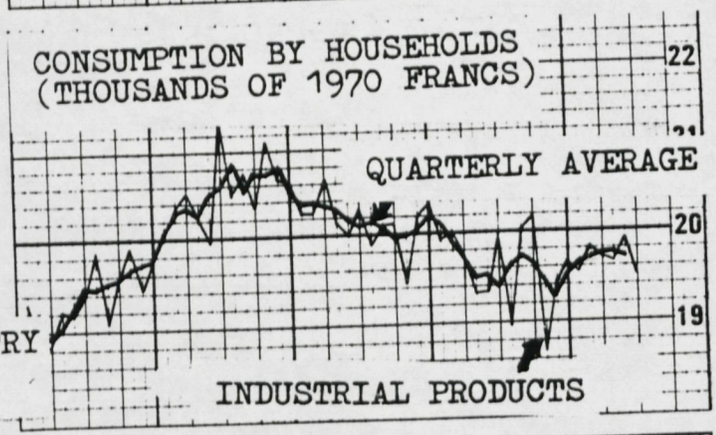
	1984	1985
1. GDP, annual growth	1.5	1.5 (govt forecast)
2. Industrial production index Base 100: 1970	130 (June)	131 (June)
3. Total unemployed	2,360,000 (August)	2,424,900 (August)
4. Exports	F76.5 billion (August)	F74.923 billion (August)
5. Imports	F73.0 billion (August)	F74.919 billion (August)
6. Trade balance	+F 3.5 billion (August)	+F 0.004 billion
7. Balance on Current Account	-F12.6 billion (Jan-June)	-F 2.7 (Jan-June)
8. Exchange rate against US$ (last working day of the month	F 9.28 (September)	F 8.15 (September)
9. Official reserves	F405.41 billion (27 September)	F424.627 billion (26 September)
10. Growth in money supply (M2R)	1.1% (March)	1.2% (March)
11. Rise in retail prices	0.5% (August) 7.4% (change over 12 months)	0.1% (August) 5.6% (change over 12 months)
12. Rise in hourly wage rates of manual workers	1.5% (Q1) 9.1% (change over 12 months)	1.4% (Q1) 6.3% (change over 12 months)
13. Industrial disputes	870,000	297,300
Working days lost		
Firms affected		
(Cumulative totals to end July)	2,216	1,209
14. French exports to UK FOB	F30.61 billion	F35.72 billion
French imports from UK (Jan - June) CIF	F36.35 billion	F43.14 billion (revised)





INSEE'S MONTHLY SURVEY OF INDUSTRIALISTS





INSEE'S MONTHLY SURVEY OF INDUSTRY
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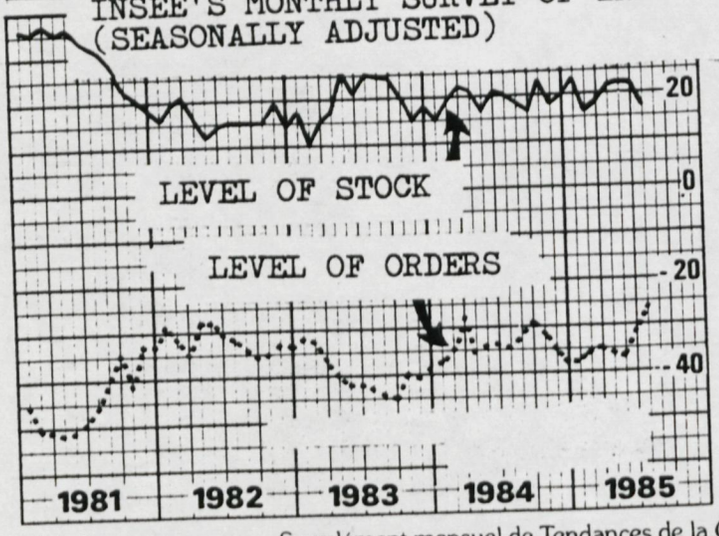
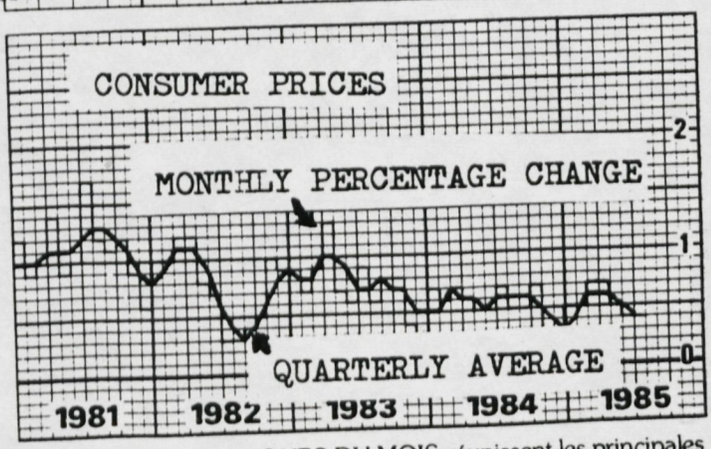
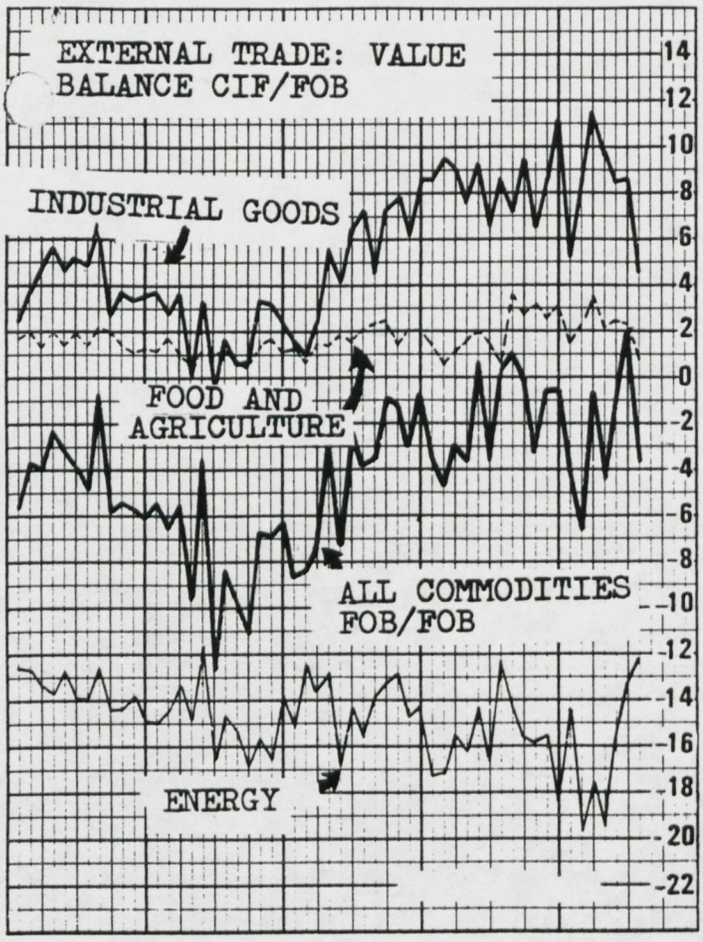
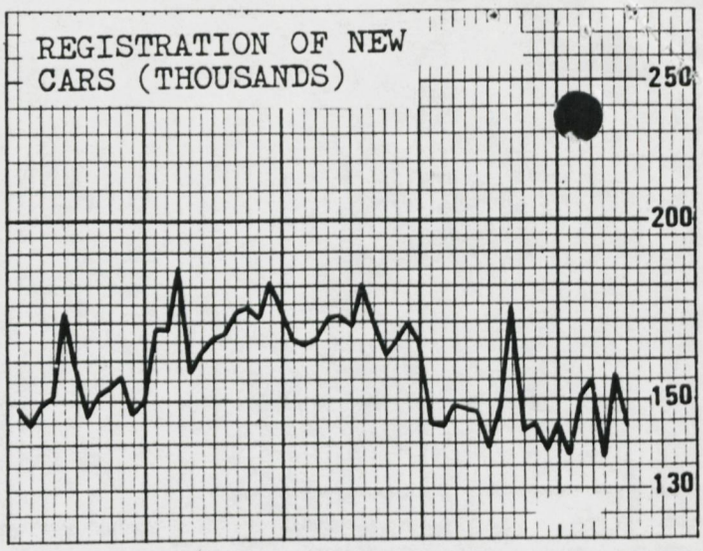


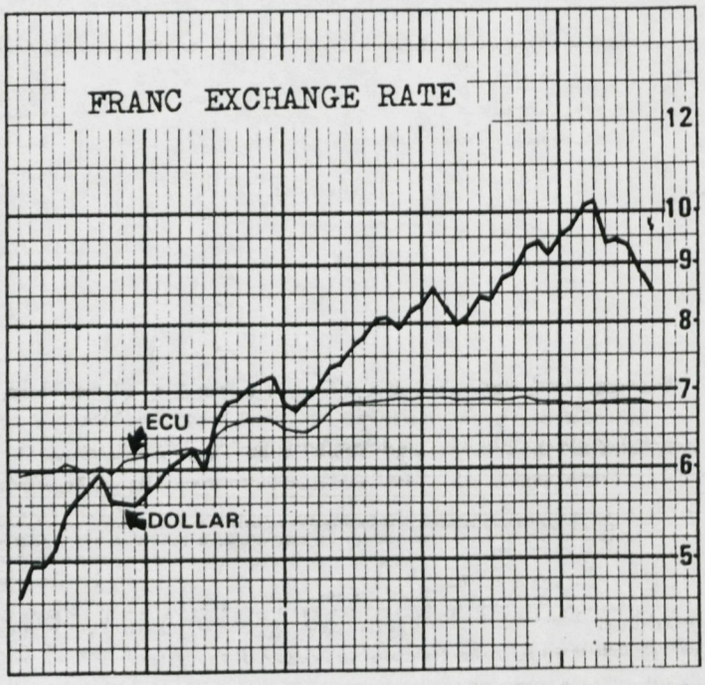


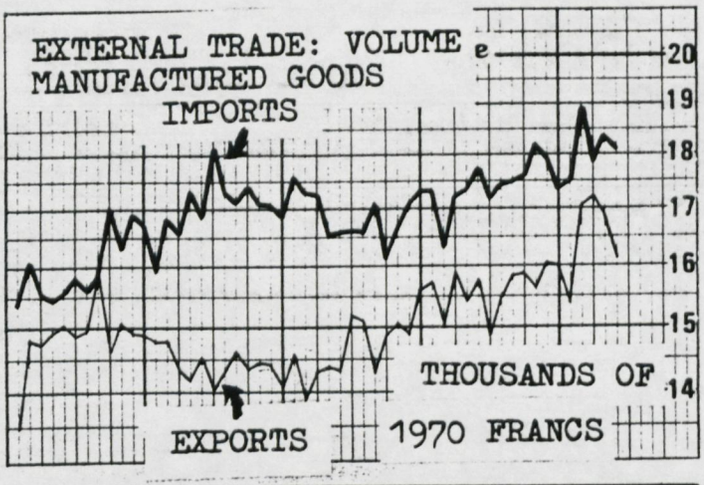
Supplément mensuel de Tendances de la Conjoncture, les GRAPHIQUES DU MOIS réunissent les principales séries mises à jour au cours du mois écoulé. Pour chaque série, voir les sources et les notes dans les cahiers de graphiques. Les références, telles que T1.B101, renvoient à ces cahiers.

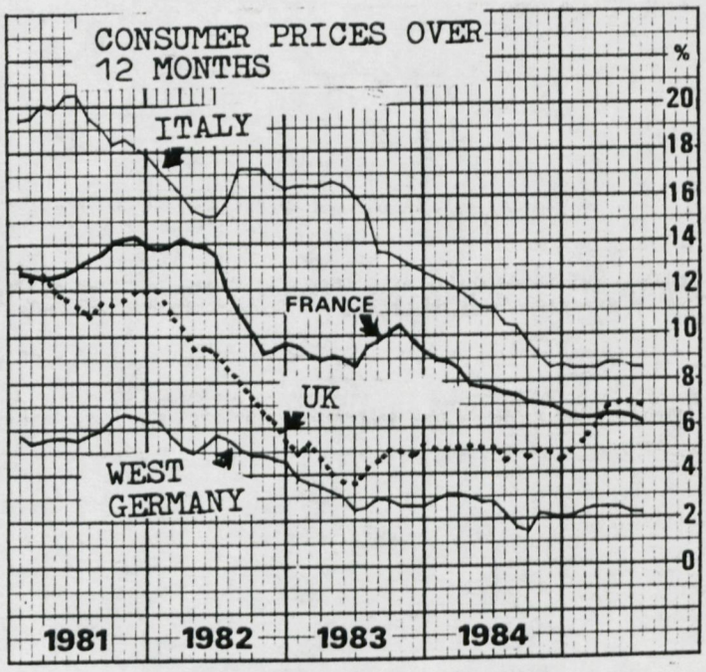
INSEE. 349.0152 85.0

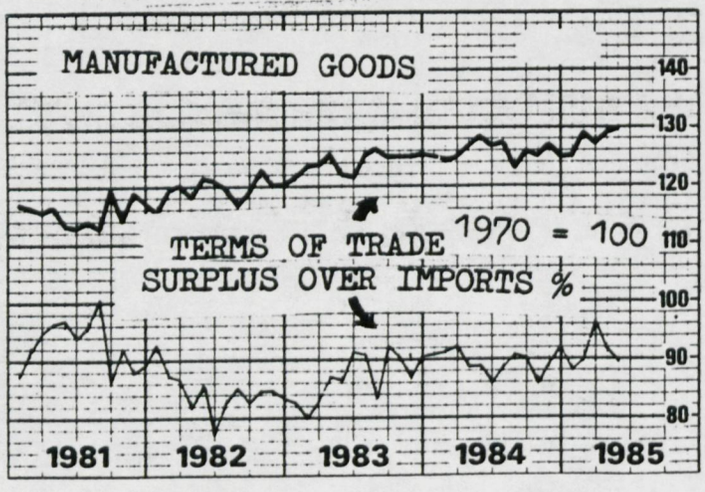












* Le solde CAF-FAB est calculé avec les importations CAF (coût, assurances, fret) relevées directement par les Douanes. Le solde FAB-FAB s'obtient en prenant les importations FAB (franco à bord) qui sont calculées en appliquant un coefficient de 95,7 pour 1984 aux importations CAF. La "fabisation" des importations vise à les rendre homogènes avec les exportations qui sont, elles, toujours FAB. Ce calcul n'est valide que pour les importations globales. En chiffres bruts pour 1984 le solde CAF-FAB est de - 58,7 milliards de francs et le solde FAB-FAB de - 19,8 milliards de francs.

SAVING TELEGRAM
UNCLASSIFIED
FRAME ECONOMIC
FROM PARIS SAVING TELNO 36 OF 6 SEPTEMBER 1985
TO FCO
REPEATED FOR INFORMATION TO: BONN, BRUSSELS, DUBLIN, THE HAGUE, COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS, MADRID, WASHINGTON, LISBON, TOLYO, UKDEL OECD, UKDEL STRASBOURG, CONSULATES GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR AUGUST 1985

SUMMARY

1(a) The publication of a large external trade deficit for July of F3.836 billion and a balance of payments deficit for 1984 of F6.59 billion were the main events of an otherwise unexceptional month.

(b) GDP growth of 0.6% was registered in Q2 over Q1, after a first quarter decline of 0.3%. This first half result supports the consensus of unofficial forecasters who have been saying that the growth target of 2% aimed at in the 1985 budget will not be reached.

(c) Consumer prices rose in July by 0.4% (the same as for June), bringing the annual rate of inflation down by 0.3% to 6.1%, which is exactly the rate of increase for hourly manual workers' wage rates over the past year.

(d) Industrial production fell back again to its April level. There are signs that the long-awaited upturn in non-residential building has started.

(e) Unemployment increased slightly in July, confirming the trend towards stabilisation. The debates on the social security budget and on flexibility were reopened. August was punctuated by outbreaks of CGT activity of an eye-catching and illegal character, designed to demonstrate its opposition to job losses in France, which intensified towards the end of the month.

(f) The dollar/franc fluctuated in the range $1 = F8.40 - 8.68 during the month ending at F8.55. The lowering of German interest rates led to a slight firming of the franc against the deutschmark.

(g) Another small step in the relaxation of exchange controls was taken when the Minister of Finance eased controls for French investments outside the EC.

(h) The French State has now paid off the third of its external debt.

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Prime Minister (2)

GRS 700

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INFO PRIORITY PARIS, WASHINGTON, MOSCOW, ROME, UKREP BRUSSELS, UKDEL NATO

KOHL/MITTERRAND MEETING ON 24 AUGUST: GERMAN IMPRESSIONS

SUMMARY

1. THE KOHL/MITTERRAND MEETING SWAMPED BY THE CURRENT SPY SCANDAL. REPORTS INDICATE A CORDIAL ATMOSPHERE AND CONVERGENCE OF VIEWS ON LONG TERM OBJECTIVES, BUT AGREEMENT ON FEW IF ANY CONCRETE POINTS. NO SERIOUS FRENCH ATTEMPT TO GET BACK INTO EFA.

DETAIL

2. REPORTING IN THE GERMAN MEDIA OF THE KOHL/MITTERRAND MEETING AT FORT BREGANCON ON 24 AUGUST HAS BEEN LIMITED BY THE CONTINUING SPY STORIES AND LACK OF OFFICIAL BRIEFING. ACCORDING TO THE PRESS, THE TALKS CONCENTRATED ON EAST/WEST RELATIONS, WITH PARTICULAR EMPHASIS ON GORBACHEV'S FORTHCOMING VISIT TO PARIS AND THE US/SOVIET SUMMIT: THE FUTURE OF EUROPE, AND EUREKA. IN THE ABSENCE OF ANY SPECIFIC AGREEMENT ON OTHER MATTERS, PROMINENCE IS GIVEN TO THE DECISION TO SET UP A ''HOT LINE'' BETWEEN BONN AND PARIS.

3. STABREIT (FEDERAL CHANCELLERY) CONFIRMED TO THE HEAD OF CHANCERY THAT THE TALKS HAD TAKEN PLACE WITHOUT OFFICIALS (EXCEPT INTERPRETERS) AND HAD BEEN VERY GENERAL IN NATURE. ON EAST/WEST RELATIONS, THE TWO LEADERS HAD A LONG AND RATHER INCONCLUSIVE DEBATE ABOUT HOW TO HANDLE THE SOVIET UNION'S ''EUROPEAN APPROACH''. THEY ACKNOWLEDGED THAT DIALOGUE WITH THE SOVIET UNION SHOULD CONTINUE, BUT THAT THEY SHOULD NOT PAY WHATEVER PRICE THE RUSSIANS DEMANDED FOR GOOD RELATIONS. MITTERRAND HAD PROMISED TO KEEP CLOSELY IN TOUCH WITH KOHL BEFORE, DURING AND AFTER THE GORBACHEV VISIT. STABREIT CONFIRMED THAT KOHL WAS 90 PER CENT CERTAIN TO VISIT WASHINGTON BEFORE THE US/SOVIET SUMMIT (IT MERELY REMAINED TO FIX A CONVENIENT DATE), BUT THOUGHT THAT KOHL WAS WISE ENOUGH NOT TO MAKE THE ERROR OF TRYING TO TELL THE AMERICANS EXACTLY HOW TO PLAY THEIR HAND.

4. ON THE EUROPEAN COMMUNITY, STABREIT SAID THAT NEITHER THE FRENCH NOR THE GERMAN POSITIONS FOR 9 SEPTEMBER HAD YET BEEN FINALISED, AND THERE HAD CONSEQUENTLY BEEN NO AGREEMENT BETWEEN KOHL AND MITTERRAND ON WHICH TREATY ARTICLES NEEDED AMENDMENT OR ON TACTICS FOR THE MEETING. THEY HAD INSTRUCTED THEIR STAFFS TO CONTINUE CONSULTATIONS ON THESE POINTS. HASKELL ASKED WHETHER THE QUESTION OF MAJORITY VOTING HAD BEEN DISCUSSED, MENTIONING HINTS FROM ONE OR TWO SOURCES IN THE AUSWAERTIGES AMT THAT THE GERMAN POSITION MIGHT BE UNDER RECONSIDERATION. STABREIT WAS NOT AWARE OF ANY SPECIFIC

/DISCUSSION

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DISCUSSION ON THIS POINT BETWEEN KOHL AND MITTERRAND, BUT THOUGHT IT POSSIBLE THAT IN THE END THE GERMANS MIGHT ACCEPT SOME USE OF THE LUXEMBOURG COMPROMISE, WITH CERTAIN LIMITATIONS AND SAFEGUEARDS, ALTHOUGH THEY WOULD OPPOSE RESTRICTING IT TO MEETINGS OF HEADS OF GOVERNMENT, WHICH WOULD SIMPLY RESULT IN ALL PROBLEMS BEING KICKED UPSTAIRS.

5. ON EUREKA, STABREIT SAID THAT THE FRENCH AND GERMANS WERE AT ONE IN WANTING A SUCCESSFUL CONFERENCE AT HANOVER IN NOVEMBER, AND THAT THE GERMANS WOULD NO DOUBT SUPPORT THE FRENCH ''EUREKA CHARTER'', EVEN THOUGH THEY REALISED IT WOULD BE OF LITTLE PRACTICAL SIGNIFICANCE. THERE WAS, HOWEVER, NO QUESTION AT PRESENT OF THE GERMANS MATCHING THE FRENCH COMMITMENT OF PUBLIC MONEY TO THE CONCEPT: THEY WANTED TO SEE CONCRETE AND COMMERCIALLY VIABLE PROJECTS, WITH THE COSTS CARRIED PRIMARILY BY INDUSTRY (THOUGH AT THE END OF THE DAY A LITTLE PUMP-PRIMING MIGHT NOT BE EXCLUDED).

6. STABREIT SAID THAT THERE HAD BEEN LITTLE DISCUSSION OF SDI, ON WHICH THE FRENCH POSITION WAS STILL VERY RESERVED: HE DETECTED NO SOFTENING OF THEIR ATTITUDE OVER THE LAST FEW MONTHS. CONTRARY TO HINTS IN THE PRESS, HE WAS UNAWARE OF ANY DISCUSSION OF THE FRANCO-GERMAN SECURITY RELATIONSHIP, THOUGH HE COMMENTED THAT ON THIS SUBJECT KOHL PLAYED HIS CARDS VERY CLOSE TO HIS CHEST, AND DID NOT ALWAYS TELL EVEN HIS SENIOR ADVISERS WHAT WAS AFOOT. THE PRESS SPEAKS AS IF THERE HAD BEEN A GENERAL UNDERSTANDING THAT FRANCE AND THE FRG ARE EACH ESSENTIAL TO THE SECURITY OF THE OTHER, WHICH COULD MEAN MUCH OR LITTLE.

7. ON EFA, ALTHOUGH THE GERMAN PRESS REPORT THAT MITTERRAND MADE A PROPOSAL FOR THE DEVELOPMENT OF A ''FAMILY'' OF EUROPEAN FIGHTER AIRCRAFT, STABREIT SAID THAT DISCUSSION HADE BEEN VERY BRIEF, AND THE SUGGESTION WAS NOT A SERIOUS ONE. KOHL HAD MADE IT QUITE CLEAR THAT THERE WAS NO GOING BACK ON THE TURIN UNDERSTANDING AND MITTERRAND HAD ACCEPTED THIS. HE HAD, HOWEVER, PROPOSED A VAGUE GENTLEMAN'S AGREEMENT THAT ALL FUTURE EUROPEAN MILITARY AIRCRAFT PROJECTS SHOULD BE COOPERATIVE ONES, WHCIH STABREIT SAW AS LARGELY A FACE-SAVING DEVICE.

THIS TELEGRAM WAS NOT ADVANCED

BULLARD

EUROPEAN POLITICAL
WED
ACDD

For Information

on Return

PRIME MINISTER

My rough translation of the Prime Minister's letter is

"I am deeply grateful for the message of sympathy you sent after the tragic rail crash on 3 August. I was very touched by the kindness you have shown us".

MLA

MARK ADDISON

13 August 1985

010.

scft

AMBASSADE DE FRANCE
LONDRES

13th August 1985

Dear Mr. Powell,

I have just received this message sent by Mr. Laurent Fabius to your Prime Minister. I would be grateful for you to forward it to her.

Yours sincerely

Jean-Noël de Bouillane de Lacoste

Chargé d'Affaires a.i.

Charles Powell, Esq.,
Private Secretary to
the Prime Minister,
Prime Minister's Office,
10 Downing Street,
London SW1.

AMBASSADE DE FRANCE
LONDRES

le 12 août 1985

Je vous remercie vivement du message de sympathie que vous m'avez adressé après la catastrophe ferroviaire du 3 août dernier. J'ai été très touché par l'amitié que vous nous avez manifestée.

Laurent Fabius

10 DOWNING STREET

From the Private Secretary

6 August 1985

Thank you for your letter enclosing a draft message for the Prime Minister to send to the French Prime Minister about the train crash in France on Saturday. As I mentioned to you, the Prime Minister approved the message as drafted and I enclose the top copy for the record.

(TIM FLESHER)

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office

10 DOWNING STREET

THE PRIME MINISTER

6 August 1985

I was appalled to hear of the terrible train crash on Saturday in the South of France. Our hearts go out to the families of those who were killed and to the injured.

Margaret Thatcher

H.E. Monsieur Laurent Fabius

PRIME MINISTER

FRENCH TRAIN CRASH

You may wish to send a message to the French Government following Saturday's dreadful train crash in which 35 people died. The proper recipient of this might be M.Fabius following your talks with him last week.

Do you approve the attached?

TIM FLESHER
5 August 1985

Foreign and Commonwealth Office

London SW1A 2AH

5 August, 1985

Dear Tim,

Train Crash in France

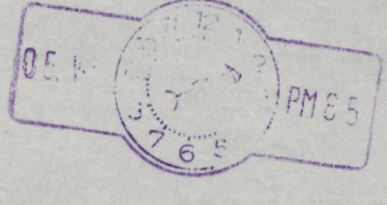
As agreed when we spoke earlier this morning, I enclose a draft message from the Prime Minister to M. Fabius following the train crash on Saturday.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

Tim Flesher Esq
10 Downing Street



DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

TO: Monsieur Laurent Fabius
Prime Minister of the French Republic

Your Reference

Copies to:

PRIVACY MARKING

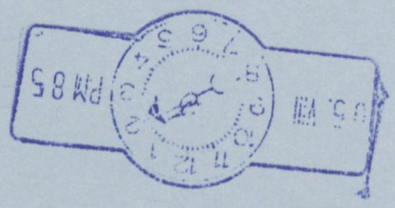
.....In Confidence

CAVEAT.....

SUBJECT:

I was appalled to hear of the terrible train crash on Saturday in the South of France. Our hearts go out to the families of those who were killed and to the injured.

Enclosures—flag(s).....



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Charles Powell
No. 10

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TELEGRAM NUMBER 520 OF 20 JUNE 1985
INFO OTHER EC POSTS, MADRID, LISBON
INFO SAVING CONSULS GENERAL FRANCE, WASHINGTON, UKDEL NATO

THE FRENCH POLITICAL SCENE

SUMMARY

1. MITTERRAND WILL GO TO THE MILAN EUROPEAN COUNCIL AGAINST A BACKGROUND OF DOMESTIC POLITICAL DIFFICULTY. BOTH HE AND THE SOCIALIST PARTY (PS) ARE WALLOWING IN THE POLLS, WHICH CURRENTLY PREDICT A COMFORTABLE VICTORY FOR THE OPPOSITION IN NEXT YEAR'S PARLIAMENTARY ELECTIONS. SHARP DIFFERENCES HAVE EMERGED WITHIN THE PS ABOUT HOW THE ELECTIONS SHOULD BE FOUGHT, AND RIVALRIES ARE GROWING BETWEEN CANDIDATES ALREADY POSITIONING THEMSELVES FOR THE PRESIDENTIAL ELECTIONS IN 1988. THESE ARE ADDITIONAL REASONS FOR MITTERRAND TO SEEK MODEST PROGRESS ON EUREKA AT MILAN, RATHER THAN RISK A CRASH FROM THE HIGH WIRE OF EUROPEAN UNION.

DETAIL

2. MITTERRAND WILL BE GOING TO THE MILAN EUROPEAN COUNCIL AT A TIME OF DOMESTIC POLITICAL DIFFICULTY. HIS POLL RATINGS REMAIN HISTORICALLY LOW FOR A PRESIDENT OF THE FIFTH REPUBLIC AND ARE CURRENTLY AGAIN ON A DOWNWARD TREND. FABIUS TOO IS LOSING GROUND. A POLL IN YESTERDAY'S LE FIGARO MAKES PARTICULARLY GRIM READING FOR MITTERRAND. 60 PERCENT OF THOSE ASKED SAID THEY WOULD SUPPORT THE PARTIES OF THE RIGHT IN NEXT MARCH'S PARLIAMENTARY ELECTIONS AND ONLY 36 PERCENT THOSE OF THE LEFT. EVEN MORE OMINOUS FROM THE PRESIDENT'S POINT OF VIEW, THE OPPOSITION ALLIANCE OF THE CENTRALIST UDF, THE NEO-GAULLIST RPR AND THEIR MINOR ALLIES WOULD, ON PRESENT SHOWING, WIN 51 PERCENT OF THE VOTE AND A CLEAR PARLIAMENTARY MAJORITY. THIS WOULD ENABLE THEM TO AVOID DIFFICULT AND POTENTIALLY DIVISIIVE POST-ELECTORAL CHOICES ABOUT WHETHER TO COOPERATE WITH LE PEN'S EXTREME RIGHT FRONT NATIONAL, SO ESCAPING ONE OF THE TRAPS WHICH MITTERRAND SET BY INTRODUCING A SYSTEM OF PROPORTIONAL REPRESENTATION.

3. IN ADDITION TO THE STUBBORN PROBLEM OF PERSONAL UNPOLULARITY, MITTERRAND IS ALSO FACED WITH A SOCIALIST PARTY IN SERIOUS DISARRAY. FOR MONTHS THE PS HAS DRAWN COMFORT FROM THE OPPOSITION'S DIVISIONS, AS EXEMPLIFIED BY THE RIVALRIES BETWEEN BARRE, CHIRAC AND GISCARD. SUDDENLY THE SOCIALISTS ARE SPLIT BY DIVISIONS OF THEIR OWN. THE IMMEDIATE REASON IS A SHARP DIFFERENCE OF VIEW IN THE PARTY OVER HOW TO CONDUCT THE CAMPAIGN FOR NEXT YEAR'S PARLIAMENTARY ELECTIONS. FABIUS SEES HIMSELF PLAYING THE DOMINANT ROLE AS PRIME MINISTER AND LEADER OF THE PARLIAMENTARY MAJORITY, AND WANTS THE PS TO FIGHT ON A LARGELY UNIDEOLOGICAL PLATFORM OF ECONOMIC MODERNISATION AND NATIONAL UNITY,

/WHICH.

WHICH WOULD HAVE APPEAL TO CENTRALIST VOTERS. JOSPIN, ON THE OTHER HAND, AS FIRST SECRETARY OF THE PARTY, BELIEVES HE SHOULD LEAD THE PS DURING THE ELECTIONS AND THAT IT SHOULD BASE ITS APPEAL ON TRADITIONAL SOCIALIST POLICIES. TENSIONS BETWEEN FABIUS AND JOSPIN, AND THEIR SUPPORTERS, ARE NOW ACUTE.

4. MITTERRAND HAS THE AUTHORITY TO SORT THINGS OUT IN THE SHORT TERM, BUT EVEN HE MAY BE BAFFLED BY THE LONGER TERM PROBLEM OF PERSONAL RIVALRIES RELATING TO THE PRESIDENTIAL ELECTION IN 1988. FABIUS AND JOSPIN ARE FIGHTING FOR THE LEADING ROLE IN NEXT YEAR'S CAMPAIGN BECAUSE THEY BELIEVE THIS WILL ENHANCE THEIR PROSPECTS OF BEING THE SOCIALIST PARTY'S PRESIDENTIAL CANDIDATE IN 1988, ASSUMING MITTERRAND STANDS DOWN. THEY ARE ALL THE MORE ANXIOUS TO ESTABLISH THEIR SUPREMACY BECAUSE THEY ARE CONSCIOUS THAT ROCARD (WHO RESIGNED FROM THE GOVERNMENT IN APRIL), IS ALSO POSITIONING HIMSELF TO CHALLENGE FOR THE PARTY NOMINATION IN 1988. HE MAY NOT BE LIKED WITHIN THE PS APPARAT, BUT HE REMAINS VERY POPULAR IN THE COUNTRY AT LARGE. HIS ANNOUNCEMENT ON A TV PROGRAMME LAST WEEK THAT HE INTENDS TO RUN FOR THE ELYSEE IN 1988 HAS SHARPENED ANIMOSITIES AND CONCENTRATED MINDS WITHIN THE PS ABOUT THE POST-MITTERRAND PERIOD.

5. THERE ARE NINE MONTHS BEFORE THE PARLIAMENTARY ELECTIONS NEXT YEAR (UNLESS MITTERRAND CALLS THEM PREMATURELY - A POSSIBILITY WHICH SEEMS REMOTE BUT CANNOT BE ENTIRELY EXCLUDED). BUT AS MITTERRAND SETS OUT FOR MILAN, DOMESTIC POLITICAL PROBLEMS WILL BE WEIGHING HEAVILY ON HIS MIND. THE CURRENT SITUATION IS DIFFICULT FOR HIM: AND THE OMENS FOR 1986 DISTINCTLY UNFAVOURABLE. ALTHOUGH I WOULD NOT MAKE MUCH OF THIS, I THOUGHT WHEN I SPOKE BRIEFLY TO HIM ON 18 JUNE THAT HE LOOKED MORE CAREWORN THAN ON ANY PREVIOUS OCCASION. AT MILAN HE WILL BE ESPECIALLY CONCERNED TO AVOID EXPOSTING MORE FLANK THAN NECESSARY TO AN INCREASINGLY CONFIDENT OPPOSITION. THIS WILL BE AN ADDITONAL REASON FOR HIM TO PREFER A MODEST ADVANCE ON EUREKA TO AN APPEARANCE OF FAILURE IN PURSUING GRANDER EUROPEAN AMBITIONS.

FCO PLEASE PASS SAVING ADDRESSEES EXNPT C G'S FRANCE

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FRAME ECONOMIC

FROM PARIS SAVING TELNO 24 OF 5 JUNE 1985

TO FCO

REPEATED FOR INFORMATION TO : BONN, DUBLIN, BRUSSELS,

THE HAGUE, COPENHAGEN, ATHENS, ROME, LUXEMBOURG, UKREP BRUSSELS,

MADRID, WASHINGTON, LISBON, TOKYO, UKDEL OECD, UKDEL STRASBOURG,

CONSULATES GENERAL FRANCE

FRANCE : ECONOMIC REPORT FOR MAY 1985

SUMMARY

1. The results published in May for the French economy are mostly poor and a trend of slight deterioration in the economy since the beginning of 1985 is becoming evident. In April there was a large balance of trade deficit, and the annual rate of inflation increased slightly. Although unemployment decreased again the recent fall seems to have been the result of special measures. Industrial production increased slightly in March. Industrial relations remain calm.

2. There was another large balance of trade deficit in April (F4.2 bn s.a.) and further indications that French exports are losing price competitiveness in some important markets.

3. The annual rate of inflation rose slightly in April to 6.5%, reversing a downward trend which had lasted for 14 months.

4. Registered unemployment decreased again in April to 2.4 million s.a., but the fall over the last 3 months is largely due to special government measures and a severe purge of the registers. An INSEE reports shows that in 1984, as in 1983, almost a quarter of a million jobs were lost, and there is no sign that this trend has been reversed. Industrial production increased slightly in March, to the level of March 1984.

/5.

FRANCE Internal

5. Although the franc remains firm against most currencies except the dollar the poor trade and inflation figures have encouraged discussion by the press of another devaluation of the franc.

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GRS 485

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[FRAME GENERAL]

FM PARIS 101605Z MAY 85

TO PRIORITY F C O

TELEGRAM NUMBER 397 OF 10 MAY

INFO BONN, ROME, WASHINGTON, TOKYO, MOSCOW, UKREP BRUSSELS

INFO SAVING OTTAWA, ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG

MITTERRAND PRESS BRIEFING

SUMMARY

1. AS REPORTED IN THE FINANCIAL TIMES OF 10 MAY, MITTERRAND HELD AN INFORMAL PRESS BRIEFING FOR SELECTED CORRESPONDENTS ON 9 MAY. MY TWO IFTS (NOT TO ALL) REPORT THE MAIN POINTS ON THE COMMUNITY AND ON SDI/EUREKA, POINTS ON GATT AND ECONOMIC SUMMITS FOLLOW BELOW, TOGETHER WITH PRELIMINARY COMMENT.

DETAIL

2. ON GATT, MITTERRAND SAID LITTLE NEW. HE CLAIMED THAT HE HAD NOT BEEN SURPRISED BY KOHL'S ESPOUSAL OF THE US PROPOSAL FOR A DATE SINCE THERE HAD BEEN NO FRANCO-GERMAN POSITION ON THE ISSUE. FRANCE WAS READY TO PARTICIPATE IN A NEW GATT ROUND IN 1986 ON 3 ESSENTIAL CONDITIONS: PROGRESS ON INTERNATIONAL MONETARY REFORM, AGREEMENT ON THE AGENDA (IT WAS UNACCEPTABLE THAT AGRICULTURE SHOULD DOMINATE THE EARLY STAGES JUST BECAUSE THIS DOSSIER WAS READY), AND CONSULTATION OF THE DEVELOPING COUNTRIES., HE WOULD NOT ACCEPT THAT EUROPE SHOULD BE THE PLAYTHING OF US DOMESTIC POLICY, PARTICULARLY OVER AGRICULTURAL TRADE.

3. ON ECONIMIC SUMMITS, MITTERRAND SAID THAT ALTHOUGH THEY WERE USEFUL, THEY HAD BECOME DENATURED. IF THE RULES WERE NOT CHANGED BEFORE TOKYO, HE COULD NOT EXCLUDE A FRENCH BOYCOTT. (THE FRENCH PRESS NOTES THAT HE MADE SIMILAR NOISES AFTER WILLIAMSBURG).

COMMENT

4. THIS UNUSAL MEDIA PRESENTATION WAS NO DOUBT INSPIRED BY THE MIXED RECEPTION GIVEN TO MITTERRAND'S PERFORMANCE IN BONN. HE SEEMS TO HAVE HAD 4 AIMS:

I) TO SCOTCH SUGGESTIONS OF ANY SERIOUS RIFT IN THE FRANCO-GERMAN RELATIONSHIP. ADMITTEDLY THERE HAD BEEN DIFFICULTIES AT BONN, BUT FRANCE AND GERMANY REMAINED CLOSE PARTNERS AND AT THE HEART OF EUROPE'S FUTURE (THE DESIRE TO EMPHASIS THIS MAY LIE BEHIND A SLIGHT ANTI-BRITISH FLAVOUR). ON THE SUBSTANCE OF FRANCO-GERMAN RELATONS, INCIDENTALLY, THERE ARE INCREASING SIGNS THAT THE FIRST GERMAN TRIBUTE TO FRENCH POST-BONN IRRITATION WILL BE AGREEEMENT BY KOHL TO ABANDON LONG-STANDING AND WELL-FOUNDED GERMAN OBJECTIONS TO THE FRENCH MILITARY OBSERVATION SATELLITE PROJECT. THERE ARE ALSO SUGGESTIONS THAT KOHL AND MITTERAND WILL MEET TWICE MORE BEFORE MILAN (FIRST ON 28 MAY).

II) TO DEFUSE EXPECTATIONS, WHICH HE HIMSELF HAD BUILT UP, OF A SURPRISE PROPOSAL ON INSTITUTIONAL REFORM IN THE COMMUNITY. AND OF A GREAT LEAP FORWARD IN MILAN.

III) TO ASSERT AGAIN HIS CLAIM TO BE A FIRM DEFENDER OF EUROPEAN INTERESTS, REFUSING TO BE TRAMPLED UNDERFOOT BY THE AMERICANS. HE IS QUOTED AS DENYING ANY DESIRE TO PLAY DE GAULLE, BUT THE IMAGE IS ONE HE WILL WISH TO CULTIVATE, SO LONG AS HE CAN DEMONSTRATE THAT IT IS BASED ON SOUND REASON AND NOT SIMPLE POSTURING.

IV) ON SDI, TO STRIKE A TYPICALLY FRENCH INDEPENDENT POSTURE WHILE NOT CUTTING FRANCE OFF FROM A SHARE OF THE US MANNA: AND TO KEEP THE PRESSURE UP ON THE FRG TO SUPPORT EUREKA.

F C O PLEASE PASS SAVINGS

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FRAME ECONOMIC

FROM PARIS SAVING TELNO 9 OF 8 MARCH 1985

TO FCO

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

FRANCE : ECONOMIC REPORT FOR FEBRUARY 1985

SUMMARY

1. The most important developments in the French economy to emerge in February were a fall in industrial production and a deterioration in the balance of trade. Otherwise the picture was largely unchanged: on the positive side, the annual rate of inflation came down again, industrial relations were peaceful, and wage restraint was renewed by the 1985 public service pay agreement; and on the negative side unemployment rose again substantially, and company bankruptcies continued at a high level.

2. After two months of very small deficits there was a balance of trade deficit in January of almost F4 billion (seasonally adjusted), chiefly because of a large decrease in exports.

3. There was a large increase in the seasonally adjusted figure for unemployment and the monthly figure for company bankruptcies was well above the average for 1984.

4. Industrial production fell in all sectors except capital goods. Following the poor performance of the French car industry in its home market, figures published in February show that a large increase in the export surplus on cars in 1984 was due to price increases. Figures have been published showing the continuing importance of the armaments industry in the French economy.

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5. The Minister of Finance said he believed that the French economy could safely grow in 1985 at a rate close to Germany's expected 3%, but did not announce additional measures to achieve this.

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FROM PARIS SAVING TELNO 4 OF 6 FEBRUARY 1985

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FRANCE : ECONOMIC REPORT FOR JANUARY 1985

SUMMARY

1. Many of the figures for the French economy in 1984 published in January were encouraging for the Government. Inflation was down to its lowest level since 1971, the current account deficit was virtually eliminated, wage increases decelerated, and the financial situation of companies recovered substantially. INSEE estimated that GDP grew by 1.9% in 1984. But unemployment continues to rise, company bankruptcies are at a high level and French official external debt increased again in 1984.

2. The annual rate of inflation fell to 6.7% by the end of 1984 from 9.3% at the end of 1983 with the aid of price controls. There was a current account deficit in 1984 of only FO.6 billion chiefly because of a substantial reduction in the trade deficit, but the improvement is fragile and INSEE forecasts a slight deterioration in the balance of trade in 1985.

3. Hourly wage rates for manual workers rose in 1984, less than prices, for the first time since 1958. This wage restraint combined with only moderate increases in the cost of imported raw materials contributed to an improvement in the financial situation of companies over the last half of 1984, and there was a large increase in the volume of investment in manufacturing in 1984.

4. Unemployment has continued to rise, reaching 2.4 million seasonally adjusted at the end of 1984.

5. The rate of growth of the French external debt is slowing but it remains a serious constraint on French economic policy.

/6.

6. A survey of industrialists by INSEE shows that they fore-cast a fall in production in all sectors over the coming months.

/DETAIL

BY BAG
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FRAME ECONOMIC

FROM PARIS SAVING TELNO 1 OF 4 JANUARY 1985

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FRANCE : ECONOMIC REPORT FOR DECEMBER 1984

SUMMARY

1. There was a small improvement in some of the figures for the French economy published in December, following a bleak November, but prospects are not very good. There was a small balance of trade surplus in November, and the annual rate of inflation inched down again, but unemployment continued to rise, and company bankruptcies are running at a high level. Industrial production, which has held up well showed some signs of slackening slightly at the end of the year.

2. The small trade surplus in November is part of a general improvement in the balance of trade since July, but INSEE forecast a deterioration in the first half of next year, and a deficit for 1985 as a whole of F25 billion, i.e. no better than in 1984.

3. The performance of the French car industry, with the exception of Peugeot continues to give grounds for concern. The Government has pledged financial support for Renault and Peugeot.

4. December brought a double set-back to the hopes of government ministers, employers and moderate trade union leaders for a negotiated reduction of labour market rigidity. The employers' federation and the national leadership of the main non-communist trade unions reached agreement for a limited easing of employment protection, but the agreement was then rejected by militant union officials to the satisfaction of the communist union leaders. At the same time both communist and non-communist unions rejected a draft agreement on mobility and job reductions at Renault.

5. Unemployment continues to rise and INSEE forecast 2.5 million unemployed at the end of June 1985.

6. The growth in the money supply remains on target.

DETAIL

DETAIL

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

7. There was a balance of trade surplus of F0.803 billion seasonally adjusted in November. This reverses the deterioration in the monthly trade figures in October when there was a deficit of F3.888 billion and brings the trade deficit for the first 11 months of 1984 to F21.6 billion.

8. The improvement in November was due to a drop in imports of F3.43 billion to F73.754. Exports rose by only F0.75 to F74.557. Imports of energy at F16.9 billion were F1.5 billion lower than in October and only slightly above the monthly average for 1983 in spite of the approach of winter. Imports of semi-finished goods were also down in November from an exceptionally high level in October. Imports of other commodities remained fairly stable.

9. Figures published by INSEE show that over the first 9 months of 1984 the volume of exports increased more than the volume of imports, while export and import prices increased by about the same amount. On average since the beginning of 1984 the volume of exports per month has been 4.6% higher and imports 2.1% higher than in 1983, but INSEE cautions that exceptionally large exports of wheat to Eastern Europe in August and September have increased export volumes and lowered export prices.

10. A deficit of F22.4 billion over the first 6 months of 1984 has been followed by a surplus of F0.87 over the 5 months July to November. The improvement may prove to be short-lived. In December INSEE forecast that over the first 6 months of 1985 there would be a deficit of F16.2 billion and over the whole of 1985, a deficit of F25.2 billion, i.e. no improvement over 1984. This in stark contrast to the forecast by the Government in September that there would be a balance of trade surplus for the whole of 1985 of F2 billion. INSEE argues that the balance of trade deficit will persist at its current level in 1985 because increased growth in the French economy, and reduced growth in the economies of France's main trading partners will narrow the gap between them, and because there will be no further significant gains in French competivity.

11. Factors which will probably contribute to the deterioration in the balance of trade over the next few months are a drop in agricultural exports, from an exceptionally high level, an increase in energy imports and a further drop in revenue from large contracts won abroad by French firms which OFCE, the independent forecasting body, estimates will be F1 billion less per month in 1985 on average.

12. France's trade figures for December, not yet announced, will receive a boost from France's share of the payment of $160 million (approx F1.5 billion) for 4 airbuses delivered to Pan Am as part of a larger contract signed in 1984.

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FROM PARIS SAVING TELNO 69 OF 12 DECEMBER 1984

TO FCO

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FRANCE : ECONOMIC REPORT FOR NOVEMBER 1984

SUMMARY

1. After a rather encouraging October, the snapshots of the French economy published in November were rather bleak. There was a fairly large balance of trade deficit, the small rise in industrial production over previous months was seen to have stopped, unemployment on an adjusted basis resumed its rise and on an/adjusted basis continued to increase, the Government confirmed that the 1984 budget deficit will be higher than it had forecast, and external borrowing continued at a high level. The decrease in the annual rate of inflation was marginal. There was good news, however, on industrial investment, which is showing a substantial rise in 1984 and on the social security account, which is forecast to end this year in surplus.

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2. The trade balance, which had shown a surplus in the third quarter, recorded a large deficit in October. In October the surplus on manufactured goods was well below the monthly average for 1984.

3. A survey of industrialists shows that investment in industry in 1984 is rising by 9% in volume terms, a satisfactory result although less than the 12% figure they had been forecasting earlier. The employers' federation believes the figure will be a good deal lower. The federation also draws attention to the great disparity in the financial health of companies.

/4.

4. The Government has published details of the likely increase in the 1983 budget over the planned figure, and figures published by OECD show that France continues to raise large sums on the international money markets.

5. France's foreign currency reserves are greatly increased, and the money supply figures published in August are still on target.

/DETAIL

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FRAME ECONOMIC

FROM PARIS SAVING TELNO 62 OF 9 NOVEMBER 1984

TO FCO

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

FRANCE : ECONOMIC REPORT FOR OCTOBER 1984

SUMMARY

1. A month of encouraging news on the French economy: there was a small trade surplus, the annual rate of inflation continued to fall, unemployment was stable, industrial production increased, the money supply figures are on target and hourly wage rate increases are decelerating.

2. In September there was a surplus on the balance of trade for the second month running. It was smaller than in August, but has contributed to a third quarter surplus on foreign trade, thus reversing the trend. The surplus on trade in manufactured goods has averaged F8 billion per month so far in 1984. The unadjusted deficit on current account in the first 9 months of 1984 was only F5 billion.

3. The annual rate of inflation fell to 7.1% in September continuing the steady downward trend begun at the beginning of the year. The Government target for the end of 1984 is 6.7%.

4. Unemployment was stable in September. Industrial production is estimated to have continued to rise slowly in July and August and industrialists forecast that the trend will continue over the coming months.

5. Figures for the money supply (M2R) published in October after a gap in publication, show that it is on a course for the Government's target for 1984 of 5.5% to 6.5%. M. Bérégovoy has described in broad outline changes in the system for controlling credit.

6. The Dalle report on the car industry called for the cutting of 70,000 jobs by the end of 1985. 16,000 of these have already

/been

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TELEGRAM NUMBER 1042 OF 13 SEPTEMBER
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FRANCE: DRAFT 1985 CENTRAL GOVERNMENT BUDGET

1. THE BUDGET PURPORTS TO REDEEM MITTERRAND'S PLEDGE OF A REDUCTION IN TAXES AND SOCIAL SECURITY CONTRIBUTIONS EQUIVALENT TO 1 PERCENT OF GDP AND IS PRESENTED AS A TURNING-POINT IN FRENCH FISCAL HISTORY. IT GIVES SUBSTANCE TO THE CENTRIST IMAGE OF THE FABIUS GOVERNMENT. PERSONAL AND CORPORATE TAXATION IS LOWERED AND SOME INDIRECT REVENUES ARE RAISED. THE STATE IS TO EXERCISE RESTRAINT ON ITS OWN HOUSE-KEEPING EXPENDITURE. IN TERMS OF INFLATION/DEFLATION THE BUDGET APPEARS TO BE BROADLY NEUTRAL. IT CONTAINS NO MAJOR REFORMS. THE RECEPTION ACCORDED IT BY THE PRESS (SEE MY SECOND IFT) HAS MAINLY RANGED FROM SCEPTICAL TO SCATHING.

DETAIL

2. PUBLIC INTEREST HAS CENTERED ON THE INSTRUCTION GIVEN BY MITTERRAND THAT TAX AND SOCIAL SECURITY CONTRIBUTIONS SHOULD BE REDUCED BY AN AMOUNT EQUIVALENT TO 1 PERCENT OF GDP, LOWERING THEM FROM 44.7 PERCENT OF GDP IN 1984 TO 43.7 PERECENT IN 1985. BEREGOVOY CLAIMS THAT THE BUDGET WILL ACHIEVE THIS, AND THE CLAIM APPEARS TO BE BROADLY JUSTIFIED. INCREASES IN SOME INDIRECT AND PARAFISCAL TAXES (ESPECIALLY ON PETROL) AMOUNTING TO 0.6 PERCENT OF GDP WILL ONLY PARTLY OFFSET REDUCTIONS IN OTHER TAXES AMOUNTING TO 1.6 PERCENT OF GDP. BEREGOVOY ALSO CLAIMS THAT THE BUDGET DEFICIT WILL NOT EXCEED 3 PERCENT OF GDP, BUT THIS IS UNCONVINCING. ON AN UNCHANGED ACCOUNTING BASIS THE CEILING WILL BE EXCEEDED NEXT YEAR, AS THIS YEAR AND LAST.

3. THE CHIEF REDUCTIONS IN TAXATION ARE:

A) 5 PERCENT REDUCTION IN INCOME TAX: F 10 BILLION,

B) A REDUCTION IN THE BUSINESS TAX: F 10 BILLION, AND

C) THE SUPPRESSION OF THE 1 PERCENT SOCIAL SECURITY LEVY ON TAXABLE INCOME: F 10 BILLION.

4. FOR THE FIRST TIME SINCE THE SOCIALISTS CAME TO POWER, STATE EXPENDITURE IS BUDGETED TO GROW MORE SLOWLY THAN GDP: 6 PERCENT NOMINAL GROWTH IN EXPENDITURE AGAINST A 7.5 PERCENT INCREASE IN NOMINAL GDP. THE TIGHTEST CONSTRAINT HAS BEEN IMPOSED ON GENERAL OPERATING EXPENDITURE WHICH WILL GROW BY 4.4 PERCENT IN NOMINAL TERMS TO ALLOW CAPITAL EXPENDITURE TO INCREASE BY 6.5 PERCENT. THE GOVERNMENT'S WAGE BILL IS BUDGETED TO RISE IN LINE WITH FORECAST INFLATION BUT THE NUMBER OF STATE EMPLOYEES IS TO BE REDUCED, EXCEPT IN EDUCATION (PARTICULARLY TECHNICAL EDUCATION) WHERE EMPLOYMENT WILL RISE. THIS IS IN LINE WITH THE GOVERNMENT'S EMPHASIS ON TRAINING AND MAY DO SOMETHING TO CONSILIATE THOSE TEACHERS WHO WERE DISAPPOINTED AT THE GOVERNMENT'S RETREAT ON THE INDEPENDENT SCHOOLS ISSUE. SUBSIDIES TO PUBLIC SECTOR SERVICES, MANY OF WHICH STILL HAVE SUBSTANTIAL DEFICITS, WILL INCREASE BY ONLY 3 PERCENT IN NOMINAL TERMS.

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5. THE GOVERNMENT HAS BEEN WIDELY ACCUSED OF TAKING AWAY IN PUBLIC SECTOR TARIFF INCREASES AND PARAFISCAL TAXES WHAT IT IS CONCEDING IN REDUCTIONS IN DIRECT TAXES. WHILE THE REDUCTION IN FISCAL PRESSURE LOOKS GENUINE (PARA 3 ABOVE), THE BUDGET SHOWS THAT THE CHARGE HAS SOME FOUNDATION: FOR EXAMPLE TELEPHONE CHARGES HAVE BEEN INCREASED ON AVERAGE BY 25 PERCENT IN THE PAST 12 MONTHS.

6. PRESENTING THE BUDGET TO THE PRESS, BEREGOVOY DESCRIBED IT AS NEITHER INFLATIONARY NOR DEFLATIONARY. HE REAFFIRMED HIS COMMITMENT TO ECONOMIC GROWTH BUT INSISTED IT MUST BE SOUNDLY BASED.

7. THE BUDGET IS BASED ON A FORECAST THAT INFLATION WILL FALL TO 4.5 PERCENT BY THE END OF 1985, BUT AS IN PREVIOUS YEARS THIS IS NOT SO MUCH A FORECAST AS A TARGET DESIGNED TO INFLUENCE WAGE AND PRICE FORMATION. THE FORECAST OF 2 PERCENT GROWTH IN THE ECONOMY NEXT YEAR DEPENDS HEAVILY ON A CONTINUING INCREASE IN WORLD TRADE.

8. A TABLE SHOWING THE MAIN ECONOMIC ASSUMPTIONS FOR THE BUDGET IS IN MY FIRST IFT, AND PRESS REACTION IN MY SECOND IFT.

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ADVANCE COPY

WASHINGTON TELNO 2352 (NOT TO BONN) : AIR FRANCE HIJACKING.

1. THERE ARE SUSPICIONS HERE TOO THAT THE HIJACKERS WERE OPERATING IN COLLUSION WITH THE IRANIAN AUTHORITIES.

2. THESE SUSPICIONS ARE BASED ON THE HIJACKERS' ANNOUNCEMENT TO THE PASSENGERS SHORTLY AFTER TAKEOVER THAT THEY INTENDED TO GO TO TEHRAN, THEIR POLITICAL AFFILIATIONS AND THE DEMANDS THEY MADE, WHAT THE PASSENGERS HAVE SAID ABOUT THE HIJACKERS' RELATIONS WITH THE IRANIAN POLICE, AND THEIR APPARENT ACCESS IN TEHRAN TO MOR E ARMS, EXPLOSIVES, ETC, THAN THEY STARTED OFF WITH. MISS WALLINGTON TOLD THE CONSUL THAT AFTER THE AIRCRAFT HAD REACHED TEHRAN ONE OF THE HIJACKERS HAD SHOWN HER A REVOLVER, WHICH SHE HAD NOT SEEN EARLIER (YOUR TELNO 258 NOT TO ALL). IN A TELEPHONE INTERVIEW WITH A LONDON COMMERCIAL

REVOLVER, WHICH SHE HAD NOT SEEN EARLIER (YOUR TELNO 258 NOT TO ALL). IN A TELEPHONE INTERVIEW WITH A LONDON COMMERCIAL RADIO STATION AFTER HIS RELEASE ON 2 AUGUST, SHINGLETON SAID THAT BY THAT MORNING THE HIJACKERS HAD STEN GUNS, PISTOLS, PLASTIC EXPLOSIVES AND A LARGE ROLL OF DETONATING WIRE, WHICH HAD NOT BEEN SEEN EARLIER. THE IRANIANS HOWEVER, ARE CLAIMING THAT ARMS AND EXPLOSIVES WERE TAKEN FROM SUITCASES IN THE CARGO COMPARTMENT AFTER LANDING.

3. THE FRENCH ARE PROBABLY BETTER PLACED TO MNE A JUDGEMENT, BUT WE SHALL REPORT IN MORE DETAIL BY NEXT BAG. SHINGLETON (HOME TEL. NO. 0494-36887) TOLD ME HE WOULD BE GLAD TO DESCRIBE HIS EXPERIENCES TO THE DEPARTMENT: SECURITY COORDINATION UNIT MAY WISH TO GET IN TOUCH WITH HIM.

SIMPSON-ORLEBAR

NNNN

NSPM
ORG

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

3rd August 1984

Dear Prime Minister,

I have just received a message addressed to you by Monsieur Roland Dumas, Ministre des Affaires Européennes.

I enclose it herewith.

Yours sincerely

Emmanuel

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London S.W.1.

MESSAGE DE M. ROLAND DUMAS

MINISTRE DES AFFAIRES EUROPEENNES

à

THE RT. HON. MARGARET THATCHER, M.P.,

PRIME MINISTER

"Madame le Premier Ministre,

Permettez-moi, en mon nom personnel et au nom du gouvernement français, de vous adresser mes remerciements les plus chaleureux pour votre participation dans le dénouement du détournement de l'avion d'Air France.

C'est grâce à l'action conjointe de nos deux gouvernements et au calme et à la détermination des passagers ressortissants de votre pays que cette délicate affaire s'est finalement conclue heureusement.

Soyez assurée de la reconnaissance du peuple et du gouvernement français."

Signé : Roland Dumas

3 AUG 1989

(2)

FCO

PA Duns 7/8

BRITISH EMBASSY,
PARIS.

3 August 1984

Prime Minister

CDP 6/8

F E R Butler Esq
Principal Private Secretary
10 Downing Street
London SW 1

Dear Butler,

We have been asked by Monsieur Pierre Mauroy, former Prime Minister of France, to forward the enclosed letter from him to the Prime Minister in reply to the message she sent at the time of his resignation.

I enclose our translation of Monsieur Mauroy's letter.

Yours sincerely

Peter Petrie

P C Petrie
Chargé d'Affaires

Pierre Mauroy

Paris le 25 juillet 1984

Madame,

J'ai été particulièrement sensible au message que vous m'avez adressé au moment où prenait fin ma fonction de Premier Ministre de France.

Je garde moi-même un excellent souvenir des moments où nous avons coopéré au nom de nos gouvernements respectifs.

Permettez-moi de vous dire ici tous les vœux que je forme pour l'avenir de la Grande-Bretagne et pour vous-même. Je vous présente avec nos hommages l'expression de mes pensées les meilleures.

Pierre Mauroy

Son Excellence Madame Margaret Thatcher
Premier Ministre de Grande-Bretagne

Paris, le 26 juillet 1984

Madame,

J'ai été particulièrement sensible au message que vous m'avez adressé au moment où prenait fin ma fonction de Premier Ministre de France.

Je garde moi-même un excellent souvenir des moments où nous avons coopéré au nom de nos gouvernements respectifs.

Permettez-moi de vous dire ici tous les voeux que je forme pour l'avenir de la Grande-Bretagne et pour vous-même. Je vous présente avec mes hommages l'expression de mes pensées les meilleures.

Pierre Mauroy

Paris, 26 July 1984

Madam,

I greatly appreciated the message you sent when my function as Prime Minister of France came to an end.

I, too, will remember with pleasure the occasions when we worked together for our respective governments.

I take this opportunity to extend my best wishes for the future of Great Britain and for yourself.

Pierre Mauroy

NBPM
has seen
earlier text.
PS. CDP 3/8.

AMBASSADE DE FRANCE
LONDRES

L'AMBASSADEUR

2nd August 1984

Dear Prime Minister,

I have now received through the diplomatic bag the enclosed letter addressed to you by M. Laurent FABIUS, Premier Ministre.

You will remember that the text of this letter was sent to you on 30th July 1984.

Yours sincerely

E. Morgan

The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister,
IO, Downing Street,
London SWI

INTERNATIONAL TERRORISM/HI-JACKING ADVANCE COPIES 36

PS
PS/MR WHITNEY
PS/[redacted]
[redacted] O'NEILL
MR GOODALL
.....
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MR DEETON
ED/MAED
HD/SECURITY COORDINATION UNIT.
ED/FUSD
DEP ED/FUSD
.....
ED/CONSULAR DEPT
CONSULAR EMERGENCY UNIT
ED/SECURITY DEPT
ED/FCD
ED/COD
ED/ARMS DEPT
HD MED
HD WED
[redacted]

PUSS
MR R VARNEY CAP 3 } DEPT OF
MR E STRONG SP 2 } TRANSPORT
MR J F LANGLEY IA2C }

NO.10 DOWNING STREET
ASSESSMENTS STAFF CABINET OFFICE
D I O CABINET OFFICE
SIR R ARMSTRONG }
SIR A DUFF } CABINET OFFICE
MR D COLVIN }
MR M D BRENNEN }
MR D HILARY } F4 HOME OFFICE
MR R HARRINGTON }
DS5 }
DS6 } MOD
DSC }
SECURITY SERVICES (2 copies via PUSD Rm E203)

SENT 2 AUG 1984

IMMEDIATE

RESTRICTED
DESKBY FCO 021515Z
FM TEHRAN 021500Z AUG
TO IMMEDIATE FCO
TELNO 432 OF 2 AUGUST 1984.
AND TO IMMEDIATE PARIS, BONN, STOCKHOLM, TOKYO, BERNE, NEW DELHI, ALGIERS, WASHINGTON.

MY TELNO 431 : AIR FRANCE HIJACKING.

1. PASSENGERS WERE RELEASED AND HIJACKERS SURRENDERED THIS AFTERNOON (2 AUGUST). THE HIJACKERS BLEW UP THE COCKPIT OF THE AIRCRAFT BEFORE SURRENDERING. AS FAR AS WE KNOW, ALL PASSENGERS ARE SAFE.

2. WE UNDERSTAND PASSENGERS ARE BEING TAKEN TO HILTON HOTEL. WE SHALL CALL ON SHINGLETON AS SOON AS POSSIBLE.

3. ANSWER TO YOUR TELNO 258 (NOT TO ALL) IS ACADEMIC NOW. WE WILL REPORT FULLY IN DUE COURSE.

SIMPSON-ORLEBAR

FCO

Prime Minister

AMBASSADE DE FRANCE
LONDRES

30th July 1984

CDP
30/7.

PS: CDP GP.

MC

Dear Prime Minister,

I have just received the enclosed message addressed to you by M. Laurent FABIUS, Prime Minister of the French Government.

Yours Sincerely

Alain Grenier

Alain Grenier,
Chargé d'Affaires a. i.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10, Downing Street,
London SWI

MESSAGE DE MONSIEUR LAURENT FABIUS,
PREMIER MINISTRE

A

THE RT. HON. MARGARET THATCHER, MP,
PRIME MINISTER

"Madame le Premier Ministre,

J'ai été très sensible au message de félicitations et de voeux que vous avez bien voulu me faire parvenir à l'occasion de ma nomination aux fonctions de Premier Ministre et je tiens à vous exprimer ici ma vive reconnaissance.

Le gouvernement que je dirige restera attaché au développement et à l'approfondissement des relations d'amitié et de coopération qui existent entre nos deux pays et je me réjouis personnellement d'avoir à y travailler avec vous.

En attendant le plaisir de vous revoir, je vous prie d'agréer, Madame le Premier Ministre, l'assurance de mes respectueux hommages.

Signé : Laurent FABIUS"

Le Premier Ministre

Paris, Le 25 juillet 1984

050025

Madame le Premier Ministre,

J'ai été très sensible au message de félicitations et de voeux que vous avez bien voulu me faire parvenir à l'occasion de ma nomination aux fonctions de Premier Ministre et je tiens à vous exprimer ici ma vive reconnaissance.

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En attendant le plaisir de vous revoir, je vous prie d'agréer, Madame le Premier Ministre, l'assurance de mes respectueux hommages.

Laurent FABIUS

Madame Margaret THATCHER
Premier Ministre du Royaume-Uni

RESTRICTED

GRS 1140

RESTRICTED
FM PARIS 201708Z JUL 84
TO PRIORITY FCO
TELEGRAM NUMBER 915 OF 20TH JULY
INFO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME, UKREP BRUSSELS, WASHINGTON, MOSCOW, UKDEL NATO,
INFO SAVING CONSULS-GENERAL LILLE, MARSEILLES, LYONS, BORDEAUX.

CHANGE OF FRENCH GOVERNMENT: REACTIONS AND PROSPECTS.

SUMMARY.

1. COMMENTATORS GENERALLY AGREE THAT THE CHANGE OF GOVERNMENT MARKS A NEW STAGE IN MITTERRAND'S PRESIDENCY BUT DIFFERING VIEWS ON WHAT PRECIPITATED IT AND ON ITS EVENTUAL CONSEQUENCES. LITTLE CHANGE IN DOMESTIC OR FOREIGN POLICIES EXPECTED. NEW GOVERNMENT'S FIRST CHALLENGE WILL BE PROPOSED REFERENDUM. DOUBT WHETHER MITTERRAND HAS FOUND A WINNING COMBINATION TO PULL OFF A SUCCESS IN THE 1986 LEGISLATIVE ELECTIONS.

DETAIL.

2. THERE IS GENERAL AGREEMENT AMONG COMMENTATORS THAT THE INSTALLATION OF THE FABIUS GOVERNMENT MARKS A NEW STAGE IN MITTERRAND'S PRESIDENCY. MOST TAKE THE VIEW THAT, WITH MAUROY'S DEPARTURE, THE REFORMIST, LEFT WING PERIOD BEGUN IN 1981 IS OVER, AND THAT A NEW, MORE PRAGMATIC PHASE HAS BEGUN, WITH THE ACCENT ON EFFICIENCY AND MODERNISATION. MITTERRAND IS THOUGHT TO HAVE CHOSEN THE YOUNG AND DYNAMIC FABIUS AS THE MAN MOST LIKELY TO RESTORE THE WANING FORTUNES OF THE SOCIALIST PARTY (PS) BY WINNING BACK VOTES FROM THE CENTRE BUT ENOUGH LEFT-WINGERS ARE INCLUDED IN THE NEW MINISTERIAL TEAM TO KEEP THE PS TOGETHER.

3. THERE IS LESS AGREEMENT ON WHETHER THE TIMING OF THE CHANGE OF GOVERNMENT WAS CHOSEN BY MITTERRAND OR DICTATED BY EVENTS. SOME COMMENTATORS SUGGEST THAT IT WAS THE LOGICAL EXTENSION OF MITTERRAND'S DECISION TO WITHDRAW THE EDUCATIONAL REFORM BILL AND TO CALL FOR A REFERENDUM, AND AS SUCH WAS NO DOUBT FORESEEN BY HIM AS PART OF A CAREFULLY CALCULATED SERIES OF STEPS DESIGNED TO TURN THE TABLES ON THE OPPOSITION WHICH HAD GAINED THE INITIATIVE AFTER THE EUROPEAN ELECTIONS. OTHERS, INCLUDING THE WELL-INFORMED SERGE JULY OF THE LEFT WING DAILY, LIBERATION, BELIEVE THE CHAIN OF EVENTS WAS PRECIPITATED BY THE RESIGNATION OF SAVARY, MAUROY'S EDUCATION MINISTER, OVER MITTERRAND'S DECISION TO WITHDRAW THE EDUCATION REFORM BILL WITHOUT CONSULTING HIM, THUS MAKING IT INEVITABLE THAT MAUROY'S GOVERNMENT WOULD HAVE TO GO TOO. INDEED, MAUROY'S GOVERNMENT WAS WIDELY THOUGHT TO HAVE BEEN LIVING ON BORROWED TIME, AND IT MAY BE THAT MAUROY WAS HIMSELF KEEN TO BRING MATTERS TO A HEAD. A MORE LIKELY INTERPRETATION IS THAT ALTHOUGH MITTERRAND HAD DECIDED TO CHANGE THE GOVERNMENT IN THE NEXT 3 MONTHS ANYWAY, SAVARY'S DECISION TO RESIGN OVER THE WEEK-END OF 14/15 JULY SPEEDED UP HIS PLANS AND MAY HAVE MODIFIED THEM IN SOME RESPECTS.

RESTRICTED

THE COMMUNISTS (PCF)

RESTRICTED

4. THE DEPARTURE OF THE COMMUNISTS FROM THE GOVERNMENT TO A POSITION OF ''CONDITIONAL SUPPORT'' WITHIN THE LEFT-WING MAJORITY, IS SEEN AS THE MOST SIGNIFICANT CONSEQUENCE OF THE CHANGE. AGAIN, MEDIA OPINION IS DIVIDED AS TO WHETHER MITTERRAND FORESAW THIS DEVELOPMENT AND CALCULATED THAT THE DEPARTURE OF THE PCF WAS AN ACCEPTABLE, INDEED NECESSARY, PRICE TO PAY IF THE NEW GOVERNMENT WAS TO ATTRACT SUPPORT FROM THE CENTRE, OR WHETHER HE WAS TAKEN BY SURPRISE. MARCHAIS IS SAID TO HAVE ARGUED FOR THE BREAK NOW FOR TWO REASONS:

(A) THE PCF HAS A BETTER CHANCE OF REGAINING LOST VOTERS BY CRITICISING THE GOVERNMENT FROM WITHOUT THAN BY RELUCTANT COLLABORATION FROM WITHIN.

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THE SOCIALIST PARTY.

5. THE CONSEQUENCE OF THE PCF'S DECISION IS TO LEAVE FABIUS' GOVERNMENT ''BETWEEN TWO FIRES'', AS LE MONDE PUTS IT. ON THE LEFT, THE PCF'S CONDITIONAL SUPPORT IS WIDELY EXPECTED TO TURN RAPIDLY INTO ALMOST UNCONDITIONAL WARFARE; WHILE ON THE RIGHT, THE OPPOSITION, SCENTING VICTORY IN 1986, IS EXPECTED TO BE UNREMITTINGLY HOSTILE. A NUMBER OF COMMENTATORS SUGGEST THAT THE PS'S EXPOSED POSITION EXPLAINS THE CHOICE OF GOVERNMENT (MY TELNOS 906 AND 907): THE UNION OF THE SOCIALIST PARTY HAS REPLACED THE UNION OF THE LEFT. THERE IS A GOOD DEAL OF SARCASM IN THE OPPOSITION PRESS ABOUT THE PROSPECTS FOR PEACEFUL COEXISTENCE IN A CABINET WHICH WILL HAVE TO ACCOMMODATE THE PERSONAL RIVALRIES WHICH EXIST BETWEEN CHARACTERS SUCH AS FABIUS, ROCARD, JOXE AND CHEVENEMENT. FEW COMMENTATORS DOUBT THAT, WHATEVER STRAINS MAY EMERGE WITHIN THE COUNCIL OF MINISTERS, THIS IS ESSENTIALLY A GOVERNMENT OF MITTERRAND LOYALISTS WHO WILL FAITHFULLY BEND TO THE PRESIDENT'S WILL.

THE OPPOSITION.

6. THE OPPOSITION ARE PRESENTING THE CHANGE OF GOVERNMENT AS NO MORE THAN A DIVERSIONARY MEASURE BY A DISCREDITED PRESIDENT. THEY MAKE MUCH OF THE FACT THAT THE PS ONLY ENJOYED THE SUPPORT OF 1 IN 5 VOTERS AT THE EUROPEAN ELECTIONS AND HAVE ALREADY DUBBED FABIUS' ADMINISTRATION THE 20 PERCENT GOVERNMENT. THEY ARE LOUD IN THEIR COMPLAINT THAT A NEW GOVERNMENT WITHOUT THE PCF ENJOYS EVEN LESS LEGITIMACY THAN ITS PREDECESSOR AND THAT THE ONLY ACCEPTABLE COURSE IS FOR THE PRESIDENT TO CALL NEW LEGISLATIVE ELECTIONS.

RESTRICTED

/7

COMMENT.

7. THERE IS WIDESPREAD EXPECTATION THAT THE NEW LOOK FABIUS IS LIKELY TO PROMOTE FAIRLY OLD LOOK POLICIES. FOR THE ECONOMIC PROSPECTS, SEE MY TELNO 912 AS TO FOREIGN AND DEFENCE POLICY, THE FACT THAT CHEYSSON, HERNU AND DUMAS HAVE KEPT THEIR POSITIONS SUGGESTS NO GREAT CHANGE. CHEYSSON'S REPRIEVE MAY NEUTRALISE POSSIBLE ARAB DISQUIET ABOUT THE PROMOTION OF FABIUS, WHO IS OF JEWISH ORIGIN, AND WHOSE APPOINTMENT IS SAID TO HAVE BEEN WELL RECEIVED IN ISRAEL. HERNU, WHO HAS EARNED SOME RESPECT FROM THE ARMED SERVICES, MAY NEED TO DRAW ON IT TO PUSH THROUGH THE CUTS IN THE DEFENCE BUDGET ABOUT WHICH MITTERRAND HAS RECENTLY WARNED.

8. THE NEW GOVERNMENT IS IN FOR A BUMPY RIDE. THE COMMUNISTS WILL ATTACK ITS ECONOMIC AND SOCIAL POLICIES AND MAY WELL ENCOURAGE UNION MILITANCY IN THE AUTUMN, PARTICULARLY BY THE COMMUNIST CGT. THEY WILL ALMOST CERTAINLY VOTE AGAINST NEXT YEAR'S BUDGET, THE CONTENT OF WHICH THEY HAVE CITED AS ONE REASON FOR REFUSING TO JOIN THE GOVERNMENT. HOWEVER, THE PS MAINTAIN AN OVERALL MAJORITY IN THE NATIONAL ASSEMBLY WITHOUT THEM. THE UDF/RPR OPPOSITION WILL CONTINUE TO QUESTION THE GOVERNMENT'S POPULAR MANDATE, AND MAY USE THEIR MAJORITY IN THE SENATE TO BLOCK MITTERRAND'S PROPOSED REFERENDUM E.G. BY PROPOSING IMPROVEMENTS TO IT. IF THEY SUCCEED, OR IF THE REFERENDUM GOES AHEAD BUT THERE IS MASSIVE ABSTENTIONISM ENCOURAGED BY THE OPPOSITION, IT WILL BE A BLOW TO MITTERRAND'S AUTHORITY AND AN EARLY SETBACK FOR FABIUS' GOVERNMENT.

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FRETWELL

FCO/WH (PALACE)
WED

RESTRICTED

GRS 1140

RESTRICTED
FM PARIS 201708Z JUL 84
TO PRIORITY FCO
TELEGRAM NUMBER 915 OF 20TH JULY
INFO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME, UKREP BRUSSELS, WASHINGTON, MOSCOW, UKDEL NATO,
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RESTRICTED

THE COMMUNISTS (PCF) RESTRICTED

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RESTRICTED

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FRETWELL

FCO/WH (PALACE)
WED

GRS 680

CONFIDENTIAL

CONFIDENTIAL [FULL]
FM PARIS 201511Z JUL 84
TO PRIORITY FCO
TELEGRAM NUMBER 912 OF 20TH JULY
INFO EC POSTS, WASHINGTON, UKDEL IMF/IBRD WASHINGTON.

FRANCE: ECONOMIC POLICY UNDER THE NEW GOVERNMENT

SUMMARY.

1. NO EARLY CHANGE IN ECONOMIC POLICY LIKELY. BUT THE WAY DECISIONS ARE MADE WILL CHANGE WITH GREATER CENTRALISATION IN THE ELYSEE AND MATIGNON AND AT LEAST INITIALLY, A MORE LIMITED RÔLE FOR THE MINISTER OF FINANCE. THE COLLECTIVE STRENGTH OF THE NEW ECONOMIC TEAM IS LESS THAN AWE-INSPIRING. IT FACES SUBSTANTIAL PROBLEMS.

DETAIL.

2. JOSPIN, FIRST SECRETARY OF THE SOCIALIST PARTY, HAS SAID THAT FABIUS INTENDS TO FOLLOW A POLICY WHICH DOES NOT DIFFER FROM MAUROY'S. THIS STATEMENT CAN BE TAKEN TO REFLECT THE INTENTIONS OF THE ELYSEE AND MATIGNON. THE NEW MINISTER OF FINANCE OUTLINED TO THE COUNCIL OF MINISTERS YESTERDAY A BUDGET EVIDENTLY UNCHANGED IN ITS MAIN FEATURES FROM THAT PREPARED UNDER MAUROY (PARIS TELNO 896). THE GOVERNMENT WILL PRESENT A GENERAL POLICY STATEMENT TO PARLIAMENT NEXT TUESDAY, AND SINCE MITTERRAND IS AT PRESENT COMMITTED TO THE STRATEGY OF RIGOUR THIS STATEMENT CAN BE EXPECTED TO REAFFIRM THE MAIN LINES OF EXISTING ECONOMIC POLICY.

3. ON THE OTHER HAND, THE WAY ECONOMIC DECISIONS ARE MADE MAY WELL CHANGE: THE GRIP OF THE ELYSEE TEAM WILL BE TIGHTENED, BUT FABIUS AND HIS STAFF AT THE MATIGNON MAY ALSO WANT TO PLAY A LARGER ROLE THAN UNDER MAUROY. IN CONSEQUENCE, BEREGOVOY'S INFLUENCE MAY WELL BE LESS THAN THAT OF DELORS, AT LEAST INITIALLY. THE SPLITTING OF THE MINISTRY OF INDUSTRY AND RESEARCH INTO TWO, AND THE APPOINTMENT OF THE LIGHTWEIGHT MME CRESSON AS MINISTER OF INDUSTRIAL REDEPLOYMENT SUGGESTS THAT FABIUS INTENDS TO CONTINUE TO INVOLVE HIMSELF CLOSELY IN POLICY FOR INDUSTRY.

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CONFIDENTIAL

/THE.

THE PREMIERSHIP IN MARCH 1983 ON ADVOCACY OF AN ALTERNATIVE ECONOMIC STRATEGY THAT INCLUDED FRANCE'S DEPARTURE FROM THE EMS, A FREE FLOAT OF THE FRANC, IMPORT CONTROLS AND THE UNLINKING OF DOMESTIC INTEREST RATES FROM INTERNATIONAL ONES. HE HAS ALSO ARGUED FOR AN INCREASE IN VAT, NOT LEAST AS AN ADDITIONAL MEASURE OF PROTECTION FOR FRENCH INDUSTRY. THIS PACKAGE MAY HAVE OWED MORE TO A DESIRE TO OFFER AN ALTERNATIVE TO DELORS' ORTHODOXY THAN TO PERSONAL CONVICTION, AND I WOULD NOT EXPECT HIM TO PRESS FOR ITS ADOPTION NOW. BUT HE COULD AGAIN BE TEMPTED BY MIRACLE SOLUTIONS WHEN NEW DEVELOPMENTS REQUIRE NEW DECISIONS.

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FRETWELL

(REPEATED AS REQUESTED)

FINANCIAL

WED

THIS TELEGRAM WAS NOT ADVANCED

GRS 680 CONFIDENTIAL

CONFIDENTIAL [FULL]
FM PARIS 201511Z JUL 84
TO PRIORITY FCO
TELEGRAM NUMBER 912 OF 20TH JULY
INFO EC POSTS, WASHINGTON, UKDEL IMF/IBRD WASHINGTON.

FRANCE: ECONOMIC POLICY UNDER THE NEW GOVERNMENT

SUMMARY.

1. NO EARLY CHANGE IN ECONOMIC POLICY LIKELY. BUT THE WAY DECISIONS ARE MADE WILL CHANGE WITH GREATER CENTRALISATION IN THE ELYSEE AND MATIGNON AND AT LEAST INITIALLY, A MORE LIMITED ROLE FOR THE MINISTER OF FINANCE. THE COLLECTIVE STRENGTH OF THE NEW ECONOMIC TEAM IS LESS THAN AWE-INSPIRING. IT FACES SUBSTANTIAL PROBLEMS.

DETAIL.

2. JOSPIN, FIRST SECRETARY OF THE SOCIALIST PARTY, HAS SAID THAT FABIUS INTENDS TO FOLLOW A POLICY WHICH DOES NOT DIFFER FROM MAUROY'S. THIS STATEMENT CAN BE TAKEN TO REFLECT THE INTENTIONS OF THE ELYSEE AND MATIGNON. THE NEW MINISTER OF FINANCE OUTLINED TO THE COUNCIL OF MINISTERS YESTERDAY A BUDGET EVIDENTLY UNCHANGED IN ITS MAIN FEATURES FROM THAT PREPARED UNDER MAUROY (PARIS TELNO 896). THE GOVERNMENT WILL PRESENT A GENERAL POLICY STATEMENT TO PARLIAMENT NEXT TUESDAY, AND SINCE MITTERRAND IS AT PRESENT COMMITTED TO THE STRATEGY OF RIGOUR THIS STATEMENT CAN BE EXPECTED TO REAFFIRM THE MAIN LINES OF EXISTING ECONOMIC POLICY.

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(REPEATED AS REQUESTED)

FRETWELL

THIS TELEGRAM WAS NOT ADVANCED

FINANCIAL

WED

CONFIDENTIAL
FM PARIS 191800Z JUL 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 907 OF 19 JULY
INFO PRIORITY EC POTSTS, WASHINGTON, MOSCOW, UKDEL NATO
INFO SAVING CONSULS GENERAL MARSEILLES, BORDEAUX, LILLE, LYONS

THE NEW FRENCH COUNCIL OF MINISTERS : MIPS

COMMENT

1. THIS IS A GOVERNMENT IN WHICH THE PRESIDENT'S MEN HAVE VIRTUALLY ALL THE IMPORTANT POSTS (PRIME MINISTER, FINANCE, INTERIOR AND DEFENCE). NEVERTHELESS MITTERRAND HAS KEPT PLACES FOR THE OTHER MAIN TENDENCIES IN THE SOCIALIST PARTY. THE RETURN OF CHEVENEMENT AND THE PROMOTION OF MME BOUCHARDEAU RESTORE THE DIMINISHED CERES AND LEFT-WING REPRESENTATION.

2. CHEYSSON MAY BE SURPRISED AND RELIEVED TO FIND HIS TENURE AT THE QUAI D'ORSAY EXTENDED. IT WAS WIDELY PREDICTED THAT DUMAS WOULD TAKE OVER THE FOREIGN AFFAIRS PORTFOLIO. BUT IT MAY BE THAT THE IMPRESSIVE JOB DUMAS DID AS MINISTER FOR EUROPE DURING THE FRENCH PRESIDENCY AND HIS EFFECTIVE PERFORMANCE AS GOVERNMENT SPOKESMAN (ALTHOUGH HE HAS HELD THE JOB LESS THAN A MONTH) LED MITTERRAND TO INSIST THAT HE SHOULD STAY PUT FOR THE TIME BEING.

3. ROCARD WILL ALMOST CERTAINLY BE DISAPPOINTED TO CONTINUE AT AGRICULTURE. HE HAD MADE NO SECRET OF HIS WISH TO MOVE AND WAS WIDELY RUMOURED TO HAVE SET HIS SIGHTS ON SUCCEEDING DELORS AS MINISTER OF FINANCE. MITTERRAND WOULD PROBABLY HAVE REJECTED ANY SUCH MOVE IN ORDER TO KEEP AN OLD RIVAL AWAY FROM SUCH A KEY POSITION. HOWEVER, THE APPOINTMENT OF BEREGOVOY TO TAKE DELORS' PLACE IS SOMETHING OF A SURPRISE. HE HAS HAD SOME SUCCESS IN BRINGING THE SOCIAL SECURITY ACCOUNT INTO ORDER, BUT DURING THE INTERNAL GOVERNMENT DEBATES ON ECONOMIC POLICY IN 1982 AND EARLY 1983 HE MADE LITTLE SECRET OF HIS OPPOSITION TO DELORS AND HIS CERTAINTY THAT THE POLICY OF RIGOUR WOULD FAIL. HE HAS PRESUMABLY REVISED HIS OPINIONS SINCE THEN.

4. FABIUS HAS SPLIT HIS FORMER RESPONSIBILITIES FOR INDUSTRY AND RESEARCH BETWEEN MME CRESSON AND CURIEN (A TECHNICIAN), ALTHOUGH MME CRESSON HAS BEEN MADE RESPONSIBLE FOR ''INDUSTRIAL REDEPLOYMENT'' RATHER THAN SIMPLY ''INDUSTRY''. IT IS TOO SOON TO KNOW WHAT DIFFERENCE, IF ANY, THE CHANGE OF TITLE IMPLIES. BUT AS FAR AS MME CRESSON IS CONCERNED, THE COMBINATION OF THE EXTERNAL TRADE AND INDUSTRY PORTFOLIES REPRESENTS A PROMOTION, DESPITE A SOMEWHAT UNEVEN RECORD DURING THE LAST ADMINISTRATION.

5

5. A SURPRISING SURVIVOR IS DEFFERRE. BUT HE LOSES HIS HOLD ON THE REINS OF POWER AS MINISTER OF THE INTERIOR AND DECENTRALISATION, AND ALTHOUGH GIVEN FORMAL PROMOTION TO THE RANK OF ''MINISTRE D'ETAT''. HE NOW HAS MUCH REDUCED RESPONSIBILITIES. HIS FORMER POST HAS BEEN ASSUMED BY PIERRE JOXE, THE LEADER OF THE SOCIALIST PARTY GROUP IN THE NATIONAL ASSEMBLY, ANOTHER INTIMATE OF MITTERRAND, WHO RETURNS TO THE GOVERNMENT HAVING BRIEFLY BEEN MINISTER OF INDUSTRY IN 1981.

6. THE APPOINTMENT OF CHEVENEMENT (LEADER OF THE LEFT WING CERES FACTION OF THE SOCIALIST PARTY, MINISTER FROM 1981 - 1983, AND CONSTANT CRITIC OF DELORS' AUSTERITY PROGRAMME) AS MINISTER OF EDUCATION IS ATTRIBUTABLE TO MITTERRAND'S NEED TO ENSURE THAT THE LEFT WING OF THE SOCIALIST PARTY IS ON BOARD, ESPECIALLY NOW THAT THE COMMUNIST PARTY HAS ALL BUT LEFT THE SHIP. BUT CHEVENEMENT HAS BEEN GIVEN A DIFFICULT PORTFOLIO. IT WILL FALL TO HIM TO HANDLE THE CONTROVERSIAL ISSUE OF EDUCATIONAL REFORM.

7. AS FAR AS THE UK IS CONCERNED, THE FACT THAT CHEYSSON, DUMAS, HERNU AND ROCARD REMAIN IN PLACE WILL REDUCE THE IMPACT OF THE CHANGES ON OUR BILATERAL RELATIONS.

8. I RECOMMEND THAT BRITISH MINISTERS SHOULD SEND BRIEF MESSAGES TO THEIR OPPOSITE NUMBER WHERE THESE ARE NEW IN THEIR FUNCTIONS OR WHERE A MINISTER HAS ASSUMED A MAJOR NEW RESPONSIBILITY (EG QUILES FOR TRANSPORT). I AM SURE IT WOULD ALSO BE APPRECIATED IF THE CHANCELLOR WERE TO SEND DELORS A FAREWELL MESSAGE.

FRETWELL

FCO/WHITEHALL (PALACE)
WED

GRS 500

UNCLASSIFIED
FM PARIS 191746Z JUL 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 906 OF 19TH JULY
INFO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE,
LUXEMBOURG, ROME, UKREP BRUSSELS, WASHINGTON, MOSCOW, UKDEL NATO,
INFO SAVING CONSULS GENERAL MARSEILLES, BORDEAUX, LILLE, LYONS.

THE NEW FRENCH GOVERNMENT.

1. THE COMPOSITION OF THE NEW FRENCH COUNCIL OF MINISTERS HAS NOW BEEN ANNOUNCED. THERE ARE SEVENTEEN MINISTERS ONE MORE THAN IN MAUROY'S GOVERNMENT.

2. THE FULL LIST IS AS FOLLOWS (WHERE APPROPRIATE, APPOINTMENTS HELD IN THE OUTGOING MAUROY ADMINISTRATION ARE INDICATED IN BRACKETS):-

PRIME MINISTER : LAURENT FABIUS
(PREVIOUSLY MINISTER OF INDUSTRY AND RESEARCH)

MINISTER OF STATE RESPONSIBLE : GASTON DEFFERRE
FOR PLANNING AND REGIONAL
DEVELOPMENT
(PREVIOUSLY MINISTER OF THE INTERIOR AND OF DECENTRALISATION)

MINISTER OF THE ECONOMY, FINANCE : PIERRE BEREGOVOY
AND THE BUDGET
(PREVIOUSLY MINISTER OF SOCIAL AFFAIRS AND NATIONAL SOLIDARITY)

MINISTER OF JUSTICE : ROBERT BADINTER
(NO CHANGE)

MINISTER OF EXTERNAL RELATIONS : CLAUDE CHEYSSON
(NO CHANGE)

MINISTER OF DEFENCE : CHARLES HERNU
(NO CHANGE)

MINISTER OF THE INTERIOR AND : PIERRE JOXE
OF DECENTRALISATION

MINISTER OF AGRICULTURE : MICHEL ROCARD
(NO CHANGE)

MINISTER OF INDUSTRIAL : MME. EDITH CRESSON
REDEPLOYMENT AND FOREIGN TRADE
(PREVIOUSLY MINISTER OF FOREIGN TRADE AND TOURISM)

MINISTER OF EDUCATION : JEAN-PIERRE CHEVENEMENT

MIN

MINISTER OF SOCIAL AFFAIRS AND : MME GEORGINA DUFOIX
NATIONAL SOLIDARITY
(PREVIOUSLY STATE SECRETARY FOR FAMILY MATTERS ETC).

MINISTER OF TOWN PLANNING, : PAUL QUILES
HOUSING AND TRANSPORT
(PREVIOUSLY MINISTER OF TOWN PLANNING AND HOUSING)

MINISTER OF COMMERCE, CRAFTS : MICHEL CREPEAU
AND TOURISM
(PREVIOUSLY MINISTER OF COMMERCE AND CRAFTS)

MINISTER OF EUROPEAN AFFAIRS AND : ROLAND DUMAS
GOVERNMENT SPOKESMAN
(NO CHANGE)

MINISTER OF WORK, EMPLOYMENT : MICHEL DELEBARRE
AND PROFESSIONAL TRAINING

MINISTER OF THE ENVIRONMENT : MME. HUGUETTE BOUCHARDEAU
(PREVIOUSLY STATE SECRETARY FOR ENVIRONMENT)

MINISTER OF RESEARCH AND : HUBERT CURIEN
TECHNOLOGY

3. THOSE DROPPED FROM THE LAST ADMINISTRATION ARE:

DELORS	MINISTER OF THE ECONOMY, FINANCE AND BUDGET
FITERMAN	MINISTER OF TRANSPORT (COMMUNIST)
SAVARY	MINISTER OF EDUCATION
RIGOUT	MINISTER OF PROFESSIONAL TRAINING (COMMUNIST)

4. JUNIOR APPOINTMENTS ARE TO BE ANNOUNCED LATER.

5. FOR COMMENT SEE MIFT.

FRETWELL

FCO/WHITEHALL (PALACE)
WED.

VC

10 DOWNING STREET

THE PRIME MINISTER

18 July 1984

Dear Monsieur Mauroy.

As you leave the Matignon I would like to express my appreciation of the close cooperation between our two governments that has marked your period of office. I send you my very best wishes for the future.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur Pierre Mauroy

10 DOWNING STREET

THE PRIME MINISTER

18 July 1984

My dear Prime Minister,

Please accept my warm congratulations on your appointment as Prime Minister. I wish you well in your new responsibilities and look forward to meeting and working with you in the future.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur Laurent Fabius

MJ

18 July 1984

New French Prime Minister

Thank you for your letter of 18 July enclosing a draft message of congratulations to M. Fabius and a message of farewell to M. Mauroy.

I enclose signed copies of the two messages. I should be grateful if you would arrange for their delivery.

CP

C.R. Budd, Esq.,
Foreign and Commonwealth Office.

CC PC

Foreign and Commonwealth Office

London SW1A 2AH

18 July, 1984

Dear Charles,

New French Prime Minister

As you know, President Mitterrand accepted the resignation of Pierre Mauroy and his Government yesterday evening and appointed Laurent Fabius as the new French Prime Minister. No other appointments have yet been announced.

We recommend that the Prime Minister should send a message of congratulations to M. Fabius. I attach a draft text.

The Prime Minister may also like to send a "farewell" message to M. Mauroy. I attach a draft.

We have suggested to the Department of Trade and Industry that Mr Tebbit might send a message of congratulations to his erstwhile French colleague.

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
10 Dowing Street

Subject:
Euro Pol, Appt. of President of EC Commission.

Ref. A084/2063

PRIME MINISTER

Cabinet: Community Affairs

You may like to tell Cabinet about your discussions with Dr FitzGerald, in his capacity as President of the European Council, and with the French Minister for European Affairs, Monsieur Dumas, particularly about the next President of the Commission. In the absence of a German candidate, most member states are supporting Monsieur Delors (until the recent reshuffle, the French Minister of Finance). The French Government are pressing for an early decision, in order to resolve uncertainties about Monsieur Delors's future. We do not dispute Monsieur Delors's personal qualities, although we should have preferred greater respect for rotation of this office between member states.

2. The Foreign and Commonwealth Secretary may refer to the appointment of Monsieur Fabius as Prime Minister of France and the consequences for Ministerial responsibilities there. He will also report on his discussion with Monsieur Dumas about the handling in Brussels of the Commission's proposals for a supplementary budget for 1984 and for the preliminary draft budget for 1985 which are in excess of the revenue available under the 1 per cent VAT ceiling. In discussion with Monsieur Dumas, the Foreign and Commonwealth Secretary has also received an assurance, in exchange for our agreement to Monsieur Delors as the next President of the Commission, of French support for a United Kingdom candidate for the post of Secretary General of the Commission, when this becomes available at some time between now and 1987.

3. The Minister of Agriculture, Fisheries and Food will report on the Agriculture Council on 16-17 July. This reached agreement on better control of production aid for olive oil. In response to pressure from the United Kingdom, the Commission promised a comprehensive report in September about the

arrangements in other member states for administering the milk supplementary levy; Mr Jopling urged the vital importance of avoiding discrimination between the producers in different Community countries. The United Kingdom also urged the Commission to produce early proposals for the introduction of a guarantee threshold for olive oil. The French made a statement on the budgetary implications of the 1984 farm price fixing, arguing that the package of economies then agreed was the most that was politically acceptable and that everybody had recognised that a supplementary budget would be needed later in the year. Mr Jopling recalled that the United Kingdom had made it clear at the time that agreement to the prices package did not signify the United Kingdom's acceptance of the need for additional budgetary provision for 1984 and had recorded this view formally in the minutes. The United Kingdom believed that the budget must be brought into balance in accordance with the Treaty.

4. The Budget Council on 18-19 July is discussing the draft supplementary budget for 1984 and the 1985 preliminary draft budget: this will be a difficult Council, since it is in the United Kingdom's interest to maximise savings and to push any irreducible minimum 1984 budget overrun into 1985 when we shall benefit from the new budget refund system. The interest of other member states in the contrary. It is unlikely that the results of this Council will be known before Cabinet. The last Foreign Affairs Council before the Community's August holiday is on 23-24 July.

R

Approved by
ROBERT ARMSTRONG
and signed in his absence.

18 July 1984

10 DOWNING STREET

From the Private Secretary

Prime Minister.

The French Government has resigned.

President Mitterand has appointed M. Fabius (Minister of Industry) as Prime Minister. Clever, young, rich, used to be on left of the party but has moved steadily right.

No news of other appointments yet.

No wonder the French are in a hurry to settle the Presidency of the Commission!

C.D.P. 17/7

SAVING TELEGRAM

BY BAG

RESTRICTED

FM FCO

SAVING TELEGRAM NO 2 TO PARIS OF 28 JUNE 1984

AND SAVING TO ALL OECD POSTS

OECD: EDRC MEETING ON THE FRENCH ECONOMY

1. The annual examination of the French economy in the Economic and Development Review Committee of OECD was held on 25 June 1984. The examining countries were the UK and Italy. The French team was led by Milleron and Samuel-Lajeunesse (Ministère de l'Economie, des Finances et du Budget) with Ullmo (Plan) and Raymond (Banque de France).

2. The OECD Secretariat report suggests that short-term prospects for 1984 and 1985 are for only modest recovery and stresses the need for longer-term improvements in trend competitiveness and industrial structure. The French were broadly content with its overall tone, which they clearly see as providing support for the continuation of strict policies.

Current Policy and Short-Term Outlook

3. Milleron described the broad thrust of French economic policy as being to improve the external balance by reducing inflation and slowing the growth of internal demand. Several other statements by Milleron during the course of the meeting illustrate how far French policy has apparently shifted since 1981/82:

- the rejection of 'simpliste' Keynesian formulae: the government can do less on transfers (balanced reduction in revenue and spending) without necessarily having a deflationary effect;

- the need for strict control of government spending and, in particular, a rigorous policy to contain growth in public sector employment and pay;
- the need to reduce the financial burden on enterprises in order to improve profits and hence investment;
- the need for industry to meet foreign competition; and
- the need for a greater role for market forces generally, with hints of possible further relaxation of industrial price controls and exchange controls and talks of a 'growing awareness' of the rigidities minimum wage legislation may cause.

At the same time Milleron was at pains to stress the 'original' features of the French approach, for example the use of wages policy and measures such as youth schemes and encouragement of reduced working hours aimed at reducing unemployment, though it was conceded that even the direct effect of these measures had been small.

4. The Secretariat's forecasts (see table below) were in fact little discussed. For 1984 there was general agreement that French targets for monetary growth, inflation and the trade balance were ambitious. Raymond responded that monetary growth, after over-shooting for technical reasons in late 1983, had grown very slowly in the first months of 1984 and was expected to average 6% for the year as a whole. Milleron conceded that inflation would probably only fall to 6-7% by the end of 1984, but adherence to the 5% target was essential for the operation of wages policy. On the trade balance the French

argued that despite the poor performance in the first quarter of 1984, the balance on manufacturing trade was still improving and preliminary balance of payments figures for the second quarter suggest a return to balance or at least only a small deficit.

	1983	1984	1985
Growth of Real GDP (%)	0.7	1.2	1.8
Trade Balance (FFr B)	-61	-42	-36
Consumer Prices (% change)	9.6	7.6	5.7

5. For 1985, there was even less discussion though the UK commented that the forecast looked a little pessimistic, given that falling inflation and improved competitiveness might be expected to give a boost to domestic and external demand.

Medium-Term Prospects

6. The argument in the Secretariat's paper is that despite recent improvements the French foreign trade position remains fragile because of:

(i) increasing import penetration, particularly in the capital goods sector;

(ii) a tendency for the main export industries to be those in which large industrial groups dominate and for which home demand is growing slowly; and

(iii) less favourable trends in the balance of trade in services.

These factors, coupled with the fact that much of the recent improvement may be attributable to past currency realignments and to France being cyclically out-of-phase with other economies,

/give rise

give rise to concern that the current account surplus necessary to meet debt repayments may not be achievable. The Secretariat's paper ascribes these structural problems in the balance of payments to weaknesses in the industrial system, in particular the need for modernisation of the obsolescent capital stock.

7. The French, while again questioning some of the figures and saying, with some justification, that they did not find some parts of the OECD analysis very convincing, did accept that there were grounds for concern. Indeed, the IXth Plan stresses the need for industrial modernisation and restructuring. Milleron also stressed the recent improvements in comapnies' financial positions, due to falling real wages and productivity gains, which, if continued, should encourage the investment needed to modernise the capital stock. The UK and other delegations asked whether investment and expansion could be further promoted by liberalisation measures such as de-control of industrial prices, dismantling of the 'encadrement' system of credit control and increased flexibility in the labour market. The French indicated willingness to go some but not all of the way along this path. Milleron emphasised the need for gradual change and for flexibility in policy.

8. On competitiveness and the external balance, Samuel-Lajeunesse indicated that the current exchange rate would provide sufficient competitiveness to meet their objective of a slight surplus on the current account over the next few years. Their calculations suggested that an improvement in the current account balance of only 0.5% of GNP would be sufficient to enable reductions in the

debt/GNP ratio in 1986/87 and actual reductions in debt by 1988. In reply to a question from the US, Samuel-Lajeunesse said that he did not foresee any special problems for the franc within EMS from a fall in the dollar, particularly if it was gradual. The dollar fall in early 1984 had not led to difficulties.

9. Summing up, the Chairman concluded that there was general agreement that the thrust of the report was right and that the objectives of French policy - both short and medium-term - were ambitious. The main problem for the French economy was the external constraint and this was related to fundamental problems of wage trends, budget discipline, rigidities arising from regulation, and obsolescence of the capital stock. To correct these at a time of international uncertainty would require sacrifices - particularly regarding employment - but there was no alternative to the continuation of present austere policies. The French were keen for this to be stressed more in the report and this would be pursued in the bilateral meeting, along with other queries over statistical detail.

HOWE
MONETARY
ECONOMIC ADVISERS

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MR BOTTRILL TSY
MR CLARKE, WED

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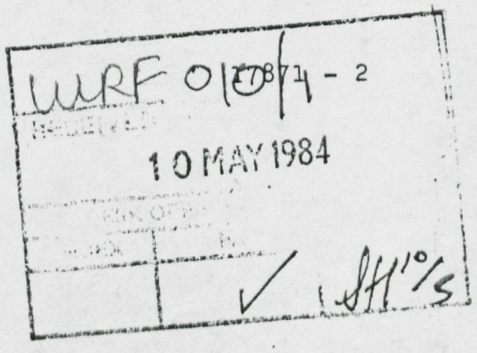

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FM FCO 091100Z MAY 84
TO IMMEDIATE PARIS
TELEGRAM NUMBER 339 OF 9 MAY
YOUR TEL NO. 540

(1) 1. PLEASE PASS FOLLOWING MESSAGE TO M. PIERRE MAUROY FROM PRIME MINISTER. BEGINS I WAS VERY SORRY TO HEAR OF YOUR ILLNESS AND SEND YOU MY VERY BEST WISHES FOR A SPEEDY RECOVERY. ENDS.

HOWE

NNNN

DISTRIBUTION
LIMITED
WED
PS
MR JENKINS

1) cc Protocol D.
News D.
PS/Lady Young
PS/M. Whitney
PS/PUS
Sir J Bullard. SH 10/5

2) pa. 10/5.

10 DOWNING STREET

From the Private Secretary

9 May, 1984.

Illness of the French Prime Minister

The Prime Minister agrees that the message enclosed with your letter of 8 May should be despatched.

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

010

Foreign and Commonwealth Office

London SW1A 2AH

8 May, 1984

Prime Minister (1)

Agree attached message?

Dear John. 8/5

French Prime Minister's Illness

Paris telegram number 540 reports that the French Prime Minister, M. Mauroy has been admitted to hospital suffering from an acute pulmonary infection. The Prime Minister may wish, as Sir John Fretwell recommends, to send M. Mauroy a get well message.

I attach a draft message.

Yours ever

(R B Bone)
Private Secretary

A J Coles Esq
No 10

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: M. Pierre Mauroy

Your Reference

Top Secret
Secret
Confidential
Restricted
Unclassified

Copies to:

PRIVACY MARKING

SUBJECT: DRAFT MESSAGE

.....In Confidence

I was very sorry to hear of your illness and send you my very best wishes for a speedy recovery.

CAVEAT.....

Enclosures—flag(s).....

pa

9/5

RESTRICTED

GRS 50

RESTRICTED
FM PARIS 041445Z MAY 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 540 OF 4 MAY

PRIME MINISTER MAUROY

1. IT WAS ANNOUNCED THIS MORNING THAT MAUROY HAD TODAY BEEN ADMITTED TO A PARIS MILITARY HOSPITAL SUFFERING FROM AN ACUTE PULMONARY INFECTION. A HOSPITAL COMMUNIQUE SAID THAT MAUROY WAS BEING EXAMINED AND THAT TREATMENT HAD BEEN STARTED.

2. I RECOMMEND THAT THE PRIME MINISTER SHOULD SEND A GET WELL MESSAGE TO MAUROY.

FRETWELL
LIMITED
WED
PROTOCOL
NEWS DEPT
PS
PS/LADY YOUNG
PS/MR WHITNEY
PS/PUS
SIR J BULLARD
MR JENKINS

RESTRICTED

GRS 1000

CONFIDENTIAL

CONFIDENTIAL
FRAME ECONOMIC
FM PARIS 051215Z JAN 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 007 OF 5 JANUARY
INFO UKREP BRUSSELS
INFO SAVING OTHER EC POSTS

YOUR TELNO 684 OF 21 DECEMBER: APPOINTMENT OF M ROLAND DUMAS

1. YOUR MESSAGE TO DUMAS WAS DELIVERED ON 21 DECEMBER. HE REPLIED ON 29 DECEMBER EXPRESSING APPRECIATION AND LOOKING FORWARD TO COOPERATING WITH YOU IN OVERCOMING CURRENT DIFFICULTIES AND PARTICIPATING IN THE CONSTRUCTION OF A STRONGER AND MORE UNITED EUROPEAN COMMUNITY. TEXT BY BAG TO BONE.

2. I CALLED ON DUMAS YESTERDAY EVENING AND, AS AUTHORISED IN WALL'S LETTER OF 30 DECEMBER TO GARSIDE, CONFIRMED THE INVITATION TO HIM TO MAKE AN EARLY VISIT FOR TALKS WITH YOU AND MR RIFKIND. DUMAS ACCEPTED WITH ALACRITY. HE SAID HE WAS STILL FEELING HIS WAY AND WOULD LIKE VERY INFORMAL TALKS, NOT A MEETING ROUND THE TABLE. HE WOULD ALSO VERY MUCH HOPE TO MEET THE PRIME MINISTER IN THE COURSE OF HIS VISIT FOR A SIMILARLY INFORMAL EXCHANGE. I SAID I WAS SURE YOU WOULD WANT TO TALK TO HIM ON PRECISELY THIS BASIS AND THAT I WOULD ENQUIRE ABOUT A POSSIBLE MEETING WITH THE PRIME MINISTER. I ASKED WHETHER PRESIDENT MITTERRAND HIMSELF HAD IT IN MIND TO TALK TO THE PRIME MINISTER AT AN EARLY STAGE DURING THE FRENCH PRESIDENCY. DUMAS SAID HE DID NOT KNOW BUT WOULD HAPPILY PUT THIS THOUGHT TO MITTERRAND IF WE WISHED. I SUGGESTED THAT THIS POINT MIGHT BE COVERED DURING HIS VISIT TO LONDON.

3. I SHOULD BE GRATEFUL FOR DATES TO PUT TO DUMAS AND FOR GUIDANCE ON THE POSSIBILITY OF THE PRIME MINISTER'S SEEING HIM.

DETAIL AND COMMENT

4. DUMAS EMPHASISED HIS OWN CLOSE LINKS WITH BRITAIN AS A FORMER STUDENT OF THE LONDON SCHOOL OF ECONOMICS AND A FREQUENT VISITOR EVER SINCE. HE HOPED HE WOULD BE ABLE TO FIND TIME TO POP OVER TO LONDON REGULARLY EVEN AS A MINISTER. HE IS RELAXED, SILVER-TONGUED, APPARENTLY OPEN-MINDED AND WILL CERTAINLY BE VERY MUCH EASIER TO DEAL WITH THAN HIS PREDECESSOR. HIS ROLE IS NOT YET ENTIRELY CLEAR, PARTICULARLY IN RELATION TO CHEYSSON. I THINK HE SEES HIMSELF ESSENTIALLY AS THE PRESIDENT'S PERSONAL REPRESENTATIVE, LOOKING FOR WAYS THROUGH AND ROUND DIFFICULTIES, RATHER THAN AS THE HEAD OF A MAJOR PIECE OF THE FRENCH BUREAUCRACY. HE APPEARS TO BE LOOKING FOR QUICK RESULTS THROUGH HIS PERSONAL CONTACTS WITH OTHER GOVERNMENTS AND MAY UNDER-ESTIMATE THE DIFFICULTIES.

5. HE ACKNOWLEDGED THAT OVER THE YEARS HE HAD ABSORBED SOME TYPICAL FRENCH PREJUDICES ABOUT BRITAIN AND THE COMMUNITY: THAT WE HAVE ALWAYS SOUGHT TO DILUTE THE COMMUNITY INTO A FREE-TRADE AREA AND UNDO THE CAP AND THAT WE ARE ONLY REALLY INTERESTED IN "GETTING OUR MONEY BACK". HE DID NOT HOWEVER CONTEST MY EXPLANATION OF OUR POLICIES ON THESE AND A RANGE OF OTHER MATTERS. I WOULD NOT EXPECT HIM TO BE FULLY CONVINCED, THOUGH HE GAVE THE IMPRESSION THAT HIS ONLY OBJECT WAS TO LEARN THE FACTS AND TO FIND WAYS OF WORKING CONSTRUCTIVELY TOGETHER. I EXPLAINED TO HIM IN PARTICULAR WHY WE REQUIRE A DURABLE BUDGET SETTLEMENT AT AN ADEQUATE LEVEL AND ASKED WHAT WAS THE REAL DIFFICULTY WHICH PRESIDENT MITTERRAND SAW IN ACCEPTING THIS. HE SAID HE THOUGHT THAT MITTERRAND'S DIFFICULTIES REFLECTED IN PART FRENCH ATTACHMENT TO JURIDICAL PRINCIPLES AND IN PART THE ROLE HE HAD PLAYED IN CREATING THE COMMUNITY DURING DISCUSSIONS IN THE MID-50S: HE FELT INSTINCTIVELY THAT ANY SORT OF JUSTE RETOUR WAS UNDOING THE COMMITMENTS UNDERLYING THE ROME TREATY. (INCIDENTALLY DUMAS GOES THE WHOLE HOG IN APPLYING THE TERM JUSTE RETOUR TO ANY REFUND, HOWEVER SMALL).

France has had a juste retour fixation

6. I ARGUED THAT WE WERE NOT SEEKING TO REVISE THE COMMITMENTS IN THE ROME TREATY, BUT TO BRING UP-TO-DATE THE FINANCIAL ARRANGEMENTS CREATED IN 1969. SOME WANTED TO MODIFY THEM BY BREACHING THE 1 PERCENT VAT CEILING AND THIS WAS THE RIGHT TIME TO REMEDY THEIR DEFECTS. IT WAS A SPECIFIC AND MANAGEABLE PROBLEM WHICH SHOULD NOT BE CONFUSED BY PROPAGANDA ABOUT UNDOING THE ROME TREATY, THE CAP OR THE CUSTOMS UNION ETC. IT IS DIFFICULT TO BE SURE BUT I THINK DUMAS WAS ATTRACTED BY THE IDEA OF NARROWING THE PROBLEM AND PLAYING DOWN THE IDEA OF GREAT PRINCIPLES BEING AT STAKE THOUGH HE ALMOST CERTAINLY AT THIS STAGE HAS LITTLE OR NO IDEA OF WHAT MITTERRAND MIGHT ULTIMATELY BE PREPARED TO ACCEPT.

7. I ASKED DUMAS WHAT IMPORTANCE HE GAVE TO THE EUROPEAN ELECTIONS AS A FACTOR IN THE TIMING OF THE NEGOTIATIONS. SURPRISINGLY, HE DID NOT SEEN TO HAVE FOCUSSED ON THIS QUESTION. I SAID THAT SOME MIGHT FIND IT DIFFICULT TO MAKE CONCESSIONS AS JUNE APPROACHED. HE REPLIED THAT THE SUCCESS OR FAILURE OF THE FRENCH PRESIDENCY IN CUTTING THROUGH THE TANGLE WOULD BE APPARENT BY THE MARCH EUROPEAN COUNCIL. HE APPARENTLY HOPES TO SORT A WAY THROUGH THE DIFFICULTIES BY THEN EVEN IF THE DETAILS ARE LEFT UNTIL LATER.

/8. HIS ROLE

8. HIS ROLE IN RELATION TO POLITICAL COOPERATION IS NOT YET CLEAR, BUT HE SPOKE WITH ENTHUSIASM ABOUT THE GROWING BILATERAL UNDERSTANDING WITH THE UK AND OF SUCCESS ALREADY ACHIEVED IN RELATION TO DEFENCE MATTERS, THE MIDDLE EAST, THE FALKLANDS AND EVEN GRENADA AND VOICED HIS HOPE THAT THIS COULD BE DEVELOPED AND EXPANDED IN THE EUROPEAN FRAMEWORK. HE IS ALSO HOPEFUL FOR NEW COMMUNITY POLICIES IN INDUSTRY AND RESEARCH, WHERE I TOLD HIM WE HAD PLENTY OF POSITIVE IDEAS. HE IS AN ENTUSIAST FOR "VARIABLE GEOMETRY", WHILE AGREEING WITH MY COMMENT THAT THIS IS ESSENTIALLY A MATTER OF GETTING ON WITH PRACTICAL PROJECTS, SUCH AS INDUSTRIAL COOPERATION, BETWEEN INTERESTED MEMBERS OF THE COMMUNITY.

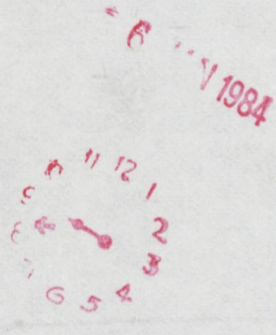
9. ON THE BASIS OF THIS CONVERSATION AND OF CONTACTS WITH ELYSEE STAFF MY IMPRESSION IS THAT MITTERRAND IS LOOKING TO DUMAS TO PULL RABBITS OUT OF THE HAT AND THAT DUMAS WILL AT LEAST PROVE TO BE AN EFFECTIVE CHANNEL OF COMMUNICATIONS TO THE PRESIDENT.

FCO PASS SAVING ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME

FRETWELL

[REPEATED AS REQUESTED]

FRAME ECONOMIC
ECD(I)



GRS 495 CONFIDENTIAL

CONFIDENTIAL
FM PARIS 191810Z DEC 83
TO PRIORITY FCO
TELEGRAM NUMBER 1186 OF 19TH DECEMBER
INFO PRIORITY UKREP BRUSSELS, ROUTINE OTHER EC POSTS, MADRID, LISBON.

NEW FRENCH MINISTER FOR EUROPEAN AFFAIRS

SUMMARY.

1. MITTERRAND HAS APPOINTED ONE OF HIS CLOSE PERSONAL CONFIDANTS AS MINISTER FOR EUROPEAN AFFAIRS IN SUCCESSION TO CHANDERNAGOR.

DETAIL

2. THE ELYSEE ANNOUNCED ON 18 DECEMBER THE APPOINTMENT OF ROLAND DUMAS, THE 61 YEAR OLD SOCIALIST DEPUTY FOR PERIGUEUX IN THE DORDOGNE, AS MINISTER FOR EUROPEAN AFFAIRS. UNLIKE CHANDERNAGOR, DUMAS WILL HAVE FULL MINISTERIAL STATUS AND WILL THEREFORE SIT AS OF RIGHT IN THE WEEKLY COUNCIL OF MINISTERS. HE WILL PRESUMABLY TAKE CHARGE OF THE SGCI BUT THE DIVISION OF RESPONSIBILITY FOR EUROPEAN AFFAIRS BETWEEN DUMAS AND CHEYSSON IS NOT YET CLEAR NOR IS IT EVIDENT HOW THE EUROPEAN ECONOMIC SIDE OF THE QUAI WILL RELATE TO DUMAS.

3. DUMAS IS ONE OF MITTERRAND'S CLOSEST AND LONGEST STANDING POLITICAL ALLIES. SINCE THE DAYS OF THE FOURTH REPUBLIC HE HAS STOOD BY MITTERRAND IN ALL THE UPS AND DOWNS OF THE LATTER'S POLITICAL CAREER. A LAWYER BY TRAINING, HE HAS COMBINED POLITICS AND POLITICAL JOURNALISM WITH A SUCCESSFUL CAREER AT THE PARIS BAR. HE HAS ACTED AS COUNSEL IN MANY OF THE POLITICALLY CONTROVERSIAL TRIALS UNDER THE FIFTH REPUBLIC EG THE BEN BARKA AND DE BROGLIE AFFAIRS.

4. HIS APPOINTMENT CLEARLY OWES MORE TO HIS LOYALTY TO MITTERRAND THAN TO HIS STANDING IN THE SOCIALIST PARTY WHERE HIS CLOSENESS TO THE PRESIDENT HAS OFTEN AROUSED JEALOUSY AMONG THOSE EXCLUDED FROM MITTERRAND'S INNER CIRCEL. DUMAS HIMSELF, ALTHOUGH ELECTED ON A SOCIALIST TICKET IN 1981, HAS STEERED CLEAR OF PARTISAN POLITICS - HIS FIRST ALLEGIANCE IS TO MITTERRAND RATHER THAN TO THE PARTY. IN RECOGNISTION OF THIS LOYALTY MITTERRAND HAS OFTEN USED HIM AS AN EMISSARY ON DELICATE POLITICAL MISSIONS. IN RECENT MONTHS HE HAS VISITED QADHAFI AND BONGO ON MITTERRAND'S BEHALF.

5. ALTHOUGH DUMAS HAS TAKEN A CLOSE INTEREST IN AFRICA AND THE MIDDLE EAST, HE HAS NO KNOWN EXPERIENCE OF COMMUNITY AFFAIRS. HE WAS NOT A MEMBER OF THE FOREIGN AFFAIRS COMMISSION OF THE NATIONAL ASSEMBLY. HE WAS A GRADUATE STUDENT AT THE LSE BUT HAS SHOWN NO SIGNS OF BEING AN ANGLOPHILE. HIS FATHER WAS SHOT BY THE GERMANS.

6. HE HAS NO PREVIOUS MINISTERIAL OR ADMINISTRATIVE EXPERIENCE, BUT HIS CLOSENESS TO MITTERRAND WILL GIVE HIM MORE AUTHORITY IN RELATION TO OTHER MINISTERS THAN CHANDERNAGOR ENJOYED.

FRETWELL

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DEPARTMENT OF TRADE AND INDUSTRY

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Switchboard 01-212 7676

2

NBPM

6401

4/8

OFFICE OF
KENNETH BAKER MP

Tim Flesher Esq
10 Downing Street
London SW1

29 July 1983

2/8

Dear Tim,

FRENCH CABLE POLICY

Mr Baker thought that the Prime Minister might be interested to see the attached article from last week's New Scientist, which shows the French technological dream turning into rather a nightmare as a result of the French insisting on their usual dirigiste approach to the economy.

The profits of the posts and telecommunications services are being used to prop up the ailing nationalised computer company CII-Honeywell Bull; the cabling of France - by the public sector - is being slowed down by the over-elaborate technical specifications and the lack of French programme material is seriously diminishing their enthusiasm for further TV channels.

Without wishing to be complacent, Mr Baker feels that Britain's prospects on all these fronts do look rather brighter.

Yours sincerely

N M McMILLAN
Private Secretary

MA5/MA5ABL

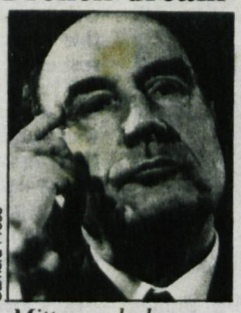
V5887

Price of optical fibres spoils French dream

FRANCOIS Mitterrand's dream that France would become a leader in the world's communications industry by 1988 has suffered a succession of shattering blows. A plan to link more than four million French homes to advanced optical-fibre cables by that date is proving far more expensive than expected. Suppliers of optical-fibre and associated equipment have quoted prices that are three times those which the telecommunications and broadcasting agency (PTT) expected when it first did its sums last year. This could put the bill for cable up by £1 billion in the initial phase of development to 1985.

The PTT says that costs are not yet finalised—and it won't choose its suppliers until October. But it admits that the higher price will cause problems at a time when France's public spending is being slashed by a government intent upon proving that it can manage the national economy.

The tangle over optical fibres follows a government decision to squeeze the profitable PTT's finances. The PTT, which is now part of the industry and research ministry, must now finance both the cabling programme and France's telecom export drive, as well as bail out Bull, France's ailing computer firm, and subsidise the development of the rest of the electronics industry at a cost of £300 million next year. On top of this, there are rows over the programming of a fourth TV channel, which is due to open next year, and the chronic lack of French-produced material to fill satellite and cable TV services. And there are serious doubts over the development of TV satellites.



Camera Press

Mitterrand: dreamer

Producers say the bombshell over the cost of fibres was predictable. It is due not so much to the fibres themselves as to associated equipment such as connectors and local switching centres.

But the PTT still insists that its fibre-optic system for cabling France may be better than more traditional coaxial cable. "If you take everything into account, the cost difference is not that great," says Charles Rozmaryn, deputy head of the French telecom administration's industrial and international affairs division. Rozmaryn will not quote precise figures but he believes that the cost per subscriber of an optical-fibre network will not be as high as the £1350 being asked by some suppliers. "You also have to consider that with fibre optics, you are talking about a system that will do much more than a coaxial TV programme distribution network," he says. □

New Scientist 21/7/83

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Camera Press

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New Scientist 21/7/83

PS TO PRIME MINISTER.

10. DOWNING STREET.

GRS 110

UNCLASSIFIED
DESKBY 251130Z
FM PARIS 250930Z JUL 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 661 OF 25 JULY
INFO ANKARA, BRUSSELS, ATHENS,
INFO SAVING TEHRAN, UKDEL NATO.

YOUR TELNO 108, AND TELECON MACRAE/RESIDENT CLERK: ARMENIAN TERRORISM.

1. AT 0925 HRS LOCAL, AN ANONYMOUS TELEPHONE CALL WAS RECEIVED BY ONE OF OUR TELEPHONISTS. SPEAKING IN BROKEN ENGLISH, THE CALLER SAID: ''I HAVE 3 BRITISH TOURISTS AND WILL KILL THEM. SIGNED ASALA.'' HE REPEATED THIS A SECOND TIME: THEN, DESPITE EFFORTS BY THE TELEPHONIST TO ENGAGE HIM IN CONVERSATION, HE RANG OFF.

2. WE NOTIFIED THE FRENCH AUTHORITIES AT ONCE.

3. IT WOULD BE USEFUL TO HAVE MORE DETAILS OF THE CALENDAR FOR THE RETRIAL OF BEDROS ON THE FIRST COUNT (WHICH HAS NOT BEEN REPORTED IN THE FRENCH PRESS).

FCO PLEASE PASS SAVING ADDRESSEES.

FRETWELL

[REPEATED AS REQUESTED]

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MVD	PS
PUSD	PS/MR WHITNEY
NEWS D	PS/PUS
PCD	MR EVANS
CONS D	MR ADAMS
CONS EM UNIT	MR EGERTON
COD	MR JAMES

ADDITIONAL DISTRIBUTION
INTERNATIONAL TERRORISM:
HI-JACKING

GPS 220 CONFIDENTIAL

CONFIDENTIAL

FM PARIS 221629Z JUL 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 653 OF 22 JULY

INFO WASHINGTON, MOSCOW, ANKARA.

MY TELNO 651 (NOT TO ALL): YOUR VISIT TO PARIS, 22 JULY: TERRORISM.

1. CHEYSSON EXPRESSED FEARS ABOUT A NEW SURGE OF TERRORISM OVER THE NEXT FEW MONTHS. HE WAS WORRIED NOT ONLY BECAUSE OF THE ARMENIANS, BUT ALSO THE SPLITS WITHIN THE PLO. THESE SEEMED LIKELY TO RESULT IN MORE EXTREMISM AND POSSIBLY THE RETURN TO THE WORST DAYS OF PALESTINIAN TERRORISM. IN ADDITION CHEYSSON WAS CONVINCED THAT THE RUSSIANS WERE SYSTEMATICALLY SUPPORTING TERRORIST ACTIONS WHICH WHETHER THEY WERE BY LEFT OR RIGHT-WING EXTREMISTS SUITED SOVIET INTERESTS BY DESTABILISING WESTERN SOCIETIES. THE LOGISTICS OF NEARLY ALL RECENT TERRORIST ATTACKS HAD BEEN REMARKEDLY SIMILAR, AS THOUGH THERE WAS A KIND OF INTERNATIONAL TERRORIST LOGISTICS SYSTEM. THE DANGERS OF TERRORIST ACTIVITY WERE LIKELY TO INCREASE TOWARDS THE END OF THIS YEAR AS THE DEADLINE FOR IMPLEMENTATION OF THE NATO DOUBLE DECISION APPROACHED.

2. YOU AGREED THAT THE CLOSEST POSSIBLE CO-OPERATION BETWEEN OUR TWO COUNTRIES WAS DESIRABLE.

3. WITHOUT EXPLAINING EXACTLY WHAT HE MEANT CHEYSSON SAID THAT COOPERATION IN THIS AREA HAD NOT BEEN ALL IT MIGHT. IT WAS AGREED THAT ANOTHER MEETING OF HOME SECRETARIES MIGHT BE USEFUL AND SHOULD BE CONSIDERED.

FRETWELL

LIMITED
MAED
WED
EESD
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NEWS D
PUSD
PS
PS/MR WHITNEY
PS/PUS
SIR J BULLARD
MR WRIGHT
MR EVANS
MR JAMES
MR EGERTON
CABINET OFFICE

ADDITIONAL DISTRIBUTION

INTERNATIONAL TERRORISM/ HIJACKING

CONFIDENTIAL

GRS 400
UNCLASSIFIED
FM BONN 191400Z MAY 83
TO PRIORITY FCO
TELEGRAM NUMBER 516 OF 19 MAY
INFO PRIORITY PARIS
INFO ROUTINE UKREP BRUSSELS UKDEL NATO WASHINGTON MODUK (DS 12,IP2)
INFO SAVING ATHENS EMBASSY BRUSSELS COPENHAGEN DUBLIN ROME
THE HAGUE LUXEMBOURG

PARIS TELNO 408: FRANCO/GERMAN SUMMIT:

FRG MEDIA TREATMENT

1. GERMAN PRESS COVERAGE OF THE SUMMIT HAS BEEN RELATIVELY LOW-KEY. IT HIGHLIGHTS THE FRG'S WILLINGNESS TO TAKE ACCOUNT OF FRENCH INTERESTS IN THE COMMUNITY BUDGET QUESTION: KOHL'S READINESS TO TAKE QUOTE NECESSARY STEPS UNQUOTE ON GERMAN TECHNICAL NORMS (ALBEIT WITHOUT ANY CONCRETE PLEDGES): THE ABSENCE OF AGREEMENT ON A NEW MONETARY CONFERENCE OR A JOINT APPROACH TO WILLIAMSBURG: THE IDENTITY OF VIEWS ON THE DOUBLE DECISION: AND THE PROGRESS MADE TO WARDS AGREEMENT ON A JOINT HELICOPTER PROJECT, SUBJECT TO SUCCESSFUL PREPARATION IN THE BUNDESTAG DEFENCE COMMITTEE.

2. COMMENT DWELLS ON THE NUMBER OF FRENCH ECONOMIC DEMANDS WHICH THE GERMANS CANNOT OR SHOULD NOT MEET AND SOME RESENTMENT IS EXPRESSED (E G IN WELT, GENERAL ANZEIGER,FAZ) AT THE TONE IN WHICH THEY HAVE BEEN PUT AND AT THE WAY IN WHICH THE FRENCH BLAME OTHERS FOR THEIR OWN ECONOMIC MISTAKES. THE FEELING IS GENERAL THAT THE FRG SHOULD NOT STIMULATE ITS ECONOMY JUST FOR FRANCE'S SAKE, AND GERMAN NORMS ARE SEEN AS A SIDE ISSUE AT BEST. FAZ OPPOSES ANY GERMAN SUPPORT FOR FRENCH IDEAS ON INTERNATIONAL CURRENCY STABILISATION.

3. NEVERTHELESS THERE IS NO CRITICISM, AND INDEED SOME COMMENDATION OF KOHL FOR DOING WHAT HE CAN TO HELP THE FRENCH (GERMAN REVALUATION, GREEN CURRENCY ARRANGEMENT, AGREEMENT TO THE EC QUOTE OIL FACILITY UNQUOTE LOAN ARE ALL CITED IN THIS CONTEXT), SINCE THE FRG MUST BE CONCERNED TO ENSURE THAT FRANCE KEEPS TO A EUROPEAN COURSE AND THE SPECIAL FRANCO/GERMAN RELATIONSHIP HAS A VALUE WORTH PRESERVING IN ITSELF. THE IMPORTANCE OF MITTERRAND'S BACKING FOR KOHL ON INF, AT A TIME WHEN THE GERMAN SOCIAL DEMOCRATS ARE BECOMING INCREASINGLY HETERODOX ON THE ISSUE, IS ALSO STRESSED AND FAZ SUGGESTS THIS COULD BE ONE FACTOR INFLUENCING KOHL'S ATTEMPTS AT REASONABLENESS ON ECONOMIC MATTERS.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES

TAYLOR

[REPEATED AS REQUESTED]

STANDARD
WED
ECDs
MR THOMAS
CABINET OFFICE

THIS TELEGRAM WAS NOT ADVANCED

COPIES SENT TO No. 10 DOWNING STREET

RR UKREP BRUSSELS

RR UKDEL NATO

RR WASHINGTON

RR MODUK

GRS 150

IMMEDIATE

ADVANCE COPY

WED France

PS

PS/Mr Hurd

PS/PUS

Sir J Bullard

Mr James

Rc

[Standard]

UNCLASSIFIED
FM PARIS 181720Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 423 OF 18 MAY
INFO IMMEDIATE BONN
INFO ROUTINE UKREP BRUSSELS, UKDEL NATO, WASHINGTON, MODUK
INFO SAVING OTHER EC POSTS

MIPT: FRANCO/GERMAN SUMMIT
PRESS REACTION

1. TODAY'S PRESS COMMENT ON THE OUTCOME OF THE SUMMIT WAS UNIVERSALLY GLOOMY. THE CONSENSUS WAS THAT DESPITE KOHL'S POLITENESS AND AMIABILITY DIVERGENCES OVER ECONOMIC POLICY REMAIN AS WIDE AS EVER. ALL COMMENTATORS CONCLUDED THAT HE WAS NOT PREPARED TO GIVE EXTRA STIMULUS TO THE GERMAN ECONOMY IN ORDER TO HELP FRANCE OVER ITS DIFFICULTIES. THERE WAS LITTLE DISPOSITION TO BLAME HIM. THE EXCEPTION WAS L'HUMANITE (COMMUNIST) WHICH ATTACKED THE GERMAN RIGHT FOR WEEKING TO EXTEND ITS DOMINATION IN EUROPE.

2. ELSEWHERE THE BRUNT OF CRITICISM WAS DIRECTED AGAINST THE FRENCH GOVERNMENT. LE FIGARO (RIGHT WING) ACCUSED THE GOVERNMENT OF INDULGING IN ITS HABITUAL SEARCH FOR SCAPEGOATS IN THIS INSTANCE THE GERMANS AND THE AMERICANS. LIBERATION (INDEPENDENT LEFT-WING) NOTED TARTLY THAT FRENCH MINISTERS, HAVING PUBLICLY ATTACKED GERMAN POLICIES, WERE NOW TURNING TO THE GERMAN GOVERNMENT FOR HELP. HOW COULD THEY SHOW SUCH NAIVETY AS TO ASK THE GERMANS TO COMMIT THE SAME MISTAKE AS THEY THEMSELVES DID IN 1981? LE MONDE (INDEPENDENT) CONCLUDED THAT MITTERRAND WOULD BE ISOLATED AT WILLIAMSBURG. THIS MIGHT NOT BE ENTIRELY DISPLEASING HIM. BUT THE RULES OF THE GAME WERE THAT A SUMMIT PARTICIPANT COULD CARRY WEIGHT ONLY IF HIS OWN DOMESTIC ECONOMY WAS IN GOOD SHAPE.

FCO PSE PASS SAVING ADDRESSEES

OO FCO

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GRS 800

CONFIDENTIAL

FM PARIS 181710Z MAY 83

No 10 ~~DS~~

Sir J Bullard

TO IMMEDIATE FCO

Mr Jenkins

TELEGRAM NUMBER 422 OF 18 MAY

INFO IMMEDIATE BONN

INFO ROUTINE UKREP BRUSSELS, UKDEL NATO, WASHINGTON, MODUK

INFO SAVING OTHER EC POSTS

RC

MY TELNO 408: FRANCO-GERMAN SUMMIT, 16 - 17 MAY 1983

SUMMARY

1. OUR CONVERSATIONS WITH FRENCH AND GERMAN OFFICIALS SUGGEST THAT BENEATH PUBLIC AMIABILITY THERE WAS NO RECONCILIATION OF DIVERGENCES ON ECONOMIC POLICY. TALK IN PRIVATE WAS BLUNT, ESPECIALLY ON THE GERMAN SIDE. THERE ARE SIGNS OF MOUNTING GERMAN IMPATIENCE AT THE PROPENSITY OF THE FRENCH TO BLAME OTHER FOR THEIR ECONOMIC PROBLEMS.

DETAIL

GENERAL ATMOSPHERE

2. ACCORDING TO THE FRENCH THE ATMOSPHERE WAS ''NOT GAY''. ALL PARTICIPANTS SEEMED TIRED. PROCEEDINGS WERE MORE FORMAL AND LESS LIVELY THAN IN SCHMIDT'S DAY. THE GERMAN AMBASSADOR CLAIMED TO ME THAT KOHL AND MITTERRAND GOT ON WELL: BOTH WERE GENRALISTS AND DISLIKED DETAIL. THE TOUGH EXCHANGES TOOK PLACE LARGELY BETWEEN THE RELEVANT MINISTERS. IT IS CLEAR, HOWEVER, THAT BOTH KOHL AND HIS MINISTERS SPOKE BLUNTLY (SEE BELOW).

OVER.

~~INTERNATION ECONOMIC QUESTIONS AND PROSPECTS FOR WILLIAMSBURG~~

~~3. ACCORDING TO THE GERMAN EMBASSY KOHL TOLD MITTERRAND BOTH IN PRIVATE AND IN PLENARY SESSION THAT HE HAD NOT COME TO PARIS TO DISCUSS THE ECONOMIC SITUATION AND POLICY OF A FRAEND AND ALLY~~

INTERNATION ECONOMIC QUESTIONS AND PROSPECTS FOR WILLIAMSBURG

3. ACCORDING TO THE GERMAN EMBASSY KOHL TOLD MITTERRAND BOTH IN PRIVATE AND IN PLENARY SESSION THAT HE HAD NOT COME TO PARIS TO DISCUSS THE ECONOMIC SITUATION AND POLICY OF A FRIEND AND ALLY (IE THE US). GERMANY ACKNOWLEDGED THE IMPACT ON EUROPE OF HIGH US INTEREST RATES, THE US BUDGET DEFICIT AND THE EXPENSIVE DOLLAR, BUT EUROPE HAD TO WORK OUT ITS OWN SALVATION GIVEN THESE CONSTRAINTS.

4. THE FRENCH RESTATED TO A SCEPTICAL GERMAN AUDIENCE THEIR INTENTION TO REDUCE INFLATION TO 8 PERCENT BY THE END OF 1983. THE GERMANS SAID THERE WERE SIGNS OF RECOVERY IN THE FRG BUT IT WAS SLOW AND UNCERTAIN. GREAT CAUTION WAS NEEDED, AND ANY LARGE-SCALE RELATION WAS ABSOLUTELY OUT OF THE QUESTION. THERE WAS TO BE NO LOCOMOTIVE ROLE. GERMAN OFFICIALS COMMENTED TO US THAT THEIR MINISTERS MADE CLEAR THAT FRENCH DREAMS OF HELP FROM OUTSIDE TO OVERCOME THEIR ECONOMIC DIFFICULTIES WERE UNREAL.GERMAN POLICY WAS STRICT IN ITS SEARCH FOR STABILITY AND WOULD NOT BE MODIFIED JUST TO BE NICE TO THE FRENCH.

5. THE GERMANS EXPLAINED PATIENTLY THAT THE TIME HAD NOT COME FOR A NEW BRETTON WOODS CONFERENCE. THERE REMAINED A DEEP DIVERGENCE OF OPINION ON INTERVENTION TO INFLUENCE EXCHANGE RATES. IN A DISCUSSION OF INTEREST RATES THE GERMANS NOTED THAT THEY FAVOURED LOWER RATES, BUT THAT THE US COULD NOT MAKE CHANGES OVERNIGHT. AT WILLIAMSBURG THEY WOULD THEREFORE NOT ASK THE US FOR WHAT WAS UNOBTAINABLE, THOUGH THEY MIGHT MAKE CRITICAL REMARKS ABOUT THE EFFECT OF US MONETARY POLICY ON THE WORLD ECONOMY. ACCORDING TO THE GERMANS, DELORS SAID IN PRIVATE THAT IF IT WERE UP TO HIM FRANCE WOULD NOT BE REPRESENTED AT WILLIAMSBURG: BUT HE DID NOT KNOW HOW MITTERRAND WOULD ACT. ON INTERNATIONAL LIQUIDITY THERE WAS A TOUGH DISCUSSION AND NO MEETING OF MINDS. DELORS ADVOCATED INCREASED LIQUIDITY AND MORE SDRS FOR DEVELOPING COUNTRIES: LAMBSDORFF VIGOROUSLY OPPOSED THIS POINT OF VIEW, WARNING OF THE RISKS OF INFLATION.

6. THE GERMANS PLEADED FOR THE PROLONGATION OF THE OECD CONSENSUS ON CREDITS. THE FRENCH SHOWED A STRONG WISH TO PROVIDE CREDITS BELOW THE MARKET RATE. STOLTENBERG WARNED AGAINST RENEWING THE ''IDIOTIC''ATTEMPT TO GET ORDERS FROM EAST EUROPEAN COUNTRIES BY MEANS OF SUBSIDIES. THERE WAS NO ANSWER FROM DELORS.

[redacted]LATERAL ECONOMIC RELATIONS

7. THE GERMANS SAY THAT MME CRESSON WAS VERY AGGRESSIVE IN DISCUSSION OF INDUSTRIAL STANDARDS. GERMAN MINISTERS HAD GREAT DIFFICULTY IN MAKING CLEAR TO HER THAT STANDARDS WERE ESSENTIAL. THEY HAD SAID THEY WOULD ACCEPT EUROPEAN STANDARDS, BUT THE FRENCH WERE BLOCKING THESE IN BRUSSELS. AFTER A TOUGH DISCUSSION LAMBSDORFF LOST PATIENCE AND TOLD THE FRENCH THAT THEY COULD NOT IMPROVE THEIR TRADING POSITION EVEN IF THERE WERE NO PROBLEM OF STANDARDS. GERMANY WAS AN OPEN MARKET. THE FRENCH WERE THE ONLY ONES TO COMPLAIN: AND THEIR DIFFICULTIES WERE SOLELY THE CONSEQUENCE OF THEIR OWN ECONOMIC POLICY.

DEFENCE COLLABORATION

8. ACCORDING TO FRENCH OFFICIALS, THE MEETING OF DEFENCE AND FOREIGN AFFAIRS MINISTERS HAD DISCUSSED THE FRENCH PROGRAMME LAW ON DEFENCE PLANNING AND THE INF NEGOTIATIONS. THE GERMANS HAD BEEN PREOCCUPIED BY THE POSSIBILITY OF A REDUCTION IN THE FRENCH MILITARY PRESENCE IN THE FRG. THE FRENCH HAD ARGUED THAT THERE WOULD BE NO SIGNIFICANT CUT IN TROOP NUMBERS, THAT NUMBERS OF TANKS WOULD BE INCREASED AND THAT THE PROPOSED RAPID ASSISTANCE FORCE WOULD STRENGTHEN FRENCH ABILITY TO INTERVENE IN AN EUROPEAN CONFLICT. THE OFFICIAL LEVEL WORKING GROUP ON STRATEGY WILL NOW TURN TO A DISCUSSION OF THE ROLE TO BE PLAYED BY THE RAPID ASSISTANCE FORCE, ONCE IT IS FORMED.

9. ON THE JOINT HELICOPTER PROJECT THE FRENCH COMMENTED TO US THAT THE GAP BETWEEN NATIONAL SPECIFICATIONS HAD NOW BEEN SIGNIFICANTLY NARROWED. KOHL SEEMED PREPARED TO PUT CONSIDERABLE POLITICAL WEIGHT BEHIND THE PROJECT. THE GERMAN EMBASSY SAID THAT THE PROJECT WAS SEEN BY KOHL AS OF IMPORTANCE IN BOTH POLITICAL AND DEFENCE TERMS. HE WOULD PLAY THINGS QUIETLY IN AN ATTEMPT TO SECURE A CONSENSUS IN THE BUNDESTAG.

INDUSTRIAL COOPERATION

10. ACCORDING TO THE GERMAN EMBASSY, GERMAN MINISTERS WERE MORE OPEN-MINDED THAN BEFORE TO THE FRENCH IDEA OF GOVERNMENTAL INTERVENTION TO PROMOTE INDUSTRIAL COOPERATION. PROSPECTS FOR COLLABORATION HAD BEEN IDENTIFIED IN THE FIELDS OF RAIL TRANSPORT, FAST BREEDER REACTORS, ELECTRONICS AND SATELLITE COMMUNICATIONS.

COMMUNITY AFFAIRS

FAST BREEDER REACTORS, ELECTRONICS AND SATELLITE COMMUNICATIONS.

COMMUNITY AFFAIRS

11. THERE WAS LENGTHY DISCUSSION ON COMMUNITY PROBLEMS. ACCORDING TO THE GERMAN EMBASSY, THE FRENCH GOVERNMENT NOW CONSIDERED THAT A DECISION ON THE BRITISH CONTRIBUTION IN 1983 SHOULD BE PLACED FIRMLY IN THE PERSPECTIVE OF NEW FINANCING RULES FOR THE LONG TERM. GERMAN MINISTERS HAD SAID THAT TO INSIST ON PRIOR AGREEMENT ON EVEN AN OUTLINE OF LONG TERM RULES WOULD MAKE IT DIFFICULT TO COME TO TERMS ON 1983. THE GERMAN AMBASSADOR COMMENTED TO ME THAT THE FRENCH SEEMED TO HAVE IN MIND A GIGANTIC PACKAGE DEAL COVERING AN INCREASE IN VAT, REFORM OF THE CAP, ENLARGEMENT AND PARLIAMENTARY RATIFICATION. HE WAS APPREHENSIVE ABOUT THE PROBLEMS ALL THIS WOULD POSE FOR THE PRESIDENCY AT STUTTGART.

12. STOLTENBERG TOLD A MEMBER OF THE GERMAN EMBASSY THAT AN UNWRITTEN PROMISE HAD BEEN GIVEN BY DELORS IN RESTRICTED SESSION DURING NEGOTIATIONS ON THE OIL FACILITY LOAN THAT FRANCE WOULD NOT RESORT TO ANY MAJOR ACT OF PROTECTIONISM IF GRANTED THE LOAN.

13. FURTHER DETAIL FOLLOWS BY BAG (TO FCO, BONN AND UKREP ONLY). FOR FRENCH PRESS REACTIONS SEE MIFT.

FCO PSE PASS SAVING ADDRESSEES

FRETWELL

NNNN

GRS 600

CONFIDENTIAL

CONFIDENTIAL
FM PARIS 181800Z MAY 83
TO ROUTINE FCO
TELEGRAM NUMBER 416 OF 18 MAY
INFO ROUTINE MODUK (DI3 FOR WEST)
INFO SAVING EC POSTS, UKDEL STRASBOURG, CONSULS GENERAL FRANCE

MY SAVING TELNO 38 : UNREST IN FRANCE

SUMMARY

1. STREET DEMONSTRATIONS BY STUDENTS, FARMERS, SHOPKEEPERS AND SMALL BUSINESSMEN, EACH IN SUPPORT OF THEIR SEPARATE GRIEVANCES, HAVE CONTINUED IN PARIS AND ELSEWHERE IN THE PROVINCES OVER THE PAST TEN DAYS. TEMPERS HAVE FREQUENTLY BECOME FRAYED. THERE ARE HOWEVER SIGNS THAT THE HEAD OF STEAM BEHIND THE CURRENT WAVE OF DEMONSTRATIONS MAY BE DECLINING. DURING THIS PERIOD OF UNREST WILD RUMOURS ABOUT PLOTS AGAINST THE GOVERNMENT HAVE BEEN BANDIED ABOUT BY BOTH LEFT AND RIGHT BUT THEY DO NOT DESERVE EITHER THE PROMINENCE OR THE CREDIBILITY GIVEN TO THEM IN THE BRITISH PRESS, NOTABLY TODAY'S DAILY EXPRESS.

DETAIL

2. PHARMACEUTICAL STUDENTS VOTED YESTERDAY TO CONTINUE THEIR STRIKE. MEDICAL STUDENTS HAVE POSTPONED A DECISION WHETHER TO ACCEPT PROPOSALS PUT FORWARD BY GOVERNMENT-APPOINTED MEDIATORS FOR ENDING THEIR THREE MONTH STRIKE. THE GOVERNMENT HAVE MADE LITTLE HEADWAY IN WINNING SUPPORT FOR THEIR UNIVERSITY REFORM BILL. BUT WITH THE APPROACH OF THE EXAMINATION SEASON, STUDENT STRIKERS ARE BEGINNING TO CRUMBLE. THE STUDENT PROTEST MOVEMENT HAS BECOME INCREASINGLY DIVIDED ALONG PARTISAN LINES. MODERATE STUDENTS ARE CLEARLY CONCERNED ABOUT THE INFILTRATION OF THEIR DEMONSTRATIONS BY EXTREME RIGHT-WINGERS. THE GOVERNMENT HAS WITH SOME SUCCESS PLAYED ON THIS ANXIETY. FURTHER DEMONSTRATIONS ARE PLANNED FOR TODAY AND ON 24 MAY WHEN THE BILL HAS ITS FIRST READING IN THE NATIONAL ASSEMBLY. LIKE EARLIER DEMONSTRATIONS, THESE MAY WELL DEGENERATE INTO VIOLENCE. THE GOVERNMENT SEEM DETERMINED HOWEVER TO STICK TO THEIR PREVIOUSLY ANNOUNCED PARLIAMENTARY TIME-TABLE.

3. AS REPORTED IN MY TELNO 410 DISCONTENT AMONG FARMERS APPEARS TO BE GOING OFF THE BOIL. SHOPKEEPERS AND SMALL BUSINESSMEN CONTINUED THEIR ACTION AND ON 16 MAY FOR THE THIRD TIME IN UNDER THREE WEEKS, DEMONSTRATED IN PARIS AND THE PROVINCES AGAINST GOVERNMENT ''FISCAL OPPRESSION''. THREE PEOPLE INCLUDING A JOURNALIST WERE INJURED IN A VIOLENT SCUFFLE AT THE END OF THE DEMONSTRATION. TODAY PUBLIC TRANSPORT IN PARIS IS BEING DISRUPTED BY UNION ACTION AND A ONE-HOUR GENERAL STRIKE CALLED BY THE MODERATE FORCE OUVRIERE. BUT FOR THE MOST PART THE UNIONS CONTINUE TO STAND ON THE TOUCH-LINES.

4. EVER SINCE MITTERRAND'S ELECTION SOME ON THE RIGHT HAVE HOPED THAT SOCIAL UNREST WOULD BEFORE TOO LONG SWEEP THE LEFT FROM OFFICE. THE PRESENT WAVE OF SOCIAL UNREST HAS ENCOURAGED THE EXTREME RIGHT TO BELIEVE THAT THE DAY OF JUDGEMENT IS AT HAND. EXTREME RIGHT-WINGERS HAVE UNDOUBTEDLY PROVOKED SOME OF THE MORE VIOLENT CONFRONTATIONS BETWEEN DEMONSTRATORS AND THE POLICE. DESPITE THE LOOSE TALK IN SOME OPPOSITION CIRCLES, THIS IS A FAR CRY FROM A PLOT TO OVERTHROW THE GOVERNMENT. MOST OPPOSITION LEADERS RECOGNISE THAT THEY HAVE LITTLE TO GAIN FROM SUGGESTING THAT THE GOVERNMENT WILL NOT SERVE OUT ITS TERM. THE LEFT ARE READY TO POUNCE ON ANY SUCH SUGGESTION TO ACCUSE THE OPPOSITION OF UNDERMINING THE LEGITIMACY OF THE DEMOCRATICALLY-ELECTED GOVERNMENT.

5. REPORTS IN THE BRITISH PRESS BASED ON AN EDITORIAL IN YESTERDAY'S FIGARO (RIGHT WING) THAT TROOPS ARE ON ALERT TO MOVE INTO PARIS AT A MOMENT'S NOTICE TO PREVENT THE OVERTHROW OF THE GOVERNMENT MISREPRESENT THE FACTS. WE HAVE NO EVIDENCE TO SUGGEST THAT THE FORCES AVAILABLE TO THE PREFECT OF POLICE, RESPONSIBLE FOR LAW AND ORDER IN THE PARIS REGION, HAVE BEEN REINFORCED. THESE FORCES INCLUDE 9 SQUADRONS OF PARA-MILITARY GENDARMERIE, EACH WITH 85 PERSONNEL STATIONED NEAR VERSAILLES. THEY ARE EQUIPPED WITH AMX13 LIGHT TANKS AND WHEELED ARMOURED PERSONNEL CARRIERS, ALOUETTE 2 HELICOPTERS AND PROTECTED LORRIES AND BUSES. WE HAVE BEEN TOLD BY THE MINISTRY OF THE INTERIOR THAT IT WAS ONLY NATURAL FOR THESE FORCES TO BE ON CALL DURING A PERIOD OF DEMONSTRATIONS. IN THE FACE OF THE USE OF MOLOTOV COCKTAILS BY DEMONSTRATORS, THE GENDARMES HAVE BEEN TRANSPORTED IN ARMOURED PERSONNEL CARRIERS. THERE WAS HOWEVER NO QUESTION OF TANKS ROLLING THROUGH THE STREETS OF PARIS.

FCO PLEASE PASS SAVING DUBLIN ROME LUXEMBOURG BONN THE HAGUE UKREP BRUSSELS BRUSSELS COPENHAGEN ATHENS AND UKDEL STRASBOURG

FRETWELL

REPEATED AS REQUESTED

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THIS TELEGRAM WAS NOT ADVANCED

ADVANCE COPIES

IMMEDIATE

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PS
PS/MR HURD
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PS/MR RAISON
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MR EVANS
MR HANNAY
MR THOMAS
MR HAYES

HD/ERD (2)
HD/ECD (4)
HD/ES & SD (2)
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HD/ESID (2)
RESIDENT CLERK

PS/NO 10 DOWNING STREET

PS/CHANCELLOR OF THE EXCHEQUER)
MR LITTLER) TREASURY
MR BOTTRILL)

SIR R ARMSTRONG
CABINET OFFICE

MR J CAINES)
MR E BESTON) DOT

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

RESTRICTED
FM PARIS 101545Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 376 OF 10 MAY
INFO PRIORITY DUBLIN, ROME, LUXEMBOURG, BONN, THE HAGUE,
UKREP BRUSSELS, BRUSSELS, COPENHAGEN, ATHENS, WASHINGTON,
TOKYO, OTTAWA,
INFO SAVING UKDEL OECD.

FRENCH PROPOSAL FOR A NEW BRETTON WOODS CONFERENCE.

1. WE HAVE NOW SEEN THE TEXT OF PRESIDENT MITTERRAND'S ADDRESS LAST NIGHT AT THE ELYSEE TO PARTICIPANTS OF THE OECD MINISTERIAL MEETING, IN WHICH HE CALLED INTER ALIA FOR A NEW INTERNATIONAL MONETARY CONFERENCE. IT IS A RAMBLING, POORLY STRUCTURED SPEECH WITH ALL THE HALLMARKS OF HAVING BEEN PUT TOGETHER HURRIEDLY. THE FOLLOWING EXTRACTS COVER THE MAIN POINTS:

(A) AS AFTER THE SECOND WORLD WAR, THE WORLD NEEDS REBUILDING... THIS WILL REQUIRE A LASTING INTERNATIONAL EFFORT - AN IMMENSE TASK, A TASK FOR A GENERATION: IT IS FOR US TO PREPARE MINDS

~~TASK, A TASK FOR A GENERATION:~~ IT IS FOR US TO PREPARE MINDS AND TO LAUNCH THE MOVEMENT. THE GUIDELINES SHOULD BE GROWTH, STABILISATION, DEVELOPMENT.

(B) WE NEED TO REDISCOVER TOGETHER THE PATH OF GROWTH.... BUT THE FIRST STEP WILL ONLY BE POSSIBLE BY OPTING FOR CONCERTED GROWTH WHICH WILL CREATE THE CONDITIONS OF A HEALTHY AND LASTING RECOVERY WITHOUT INFLATION. THE RECOVERY NOW APPEARING HERE AND THERE WILL FADE AWAY VERY QUICKLY, MUCH MORE QUICKLY THAN WE THINK, IF NOTHING IS DONE TO SUPPORT IT. THIS FACES US WITH THREE BASIC REQUIREMENTS:

(I) A MASSIVE REDUCTION OF THE EXCESSIVE BUDGETARY DEFICITS WHICH ARE RESPONSIBLE FOR HIGH INTEREST RATES:
(II) THOSE WITH ROOM FOR MANOEUVRE MUST STIMULATE GROWTH IN THEIR ECONOMIES. GOOD RESULTS IN THE BATTLE AGAINST INFLATION MUST LEAD TO MEASURES TO RELAUNCH ECONOMIC ACTIVITY:
(III) UNEMPLOYMENT MUST BE TACKLED BY TRAINING YOUNG PEOPLE IN NEW TECHNOLOGIES AND BY SHORTENING WORKING HOURS.

(C) WE ALSO NEED TO STABILISE OUR EXCHANGE. A RETURN TO SUSTAINED GROWTH WILL BE UNATTAINABLE WITHOUT PATIENT RECONSTRUCTION OF A STABLE SYSTEM OF INTERNATIONAL ECONOMIC RELATIONS IN THREE ESSENTIAL AREAS: CURRENCIES, TRADE AND RAW MATERIALS.... TO REDISCOVER THE CONDITIONS FOR A STABLE MONETARY SYSTEM, WITH SUFFICIENTLY FIXED RATES AT LEVELS THAT ARE ECONOMICALLY REASONABLE, IS THEREFORE AN URGENT NECESSITY.... THE TIME HAS COME TO THINK OF A NEW BRETTON WOODS.... EVEN IF EVERYTHING IS MORE COMPLICATED TODAY THAN IT WAS AT THE END OF WORLD WAR TWO, WE SHOULD NOT GIVE UP OUR ATTEMPTS TO MOVE, IN STAGES, TOWARDS A SYSTEM ADAPTED TO THE ECONOMIC CONDITIONS OF THE LATTER PART OF THE CENTURY. IN ORDER TO FACILITATE THESE REFORMS, I WOULD LIKE AN INTERNATIONAL MONETARY CONFERENCE TO BE HELD AT THE HIGHEST LEVEL WITHIN THE FRAMEWORK OF THE IMF.

(D) (IN THE FUTURE) THE THREE PRINCIPAL MONETARY ZONES, THE DOLLAR, THE YEN AND THE EUROPEAN CURRENCIES, WILL BE ABLE TO STRENGTHEN THEIR LINKS WITH EACH OTHER AND SERVE AS POLES FOR THE STABILISATION OF THE PRINCIPAL INTERNATIONAL EXCHANGE RATES.

(E) PROTECTIONISM.... CONSTITUTES.... AN OBSTACLE TO THE GROWTH OF TRADE AND TO THE DEVELOPMENT OF POOR COUNTRIES.... IT IS TIME TO SHOW.... THAT NO ONE WILL GAIN ANYTHING FROM IT.

~~2. MITTERRAND ALSO SPOKE AT LENGTH OF THE IMPORTANCE OF DOING~~
~~MORE FOR THE THIRD WORLD. NOTHING IS POSSIBLE FOR THE NORTH~~

2. MITTERRAND ALSO SPOKE AT LENGTH OF THE IMPORTANCE OF DOING MORE FOR THE THIRD WORLD. NOTHING IS POSSIBLE FOR THE NORTH, HE SAID, IF RECOVERY IS NOT ASSURED FOR THE SOUTH. HIS PROPOSALS INCLUDED LOWERING INTEREST RATES, THE CONSOLIDATION AND EXTENSION OF STABEX, ACTION ON RAW MATERIALS AND A NEW EMERGENCY PLAN FOR AFRICA, DETAILS OF WHICH THE FRENCH GOVERNMENT WOULD RELEASE LATER.

3. MITTERRAND SAID HE WOULD REVERT TO THE SUBSTANCE OF HIS CALL FOR A REFORM OF THE INTERNATIONAL MONETARY SYSTEM AT WILLIAMSBURG, QUESTIONING THE VALUE OF SUCH TOP LEVEL INTERNATIONAL MEETINGS IF THEY FAILED TO PRODUCE RESULTS.

4. MOREL, ELYSEE, HAS CONFIRMED TO US THAT MITTERRAND'S OBJECTIVE FOR WILLIAMSBURG REMAINED AS DESCRIBED TO US LAST WEEK (MY TEL NO 369). HE SAID THAT MITTERRAND HAD NOT INTENDED ON THIS OCCASION TO GIVE SPECIAL WEIGHT TO THE IDEA OF A NEW BRETTON WOODS (SEE PARAGRAPH 5 OF MY TEL NO 369). HIS COMMENTS AND THE TIMING AND LOCATION OF MITTERRAND'S SPEECH SUGGEST A CALCULATED, IF LAST-MINUTE, ATTEMPT TO REESTABLISH A DEGREE OF FRENCH INITIATIVE PRIOR TO WILLIAMSBURG, AND TO ENSURE THAT MEMORIES OF VERSAILLES ARE NOT ECLIPSED. MITTERRAND'S ADDRESS CONTAINED SEVERAL REFERENCES TO THE ROLE OF THE VERSAILLES SUMMIT IN POINTING THE WAY FOR GREATER COOPERATION IN THIS FIELD. MITTERRAND ALSO PROBABLY HOPES THAT ANY GUIDELINES FOR FUTURE ACTION IN THE FIELD OF INTERNATIONAL MONETARY CONSULTATION SHOULD BEAR A FRENCH LABEL. HIS INITIATIVE IS PROBABLY ALSO A SIGN OF HIS DESIRE TO BE SEEN ONCE AGAIN AS A FIGURE ON THE WORLD STAGE: HIS AUDIENCE CONSISTED OF SOME 50 MINISTERIAL REPRESENTATIVES OF FOREIGN GOVERNMENTS. MITTERRAND HAS NOT RELISHED HAVING HAD TO DESCEND INTO THE FRAY OF DOMESTIC POLITICS IN RECENT WEEKS IN ORDER TO SUPPORT THE GOVERNMENT'S UNLOVED AUSTERITY PROGRAMME.

5. MITTERRAND'S SPEECH IS REPORTED EXTENSIVELY IN TODAY'S FRENCH PRESS, BUT IN GENERAL WITH LITTLE COMMENT. LE QUOTIDIEN DE PARIS (OPPOSITION) SEES IT AS AN ATTEMPT TO DISPEL ANY ILLUSION THAT THE AMERICANS, WITH THEIR PRE-WILLIAMSBURG MINISTERIAL DINNER TONIGHT, ARE THE REAL HOSTS OF THE OECD MEETING. FIGARO (ALSO OPPOSITION) ALONE COMMENTS ON THE SUBSTANCE, RATING MITTERRAND'S CHANCES OF ACHIEVING AGREEMENT ON A NEW MONETARY SYSTEM AS SLIM ON ACCOUNT OF THE DIVERGENCE OF ECONOMIC POLICIES FOLLOWED BY THE INDUSTRIALISED NATIONS. FIGARO GOES ON TO WONDER WHETHER MITTERRAND'S APPROACH IS NOT SIMPLY TACTICAL, A REFUSAL BY FRANCE'S WILLIAMSBURG PARTNERS TO ACCEPT FRENCH IDEAS PAVING

FRANCE'S WILLIAMSBURG PARTNERS TO ACCEPT FRENCH IDEAS PAVING THE WAY FOR NATIONAL SOLUTIONS TO FRANCE'S ECONOMIC PROBLEMS, INVOLVING WITHDRAWAL FROM THE EMS. THIS AFTERNOON'S LE MONDE CONFINES ITSELF TO CLAIMING THAT MITTERRAND'S ANALYSIS OF THE INTERNATIONAL ECONOMY IS IRREFUTABLE.

FRETWELL

NNNN

Mr Faxed to Chequers, 8/4. Bre

With the compliments of

WESTERN EUROPEAN
DEPARTMENT

This might be of interest to the Prime Minister in advance of her lunch with M. Barre today.

Nicholas Armour 8/4

FOREIGN AND COMMONWEALTH OFFICE,
LONDON, SW1A 2AH

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SAVING TELEGRAM

BY BAG

UNCLASSIFIED

FRAME ECONOMIC

FROM PARIS SAVING TELNO 32 OF 5 APRIL 1983 To FCO

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

FRANCE : ECONOMIC REPORT FOR MARCH 1983

SUMMARY

1. The continued deterioration of all aspects of the French economy except unemployment has forced the Government into its third devaluation of the French franc since it was elected in May/June 1981, and into a series of austerity measures which are in stark contrast to the inflationary policy with which President Mitterrand began his term of office. The balance of trade deficit continues at the very high level established in 1982, inflation is at least twice that of France's main competitors and likely to overshoot the Government's 8% target for this year, and industrial production remains sluggish.

DETAIL

EXCHANGE RATE AND FRENCH OFFICIAL RESERVES

2. On 21 March the franc was devalued by 2.5% as part of a general realignment of currencies within the EMS, which included a 5.5% revaluation of the Deutschmark. Over the three tumultuous weeks on the foreign exchanges which preceded the realignment, the Bank of France is estimated by the specialist press to have spent around $6 billion in defence of the franc.

3. The devaluation of the franc has been seen as inevitable for some time although it was widely predicted that the Government wished to delay it for political reasons until after the second round of the municipal elections on 13 March. The franc had been under pressure since early February but with the strengthening of the Deutschmark following the victory of the Christian Democrats in the West German elections on 6 March the pressure increased dramatically. The Bank of France reacted with skill. On 7 March after appearing determined to defend the franc at its median rate in the EMS it abruptly withdrew from the market allowing the franc to fall to its EMS floor rate, disconcerting speculators and obliging the German Bundesbank, under EMS rules, to support the franc. Pressure slackened for a few days but renewed at the end of the week. In response the Bank of France entered the Euro-franc market borrowing heavily and forcing up short-term interest rates to astronomical levels. By this means it deterred further speculative attacks on the currency until the devaluation on 21 March. At times two-day interest rates on the Euro-franc market were between 4,000% and 6,000% at an annual rate.

/4.

4. Now that speculation has ended there has been the almost automatic reverse flow of francs into French reserves. No estimates of the amounts involved are yet available.

AUSTERITY MEASURES

5. To accompany the devaluation of the franc the Government introduced a number of measures designed to eliminate the balance of trade deficit within two years. They include higher taxation, higher public sector tariffs, increased saving and cuts in planned public expenditure. The Minister of Finance has estimated that in 1983 the measures will reduce internal demand by F65 billion, or 2% of GNP. M Delors has acknowledged that some of the measures such as the increases in public sector tariffs will add to inflation and mean that the Government's 8% inflation target for the end of this year may be slightly exceeded.

6. One measure which has been highly unpopular and has to some extent distracted public attention away from the others is the limit of F3,000 (in foreign currency and francs) which Frenchmen may take out of France for the rest of the year as tourists.

7. The ceiling for the growth in M2 money supply in 1983 has been reduced from 10% to 9%.

PRICES

8. In February the rate of inflation fell slightly, the retail price index rising by 0.7%. Over the preceding 12 months the index rose by 9.2% and over the preceding 3 months at an annual rate of 10%. The Government's target for 1983 is 8%.

9. At the end of the month the Government tightened its control over prices by increasing surveillance and sanctions, and immediately penalised the meat and fish retail trade for excessive prices rises by increasing the tax on their profits. It had previously expressed concern about the general 0.8% rise in retail food prices when wholesale prices have remained generally unchanged, and about the large number of price increases in private sector services which have contravened existing regulations.

UNEMPLOYMENT AND INDUSTRIAL RELATIONS

10. Unemployment remained virtually unchanged in February at 2,020,100. The unadjusted figure fell by 2.3% to 2,080,100. Over 12 months unemployment has risen by only 3.8% partly as a result of a series of measures introduced by the present Government to contain unemployment, and partly from the effects of the Government's earlier reflationary economic policy. Notified vacancies, seasonally adjusted, fell by 2.9% in February to 112,100, but over the year rose by 54.4%.

11. Labour problems in the car industry continue. Negotiation led to agreement and a return to normal working at Citroen early in the month. On 12 March local labour officials refused applications from Citroen and Renault to dismiss trade union representatives involved in incidents during the recent unrest. Citroen management lodged an appeal, which is still pending, but those involved returned to work and the car industry has since been relatively peaceful. A miners' strike at Carmaux in south west France was resolved on the eve of the municipal elections, Charbonnages de France backing down (on Government instructions) from an earlier refusal to recruit new staff. Other nationalised industries fear

that this may make it more difficult for them to resist similar union demands in the future. Medical students went on strike over changes in their pattern of training and were joined on 22 March by hospital doctors protesting against proposed changes in the organisation of hospitals.

WAGES

12. The minimum legal wage, the SMIC, has been increased with effect from 1 March by 3.6%. An increase in the cost of living index by 2% or more, in this case it was 2.8%, triggers off a rise in the SMIC. The remainder of the 3.6% increase represents the slightly delayed honouring of a Government pledge to increase the purchasing power of the SMIC by 4% in 1982.

13. The increase affects 1,400,000 employees and raises the minimum legal monthly salary based on a 39-hour week to F3,552.33. Since President Mitterrand was elected in May 1981 the SMIC has been increased by 38.3% and its purchasing power by 14.6%.

14. In 1982, principally because of the Government's wages and prices freeze, the 9.3% increase in wages was slightly less than the 9.7% annual rate of inflation. When the wages and prices freeze came to an end in October last year, the Government issued guidelines intended to keep increases in public sector wages within 8%, its target rate of inflation for 1983, and took measures designed to encourage private sector wage settlements to remain within the same limits. Most of the wage agreements subsequently negotiated were within the 8% limit but included a clause providing for a review of wages at the end of 1983 with the implicit intention of allowing an additional increase to compensate for any movement of inflation above the Government's 8% target. At the time the Government accepted these clauses (one with ambiguous wording was included in the civil service pay agreement) but since the new austerity measures have been announced there has been some disagreement among Ministers about whether any catching up increases should be allowed. If they are not, as inflation is likely to exceed the Government target, this is bound to be a source of trade union discontent and the fact that the Government has allowed the SMIC to rise more rapidly than other wages and thus compress wage differentials aggravates the problem.

INDUSTRIAL PRODUCTION AND DEMAND

15. The industrial production index, seasonally adjusted and excluding building, rose one point in January to 127 (in its latest bulletin, INSEE, the Government's statistical office has revised the index for December down one point to 126 on the basis of more recent information). The three month moving average, November to January, remains unchanged at 127. The Bank of France, in its latest monthly survey published on 15 March, reports that the overall index of industrial production was static in February. Production levels in the capital goods, consumer goods and food sector were unchanged. Output of intermediate goods slackened but production in the car industry showed a strong revival after labour conflicts in January. The report also notes that a slight reduction in internal demand evident in January became more pronounced in February. Registration of new cars was 3.1% lower in February 1983 than February 1982.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

16. The seasonally adjusted visible trade deficit for February was F7.6 billion, an improvement on January's F9.6 billion deficit but nevertheless a disappointment for the Government. The total deficit for

January and February, F17.2 billion, represents over a third of the Government's target deficit for the whole year. There is therefore no improvement on the disastrous trend established in 1982 when the annual deficit was F92.7 billion. The figures gave a reminder of how great was the need for strong action if the President's objective of eliminating the trade deficit by the end of next year is to be achieved.

17. In February exports fell by 5.4% to F52.8 billion and imports fell by 7.6% to F60.4 billion. France's balance of trade with European Community countries improved slightly due to a small fall in imports, but French exports, particularly of cars and capital goods, to its important markets in Eastern Europe, the OPEC countries and the Third World, also fell. Compared with February 1982, exports have increased by only 3.5% while imports have increased by 5.8%.

18. The recent fall in oil prices came too late to affect the trade figures for February. It had been generally estimated that it would reduce France's balance of trade deficit in a year by about F25 billion but if the more than 5% appreciation of the dollar against the france since the EMS realignment persists it will wipe out a large part of this gain.

INTEREST RATES

19. Throughout March the Bank of France kept its intervention rate at 12.5%. The overnight rate remained at 12.87% until lowering slightly to 12.51% on 29 March.

MONETARY POLICY

20. The money supply (M2) fell by 0.1% in December giving an increase of 11.4% for 1982, comfortably below the target range of 12.5%-13.5%.

SHARE PRICES

21. There was little movement in share prices on the Paris stock exchange during the first few days of March as the market waited for the results of the first round of the French municipal elections and of the German Parliamentary elections both on 6 March. Thereafter share prices rose in a haphazard fashion for the rest of the month affected by a number of widely differing factors. In the week ending 11 March the index of French shares rose by 1.75%. Oil companies, which it was thought would benefit from a fall in the oil price, and companies with a strong implantation in the United States benefited most. In the week ending 18 March the index rose by 1.74% a gain which was partially sustained by rumours of the discovery of an important gas field near Maubeuge in north eastern France. During the week ending 25 March the index rose 4.1% partly as a result of the ending of political uncertainty with the formation of the third Mauroy Government, and partly in apparent approval of the austerity measures announced at mid-day on 25 March. During the last few days of the month share prices remained static except for a spectacular 10% gain by the Club Mediterranée, which, as its holidays are payable in francs, will inevitably benefit from extra custom following the strict exchange controls which the Government has imposed as part of its austerity measures on French tourists travelling abroad.

FRANC VALUES IN PARIS IN MARCH

(Weekly average closing rates)

	4/3	11/3	18/3	25/3
US $	6.82	6.87	6.93	7.24
100 SF	334.14	333.33	335.43	350.62
100 DM	283.66	287.20	289.47	299.85
£	10.34	10.31	10.33	10.57

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FRENCH ECONOMIC INDICATORS

(Seasonally adjusted, except as noted)

		1982	1983
1.	GDP, annual growth	1.5% (1982)	Under revision
2.	Industrial production index (base 100: 1970)	129 (January)	127 (January)
3.	Total unemployed	1,954,000 (February)	2,020,100 (February)
4.	Exports	F51.54 billion (February)	F52.77 billion (February)
5.	Imports	F56.82 billion (February)	F60.38 billion (February)
6.	Trade balance	-F5.28 billion (February)	-F7.61 billion (February)
7.	Balance on current account	-F25.77 billion (1981)	-F78.66 billion (1982)
8.	Exchange rate against US $ (last working day of the month)	F6.26 (March)	F7.27 (March)
9.	Official reserves	F311.849 billion (18 March 1982)	F335.070 billion (17 March 1983)
10.	Growth in money supply (M2)	0.0% (December)	0.1% (December) 11.4% (January - December 1982)
11.	Rise in retail prices	1.0% (February)	0.7% (February) 9.2% (Change over 12 months)
12.	Rise in hourly wage rates	-	4.2% (Q4) 12.6% (12 months ending January 1983)
13.	Industrial disputes (cumulative totals to end December)		
	Stoppages	3,045 (1981)	3,782 (1982)
	Working days lost	1,441,800 (1981)	2,257,000 (1982)

Instructions for completion of Dummy Card

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GRS 390
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FM PARIS 230045Z MAR 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 241 OF 23 MARCH 1983
INFO ROUTINE UKREP BRUSSELS,BONN,WASHINGTON AND BANGKOK (FOR S OF S'S PARTY)
INFO SAVING ATHENS,BRUSSELS,COPENHAGEN,DUBLIN,THE HAGUE, LUXEMBOURG ROME, UKDEL STRASBOURG AND CONSUL GENERALS FRANCE.

NEW FRENCH GOVERNMENT

SUMMARY

1. THE ELYSEE SPOKESMAN ANNOUNCED AT 1900 YESTERDAY EVENING THAT MAUROY HAD PRESENTED THE RESIGNATION OF HIS GOVERNMENT. MITTERRAND IMMEDIATELY ASKED MAUROY TO FORM A NEW GOVERNMENT. A 14(FOURTEEN) STRONG '' INNER CABINET'' WAS ANNOUNCED SHORTLY BEFORE MIDNIGHT.

2.
DETAIL
THE NEW MINISTERIAL APPOINTMENTS IN THE ORDER ANNOUNCED BY THE ELYSEE ARE AS FOLLOWS:

DELORS	ECONOMY, FINANCE AND THE BUDGET.
BEREGOVOY	SOCIAL AFFAIRS AND SOLIDARITY.
DEFFERRE	INTERIOR AND DECENTRALISATION
FITERMAN	TRANSPORT
BADINTER	JUSTICE
CHEYSSON	EXTERNAL RELATIONS
HERNU	DEFENCE
ROCARD	AGRICULTURE
FABIUS	INDUSTRY AND RESEARCH
SAVARY	NATIONAL EDUCATION
CRESSON	EXTERNAL TRADE AND TOURISM
QUILLIOT	URBAN AFFAIRS AND HOUSING
CREPEAU	TRADE AND CRAFT INDUSTRY
RIGOUT	PROFESSIONAL TRAINING

ALL THE ABOVE WILL HAVE THE RANK OF MINISTER. THE FIVE POSTS OF MINISTER OF STATE HAVE BEEN ABOLISHED. MAX GALLO (SOCIALIST DEPUTY FOR NICE) HAS BEEN APPOINTED GOVERNMENT SPOKESMAN WITH THE RANK OF STATE SECRETARY(IE JUNIOR MINISTER). THE ELYSEE SAID THAT OTHER JUNIOR MINISTERIAL APPOINTMENTS WOULD BE MADE LATER.

3. MITTERRAND'S DECISION TO REAPPOINT MAUROY TO LEAD THE NEW GOVERNMENT FLOWS FROM THE LEFT'S BETTER THAN EXPECTED SHOWING IN THE SECOND ROUND OF THE MUNICIPAL ELECTIONS AND FROM THE AGREEMENT ON A REALIGNMENT OF EMS PARITIES. FRENCH SUCESS IN PERSUADING THE GERMENS TO REVALUE BY A WIDER MARGIN THAN THE FRANC HAS BEEN DEVALUED APPEARS TO HAVE REMOVED DOUBTS ABOUT MAUROY'S REMAINING PRIME MINISTER. MITTERRAND PRESUMABLY CONCLUDED THAT MAUROY WAS THE BEST MAN TO SELL TOUGHER ECONOMIC MEASURES DUE TO BE ANNOUNCED AT TODAY'S COUNCIL OF MINISTERS TO A DISTRUSTFUL LEFT, NOTABLY THE COMMUNISTS. BUT AFTER THE DEVELOPMENTS OF RECENT DAYS,DURING WHICH MAUROY APPEARED TO BE LEFT ON THE SIDELINES,HE WILL NOT FIND IT EASY TO RE-ESTABLISH HOS AUTHORITY AS PRIME MINISTER.

4. MAUROY HAS BEEN GRANTED HIS LONGSTANDING WISH TO LEAD A LEANER LEANER TEAM. THE SUPRISE IS THE DEPARTURE OF ALL REPRESENTATIVES OF THE LEFT-WING CERES FACTION INCLUDING ITS LEADER, CHEVENEMENT. THE LATTER,WHO WAS KNOWN TO OPPOSE FRANCE REMAING IN THE EMS, HAS ISSUED A STATEMENT SAYING THAT HE HAD SUBMITTED HIS RESIGNATION ON 2 FEBRUARY FOLLOWING DIS-AGREEMENTS OVER THE GOVERNMENT'S METHODS AND THE CONCEPTION OF ITS ACTIONS.

5. TWO COMMUNISTS (FITERMEN AND RIGOUT)REMAIN, TOGETHER WITH ONE LEFT RADICAL (CREPEAU). THE DELAY IN ANNOUNCING THE NEW GOVERNMENT APPEARS TO HAVE BEEN THE RESULT OF COMMUNIST HESITATIONS OVER THE ROLE ALLOCATED TO THEIR PARTY. MARCHAIS (SECRETARY GENERAL OF THE PCF) AND FITERMAN SPENT NEARLY AN HOUR WITH MAUROY BEFORE THE ANNOUNCEMENT WAS FINALLY MADE.

6. FURTHER COMMENT WILL FOLLOW WHEN THE FULL LIST OF NEW APPOINTMENTS IS KNOWN.
FCO PLEASE PASS SAVINGS ALL EXCEPT TO CONSULS GENERAL FRANCE
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France

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GRS 820
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FM PARIS 150750Z MAR 83
TO PRIORITY FCO
TELEGRAM NUMBER 209 OF 14 MARCH 1983
INFO SAVING TO ATHENS, BONN, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBOURG, ROME, UKREP BRUSSELS, UKDEL STRASBOURG, CONSULS GENERAL FRANCE.

MY TEL NO 200: FRENCH MUNICIPAL ELECTIONS

SUMMARY

1. IN THE SECOND ROUND OF THE FRENCH MUNICIPAL ELECTIONS ON 13 MARCH A RECORD TURN-OUT OF 79.71% HELPED THE LEFT TO LIMIT ITS LOSSES TO 30 TOWNS OF MORE THAN 30,000 POPULATION, A RESULT WIDELY REGARDED BEFORE THE ELECTIONS AS THE THRESHOLD BETWEEN SUCCESS AND FAILURE. BUT THE LEFT'S UNEXPECTED COMEBACK IN THE SECOND ROUND HAS NOT STILLED SPECULATION ABOUT EARLY CHANGES IN BOTH POLICY AND THE COMPOSITION OF THE GOVERNMENT. THE NEXT MOVE IS UP TO MITTERRAND.

DETAIL

2. IN THE SECOND ROUND THE LEFT LOST A FURTHER 14 TOWNS OF MORE THAN 30,000 POPULATION TO ADD TO THEIR LOSSES OF 16 IN THE FIRST ROUND. (THE FIGURE OF 15 SECOND ROUND LOSSES IN TODAY'S LE MONDE INCLUDES ONE TOWN WHOSE POPULATION NO LONGER EXCEEDS 30,000). TAKING INTO ACCOUNT MME CRESSON'S VICTORY IN CHATELLERAULT, THE LEFT HAVE SUFFERED A NET LOSS OT 29 TOWNS OVER THE TWO ROUNDS. OVERALL THE LEFT NOW CONTROL 120 AND THE OPPOSITION 100 OF THE LARGER TOWNS. ALL THOSE MINISTERS WHO WERE INCUMBENT MAYORS BUT HAD FAILED TO SECURE OUTRIGHT ELECTION IN THE FIRST ROUND MANAGED TO SQUEEZE HOME, INCLUDING DEFFERRE (MARSEILLES) AND CHEVENEMENT (BELFORT) WHO ON PAPER LOOKED BEATEN. DELORS AND BEREGOVOY WERE ALSO ELECTED. THE ONLY CASUALTIES OF NOTE IN THE SECOND ROUND WERE PONTILLON (PRESIDENT OF THE FRENCH SECTION OF THE FRANCO/BRITISH COUNCIL), JOXE (LEADER OF THE SOCIALIST PARLIAMENTARY GROUP) AND QUILES (SOCIALIST PARTY (PS) CANDIDATE FOR MAYOR OF PARIS AND NUMBER THREE IN THE PARTY HIERARCHY). THE LEFT'S LOSSES WERE EVENLY DIVIDED BETWEEN THE SOCIALISTS AND THE COMMUNISTS (PCF). BUT THE SOCIALISTS WERE MORE SUCCESSFUL IN HANGING ON TO THEIR MARGINAL TOWNS. FURTHERMORE, THE COMMUNISTS HAVE LOST THREE OUT OF THE SIX TOWNS OF MORE THAN 100,000 WHICH THEY PREVIOUSLY CONTROLLED. THE COMMUNISTS HAVE COMPLAINED THAT THEIR CANDIDATES DID NOT RECEIVE ADEQUATE SUPPORT FROM SOCIALIST VOTERS IN THE SECOND ROUND. THE OPPOSITION DID BEST IN THE LARGEST TOWNS. CHIRAC COMPLETED HIS CLEAN SWEEP OF ALL THE PARIS ARRONDISSEMENTS (BOROUGHS), A PERFORMANCE MATCHED BY THE GISCARDIAN MAYOR OF LYONS. THE OPPOSITION NOW CONTROL 24 OUT OF FRANCE'S 36 TOWNS OF MORE THAN

100,000 POPULATION (A GAIN OF 7). WITHIN THE OPPOSITION THE GAULLIST RPR (+17) GAINED GROUND FROM A LOWER BASE ON THE GISCARDIAN UDF (+7). THE RPR AND THE UDF NOW EACH CONTROL 40 TOWNS OF MORE THAN 30,000 POPULATION.

3. THE LEFT'S SUCCESS IN LIMITING THEIR NET LOSS TO 29 TOWNS RESULTED FROM A SIGNIFICANT SHIFT IN THE SECOND ROUND VOTING PATTERN. WHEREAS IN THE FIRST ROUND THE OPPOSITION WON 54% OF THE VOTE IN THE LARGER TOWNS, ON 13 MARCH LEFT AND RIGHT SPLIT THE SECOND ROUND VOTE 50-50. IN SEVERAL TOWNS THE LEFT SCRAPED HOME WITH PAPER-THIN MAJORITIES. THE LEFT'S STRATEGY BETWEEN ROUNDS WAS TO APPEAL TO LEFT-WING ABSTENTIONISTS TO VOTE IN THE SECOND ROUND. THIS APPEARS TO HAVE PAID OFF. THE RECORD TURNOUT CLEARLY BENEFITED THE LEFT. ESTIMATES SUGGEST THAT OF THOSE WHO VOTED FOR THE FIRST TIME YESTERDAY 60% SUPPORTED THE LEFT. ECOLOGIST VOTERS ALSO APPEAR TO HAVE RALLIED TO THE LEFT.

4. THE SECOND ROUND RESULTS HAVE COME AS A GREAT RELIEF TO THE LEFT. THE LEFT'S LEADERS ACCEPT THAT IN THE FIRST ROUND THE ELECTORATE WANTED TO SOUND A WARNING NOTE TO THE GOVERNMENT. BUT THEY CLAIM THAT IN THE SECOND ROUND THE ELECTORATE DEMONSTRATED THAT IT HAD NO LOVE FOR THE OPPOSITION. JOSPIN (FIRTS SECRETARY OF THE PS) SAID LAST NIGHT THAT IT WAS NOW UP TO THE GOVERNMENT TO LEARN A LESSON FROM THE RESULTS. HE ARGUED THAT THE GOVERNMENT SHOULD CONTINUE ITS PRESENT ECONOMIC AND SOCIAL POLICIES WHICH WERE BEGINNING TO BEAR FRUIT. BUT IT SHOULD INTERVENE RAPIDLY AND FIRMLY IN THOSE AREAS - THE TRADE DEFICIT AND FRANCE'S INDEBTEDNESS - WHERE ITS POLICIES HAD NOT SUCCEEDED. IN SO DOING THE GOVERNMENT SHOULD NOT ABANDON ITS PURSUIT OF GREATER SOCIAL JUSTICE. ANY NEW MEASURES SHOULD BE SELECTIVE AND GEARED TO RELATIVE MEANS. MARCHAIS (SECRETARY GENERAL OF THE PCF) HAS ALSO INTERPRETED THE ELECTIONS AS A WARNING TO THE GOVERNMENT. HE HAS CALLED ON THE GOVERNMENT TO TACKLE MORE RESOLUTELY THE PROBLEMS OF UNEMPLOYMENT AND REAL WAGES. TODAY'S L'HUMANITE, THE COMMUNIST PARTY'S DAILY, URGES THE GOVERNMENT TO STICK BY ITS ELECTION PROMISES IF IT WISHES TO MAINTAIN THE CONFIDENCE OF THOSE WHO VOTED FOR THE LEFT IN 1981. THERE IS NO SUGGESTION HOWEVER, THAT THE COMMUNISTS ARE CONTEMPLATING WITHDRAWAL OF THEIR SUPPORT FROM THE GOVERNMENT.

5. SOCIALIST LEADERS HAVE HINTED THAT MITTERRAND WILL REACT QUICKLY TO THE ELECTION RESULTS. HE RECEIVED MAUROY FOR TWO HOURS THIS MORNING BUT NOTHING HAS FILTERED OUT ABOUT THEIR CONVERSATION. EVEN THOUGH THE LEFT RECOVERED IN THE SECOND ROUND, RUMOURS OF AN IMMINENT GOVERNMENT RESHUFFLE ARE RIFE. MAUROY'S POSITION MAY HAVE BEEN REINFORCED BY THE LEFT'S BETTER SHOWING IN THE SECOND ROUND BUT THE BETTING IS STILL ON HIS EARLY, IF NOT IMMEDIATE, DEPARTURE. IF HE GOES, DELORS FOLLOWED BY BEREGOVOY ARE THE CURRENT FAVOURITES TO SUCCEED HIM. ALTERNATIVELY, MITTERRAND MAY TURN TO A HITHERTO UNKNOWN, APOLITICAL TECHNOCRAT - A SOCIALIST EQUIVALENT OF POMPIDOU OR BARRE. WHATEVER CHANGES ARE MADE, CHEYSSON IS AMONG THOSE MINISTERS LESS LIKELY TO BE AFFECTED.

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TO IMMEDIATE FCO
TELEGRAM NUMBER 198 OF 11 MARCH 1983
INFO IMMEDIATE BONN AND UKREP BRUSSELS
INFO ROUTINE UKDEL IMF/IBRD WASHINGTON, AND WASHINGTON
INFO SAVING TO ATHENS BRUSSELS COPENHAGEN DUBLIN THE HAGUE LUXEMBOURG ROME UKDEL OECD AND CONSULATES GENERAL FRANCE

FRENCH ECONOMY: POST-ELECTION DECISIONS

SUMMARY

1. AFTER THE SECOND ROUND OF THE MUNICIPAL ELECTIONS ON SUNDAY THE FRENCH GOVERNMENT MAY WELL SEEK AN EARLY REALIGNMENT OF EMS PARITIES. THE STABILITY OF THE NEW FRANC PARITY WOULD REQUIRE AN ACCOMPANYING PACKAGE OF AUSTERITY MEASURES. A BITTER PILL FOR THE LEFT, WHICH MITTERRAND MAY SWEETEN WITH SOME TEMPORARY PROTECTIONIST MEASURES.

DETAIL

2. THE BANK OF FRANCE HAS SHOWN TACTICAL SKILL IN HANDLING SPECULATION AGAINST THE FRANC THIS WEEK, MAXIMISING COSTS TO SPECULATORS AND MINIMISING ITS OWN EXPENDITURE IN SUPPORT OF THE CURRENCY. IN THE MORROW OF KOHL'S VICTORY IN THE GERMAN ELECTIONS SPECULATORS SAW A POSSIBILITY THAT THE FRANC MIGHT BE DEVALUED BEFORE THE SECOND ROUND OF THE MUNICIPAL ELECTIONS, BUT ON THURSDAY THEY SHIFTED THE FOCUS OF THEIR EXPECTATIONS TO THE WEEK OF 15-22 MARCH.

3. WITH RECENT FIGURES FOR THE TRADE DEFICIT, INFLATION AND THE VALUE OF THE DOLLAR UNFAVOURABLE, MITTERRAND IS UNDER MOUNTING PRESSURE TO ACT SWIFTLY TO STAUNCH THE HAEMORRHAGE OF FOREIGN EXCHANGE RESERVES AND REDUCE THE RATE OF FOREIGN BORROWING, WHICH HAS BEEN RINGING ALARM BELLS. ACCCORDING TO BANK OF FRANCE CALCULATIONS LEAKED TO THE PRESS, ON PRESENT TRENDS, BY 1985/86, FRANCE'S MAXIMUM POTENTIAL EXTERNAL BORROWING WOULD BE ENTIRELY ABSORBED IN SERVICING ITS OUTSTANDING DEBT.

4. ALREADY IN JANUARY OF THIS YEAR THE OFFICIAL FORECASTERS IN THE MINISTRY OF FINANCE WERE ASSUMING A DEVALUATION IN THE FIRST HALF OF 1983 AND ANOTHER IN THE FIRST HALF OF 1984, OF 8% AGAINST THE GERMAN MARK. IT SEEMS PROBABLE THEREFORE THAT THE FRENCH WILL WANT A REALIGNMENT OF EMS CURRENCIES VERY SOON.

5. HAVING PUBLICLY REJECTED FOR SO LONG THE IDEA OF A THIRD DEVALUATION OF THE FRANC, THE GOVERNMENT WILL WISH TO PREVAIL

UPON THE GERMANS TO REVALUE THE MARK AS MUCH AS POSSIBLE. BUT WHATEVER THE SPLIT BETWEEN APPRECIATION OF THE MARK AND DEPRECIATION OF THE FRANC THAT THEY HOPE TO ACHIEVE, THEY WILL SURELY RECOGNISE THAT THE NEW PARITY OF THE FRANC WILL NOT BE CREDIBLE IN THE EYES OF THE MARKET UNLESS THERE IS A PACKAGE OF ACCOMPANYING MEASURES OF SOME WEIGHT. THE CONTENT OF THIS PACKAGE MAY TO SOME EXTENT BE INFLUENCED BY THE VIEWS OF FRANCE'S COMMUNITY PARTNERS, NOT LEAST AS THEY MAY BE EXPRESSED AT ANY REALIGNMENT CONFERENCE.

6. IN HIS NATIONAL TELEVISION BROADCAST ON 16 FEBRUARY, MAUROY DENIED HAVING ANY AUSTERITY PLAN IN HIS DRAWER, BUT THIS DENIAL CANNOT BE TAKEN AT FACE VALUE. AS PREVIOUSLY REPORTED, CAREFUL CONSIDERATION HAS BEEN GIVEN AT THE HIGHEST LEVEL OF GOVERNMENT TO MEASURES TO CUT CONSUMER SPENDING, REDUCE THE DEFICITS ON THE STATE AND SOCIAL SECURITY BUDGETS, AND INCREASE SAVINGS. TRUE, THE COMMUNIST PARTY AND SOME PROMINENT FIGURES ON THE LEFT OF THE SOCIALIST PARTY HAVE MADE KNOWN THEIR OPPOSITION TO ANY PLANNED REDUCTION IN THE PURCHASING POWER OF AVERAGE WAGES, AND THEIR PREFERENCE FOR AN ALTERNATIVE ECONOMIC STRATEGY - DUBBED THE ALBANIAN SOLUTION BY ITS OPPONENTS - WHICH WOULD APPARENTLY BE BASED ON EXTENSIVE PROTECTIONIST MEASURES AND ON REFLATION OF THE ECONOMY. UNDER THIS SCHEME OF THINGS FRANCE WOULD LEAVE THE EMS AND PRESUMABLY RENOUNCE, AT LEAST TEMPORARILY, MANY OF ITS EC OBLIGATIONS. HOWEVER THE EROSION OF SUPPORT FOR THE GOVERNMENT IN THE MUNICIPAL ELECTIONS MAKES IT LESS RATHER THAN MORE LIKELY THAT THE PRESIDENT WILL FEEL IMPELLED TO ADOPT MUCH OF THIS PRESCRIPTION.

7. UNDER THE PREVIOUS ADMINISTRATION, FRANCE WAS ABLE TO TAKE THE FRANC OUT OF THE EMS FOR A SHORT SPELL OF FLOATING WITHOUT AROUSING DEEP-SEATED FEARS ABOUT THE DIRECTION OF FRENCH POLICY. THE SAME WOULD NOT BE TRUE TODAY: AND THIS GIVES THE GOVERNMENT AN INCENTIVE TO TRY TO SET A NEW PARITY RATHER THAN TO FLOAT.

8. HOW FAR MITTERRAND WILL WANT TO GO IN ADOPTING PROTECTIONIST MEASURES IS A MORE OPEN QUESTION. HE WILL PROBABLY SEE MERIT IN SOME MEASURES OF AN AVOWEDLY TEMPORARY NATURE. MEN ON THE RIGHT OF THE PARTY, SUCH AS ROCARD, SEEM TO REGARD THAT AS HIGHLY LIKELY. AND MITTERRAND WOULD EXACERBATE THE UNHAPPINESS OF THE LEFT IF HIS ACCOMPANYING MEASURES CONSISTED SOLELY OF AUSTERITY. THE IMPOSITION OF A TEMPORARY IMPORT DEPOSIT SCHEME, AND RECOURSE TO PERMISSIBLE EC SAFEGUARDS COULD BE SEEN AS DESIRABLE IN THEMSELVES IN HELPING TO CORRECT THE TRADE DEFICIT AND AS A USEFUL SOP TO THE FAR LEFT. BUT I WOULD NOT EXPECT HIM TO GO FURTHER THAN THIS, NOR, I THINK, WOULD PUBLIC OPINION WANT HIM TO. IN RECENT MONTHS, INFLUENTIAL VOICES SUCH AS THOSE OF DELORS AND OF FORMER PRIME MINISTER RAYMOND BARRE HAVE DONE MUCH TO EDUCATE PUBLIC OPINION ON THE SHORT-SIGHTEDNESS OF PROTECTIONISM AS AN ECONOMIC POLICY.

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/ 9. IN CONSTRUCTING

9. IN CONSTRUCTING AN AUSTERITY PACKAGE THE GOVERNMENT WILL NO DOUBT WISH TO BE SEEN TO MAKE THE BURDEN FALL LESS HEAVILY ON THE LOWER PAID - SO FAR AS THIS IS FEASIBLE.

10. THE GERMAN EMBASSY HERE BELIEVE THAT FOR THE SAKE OF THE FRANCO-GERMAN RELATIONSHIP THEIR GOVERNMENT WILL GO SOME WAY TOWARDS EASING MITTERRAND'S POLITICAL PROBLEMS OVER REALIGNEMENT AND AUSTERITY, EG BY TOLERATING TEMPORARY PROTECTIONIST MEASURES. THEY DO NOT EXCLUDE SOME APPRECIATION OF THE MARK, PROVIDED THE FRENCH ARE PREPARED TO CUT CONSUMER SPENDING AND BUDGET DEFICITS.

ADVANCE COPIES TO: PS/CHANCELLOR OF THE EXCHEQUER
J G LITTLER, TREASURY
A R BOTTRILL, TREASURY
J GRAHAM, TREASURY

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FRETWELL

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FM PARIS 241535Z DEC 82
TO ROUTINE FCO
TELEGRAM NUMBER 1217 OF 24 DECEMBER 1982
AND TO ROUTINE JEDDA, UKDEL IMF/IBRD, UKREP BRUSSELS,
WASHINGTON AND BONN
INFO SAVING TO OTHER EC POSTS, CGS IN FRANCE, UKDEL OECD

FRENCH ECONOMY: HEALTH OF THE FRANC

SUMMARY

MITTERRAND'S XMAS STOCKING IS STUFFED A BIT TOO FULL OF LOANS. MORE AND MORE HIS CRITICS FORETELL AN EARLY BOUT OF INDIGESTION FOR THE FRANC. THEY FEAR THAT THE LARGE AMOUNTS OF BORROWED FOREIGN CURRENCY WHICH ARE BEING SPENT ON SUPPORTING THE FRANC AGAINST THE DEUTSCHMARK WILL BE WASTED BECAUSE DEVALUATION IS INEVITABLE. NOR ARE THERE ENOUGH SIGNS THAT MITTERRAND IS READY TO ADOPT A DEGREE OF RIGOUR THAT MIGHT STEM THE TIDE OF SPECULATION,. BUT HE MAY NOT BE ABLE TO POSTPONE THE DECISIVE MOMENT, AS HE HOPED, UNTIL AFTER THE MARCH MUNICIPAL ELECTIONS.

DETAIL

2. ON THE RETURN OF M DELORS FROM RIYADH, THE MINISTRY OF THE ECONOMY AND FINANCE HAS ALLOWED THE VEIL OF DISCRETION THAT HAS OBSCURED ITS NEGOTIATIONS FOR SAUDI FINANCIAL ASSISTANCE (PARIS TELNO 1175 OF 11 DECEMBER) TO DROP JUST A FRACTION OF AN INCH. IT ISSUED A COMMUNIQUE YESTERDAY CONTAINING LANGUAGE THAT APPEARED TO CONFIRM (BUT ONLY IN THE MOST GENERAL TERMS) PRESS REPORTS OF AN AGREEMENT BY THE SAUDIS TO MAKE AVAILABLE TO FRANCE FUNDS OF THE ORDER OF 4 BILLION, IN TWO OPERATIONS OF 2 BILLION.

3. ASSUMING THE REPORTS ARE CORRECT, THIS BRINGS TO THE US 8 BILLION DOLLARS THE SUM WHICH, SINCE SEPTEMBER, FRANCE HAS ARRANGED TO BORROW, APPARENTLY FOR THE SOLE PURPOSE OF SUPPORTING THE FRANC AGAINST THE DEUTSCHMARK IN THE EMS. UP TO US 3 BILLION APPEARS TO HAVE BEEN DRAWN ALREADY, ALTHOUGH PROBABLY NOT ALL OF THIS HAS BEEN SPENT. PUBLIC CRITICISM IS STARTING, ON THE GROUNDS THAT IF THE FRANC IS EVENTUALLY DEVALUED THE MONEY SPENT IN SUPPORTING IT WILL HAVE BOUGHT NOTHING OF LASTING VALUE. IT IS NOW ASSUMED BY ALL NON-GOVERNMENTAL EXPERTS WHOSE VIEWS ARE KNOWN TO US THAT THE FRANC WILL INDEED BE REALIGNED AGAINST THE DEUTSCHMARK IN 1983, AND SOME PEOPLE (INCLUDING, IN PRIVATE, THE FORMER PRIME MINISTER, RAYMOND BARRE) ARE SAYING THAT THIS WILL HAPPEN BEFORE THE MUNICIPAL ELECTIONS IN MARCH.

4. DELORS PROFESSES IN PUBLIC TO SEE NO NEED FOR ANY CHANGE OF PARITY NOW, NOR FOR ANY EARLY MOVE TO A MORE RIGOROUS ECONOMIC POLICY SUCH AS MIGHT STEM THE TIDE OF SPECULATION AGAINST THE CURRENCY BUT ADDS THAT

HE WILL NOT HESITATE TO RECOMMEND THAT THE SCREW MARKED RIGOUR BE GIVEN ANOTHER TWIST, IF IT BECOMES NECESSARY LATER. WHATEVER DELORS' REAL VIEWS ON THE MATTER, THERE IS CLEARLY NO

/GOVERNMENT

GOVERNMENT CONSENSUS FOR GREATER RIGOUR NOW . JEAN BOISSONAT, THE INFLUENTIAL EDITOR OF ''L'EXPANSION'' CAME AWAY FROM A RECENT INTERVIEW WIRH MITTERRAND CONVINCED THAT THE PRESIDENT HIMSELF WAS FAR FROM READY TO CHOOSE BETWEEEN THE ADVICE TENDERED BY THOSE LIKE DELORS WHO FAVOUR GREATER RIGOUR (''LES AUSTERES'') AND BY THOSE (''LES VOLUNTERRISTES'') LIKE CHEVENEMENT, THE MINISTER OF RESEARCH AND INDUSTRY, WHO, WITH EBULLIENT FAITH IN THEIR OWN POLICIES, BELIEVE THAT TOMORROW'S GROWTH WILL PAY OFF TODAY'S DEBTS.

5. ACCORDING TO THE FORECASTS FOR FRANCE AND FOR THE WORLD ECONOMY IN 1983 JUST PUBLISHED BY OECD AND INSEE THAT TOMORROW IS NOT JUST AROUND THE CORNER. OVER THE NEXT SIX MONTHS, THE PURCHASING POWER OF HOUSEHOLDS IS EXPECTED TO DECLINE, INDUST - RIAL PRODUCTION MAY DECLINE ALSO, UNEMPLOYMENT IS LIKELY TO START RISING AGAIN, AND COMPANY FINANCES WILL DETERIORATE FURTHER. INFLATION WILL PROBABLY STAY ABOVE 9 PER CENT. A LOWER DOLLAR WILL CUT THE ENERGY IMPORT BILL BUT EXPORTS WILL GROW ONLY SLOWLY AND THE TRADE DEFICIT WILL IMPROVE ONLY GRADUALLY. IN PUBLIC, THE PRESIDENT AND DELORS MAKE GENERALISED BUT INSISTENT REFER - ENCES TO THE HELP THAT THE GERMANS OWE TO FRANCE IN ITS EFFORTS TO CUT ITS TRADE DEFICIT AND AVOID A THIRD DEVALUATION, BUT SCEPTICAL FRENCHMEN (AND EVEN THE GERMAN AMBASSADOR HERE) DOUBT GERMAN WILLINGNESS TO MAKE GREAT SACRIFICES TO SUPPORT THE GOV - ERNMENT WHICH IS NOT PREPARED TO CALL ON PEOPLE TO MAKE THE PAINFUL ADJUSTMENTS THEIR NEIGHBOURS ARE MAKING.

6. ON THE OCCASION OF THE 1981 AND 1982 DEVALUATIONS MITTERRAND ACTED TOO LITTLE AND TOO LATE. HIS RESOLVE TO BE A ''FORCE TRANQUILLE'' SEEMED TO MAKE IT HARD FOR HIM TO READ THE SIGNS SOON ENOUGH. CONCERN TO GET PAST THE MARCH MUNICIPAL ELECTIONS MAY REINFORCE THIS TENDENCY. 1983 WILL SHOW WHETHER HE, AND HIS ADVISERS, HAVE LEARNT THEIR LESSONS OF EXPERIENCE. BUT THE EVIDENCE SO FAR IS NOT REASSURING.

FCO PLEASE PASS SAVING TO EC POSTS.

PETRIE.

FINANCIAL
WED

THIS TELEGRAM
WAS NOT
ADVANCED

[PASSED AS REQUESTED]

2.39

Top Copy on Japan, Nov '79, Internal Situation

Prime Minister

A useful list.

MCS 11/11

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 November 1982

R Bone Esq.
Foreign and Commonwealth Office

Dear Roger,

OTHER COUNTRIES FISCAL POLICIES

The Chancellor thought that Cabinet colleagues might, in addition to other briefing material being circulated this week, find it helpful to have a background note containing examples of fiscal measures that have been taken or are in prospect in other countries.

I attach a short paper that has been prepared here with some illustrative material of this kind.

I am sending copies of this letter to Michael Scholar (No. 10) and to the Private Offices of other Cabinet members.

Yours sincerely,

Jill Rutter

JILL RUTTER
Private Secretary

OTHER COUNTRIES' FISCAL POLICIES

Budget plans for 1983 have now been announced in most countries. It is clear that governments are determined to restrain borrowing even if this involves hard decisions to cut spending or raise taxes.

2. In the wake of the first oil price increase many industrial countries allowed public expenditure to rise. Following the second increase countries recognised that they faced large deficits which would not disappear in the foreseeable future. Subsequently the main emphasis of policy has been to reduce these deficits, cut national cost overheads and seek to improve market efficiency. Within tightly controlled expenditure limits governments are also trying to change the balance of expenditure from current to capital expenditure, and to switch the burden of taxation from industry. Any increase in expenditure has generally taken the form of aid to industry or employment programmes.

3. Some illustrations of measures taken or in prospect are set out below:

Social Security benefits

(i) The French government intends to index social benefits to the inflation target rather than the inflation outturn. Pension increases are to be delayed by 6 months.

(ii) The German government is to introduce means-testing for child benefits as well as delaying pension increases for 6 months.

(iii) The Belgian government intends to reduce family allowances. Unemployment benefit has also been reduced for some groups.

(iv) The Danish government is to de-index social security payments.

Social security contributions

(i) The French government plans to raise the contributions of people who have taken early retirement and levy a 1 per cent contribution from some civil servants (previously they were exempted).

(ii) The Danish government is increasing employees and employers contributions.

(iii) The Belgian government intends to increase personal contributions.

Health expenditure

(i) The French government intends to introduce a "hotel" charge for some hospital patients, of 20 Francs per day.

(ii) The German government plans to make patients contribute to the cost of in-patients' hospital treatment for the first 14 days.

(iii) The Belgian government has banned further hospital building.

(iv) The American government has cut $13 billion from planned expenditure on its Medicare programme.

Public sector pay and numbers

(i) The German government will be limiting pay increases for public servants to 2 per cent.

(ii) Japanese public servants are to receive no cost of living adjustment this year.

(iii) The Belgian government has stopped recruitment and intends to reduce the numbers employed by $1\frac{1}{2}$ per cent.

(iv) The Danish government intends to impose a ceiling of 4 per cent for public sector wages increases in 1983-85.

Income tax

(i) The German government plans to raise a special levy from higher tax payers.

(ii) The French government will raise the top rate of tax on earned income from 60 per cent to 65 per cent.

France

GRS 370 [CULL] RESTRICTED
RESTRICTED
DESKBY FCO 181200Z
FM PARIS 181052Z OCT 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 978 OF 18 OCTOBER 1982
INFO ROUTINE UKREP BRUSSELS, ATHENS, BRUSSELS, COPENHAGEN, THE HAGUE, LUXEMBOURG, ROME, DUBLIN, BONN.
INFO SAVING TO CONSULATES GENERAL,FRANCE AND UKDEL OECD (BOTH PASSED BY PARIS)

FRENCH BALANCE OF PAYMENTS

1. THE FRENCH TRADE DEFICIT FOR SEPTEMBER OF 12.2 BN FRANCS ANNOUNCED OVER THE WEEKEND IS SECOND ONLY IN SIZE TO THAT OF JUNE, WHICH SET A HISTORICAL RECORD. IT BRINGS THE CUMULATIVE DEFICIT FOR 1982 TO 73 BN FRANCS AND M JOBERT, FOREIGN TRADE MINISTER, SAID THAT THE DEFICIT FOR THE YEAR AS A WHOLE ''WILL CERTAINLY REACH 100 BN FRANCS''.

2. THIS NEWS, ALTHOUGH NOT ENTIRELY UNEXPECTED, IS UNHELPFUL TO THE FRANC, PARTICULARLY AT A TIME WHEN NEGOTIATIONS FOR WAGES AND PRICE RESTRAINT HAVE GOT OFF TO A SLOW START. OFFICIALS IN ECONOMIC MINISTRIES TO WHOM WE HAVE SPOKEN IN RECENT DAYS ARE VERY GLOOMY. A MEMBER OF JOBERT'S CABINET TOLD FIRST SECRETARY (ECONOMIC) THIS WEEKEND THAT HE BELIEVES THAT THE RESPONSE TO THE LATEST NEWS WILL NOT BE TO SEEK ANY DEROGATION OF FRANCE'S OBLIGATIONS UNDER EC RULES FOR TRADE WITHIN THE COMMUNITY BUT THAT THE GOVERNMENT MAY SEEK THE APPLICATION OF SAFEGUARDS AGAINST IMPORTS FROM OUTSIDE THE COMMUNITY IN PARTICULAR FIELDS, OF WHICH CONSUMER ELECTRONICS WOULD BE ONE.

3. JOBERT WARNED AS LONG AGO AS APRIL THAT FRANCE WOULD HAVE A VERY LARGE TRADE DEFICIT THIS YEAR. SO HE HIMSELF HAS NOT BEEN CAUGHT ON THE WRONG FOOT.HE HAS SAID PUBLICLY THAT THE URGENCY OF THE SITUATION HAS ''FINALLY DAWNED ON THE GOVERNMENT'', AND THE BUDGET MINISTER ANNONCED ON SATURDAY THAT BEGINNING IN 1983 ALL ENTERPRISES WHICH EXPORT WILL BE ENTITLED TO BENEFIT FROM AN ALLEVIATION OF THEIR TAX BURDEN IN PROPORTION TO THEIR EXPORTS. SOME 50 MEASURES, MOST OF THEM ADMINISTRATIVE, ARE REPORTED BY THE PRESS TO BE IN PREPARATION TO IMPROVE THE ABILITY OF FRENCH COMPANIES TO INVEST AND COMPETE WITH FOREIGN FIRMS. SOME OF THESE WILL BE ANNOUNCED LATER THIS WEEK.

4. UNTIL THE MEASURES ARE ANNOUNCED IT WILL NOT BE CLEAR WHAT THE EFFECT WILL BE ON BRITISH INTERESTS. BUT AT THE LEAST

THIS SEPTEMBER DEFICIT WILL GIVE FRESH AMMUNITION FOR ARGUMENTS ABOUT FRANCE'S INABILITY TO HELP THE UK OVER THE EC BUDGET PROBLEM.

5. F.C.O. PLEASE PASS ADVANCE COPY IMMEDIATELY TO S IN J. FRETWELL CARE OF HEADS OF MISSION SECTION OR W.E.D.

PETRIE

FINANCIAL D

WED

France

CONFIDENTIAL

9 August 1982

Thank you for your letter of 2 August to John Coles enclosing a copy of Sir John Fretwell's report of his conversation with M. Chirac, which the Prime Minister has noted.

TIM FLESHER

F N Richards Esq
Foreign and Commonwealth Office

CONFIDENTIAL

(4)

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

2 August, 1982

Prime Minister

You may care to see.

A.J.C. 2/8

Dear John,

Sir John Fretwell made a courtesy call on the Mayor of Paris, M. Chirac, on 21 July. Despite the nature of the call most of the conversation stemmed from M. Chirac's position as effective leader of the French Opposition. You may care to have a copy of Sir John Fretwell's reporting letter.

Yours ever.

(F N Richards)
Private Secretary

A J Coles Esq
Private Secretary
10 Dowing Street

CONFIDENTIAL

BRITISH EMBASSY,
PARIS.

23 July 1982

A C Goodison Esq CMG CVO
AUSS
FCO

WED.
26/7
submitted for MDA 30/7

Dear Alan,

CALL ON CHIRAC

1. I made a courtesy call on Chirac, as Mayor of Paris, on 21 July. I had met him previously, but it provided a useful occasion for a talk before the August break.

2. Chirac both began and concluded our conversation by expressing his high esteem for the Prime Minister. He asked for his personal regards to be conveyed to her. You may wish to draw this to the attention of No 10. He also referred warmly to his conversation with the Secretary of State during the EDU meeting on 1/2 July. He remarked, with good humour, that he had allowed the Secretary of State to censor his speech by deleting references to cooperation on tactical nuclear weapons: he noted wryly that without the burden of high office he did not have to concern himself too much with such matters, but understood that those with the responsibility of government could not afford indiscretions.

3. I asked Chirac about the government's attempt to divide up Paris. He brushed this aside as a mere political skirmish. He obviously thought he had done well out of it, but added that the government still retained the power to legislate in ways which could do him some damage. However he took comfort in the fact that Marseille had now been put in the same boat as Paris, so whatever was done to him would be done simultaneously to Defferre. He saw this as a useful safeguard.

4. He warmed to the theme of the total incompetence of the Mitterrand administration. He contrasted it in one respect with Labour governments in the UK: they had been weak and had looked for easy answers to economic problems; but Mitterrand was something quite different - he was a real Marxist. In Chirac's view, Mitterrand could not afford to alienate the communists and

/would

would go to extreme lengths to keep them on board. He cited as an example the recent decisions on the electoral system for next year's municipal elections. The Socialist Party had fought very hard for a system designed to weaken the communist party, but at the last minute Mitterrand had conceded to the communists that any party which gained 10% of the votes in the first round could put forward its own candidates in the second. This was exactly what the communists wanted and would greatly strengthen their electoral position. Mitterrand had so far pretended to stand up to the Soviet Union, but this would not last another six months: by the end of the year Mitterrand would be seeking Moscow's favour and next year he would come out against the installation of Pershings and cruise missiles in western Europe.

5. Chirac maintained that there would be serious trouble in France this autumn after the holiday break. He spoke of difficulties with both farmers and industrial workers and referred to past revolutions in France. He was sure that the government would not see out its term. I asked how in practice a government could be overthrown under the present French constitutional system. He did not give a direct answer and indeed acknowledged that the government might be able to continue until the 1986 legislative elections. But he referred to the extensive gains which the opposition would make at next year's municipal elections, to the likely break between the socialists and communists afterwards and to the general dissatisfaction with the government's performance. He saw all this as likely to bring about a situation in which the President would need to call fresh elections well before 1986. (Comment: we have heard this analysis before from adherents of both Chirac and Giscard. It is not clear why a President who has lost popularity should choose to dissolve an assembly in which he commands a majority, in order to call elections which could well provide a majority for the opposition.)

6. Chirac spoke scathingly about the government's conduct of foreign policy, especially in central America. He thought it foolish to alienate the United States. He felt certain that Chancellor Schmidt would not last more than a few months longer in the Federal Republic. There was therefore a prospect in a year or two of having four strong like-minded governments in the US, Britain, Germany and France. This would open the way for meaningful defence cooperation between the three European partners and would lead also to a tightening of defence links with the United States. At present, he thought the Germans had good reason to be nervous about sitting on a powder keg with no certainty that the Americans would in the last resort defend them. He saw a combined European effort, linked with the US, as providing a surer guarantee in the long term. But for this purpose, it would be essential for both Mitterrand and Schmidt to be swept away, while Reagan and Mrs Thatcher continued to hold office in their countries.

/7. I

7. I referred to disagreements which had arisen in the past between Britain and France over Community matters. He began by deploring that quarrels which had previously been between Britain and the rest of the Ten had become quarrels between Britain and France. He then seemed to sense that this was not a very promising line and said that British interests could never be reconciled with those of the rest of the Community. British leaders had been wiser when they had sought an association arrangement within a free trade area in the 1960s. I said that the problems should not be exaggerated. We had moved on a long way from the 1960s. The differences between the UK and France were essentially confined to the budget; and with good will it would be possible to find satisfactory and lasting solutions which balanced the interests of all parties involved. Chirac looked sceptical, but evidently did not think the point worth arguing at length: he commented that all these questions were minor - what mattered was the defence relationship, on which the future of Europe depended.

8. Chirac questioned me in some detail about what we expected to happen now in the Falklands. I replied on standard lines, making it clear that there could be no question of negotiation with Argentina over sovereignty in the foreseeable future. Chirac listened attentively. I had the impression that he has not decided quite which way to jump on the Falklands. At least he could have been left in no doubt about our position.

9. This apocalyptic view of the French domestic political scene is little changed from the assessment which Chirac gave to the Prime Minister when he saw her in London on 3 March. Chirac is an impressive political animal - lean and hungry - but he perhaps tends to confuse his wishes and political ambitions with reality. What he said about the Marxist inspiration of President Mitterrand and his inability to stand up to the Communist Party represents a very incomplete view of the relationship between Socialists and Communists in France and ignores the fact that the decline of the French Communist Party has derived in large part from Mitterrand's achievement in building up the Socialist Party in its place. The system adopted for next year's municipal elections is not ideal for the Socialist Party but reflects their need for a considerable measure of Communist support if the Left are to avoid severe losses to the present Opposition (Paris saving telno 72 of 16 July). As the emerging leader of this Opposition, with the wind in his sails at present, Chirac is quite right to adopt a vigorous broad brush approach to the deficiencies of the Mitterrand administration. But he is not of course an impartial observer.

Yours ever,
John

John Fretwell

France

1) Mr. Whitmore Thd Sir
2) Bank to me pl. pa

A.J.C. 5/7

CONFIDENTIAL

GRS 380
CONFIDENTIAL
FM PARIS 030930Z JUL 82
TO ROUTINE FCO
TELEGRAM NUMBER 695 OF 2 JULY 1982
INFO SAVING ATHENSN BRUSSELS, UKREP BRUSSELS, COPENHAGEN, THEHAGUE, LUXEMBOURG, ROME, DUBLIN, BONN, UKDEL STRASBOURG.
LYONS, LILLE, MARSEILLES, BORDEAUX (PASSED BY PARIS)

MY TEL NO 677: FRENCH GOVERNMENT RESHUFFLE

1. FOLLOWING BEREGOVOY'S NOMINATION AS MINISTER FOR SOCIAL AFFAIRS AND NATIONAL SOLIDARITY.
JEAN-LOUIS BIANCO, PREVIOUSLY A CHARGE DE MISSION IN THE PRESIDENT'S CABINET WORKING TO ATTULI, HAS BEEN APPOINTED SECRETARY GENERAL OF THE ELYSEE. ATTALI, WHO REMAINS SPECIAL COUNSELLOR TO THE PRESIDENT, WILL IN FUTURE ATTEND MEETINGS OF THE COUNCIL OF MINISTERS AND REPORT ON THE PROCEEDINGS TO THE PRESS, A ROLE FORMERLY PLAYED BY BEREGOVOY. SAUTTER, HITHERTO A CONSEILLER TECHNIQUE UNDER BEREGOVOY, BECOMES ASSISTANT SECRETARY GENERAL FOLLOWING THE COINCIDENTAL DEPARTURE OF FOURNIER TO SUCCEED LONG AS SECRETARY GENERAL OF THE GOVERNMENT (MATCHING SOME OF THE FUNCTIONS OF SECRETARY GENERAL OF THE CABINET).

2. BIANCO'S APPOINTMENT IS SOMETHING OF A SURPRISE. ALTHOUGH AT THE ELYSEE SINCE JUNE LAST YEAR, HE HAS NOT BEEN IN THE PUBLIC EYE. HE APPEARS TO HAVE OWED HIS ORIGINAL APPOINTMENT AS MUCH TO HIS FRIENDSHIP WITH ATTALI AS TO HIS CLOSENESS TO MITTERAND. AT 39 BIANCO IS THE YOUNGEST SECRETARY GENERAL OF THE ELYSEE UNDER THE FIFTH REPUBLIC. BEFORE ENTERING THE ELYSEE HE HAD THE CLASSIC CAREER OF A HIGH-FLYING FRENCH CIVIL SERVANT: ENA, ECOLE DES MINES AND THE CONSEIL D'ETAT. HE WAS ALSO THE HEAD OF DIVISION DEALING WITH THE FAMILY AND CHILDREN AT THE MINISTRY OF HEALTH FROM 1977-1979. THE APPOINTMENT OF A CIVIL SERVANT TO THE POST OF SECRETARY GENERAL REPRESENTS A RETURN TO THE TRADITION OF THE FIFTH REPUBLIC BROKEN BY THE NOMINATION OF BEREGOVOY. BEREGOVOY, WHO UNLIKE HIS PREDECESSORS WAS NOT A PRODUCT OF ENA, REMAINED ESSENTIALLY A POLITICIAN. AS SECRETARY GENERAL HE WAS UNIQUE IN HOLDING PARTY OFFICE AS A MEMBER OF THE MANAGEMENT COMMITTEE OF THE SOCIALIST PARTY.

3. BIANCO'S APPOINTMENT, ACCOMPANIED BY THE ATTRIBUTION OF FURTHER RESPONSIBILITIES TO ATTALI, MAY HOWEVER REPRESENT A DOWN-GRADING OF THE ROLE OF THE SECRETARY GENERAL. HENCEFORTH POLICY ADVICE SEEMS LIKELY TO BE FILTERED EVEN MORE THAN IN THE PAST THROUGH ATTALI AND, IN THE DOMESTIC SPHERE THROUGH ROUSSELET, MITTERRAND'S DIRECTEUR DU CABINET, WHILE BIANCO TAKES RESPONSIBILITY FOR THE GENERAL COORDINATION OF THE ELYSEE. THE ABSENCE OF A CLEAR CHAIN OF COMMAND AT THE ELYSEE REFLECTS MITTERRAND'S PERSONAL ANTIPATHY TOWARDS FORMAL BUREAUCRATIC ORGANISATION. EVER SINCE HIS DAYS AS FIRST SECRETARY OF THE SOCIALIST PARTY HE HAS PREFERRED TO BE IN A POSITION TO SYNTHESISE ADVICE DRAWN FROM DIFFERENT SETS OF ADVISERS.

FCO PASS SAVING TO EC POSTS AND UKDEL STRASBOURG.

FRETWELL

[REPEATED AS REQUESTED]

FCO/WHITEHALL
WED

[NOT ADVANCED]

France

P.4.

PRIME MINISTER

FRENCH FRANC INTEREST RATES

I told you this morning that 3 months French Franc interest rates were around 23%. In fact, last night 3 months Euro currency rates were 27 - 30% and 7-day rates were 45 - 70%.

But, with exchange control, the domestic market is separate and controlled. There the 3 month rate is around 16% and the overnight rate 18%.

If you are going to make a reference to this in your speech tomorrow, I suggest you refer primarily to the domestic rates of up to 18%, and mention in an aside that in international markets very high interest rates, of up to 100% (the overnight rate earlier this week) are being required by holders of French Francs.

MLS

26 March, 1982

• Prime Minister

The French franc 3-month euro-rate was 27% yesterday.

=

MCS

FINANCIAL TIMES EXTRACT

Friday 26 March 1982

EURO-CURRENCY INTEREST RATES (Market closing Rates)

Mar. 25	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Convertible	Japanese Yen
Short term	13⅝-13⅞	14-14	16-17	4½-8½	1-1½	9-9⅛	35-75	18-22	9¼-11	6⅝-6⅞
7 days' notice	13⅝-13⅞	14⅛-14⅜	16-17	7¼-7½	7¾-8¼	9-9⅛	45-70	26-34	14-19	6¾-7⅛
Month	13¾-13⅞	14⅛-14⅛	16⅛-16½	7½-7⅝	5⅜-5⅛	9⅛-9¼	38-43	27-30	16-18¼	6¾-6¾
Three months	13⅝-13⅞	15-15¼	16⅛-16⅜	8⅛-8⅜	5⅜-5½	9⅛-9¼	27-30	24⅞-26⅜	17-18¼	6⅝-6⅞
Six months	13½-13⅝	15-15¼	16¼-16⅝	8½-8⅝	5⅝-6⅛	9⅛-9⅜	22-25	23½-24½	15¾-17¼	6⅝-6⅞
One Year	13¾-13⅞	14⅞-15⅛	16⅛-16¼	8⅝-9⅛	6½-6⅝	9⅛-9¼	20-22	22½-24	15¾-17¼	6⅝-6⅞

BFr (financial): short-term 10-11 per cent; seven days' notice 12½-13 per cent; one month 13½-13¾ per cent; three months 14½-14¾ per cent; six months 14½-14¾ per cent; one year 14½-14¾ per cent.

SDR linked deposits: one month 15⅜-16 per cent; three months 14½-14½ per cent; six months 13½-13⅞ per cent; one year 13⅜-13½ per cent.

ECU linked deposits: one month 18¾-19⅛ per cent; three months 15⅝-16 per cent; six months 14⅛-14⅜ per cent; one year 13⅜-13⅝ per cent.

Asian $ (closing rates in Singapore): one month 14¹⁵/₁₆-14¹⁵/₁₆ per cent; three months 15-15⅛ per cent; six months 15½-15⅝ per cent; one year 14⅞-15⅛ per cent. Long-term Eurodollar two years 15⅛-15¼ per cent; three years 15¼-15½ per cent; four years 15⅜-15½ per cent; five years 15⅜-15⅝ per cent. Floating rates. Short-term rates are call for U.S. dollars, Canadian dollars and Japanese yen; others two days' notice.

The following rates were quoted for London dollar certificates of deposit: one month 14.60-14.70 per cent; three months 14.65-14.75 per cent; six months 14.75-14.85 per cent; one year 14.75-14.85 per cent.

France

GRS 940 CONFIDENTIAL
CONFIDENTIAL [CULL]
FM PARIS 181830Z MAR 82
TO PRIORITY FCO
TELEGRAM NUMBER 259 OF 18 MAR 82
INFO PRIORITY UKREP BRUSSELS BONN ROME ROUTINE EC POSTS WASHINGTON

THE FRENCH ECONOMY: EXCHANGE RATE

1. IN THE PAST FEW DAYS THE FRENCH FRANC HAS COME UNDER SUBSTANTIAL PRESSURE ON THE FOREIGN EXCHANGE MARKETS. THIS HAS LED TO SPECULATION ABOUT A POSSIBLE FURTHER EMS REALIGNMENT INVOLVING A FRANC DEVALUATION. THE PRESSURE ON THE FRANC REFLECTS AN ONSET OF DOUBTS BOTH IN FRANCE AND EXTERNALLY ON THE PROSPECTS FOR THE FRENCH ECONOMY, COMPARED WITH HER MAJOR PARTNERS, AND HAS COME AT A POLITICALLY SENSITIVE MOMENT FOR THE FRENCH GOVERNMENT.

2. SINCE THE LATEST EMS REALIGNMENT ON 21 FEBRUARY THE FRANC HAS WEAKENED STEADILY WITHIN THE EMS. EARLIER THIS YEAR THE FRANC WAS AT, OR CLOSE TO, THE TOP OF THE SYSTEM, BUT THE DEVALUATION OF THE BELGIAN, LUXEMBOURG, AND DANISH CURRENCIES EXPOSED IT TO RENEWED PRESSURE. IT DRIFTED SLOWLY DOWN INTO THE LOWER BAND OF THE SYSTEM TOWARDS THE END OF FEBRUARY THOUGH IT REMAINED WELL WITHIN ITS INTERVENTION LIMITS. IF THE FOREIGN EXCHANGE MARKETS ARE NOW LOOKING ROUND, AS THEY APPEAR TO BE, FOR THE NEXT CURRENCY TO BE DEVALUED WITHIN THE EMS SYSTEM, IT WAS PERHAPS INEVITABLE THAT THE FRENCH FRANC WOULD COME UNDER SCRUTINY.

3. THE COMBINATION OF A NUMBER OF FACTORS RELATED TO THE REAL ECONOMY AND TO EXTERNAL DEVELOPMENTS SEEMS TO HAVE BEEN RESPONSIBLE FOR THE LATEST ACCELERATED FALL. CONFIDENCE IN THE FRANC ALSO APPEARS TO HAVE BEEN JOLTED BY THE GOVERNING MAJORITY'S POOR SHOWING IN THE FIRST ROUND OF THE FRENCH CANTONAL ELECTIONS LAST WEEKEND (MY TEL NO 244) IN SO FAR AS THIS REACTION IS RATIONAL IT PRESUMABLY RELATES TO THE GOVERNMENT'S ESTIMATED READINESS TO ADOPT RIGOROUS FINANCIAL POLICIES. BUT IN ANY CASE RECENT OFFICIAL ECONOMIC INDICATORS HAVE REVEALED THAT THE MODEST CONSUMPTION LED UPTURN IN ACTIVITY IN THE FINAL QUARTER OF LAST YEAR, WHICH IS FUNDAMENTAL TO THE GOVERNMENT'S ECONOMIC STRATEGY, HAS SLACKENED OFF IN THE FIRST TWO MONTHS OF THIS YEAR. THE MOST RECENT INSEE (NATIONAL STATISTICAL INSTITUTE) AND BANQUE DE FRANCE SHORT-TERM FORECASTS SHOW A REDUCED GROWTH PROJECTION FOR THE FIRST HALF OF 1982 AND, ALTHOUGH PRODUCTIVE INVESTMENT SHOWS SOME SIGNS OF PICKING UP, ITS OVERALL LEVEL REMAINS DISAPPOINTING. THE EMPLOYERS ORGANISATION, THE PATRONAT, HAS MEANWHILE SHARPLY CRITICISED THE GOVERNMENT'S ECONOMIC POLICY. THE LATEST RETAIL PRICE INDEX FOR THE FIRST TWO MONTHS OF 1982 SHOWS AN ANNUAL RISE OF 12%. THIS IS BELOW LAST YEAR'S INFLATION RATE (14%) BUT WOULD STILL LEAVE FRANCE WITH ONE OF THE HIGHEST RATES AMONG OECD COUNTRIES.

4. RECENT MUCH-PUBLICISED INDICATIONS ON THE PROSPECTS FOR THE BUDGET DEFICITS FOR 1982 AND 1983 AND ON THE BALANCE OF PAYMENTS FOR 1982 HAVE BEEN MUCH WORSE THAN THE GOVERNMENT HAD ENVISAGED. IT SEEMS CLEAR THAT THE 1982 BUDGET DEFICIT (PARIS SAVING TEL NO 38) WILL OVER-SHOOT SUBSTANTIALLY THE TARGET OF F 95 BILLION TO REACH AT LEAST F12Ø BILLION - F13Ø BILLION, WHILE UNOFFICIAL FORECASTS FOR THE 1983 DEFICIT ON CURRENT PLANS RANGE FROM F17Ø BILLION - F2ØØ BILLION. PRESIDENT MITTERRAND DECREED AT THE COUNCIL OF MINISTERS MEETING ON 1Ø MARCH THAT, WHILE PRIORITY IN 1983 SHOULD STILL BE GIVEN TO EMPLOYMENT, THE BUDGET DEFICIT MUST BE KEPT WITHIN 3% OF GDP. TO ACHIEVE THIS AIM, THE GOVERNMENT WILL NEED TO MAKE SOME EXTREMELY PAINFUL CHOICES, GIVEN ITS EXISTING COMMITMENTS. MANY OBSERVERS ARE SCEPTICAL ABOUT THE GOVERNMENT'S WILL AND MARGIN FOR MANOEUVRE TO MAKE THESE CHOICES, ESPECIALLY IN VIEW OF ITS RECENT DECISION, IN RESPONSE TO UNION PRESSURE, TO SANCTION A REDUCTION IN THE WORKING WEEK WITH FULL PAY, AND GIVEN THE POLITICAL IMPORTANCE OF THE 1983 MUNICIPAL ELECTIONS.

5. THE LATEST OFFICIAL FIGURES FOR THE 1981 BALANCE OF PAYMENTS CONFIRM A LARGER CURRENT ACCOUNT DEFICIT (F4Ø.6 BILLION) THAN IN 198Ø (F33.1 BILLION), DUE MAINLY TO A REDUCED INVISIBLES SURPLUS, DESPITE A LOWER DEFICIT ON VISIBLE TRADE (F52.3 BILLION IN 198Ø: F48.3 BILLION IN 1981). MORE WORRYING FOR THE GOVERNMENT IS THE FACT THAT THE VISIBLE TRADE DEFICIT ACCELERATED RAPIDLY IN THE FINAL QUARTER OF 1981, AND THE SAME TREND APPEARS TO BE PERSISTING INTO 1982. THE DANGERS FOR THE BALANCE OF PAYMENTS OF DOMESTIC REFLATION LEADING TO AN IMPORT UPSURGE, COUPLED WITH A FALL IN EXPORT COMPETITIVITY, APPEAR REAL. MEANWHILE, THE WEST GERMAN ECONOMY (BONN TEL NO 227) IS SHOWING SIGNS OF THE LONG-EXPECTED RECOVERY AND THE DM IS BECOMING CORRESPONDINGLY STRONGER WITHIN EMS. THE RECENT WAGE SETTLEMENT BY THE GERMAN METAL-WORKERS UNION AT 2Ø% BELOW THE INFLATION RATE HAS FOCUSED ATTENTION ONCE AGAIN ON THE WIDENING INFLATION RATE DIFFERENTIAL BETWEEN FRANCE AND GERMANY. THE DOLLAR REMAINS AT A HIGH LEVEL WITH US INTEREST RATES FIRMING UP AGAIN, ADDING TO THE OVERALL PRESSURE ON THE FRANC.

6. FOR THE TIME BEING THE FRENCH GOVERNMENT IS STEMMING THE TIDE BY THE CLASSIC METHODS. THE BANQUE DE FRANCE IS INTERVENING ACTIVELY IN SUPPORT OF THE FRANC ON THE FOREIGN EXCHANGE MARKETS AT A COST OVER THE PAST TWO WEEKS OF SOME 2BILLION DOLLARS, ACCORDING TO BANKING SOURCES. FRENCH DOMESTIC INTEREST RATES, WHICH HAD BEEN QUIETLY EDGED DOWNWARDS RECENTLY AS PART OF THE GOVERNMENT'S GROWTH STRATEGY, HAVE NOW BEEN RAISED TO THE HIGHEST LEVEL FOR SOME WEEKS. IN A RADIO INTERVIEW YESTERDAY, M DELORS CLAIMED

TO BE ASTONISHED AT THE AGITATION AND ARGUED THAT THE ECONOMY WAS BEHAVING SATISFACTORILY. NEVERTHELESS, TRESOR AND BANQUE DE FRANCE OFFICIALS WERE INDERSTANDABLY TIGHT-LIPPED WHEN CONTACTED TODAY. AT THE TIME OF DRAFTING FRENCH INTEREST RATES HAVE BEEN RAISED ONCE AGAIN TODAY WHILE GERMAN RATES HAVE BEEN LOWERED, AND THE BANQUE DE FRANCE IS INTERVENING HEAVILY IN THE MARKET. WITH THE SECOND ROUND OF THE CANTONAL ELECTIONS DUE TO TAKE PLACE THIS WEEKEND, THE FRENCH GOVERNMENT WILL BE PARTICULARLY KEEN, IF AT ALL POSSIBLE, TO RIDE OUT AN EXCHANGE RATE DRAMA AT THE PRESENT MOMENT.

FRETWELL

FINANCIAL
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THIS TELEGRAM
WAS NOT
ADVANCED

France

BY BAG RESTRICTED

SAVING TELEGRAM
FROM PARIS
RESTRICTED
TO FCO SAVING TELNO 18 OF 3 FEBRUARY 1982
REPEATED FOR INFORMATION SAVING TO CONSULS GENERAL, FRANCE, EC POSTS, WASHINGTON, UKDEL STRASBOURG, MADRID

FRANCE : INDUSTRIAL UNREST

1. For the first time since the Socialist government took office in France last June there has been widespread industrial action in many sectors as a direct protest against the manner in which part of the government's programme is being implemented. The trigger for protest was a government ordinance on working time, holiday and fringe benefits. In particular, the decree promulgated on 16 January, laid down a reduction in the standard 41 or 40 hour working week to 39 hours from 1 February (as the first step towards the objective of a 35 hour week) and introduced a fifth week of paid annual holiday. Managements in a number of enterprises and in the Civil Service have interpreted the ordinance in ways which have been taken by the employees as reducing advantages already obtained. As a result there have been a mixture of strikes and working to rule by customs officers, some civil servants, employees in the retail sector and some groups of industrial workers (including part of Renault).

2. The most publicised campaign has been a work to rule by customs officials which has led to long delays for air travellers and even greater disruption to trans-frontier freight movements. In one incident lorry drivers who had been forced to wait up to 5 days at the Franco-Spanish border took matters into their own hands. On 1 February they surrounded the customs office at Biriatou (Hendaye). On the Prefect's orders 20 customs officials were withdrawn for their own safety under police escort and lorry traffic from Spain is now moving freely again, with no customs checks at all being made. This state of affairs is clearly temporary : the customs Trades Unions involved now threaten an all-out strike.

3. The ordinance implementing the 39 hour week is no more than a statement of principles. Individual managements and Trades Unions are expected to negotiate all the details. As a result many different issues have surfaced as points of contention, both for management and the Unions. The latter have called for their members to be paid the same, or very little less for the shorter working week and also argue that the revision of working hours should suit the workforce and not the management's convenience. Some unions have requested the extra hour off each Friday : others that it should accumulate and be taken on a monthly basis. The government appears surprised by the extent and strength of hostile reactions to what it expected to be a popular move. Part of the explanation may be that the new legislation in fact disturbs existing de facto arrangements which are as good as, or better than the proposed reforms. Union opposition to the fifth week is based on the fact that length of service by certain workers already provides some or all of this. In short, it appears that the government failed to do its homework adequately on the existing situation and is now faced with embarrassment as well as industrial unrest.

4. The Minister of Labour, Jean Auroux, commented on television on 2 February that the government had never expected the reduction in working time to proceed smoothly, after 50 years of stagnation, but that the measures were designed to give workers more free time, to improve their working conditions and to share the work available more equitably between the present workforce and those currently unemployed. Agreement in the end may well be reached between most of the unions and the employers who signed the Agreement on the reduction of working time on 17 July 1981 which was the basis for the present government ordinance. The communist-dominated Federation of Trade Unions (the CGT) has not signed the Agreement and has consistently opposed the manner in which the government has pursued this reform (see Reed's letter to Armour (WED) of 22 December 1981). It is therefore likely that there will be considerable further industrial unrest over the issue.

HIBBERT

FCO/WHITEHALL

WED

Ref please

FROM: Sir Kenneth Couzens
DATE: 5 February 1982

For Information:

Chief Secretary
Financial Secretary
Economic Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Miss Brown
Mrs Hedley-Miller
Mr Lavelle
Mr Bottrill

CHANCELLOR

f.a. 10/3

THE FRENCH AND US PSBRs

You will recall that Mr Appleyard and his predecessors in Paris have for the years since 1977 compiled with considerable labour, figures of French public borrowing which are as nearly as possible on a basis comparable to our own PSBR. Towards the end of last year Mr Appleyard was able (with all the usual reservations about the comparability of the material) to add figures for French public borrowing in 1980 to the series, together with some trailers for 1981 and 1982. The figures for GDP shares we now have, with British figures compared, are as follows:-

	France		UK
1977	4.25%	1977/8	3.7%
1978	5.1%	1978/9	5.5%
1979	5.5%	1979/80	4.9%
1980	6.0%	1980/81	5.7%
1981	(over 6%)	1981/82	4.0%

2. Mr Appleyard's table showing how the 1980 French PSBR builds up and how it was financed is attached. In 1980 the "central government borrowing requirement" represented less than 20% of the total. That was a year in which the French social security system was (temporarily) in strong surplus - 27 billion francs or over £2½ billio It is now back in deficit. On the financing side there is the now usual substantial contribution from foreign borrowing, and the usual rough equation between the small savings receipts of the Caisse Des Depots and requirements for housing. Mr Appleyard's remarks that

public sector borrowings on the French capital market rose sharply from a gross figure of 65 billion francs in 1979 to 93 billion francs in 1980. This represented 83% of total borrowings on the French capital market of 111 billion francs in that year.

3. For 1981 and 1982 we have figures only for the general government borrowing requirement. Those for 1981 have been published, that for 1982 is a confidential forecast from the Tresor. The series runs:

	Amount (billion francs)	GDP Share
1980	+ 10	+0.4%
1981	- 74	-2.4%
1982	-120	-3.3%

4. The broad picture is that over the 4 years 1977-1980 French and British public borrowing were remarkably similar as a proportion of GDP, and on a closely comparable upward trend. In 1981, and no doubt in 1982, comes a sharp divergence: the British figure turns dow and the French are probably continuing upwards.

5. United States: an article in the January edition of The Banker stressed that the US budget deficit was only a part of the federal borrowing programme. A table included in that article is attached. The borrowing of off-budget federal entities would fall squarely within our PSBR definition. The Government-guaranteed and sponsored borrowing would only fall within our PSBR definition if the borrower were themselves public bodies. Some of the federally-sponsored bodies making housing loans do indeed look nearer to UK public sector bodies in this business, like local authorities or the Housing Corporation, than to our building societies. At all events, there is in the US scene a great deal more guaranteeing and sponsoring outside the budget than there is in ours.

6. A complete picture of the US PSBR would show borrowing by State and local governments, but almost all are required by their constitution to avoid deficit financing. They are permitted to borrow only for specific purposes and for specific time periods. The aggregate of their individual surpluses, however, does somewhat reduce the total deficit for all levels of government combined.

President Reagan's "new Federalism" proposals for increasing the responsibilities of State governments are supposed to ensure that the federal government provides the States with all the funds needed to discharge the added responsibilities. But until the arrangements are in place there will be some uncertainty on this score.

7. The Banker article referred to above points to one other difference between US and UK circumstances: private individuals are still by far the largest group of holders of US debt. Institutional investors are very minor holders; foreign central banks are much more important. And only 10% of the total US national debt in mid-1981 had a maturity exceeding 10 years.

KEC

K E COUZENS

THE FRENCH PUBLIC SECTOR BORROWING REQUIREMENT

1980 FIGURES IN F BILLION

PSBR		Method of Financing	
*Net central government borrowing requirement	27.65	Capital markets (net)	80.00
Nationalised industry	43.95	†CDC Direct lending (including housing)	51.77
Other public sector organisations	44.20	Treasury bonds	0.87
Housing and others	47.01	Treasury bills	8.17
		Foreign borrowing	22.00
	162.81		162.81

* Comprising central administrations, local authorities and social security

† Caisse de Dépôts et Consignations: public sector organisation which principally disposes of the funds of the private and public sector savings banks

EXTRACT FROM 'THE BANKER'

DATE JANUARY 1982

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Reference .....

US DEBT

US FEDERAL BORROWING

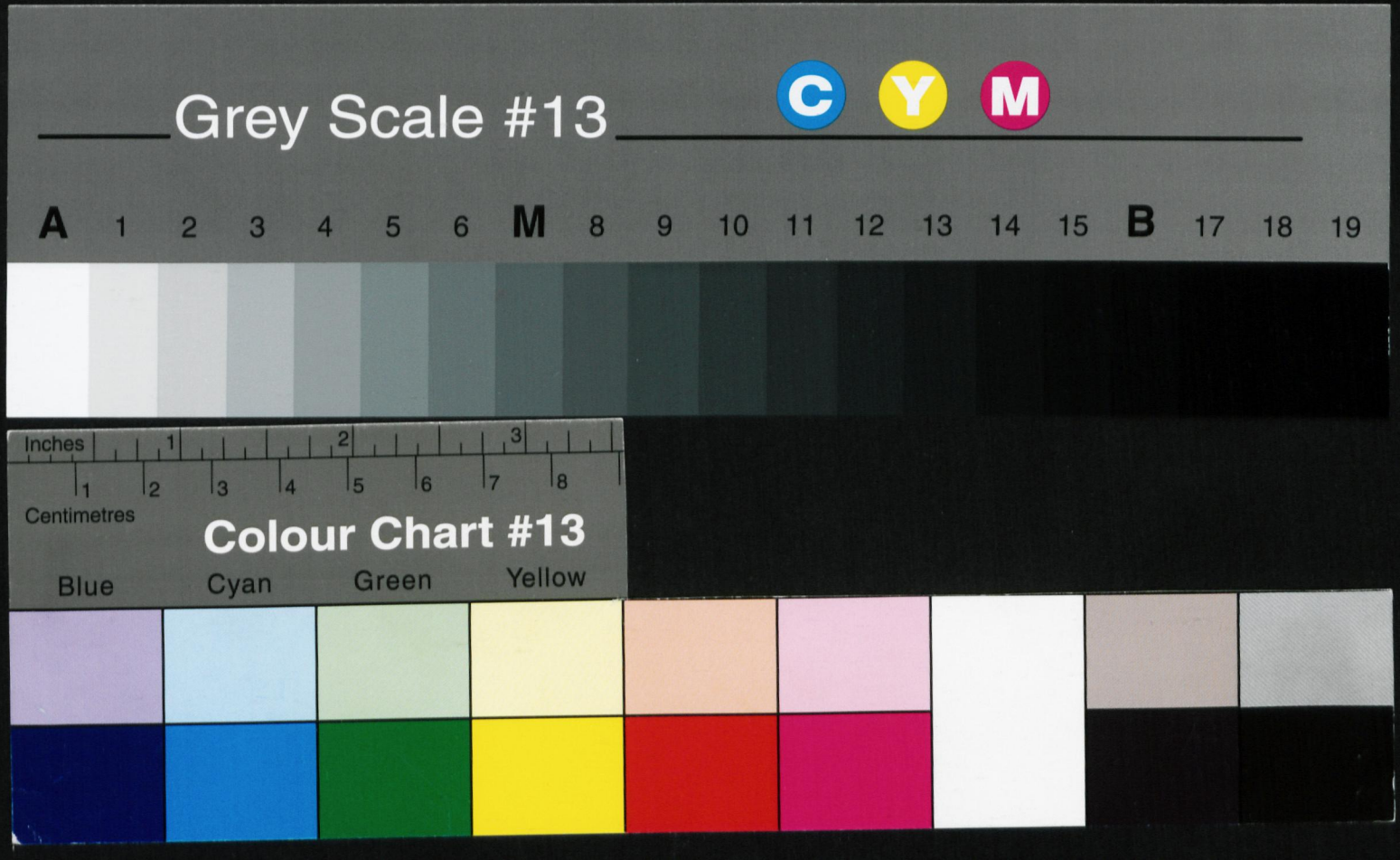
US$ billion	**1980**	**1981**
Budget deficit	-60	-59
Off-budget federal entities	-14	-25
	-74	-84
Other financing	+3	+2
Borrowing from public	-71	-82
Net govt. guaranteed borrowing	-32	-50
Net govt. sponsored borrowing	-21	-25
Federal & federally-assisted borrowing	-124	-157

PART 1 ends:-

AJC to FCO 25/1/82

PART 2 begins:-

Paris tel : 18 3/2/82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