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FM PARIS 191236Z NOV 81

TO PRIORITY FCO [FRAME GENERAL]

TELEGRAM NUMBER 1001 OF 19 NOV 81

INFO ROUTINE UKREP BRUSSELS AND BONN

INFO SAVING ALL OTHER EC POSTS

EUROPEAN COUNCIL

1. PRESIDENT MITTERRAND WILL COME TO NEXT WEEK'S EUROPEAN COUNCIL JUST AFTER COMPLETING HIS FIRST SIX MONTHS IN OFFICE. THE POLITICAL DEBATE IN FRANCE HAS RECENTLY ADOPTED A MORE POLEMICAL TONE AND THE PRESS HAS TALKED ABOUT THE POLARISATION OF PUBLIC OPINION. THERE IS MUCH HUFFING AND PUFFING BY THE OPPOSITION AND ITS ALLIES IN THE PRESS, BUT M. MITTERRAND'S PERSONAL STANDING APPEARS SO FAR TO HAVE BEEN LARGELY UNTOUCHED. HE CONTINUES TO GIVE THE IMPRESSION OF BEING CONFIDENTLY ON COURSE TO CARRY OUT HIS ELECTORAL PROGRAMME. HIS MAIN DIFFICULTIES ARE WITH THE ECONOMY AND ESPECIALLY WITH THE BUSINESS COMMUNITY, WHOSE HELP THE GOVERNMENT MUST HAVE OVER EMPLOYMENT BUT WHICH IS A SOCIALIST GOVERNMENT'S NATURAL OPPONENT.

2. THE GOVERNMENT'S HEAVY LEGISLATIVE PROGRAMME CONTINUES TO MAKE PROGRESS THROUGH PARLIAMENT, EVEN IF MORE SLOWLY THAN PLANNED. THE OPPOSITION DEPUTIES AND SENATORS HAVE MADE SKILFUL USE OF ALL THE PROCEDURAL DEVICES IN THE BOOK TO DELAY THE THREE MAIN GOVERNMENT MEASURES:

(A) THE GOVERNMENT'S DECENTRALISATION BILL, THE CENTRE-PIECE OF ITS REFORM PROGRAMME, IS BEING HEAVILY AMENDED IN THE SENATE WHERE THE OPPOSITION IS IN A MAJORITY. THE BILL IS UNLIKELY TO REACH THE STATUTE BOOK BEFORE THE END OF THE YEAR.

(B) THE NATIONALISATION BILL HAS NOW BEEN APPROVED BY THE NATIONAL ASSEMBLY AND WILL BE DISCUSSED BY THE SENATE SOON. THE GENERAL EXPECTATION IS THAT IT WILL BE THROUGH BY THE TURN OF THE YEAR. IT MAY THEN BE REFERRED TO THE CONSTITUTIONAL COUNCIL FOR A RULING WHETHER IT ACCORDS WITH THE CONSTITUTION, BUT THE COUNCIL WILL PROBABLY NOT WANT A CLASH WITH THE GOVERNMENT.

(C) THE 1982 BUDGET, WHICH CONTAINS CONTROVERSIAL PROVISIONS TO INTRODUCE AN ATTENUATED WEALTH TAX, IS NOW BEING DEBATED IN PARLIAMENT. THE GOVERNMENT HAS ALREADY ACCEPTED A NUMBER OF AMENDMENTS, AND THE SENATE WILL TRY FOR FURTHER CHANGES, BUT THE BUDGET SEEMS LIKELY TO BE APPROVED, AS REQUIRED, BY THE END OF THE YEAR.

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3. PRESIDENT MITTERRAND HAS LITTLE CAUSE YET FOR CONCERN ABOUT THE COHESION OF HIS GOVERNING MAJORITY. THE VARIOUS GROUPS WHICH MAKE UP THE SOCIALIST PARTY (PS) SUPPORT THE GOVERNMENT ON THE CRUCIAL VOTES. THE FOUR COMMUNIST MINISTERS HAVE, IN PUBLIC AT LEAST, LOYALLY SUPPORTED THE GOVERNMENT'S POLICIES. RELATIONS BETWEEN THE SOCIALIST PARTY (PS) AND THE COMMUNIST PARTY (PCF) HAVE BECOME A LITTLE FRICTIONAL, ALTHOUGH NOT TO THE POINT OF CALLING INTO QUESTION THE CONTINUED PARTICIPATION OF COMMUNIST MINISTERS IN THE GOVERNMENT. THE PCF CONTINUES TO EMPHASISE THAT ITS POLICY PROGRAMME IS MORE RADICAL THAN THAT OF THE PS, BUT SO FAR THIS APPEARS MORE AS A MARKER FOR THE FUTURE THAN AS A CHALLENGE TO THE PS/PCF CONTRACT OF GOVERNMENT. THE PRESS HAS SOUGHT TO DRAMATISE THE DIFFERENCES BETWEEN THE GOVERNMENT AND THE CENTRE AND RIGHT OPPOSITION PARTIES, BUT ALTHOUGH THIS MAKES GOOD THEATRE THE SCRIPT IS BEGINNING TO LOSE ITS ORIGINALITY. M. GISCARD REMAINS ABSENT FROM THE POLITICAL STAGE AND M. CHIRAC, CONSCIOUS THAT THE OPPOSITION IS STILL TOO WEAK TO CONJURE UP A STORM, HAS CONTENTED HIMSELF WITH A STATESMAN LIKE CALL FOR CALM.

4. IN FOREIGN AFFAIRS, PRESIDENT MITTERRAND CONTINUES TO EXPRESS ROBUST SENTIMENTS ON EAST/WEST RELATIONS AND HAS TRIED, WITH A FAIR AMOUNT OF SUCCESS IN FRANCE, TO CAPTURE THE HEADLINES ON THIRD WORLD ISSUES. COORDINATION BETWEEN THE ELYSEE AND THE QUAI OR INDEED BETWEEN MINISTERS IN GENERAL IS NOT AS GOOD AS IT MIGHT BE, AND THERE HAVE BEEN SEVERAL PUBLIC BLUNDERS AND CLUMSINESS, ALL OF WHICH HAVE BEEN SHRUGGED OFF IN ONE WAY OR ANOTHER. BEHIND THE INCONSISTENCIES (WHICH THE FRENCH PUBLIC ASCARCELY NOTICES) PRESIDENT MITTERRAND IS MOVING THROUGH THE GEARS TOWARDS HIS OWN BRAND OF INDEPENDENCE. IT HAS MANY GISCARDIAN ELEMENTS, BUT DOES NOT EXCLUDE COOPERATION WITH FRANCE'S ALLIES, BOTH EUROPEAN AND TRANSATLANTIC. AT THE SAME TIME THE DOOR IS BEING KEPT OPEN TO MOSCOW, BUT WITH A FIRMER FRENCH GRIP ON THE HANDLE. THE CONTINUING PRIORITY GIVEN TO INDEPENDENCE IS ILLUSTRATED BY THE RECENT DECISIONS TO DEVELOP NEW NUCLEAR DEFENCE SYSTEMS.

5. PRESIDENT MITTERRAND'S MAJOR PREOCCUPATION MUST STILL BE THE FRENCH ECONOMY, AND MORE PARTICULARLY UNEMPLOYMENT. THE PRIME MINISTER, M. MAUROY, HAS EMBARKED ON A NATION-WIDE TOUR IN AN EFFORT TO GALVANISE PRIVATE COMPANIES AND LOCAL AUTHORITIES INTO TAKING ON MORE PEOPLE. IN OCTOBER THE NUMBER OF UNEMPLOYED PASSED THE TWO MILLION MARK FOR THE FIRST TIME AND THERE IS LITTLE SIGN THAT THE LEVEL IS LIKELY TO COME DOWN. THE MORE RADICAL PROVISIONS IN THE GOVERNMENT'S PROGRAMME, ESPECIALLY NATIONALISATION AND THE WEALTH TAX, HAVE MADE IT MUCH MORE DIFFICULT FOR

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THE NEW ADMINISTRATION TO GAIN BUSINESS CONFIDENCE. UNLESS THIS CONFIDENCE IS RESTORED, THE GOVERNMENT WILL HAVE A HARD TASK IN ITS ENDEAVOURS TO PROMOTE RECOVERY AND INVESTMENT. THE PARIBAS AFFAIR HAS SOURED RELATIONS BETWEEN THE GOVERNMENT AND THE BANKS. FACED WITH THE DIFFICULT PROBLEM OF FINANCING THE MASSIVE DEFICIT ON THE SOCIAL SECURITY BUDGET (F 36 BILLION) THE GOVERNMENT LAST WEEK DECIDED TO INCREASE THE CHARGES LEVIED BOTH ON EMPLOYERS AND EMPLOYEES. THIS DECISION REQUIRED SOME COURAGE AND HAS PROVED UNPOPULAR BOTH WITH THE EMPLOYERS' ORGANISATION AND THE TRADE UNIONS.

6. M. DELORS APPEARS TO HAVE CONVINCED PRESIDENT MITTERRAND THAT THE RIGHT SOLUTION TO THE CONTRADICTIONS OF HIS POLICIES IS TO PURSUE A GRADUAL PRICES AND INCOMES POLICY. THIS IS LIKELY TO PROVE A DELICATE EXERCISE. IT INVOLVES A PROGRESSIVE RESTORATION OF PRICE CONTROLS ON A WIDE RANGE OF GOODS AND SERVICES COMBINED WITH A CAMPAIGN TO PERSUADE TRADE UNIONS TO ACCEPT WAGE RESTRAINT AND CHANGES IN THE WAGE INDEXATION SYSTEM IN RETURN FOR A SHORTER WORKING WEEK, EARLY RETIREMENT AND INCREASES IN WELFARE BENEFITS. THE COUNCIL OF MINISTERS YESTERDAY ANNOUNCED PLANS TO ASK THE NATIONAL ASSEMBLY FOR AN ENABLING LAW AUTHORIZING THE INTRODUCTION OF A PACKAGE OF SOCIAL MEASURES ON THESE LINES BY DECREE BY THE END OF THE YEAR. THIS SUGGESTS THAT THE GOVERNMENT IS BEGINNING TO FEEL ITSELF UNDER PRESSURE. WITHOUT THE COOPERATION OF BOTH EMPLOYERS AND THE TRADE UNIONS OVER A LONG PERIOD THE POLICY STANDS LITTLE CHANCE OF SUCCESS.

7. THERE HAS BEEN AN INCREASE IN INDUSTRIAL UNREST, MAINLY DUE TO SHOP-FLOOR PRESSURE, BUT THE TRADE UNIONS ARE SERIOUSLY DIVIDED. THE COMMUNIST-DOMINATED CGT IS CONTINUING TO FOLLOW A POLICY OF RESTRAINT BUT MUST BE ASSUMED TO BE WAITING FOR AN EVENTUAL OPPORTUNITY TO AMBUSH THE PS.

THE EMPLOYERS' ORGANISATION, THE PATRONAT, HAS JUST ELECTED A NEW HEAD, WHO HAS A REPUTATION FOR OUTSPOKENNESS AND MAY PROVE TO BE A COMBATIVE INTERLOCUTOR FOR THE GOVERNMENT. FROM PRESIDENT MITTERRAND'S STAND POINT A MEASURE OF EUROPEAN ENDORSEMENT FOR HIS ECONOMIC AND SOCIAL STRATEGY WOULD BE A USEFUL AND TIMELY BOOST. AT THE PRESENT MOMENT IN FRANCE BOTH SIDES OF INDUSTRY SEEM TO LOOK UPON IT WITH A GOOD DEAL OF WARINESS AND SUSPICION, EVEN THOUGH THERE ARE NOW SIGNS OF A MILD RECOVERY IN OUTPUT DUE TO INCREASED CONSUMER SPENDING AT HOME AND A RISE IN EXPORTS.

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8. IN LONDON PRESIDENT MITTERRAND WILL BE CHIEFLY CONCERNED THAT THE OUTCOME OF THE COUNCIL DOES NOT UPSET HIS DOMESTIC POLITICAL CALCULATIONS. HE WOULD NO DOUBT PREFER THE COUNCIL TO MAKE PROGRESS ON THE MAIN DOSSIERS BUT HE WILL TAKE CARE THAT ANY ADVANCE IS NOT AT FRANCE'S EXPENSE. IF THE SUMMIT IS NOT SUCCESSFUL, PRESIDENT MITTERRAND WILL, NO LESS THAN HIS PREDECESSORS, TRY AND ENSURE THAT NO BLAME ATTACHES TO FRANCE.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

HIBBERT

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WAS NOT
ADVANCED

(REPEATED AS REQUESTED)

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