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ANGLO-FRENCH SUMMIT 29 JANUARY: FRENCH INTERNAL SCENE.

SUMMARY

1. CHIRAC FIRST OFF THE MARK IN THE ELECTION CAMPAIGN. HE HAS CLOSED ON BARRE IN THE POLLS, BUT WOULD STILL BE MORE VULNERABLE TO MITTERRAND THAN BARRE IN THE SECOND ROUND. MITTERRAND'S DECISION TO RUN GENERALLY EXPECTED IN EARLY MARCH. ISSUES WILL BE SUBORDINATE TO PERSONALITIES IN THE CAMPAIGN. PROSPECTS FOR THE FRENCH ECONOMY IN 1988 ARE UNEXCITING.

DETAIL

2. MITTERRAND AND CHIRAC WILL BE COMING TO LONDON PREOCCUPIED BY THE PRESIDENTIAL ELECTIONS, NOW LESS THAN THREE MONTHS AWAY. THE TEMPO IS QUICKENING, PARTICULARLY ON THE RIGHT. CHIRAC, WORRIED BY POLLS AT THE BEGINNING OF THE YEAR WHICH SHOWED HIM TRAILING BOTH MITTERRAND AND BARRE, HAS ACCELERATED SHARPLY, DECLARING HIS CANDIDATURE FORMALLY ON 16 JANUARY, AND EMBARKING ON A SERIES OF MASS RALLIES IN PARIS AND THE PROVINCES. HE IS CAMPAIGNING AS THE RESPONSIBLE, ENERGETIC, DECISIVE, COHABITATIONIST PRIME MINISTER WHO CAN BE PROUD OF HIS GOVERNMENT'S RECORD AND WHO, AS PRESIDENT, WOULD STEER FRANCE TO A POSITION OF EUROPEAN PRE-EMINENCE BY THE YEAR 2000.

3. CHIRAC'S IMMEDIATE AIM IN UNLEASHING HIS CAMPAIGN EARLIER THAN PLANNED IS TO CATCH AND OVERTAKE BARRE, SO ESTABLISHING HIMSELF AS THE RIGHT'S PRINCIPAL CHALLENGER FOR THE ELYSEE. THE LATEST POLLS SUGGEST THAT HE MAY BE HAVING SOME SUCCESS AND THAT THE 5-6 POINT GAP OF A MONTH AGO MAY BE CLOSING. AT PRESENT BARRE'S OWN CAMPAIGN SEEMS SHORT OF MOMENTUM. ALTHOUGH HE IS DECLINING TO BE HURRIED, INSISTING THAT THE TORTOISE WILL CROSS THE LINE AHEAD OF THE HARE, HE IS VULNERABLE TO CRITICISM THAT HE IS SHOWING A LACK OF FIRE. ALL THE PARTIES WITHIN THE UDF, INCLUDING LEOTARD'S IMPORTANT PARTI REPUBLICAIN (PR), HAVE NOW ENDORSED HIM: BUT A QUESTION MARK REMAINS ABOUT THE DEGREE OF REAL ENTHUSIASM OF SOME OF THOSE ENDORSEMENTS.

4. MITTERRAND HAS STILL TO ANNOUNCE WHETHER HE WILL STAND AGAIN.

ROCARD TOLD THE PRESS ON 24 JANUARY THAT MITTERRAND HAD INFORMED HIM AT A BREAKFAST MEETING THE PREVIOUS DAY THAT HE WOULD MAKE HIS DECISION KNOWN IN EARLY MARCH. THE EXPECTATION IN THE SOCIALIST PARTY (PS) AND MORE WIDELY IS THAT HE WILL RUN FOR A SECOND TERM: IF HOWEVER HE CHOOSES NOT TO, HIS SURPRISING CHOICE OF ROCARD AS HIS MOUTHPIECE LAST WEEKEND STRENGTHENS THE LIKELIHOOD THAT THE LATTER WILL BE THE PS CANDIDATE INSTEAD.

5. MITTERRAND (AND INDEED ROCARD) WILL BE HOPING THAT CHIRAC'S EFFORTS TO OVERHAUL BARRE AND EMERGE AS THE RIGHT'S SECOND ROUND CHALLENGER ARE SUCCESSFUL. THE OPINION POLLS SHOW THAT CHIRAC WOULD FIND IT MUCH HARDER TO WIN THE DECISIVE SECOND ROUND THAN BARRE. (THE MOST RECENT ESTIMATE IS THAT MITTERRAND WOULD CRUSH CHIRAC 57:43, BUT THAT HIS MARGIN OF VICTORY OVER BARRE WOULD BE A MUCH NARROWER 52:48.) THE BARRISTES HAVE SEIZED ON THESE PROJECTIONS IN RECENT DAYS ARGUING THAT IF THE RIGHT IS TO HAVE ANY HOPE OF UNSEATING MITTERRAND IT MUST RALLY BEHIND THE CANDIDATE WITH THE BEST CHANCE IN THE SECOND ROUND: AND THAT CANDIDATE REMAINS BARRE.

6. A CHARACTERISTIC OF THE CAMPAIGN SO FAR IS THE DEARTH OF POLICY DEBATE. THE CHOICE IS BETWEEN PERSONALITIES, ALL SEEKING THE CENTRE GROUND, RATHER THAN BETWEEN IDEOLOGICALLY CONFLICTING PROGRAMMES. THIS WORKS IN FAVOUR OF MITTERRAND, WHO HAS CLEVERLY USED THE PERIOD OF COHABITATION TO PROJECT HIMSELF AS A MODERATE NEXT WORD UNDERLINED RASSEMBLEUR SAFEGUARDING FRENCH INTERESTS ABROAD AND NATIONAL UNITY AT HOME. THE RIGHT (PARTICULARLY BARRE) HAVE NOW BEGUN TO REMIND THE ELECTORATE OF THE PARTISAN, SOCIALIST MITTERRAND OF THE EARLY YEARS OF THE SEPTENNAT. THIS HAS YET TO DENT MITTERRAND'S POPULARITY, ALTHOUGH IT COULD DO SO IN THE WEEKS AHEAD. MITTERRAND THUS REMAINS THE FAVOURITE TO WIN THE ELECTIONS IF HE STANDS.

THE ECONOMY

7. THE ECONOMY PERFORMED BETTER THAN THE GOVERNMENT EXPECTED IN 1987 BUT IT WAS NOT A BRILLIANT YEAR: GDP GREW BY 2.0 PER CENT. INFLATION AND UNEMPLOYMENT BOTH FELL SLIGHTLY. FOREIGN TRADE PERFORMANCE, PARTICULARLY IN MANUFACTURED GOODS, CONTINUED TO DISAPPOINT AND THERE WAS A 1987 DEFICIT OF F31 BILLION. THE PRIVATISATION PROGRAMME, A POPULAR AND LUCRATIVE SUCCESS FOR THE FIRST NINE MONTHS OF THE YEAR, WAS ARRESTED BY THE STOCK MARKET SLUMP.

8. PROSPECTS FOR 1988 ARE UNINSPIRING. SMALLER GDP GROWTH IS LIKELY AS A RESULT OF THE STOCK MARKET SLUMP AND AMONG THE MAIN AGGREGATES ONLY INFLATION IS LIKELY TO SHOW IMPROVEMENT. THERE ARE NO NEW

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DEPARTURES IN THE 1988 BUDGET: CUTTING TAXES, SPENDING AND THE BUDGET DEFICIT REMAIN THE PRIORITIES. RECENT PROPOSALS FOR A COMMON EUROPEAN CURRENCY AND A EUROPEAN CENTRAL BANK REFLECT FAMILIAR FRENCH DISSATISFACTION WITH CURRENT MONETARY ARRANGEMENTS IN EUROPE, BUT SEEM PRINCIPALLY DESIGNED TO WIN VOTES. THE SMALL MATRA OPERATION, LAUNCHED LAST WEEK, SEEMS LIKELY TO BE THE ONLY SIGNIFICANT PRIVATISATION VENTURE BEFORE THE ELECTIONS.

9. SEE MIFT ON FRENCH FOREIGN POLICY.

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MIPT (NOT TO ALL): ANGLO-FRENCH SUMMIT 29 JANUARY: FRENCH FOREIGN POLICY.

SUMMARY

1. FRENCH OPTIMISM ON POSSIBILITY OF EUROPEAN COUNCIL AGREEMENT AT BRUSSELS. VISIBLE DIFFERENCES UNLIKELY BETWEEN MITTERRAND AND CHIRAC ON THE MAIN AGENDA THERE. ON DEFENCE, THEY ARE BOTH KEEN TO BUILD UP THE BILATERAL RELATIONSHIP WITH THE UK. ON OTHER INTERNATIONAL ISSUES, FRENCH ACTIVITY IS LESS THAN INTENSE. BILATERAL RELATIONS GENERALLY SOUND.

DETAIL

EC SUMMIT

2. THE FRENCH ARE PREPARING FOR THE FEBRUARY EUROPEAN COUNCIL WITH APPARENT CONFIDENCE THAT THE ISSUE OF CONTROLLING AGRICULTURAL SPENDING, THE ROOT CAUSE OF THE FAILURE AT COPENHAGEN, CAN BE SETTLED, AT LEAST TO THE SATISFACTION OF THE MAJORITY, ON LINES ACCEPTABLE TO, EVEN PROMOTED BY, FRANCE, AND THAT HEADS OF GOVERNMENT WILL THEREFORE BE ABLE TO CONCENTRATE ON THE BROADER FUTURE FINANCING ISSUES. THE FRENCH STILL PLACE ADEQUATE LONG TERM FINANCING OF THE CAP AS THEIR OVERRIDING PRIORITY FOR THE SUMMIT. THOUGH NEVER IN THE VANGUARD OF OPPOSITION TO THE UK'S BUDGET REBATE, THE FRENCH MAY SEE THIS AS THE LEVER WITH WHICH TO SECURE UK ACQUIESCENCE TO THE ATTENUATED AGRICULTURAL STABILISER PACKAGE PUT TOGETHER IN THE AGRICULTURE COUNCIL, AND ALSO OUR AGREEMENT ON FUTURE CAP FINANCING. THE OILS AND FATS TAX REMAINS A CHERISHED PRIZE, PARTICULARLY FOR CHIRAC. HE WILL NOT LET IT GO WITHOUT A FUSS.

3. ALTHOUGH CHIRAC DEPENDS ON THE AGRICULTURAL CONSTITUENCY FAR MORE THAN MITTERRAND AND THE SOCIALISTS, WITH THE ONSET OF THE PRESIDENTIAL ELECTION CAMPAIGN, NEITHER CAN AFFORD TO SHOW HIMSELF ANY LESS EUROPEAN, AND IN PARTICULAR ANY LESS SUPPORTIVE OF FRENCH FARMERS, THAN THE OTHER. ALTHOUGH THERE ARE DIFFERENCES OF EMPHASIS WE SHOULD NOT EXPECT ANY SIGNIFICANT DIVERGENCE OF VIEW BETWEEN THEM

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ON EC ISSUES. WHATEVER THE OUTCOME OF THE FEBRUARY SUMMIT, THE FRENCH SEE THEMSELVES IN A REASONABLY COMFORTABLE POSITION. A SUCCESS WHICH PROVIDES ASSURED FUTURE FINANCING FOR THE CAP IN RETURN FOR A NOT TOO ONEROUS STABILISER PACKAGE WOULD BE SALEABLE. FAILURE COULD BE LAID AT SOMEONE ELSE'S DOOR (WITH LUCK OURS): IN THAT EVENT THE FRENCH COULD TAKE CREDIT FOR NOT BEING BROWBEATEN INTO ACCEPTING SOMETHING DETRIMENTAL TO THEIR FARMERS' INTERESTS, AND THE WHOLE FUTURE FINANCING ISSUE PUT ON THE BACK BURNER UNTIL AFTER THE ELECTIONS.

DEFENCE

4. THE FRANCO-GERMAN CELEBRATIONS OF 22 JANUARY (MY TELNOS 93-95) HAVE LEFT THE FRENCH CLAIMING THAT THEIR MOST IMPORTANT EUROPEAN RELATIONSHIP IS IN GOOD HEART AND THAT ITS DEFENCE COMPONENT IS GROWING IN STRENGTH. BOTH MITTERRAND AND CHIRAC ARE NEVERTHELESS ANXIOUS THAT IT SHOULD NOT APPEAR EXCLUSIVE, AND REMAIN PARTICULARLY KEEN THAT FRANCO-BRITISH DEFENCE DISCUSSIONS SHOULD BEAR FRUIT. HENCE THE GENERALLY POSITIVE RECEPTION OF THE PRIME MINISTER'S MESSAGE TO MITTERRAND (MY TELNO 103 TO FCO ONLY).

5. CHIRAC YESTERDAY ANNOUNCED THE FRENCH GOVERNMENT'S DECISION TO PROCEED WITH A RAFALE ORDER FOR THE FRENCH AIR FORCE (DETAILS ARE BEING REPORTED SEPARATELY).

MIDDLE EAST

6. CONSULTATIONS IN NEW YORK SHOW THAT FRENCH POLICY ON FOLLOW-UP TO SCR 598 REMAINS CLOSE TO OUR OWN. MEANWHILE FRANCE'S NEGOTIATIONS OVER NORMALISATION OF ITS RELATIONS WITH IRAN HAVE MADE LITTLE PROGRESS RECENTLY. FRENCH PUBLIC STATEMENTS AND PRIVATE ASSURANCES, FOR WHAT THEY ARE WORTH, CONTINUE TO MAINTAIN THAT THEY WILL NOT PAY AN EXCESSIVE PRICE (IE NO FUNDAMENTAL CHANGE IN THEIR RELATIONS WITH IRAQ AND THE ARAB WORLD). IT IS NEVERTHELESS NOTICEABLE THAT FRENCH DIPLOMATIC ACTIVITY IN THE MIDDLE EAST GENERALLY HAS BEEN LESS INTENSE IN RECENT MONTHS THAN IS NORMAL FOR THEM.

AFRICA

7. HERE TOO THE FRENCH PROFILE HAS NOT BEEN HIGH SINCE THE BURST OF ACTIVITY IN EARLY OCTOBER (VISITS BY DOS SANTOS, CHISSANO AND BOTHA). FRENCH LINKS WITH MOZAMBIQUE ARE GROWING, ESPECIALLY IN THE AREA OF MILITARY TRAINING. CHAD REMAINS RELATIVELY QUIET, BUT THE FRENCH ARE WORRIED THAT THE DELAY IN PRODUCING THE OAU REPORT WILL ALLOW FIGHTING TO RESTART.

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8. THE FRENCH REMAIN SOUND AND COOPERATIVE ON AFGHANISTAN (FURTHER BILATERAL CONSULTATIONS AT AUS LEVEL ON 2 FEBRUARY). ON CAMBODIA THEY WOULD LIKE TO CONTRIBUTE TO A SOLUTION AND HOPE THAT SIHANOUK'S DIALOGUE WITH HUN SEN MAY BREAK THE DEADLOCK (BUT RAIMOND IS SAID TO BE SCEPTICAL PERSONALLY).

BILATERAL RELATIONS

9. APART FROM DEFENCE, A PROMISING AREA FOR MORE INTENSE BILATERAL ACTION IS YOUTH EXCHANGES, IF OFFICIAL FUNDS CAN BE ALLOCATED TO SUPPORT THEM.

10. THE FRENCH ARE LIKELY TO RAISE THEIR CONCERN ABOUT FINES IMPOSED UNDER THE CARRIERS' LIABILITY ACT, ALTHOUGH A MEETING IN LONDON ON 25 JANUARY PROVED USEFUL IN CLARIFYING THE DIFFICULTIES FACING FRENCH TRANSPORT COMPANIES FOLLOWING IMPLEMENTATION OF THE ACT.

11. MITTERRAND IS VISITING THE FRENCH END OF THE CHANNEL TUNNEL AT SANGATTE ON 28 JANUARY (I SHALL BE THERE). ALTHOUGH THE SUBJECT IS UNLIKELY TO COME UP IN FORMAL TALKS, HE MAY REFER TO IT AT SOME POINT. AS YOU KNOW, NOT ALL THE PROBLEMS ARE YET RESOLVED: THE FRENCH REMAIN CONCERNED IN PARTICULAR ABOUT THE CHANNEL-LONDON RAIL LINK AND FRONTIER CONTROLS.

CONCLUSIONS

12. BOTH MITTERRAND AND CHIRAC WILL COME TO LONDON IN THE EXPECTATION THAT EXCHANGES WILL BE HARD-HITTING BUT, AGAINST THE BACKGROUND OF GOOD PERSONAL AND POLITICAL/BILATERAL RELATIONSHIPS, CONSTRUCTIVE AND AMICABLE. BOTH CLEARLY RESPECT AND ADMIRE OUR PRESENT LEADERSHIP AND OTHER MINISTERS WILL TAKE THEIR TONE FROM PRIME MINISTER AND PRESIDENT.

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