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INFO ROUTINE EC POSTS

PRESIDENT MITTERRAND'S VISIT TO CHEQUERS, 1 SEPTEMBER

SUMMARY

1. MITTERRAND WELL PLACED POLITICALLY AND FRENCH ECONOMY IN GOOD SHAPE AS THE FRENCH RETURN FROM HOLIDAYS. MITTERRAND WILL NOW INCREASINGLY CONCENTRATE ON MAKING A SUCCESS OF THE EC PRESIDENCY. EMU AND SOCIAL DIMENSION LIKELY TO BE AT THE FRONT OF HIS MIND. LEBANON, POLAND AND THE SOVIET UNION FEATURE ALSO.

DETAIL

2. AS THE FRENCH RETURN FROM HOLIDAYS, MITTERRAND'S DOMESTIC POSITION IS HEALTHY. HE DOMINATES THE POLITICAL SCENE. DESPITE THE GOVERNMENT'S LACK OF OVERALL MAJORITY IN PARLIAMENT, IT HAS HAD A RELATIVELY TROUBLE FREE YEAR. ROCARD HAS PROVED A CLEVER AND POPULAR PRIME MINISTER. THE OPPOSITION REMAINS FRAGMENTED AND DEMORALISED AND IS IN NO POSITION YET TO TAKE ADVANTAGE OF THE SOCIALISTS' LACK OF A PARLIAMENTARY MAJORITY. THE COMMUNISTS WILL NOT WANT TO RISK LOSING MORE SEATS BY BRINGING THE GOVERNMENT DOWN AND PROVOKING EARLY ELECTIONS.

3. MITTERRAND HAS BY AND LARGE BEEN ABLE TO STAND BACK FROM DAY TO DAY GOVERNMENT BUSINESS AND CONCENTRATE ON SETTING THE BROAD LINES OF POLICY, INCLUDING FOREIGN POLICY. IN THIS YEAR OF THE BICENTENARY AND THE ECONOMIC SUMMIT THAT HAS MEANT PROJECTING FRANCE'S POSITION ON THE WORLD STAGE. FOR ALL THE DOUBTS EXPRESSED IN ADVANCE ABOUT THE WISDOM OF COMBINING THE BICENTENARY CELEBRATIONS WITH THE ECONOMIC SUMMIT, IN MOST PEOPLE'S EYES MITTERRAND ACHIEVED A SUCCESS.

4. HIS OBJECTIVE NOW IS A VISIBLE ACHIEVEMENT IN THE REMAINING MONTHS OF THE FRENCH PRESIDENCY OF THE EC. HE WANTS TO GO DOWN IN HISTORY AS HAVING INFLUENCED THE DEVELOPMENT OF EUROPE.

5. IF HE IS TO SUCCEED, HE NEEDS FIRST TO CONVINCING HIS OWN POLITICAL BASE. SOCIALIST PARTY SUPPORTERS ARE CONCERNED THAT FRANCE'S EFFORTS TO LIBERALISE ITS FINANCIAL MARKETS AND REMOVE LABOUR RIGIDITIES IN THE RUN UP TO 1992 APPEAR TO BE FAVOURING PRIVATE ENTERPRISE AT THE



EXPENSE OF THE STATE. THE GOVERNMENT CAN EXPECT A ROUGH RIDE DURING THIS AUTUMN'S PUBLIC SECTOR PAY BARGAINING ROUND. MOREOVER, THE SOCIALIST PARTY CONGRESS IN MARCH 1990 IS ALREADY CASTING ITS SHADOW FORWARD. THIS AUTUMN'S BUDGET IS LIKELY TO CONTAIN A NUMBER OF FINANCIAL SWEETENERS FOR THE SALARIED WORKERS. THESE ARE TO OFFSET NECESSARY MEASURES TO REDUCE TAXES ON SAVINGS BEFORE EC CAPITAL MOVEMENTS LIBERALISATION IN 1990, WHICH WILL FAVOUR THE BETTER-OFF AND BE UNPOPULAR WITH SOCIALIST MILITANTS. THE 1990 PS CONGRESS WILL BE THE FIRST SINCE IT BECAME CLEAR THAT MITTERRAND WILL NOT STAND FOR PRESIDENT AGAIN. MITTERRAND WILL BE ANXIOUS TO MAINTAIN HIS GRIP OVER THE PARTY AS THE NEXT GENERATION OF LEADERS ALREADY BEGIN TO JOSTLE OVER THIS SUCCESSION. HE WILL WANT TO DEMONSTRATE THAT THE GOVERNMENT'S APPROACH CAN COMBINE 'SOCIAL JUSTICE' WITH THE EFFORT TO MAKE FRANCE'S ECONOMY MORE COMPETITIVE.

6. THE ECONOMY IS GOING THROUGH A GOOD PERIOD. THE POLICY OF COMPETITIVE DISINFLATION PURSUED BY EARLIER ADMINISTRATIONS HAS NOT BEEN SUBSTANTIALLY MODIFIED. ALTHOUGH ROCARD RECENTLY DESCRIBED THE ECONOMY AS 'CONVALESCENT', THE MOOD HAS BECOME STEADILY MORE BULLISH AS THE SURGE IN GROWTH SEEN IN 1988 (TOTAL GDP UP BY 3.5 PERCENT) HAS CONTINUED THIS YEAR. (BANQUE PARIBAS TALKS OF FRENCH GROWTH, BUOYED UP BY INVESTMENT, NOW RESEMBLING A 'FINELY-TUNED MECHANISM ROLLING FORWARD UNDER ITS OWN MOMENTUM'.) INFLATION HAS REMAINED MODERATE: AT PRESENT 3.6 PERCENT P.A. A KEY PRT OF THE GOVERNMENT STRATEGY HAS BEEN THE GRADUAL CONVERGENCE OF FRENCH AND GERMAN INFLATION RATES (NOW ABOUT 0.5 PERCENT APART) AND MEMBERSHIP OF THE ERM. THE FRANC HAS BEEN HOLDING STEADY AGAINST THE DM, WITH TALK OF AN ERM REALIGNMENT SHELVED.

7. UNEMPLOYMENT REMAINS IN A BLACK SPOT, STUCK AT AROUND 10 PERCENT DESPITE MANY MONTHS OF STRONG ECONOMIC ACTIVITY. THERE IS ALSO CONCERN ABOUT THE CURRENT ACCOUNT DEFICIT: BEREGOVY DESCRIBED THE JULY TRADE FIGURES, JUST ANNOUNCED (DEFICIT OF FRANCS 7.48 BILLION), AS WORRYING AND CALLING FOR CONTINUED PRUDENCE.

8. MITTERRAND'S VISIT IS THE SECOND IN A SERIES OF MEETINGS WITH EC LEADERS BEFORE THE DECISIVE LEG OF THE FRENCH PRESIDENCY. HE SAW GONZALEZ IN MADRID ON 20 AUGUST AND WILL SEE KOHL IN PARIS ON 7 SEPTEMBER. IN SUGGESTING THE MEETING HE TOLD THE PRIME MINISTER THAT HE WAS KEEN TO SEPARATE FRANCE'S GENUINE DIFFERENCES WITH THE UK FROM THOSE ARTIFICIALLY WHIPPED UP BY THE PRESS. IN WORKING OUT TACTICS FOR THE PRESIDENCY, HE WILL WANT TO GAUGE WHAT ROOM EXISTS FOR AGREEMENT ON WHAT FOR HIM ARE THE KEY ISSUES, ESPECIALLY EMU AND THE SOCIAL DIMENSION.



9. FOR THE FRENCH GOVERNMENT, THE MOST URGENT FOREIGN POLICY ISSUE OF RECENT WEEKS HAS BEEN THE LEBANON. MITTERRAND AS WELL AS DUMAS HAS FELT OBLIGED BY FRANCE'S SENSE OF HISTORICAL RESPONSIBILITY FOR THE LEBANON TO PLAY A HIGHLY VISIBLE ROLE. HE WILL PROBABLY WANT TO TALK ABOUT IT, AS ABOUT DEVELOPMENTS IN THE SOVIET UNION (PROGRESS OF PERESTROIKA, NATIONALITIES PROBLEMS, ATTITUDE TO DEVELOPMENTS IN EASTERN EUROPE) AND POLAND. THE CAMBODIA CONFERENCE, BY CONTRAST, WHICH ADJOURNS TODAY HAVING REGISTERED NO REAL PROGRESS, HAS BEEN LEFT TO DUMAS.

10. MITTERRAND HAS HAD LITTLE REASON OVER THE HOLIDAY PERIOD TO CONCENTRATE ON STRATEGIC AND DEFENCE QUESTIONS (EXCEPT IN THE CONTEXT OF THE LEBANON, AND THE DOMESTIC CONTEXT OF THE WORKING CONDITIONS OF THE FRENCH GENDARMERIE, WHICH HAVE SUDDENLY BLOWN UP INTO AN ISSUE HERE). HE SHOULD BE READY, AGAINST THE BACKGROUND OF COMMON CONCERNS IN THE CFE TALKS AND FOR THE FUTURE OF NUCLEAR DETERRENCE IN EUROPE, TO LOOK AT WAYS OF STRENGTHENING BILATERAL DEFENCE COOPERATION. BUT THIS WILL PROBABLY FOR HIM COME SOME WAY AFTER THE NEED FOR A GOOD TALK ABOUT THE EC.

LLEWELLYN SMITH

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