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FRANCO/BRITISH RELATIONS

1. THE FOLLOWING COMMENTS ON THE FRENCH SCENE ARE OFFERED AS BACKGROUND FOR THE TALKS WITH CHEYSSON, MAUROY AND MITTERRAND OVER THE NEXT FOUR DAYS. IN BRIEF, THE DOMESTIC POSITION OF THE GOVERNMENT AND OF PRESIDENT MITTERRAND HIMSELF SEEMS SECURE, ALTHOUGH THERE WILL BE DIFFICULT ECONOMIC DECISIONS TO TAKE DURING THE COMING YEAR. MITTERRAND'S SUPPORT OF THE U K OVER THE FALKLANDS IS FIRM AND IS APPROVED BY THE MAJORITY OF FRENCHMEN, BUT LARGE-SCALE CASUALTIES COULD PLACE THAT SUPPORT UNDER STRAIN. THE MOST DIFFICULT ISSUE BETWEEN FRANCE AND THE U K REMAINS THE U K'S BUDGET PROBLEM, WHERE MITTERRAND HAS OVER-SIMPLIFIED IDEAS ABOUT THE COMMUNITY'S BASIC PRINCIPLES AND HOW THE PROBLEM SHOULD BE SOLVED. BECAUSE OF THE POSITION OF THE OTHER MEMBER STATES, HE IS UNDER NO IMMEDIATE PRESSURE TO MOVE. HIS FIRST PRIORITY IN THIS CONTEXT IS TO ACHIEVE AN AGRICULTURAL PRICE SETTLEMENT, BUT THE GOVERNMENT WOULD NOT HESITATE TO INTRODUCE NATIONAL AIDS SOON IF NECESSARY. HIS IMMEDIATE INTERNATIONAL AIM IS TO MAKE A SUCCESS OF THE VERSAILLES ECONOMIC SUMMIT (SEE MY TELNO 488).

THE INTERNAL SCENE

2. A YEAR AFTER ENTERING OFFICE, MITTERRAND CONVEYS AN IMPRESSION OF CALM, ALMOST SERENE, CONFIDENCE. HIS AUTHORITY OVER THE GOVERNMENT IS UNCHALLENGED. HE ALLOWS HIS MINISTERS A FREER REIN THAN GISCARD DID. CONSEQUENTLY MINISTERIAL DIFFERENCES ARE MORE FREQUENTLY BROUGHT OUT INTO THE OPEN AND ARE PLAYED UP BY THE OPPOSITION AND THE PRESS. BUT A FEW WORDS FROM MITTERRAND SEEM TO BE ALL THAT IS NEEDED TO BRING MINISTERS BACK INTO LINE.

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/ 3. MITTERRAND

3. MITTERRAND EQUALLY DOMINATES THE SOCIALIST PARTY.

THE IMPATIENCE OF SOME SOCIALIST PARLIAMENTARIANS AND MILITANTS TO PRESS AHEAD WITH MORE RADICAL REFORMS HAS BEEN CONTAINED. IN ONE YEAR OF OFFICE THE MAIN STRUCTURAL REFORMS (DECENTRALISATION AND NATIONALISATION) HAVE BEEN IMPLEMENTED: THE ACCENT NOW IS ON CONSOLIDATING THE REFORMS ALREADY INTRODUCED OR ANNOUNCED. THE COMMUNISTS ARE IN A WEAK POSITION TO FORCE THE PACE. THEY SHOW NO SIGN OF INCREASING THEIR SHARE OF THE VOTE AFTER LAST YEAR'S ELECTORAL SETBACK. WITHIN THE GOVERNMENT THEY HAVE BEEN KEPT AWAY FROM THE ESSENTIAL LEVERS OF POWER. NOR IS THE OPPOSITION LIKELY TO DEFLECT MITTERRAND FROM HIS CHOSEN PATH. THE RIGHT APPEARS MORE UNITED THAN WHEN IN OFFICE, BUT PERSONAL RIVALRIES BENEATH ITS LEADERS LURK CLOSE BENEATH THE SURFACE.

THE ECONOMY

4. PRESIDENT MITTERRAND'S ECONOMIC POLICIES HAVE NOT YIELDED THE RESULTS WHICH HE HOPED. THE RECOVERY IN ACTIVITY, WHICH LIES AT THE HEART OF HIS STRATEGY TO COMBAT UNEMPLOYMENT, HAS NOW FLATTENED OUT AND INVESTMENT IS STILL FLAGGING. THE TRENDS ON INFLATION, THE BUDGET DEFICIT AND THE BALANCE OF PAYMENTS ARE UNFAVOURABLE AND AT VARIANCE WITH DEVELOPMENTS IN OTHER MAJOR WESTERN ECONOMIES. THE EXCHANGE RATE REMAINS VULNERABLE. SOME DIFFICULT DECISIONS WILL HAVE TO BE TAKEN IN THE NEXT 12 MONTHS ESPECIALLY ON THE 1983 BUDGET. THERE ARE SIGNS THAT IN THE FACE OF CURRENT DIFFICULTIES THE FRENCH GOVERNMENT MAY BE MOVING GRADUALLY TOWARDS A MORE ORTHODOX FISCAL STANCE. BUT THERE ARE STILL DOUBTS ABOUT THE GOVERNMENT'S RESOLVE TO RESTRICT BUDGET SPENDING AND TO CONTROL INFLATION, AND ABOUT ITS ABILITY TO RECONCILE THE CONFLICTING PRIORITIES IN ITS ECONOMIC STRATEGY. (

FOREIGN POLICY

5. MITTERRAND HAS BEEN VERY ACTIVE ON THE FOREIGN POLICY FRONT. HE HAS MADE A DOZEN VISITS OVERSEAS, AND WILL COME TO LONDON FRESH FROM A "PRIVATE" WEEKEND WITH SCHMIDT IN HAMBURG. BEHIND THIS ACTIVITY, WITH ITS GENERALISED AIM OF MAGNIFYING THE FRENCH PRESENCE ON THE WORLD SCENE, ONLY BROAD OUTLINES OF POLICY HAVE SO FAR EMERGED. MITTERRAND HAS BEEN AT PAINS TO SHOW HIMSELF A LOYAL NATO ALLY AND A RELIABLE PARTNER

OF THE UNITED STATES. IN CONTRAST THE SOVIET UNION HAS BEEN HELD AT ARMS LENGTH, PARTLY TO PUT THE FRENCH COMMUNIST PARTY AT A TACTICAL DISADVANTAGE, PARTLY FOR GENUINE REASONS OF CONCERN ABOUT SOVIET POLICY. A CALCULATED RADICAL FLAVOUR HAS BEEN IMPARTED BY MITTERRAND'S MORE ACTIVIST ROLE IN SUPPORT OF HUMAN RIGHTS AND OF THE DEVELOPING WORLD, AND BY A STRATEGY OF ENCOURAGEMENT OF "PROGRESSIVE" FORCES IN CENTRAL AMERICA WHICH HAS CAUSED SOME DISMAY TO THE U S AND WHICH REMAINS A POTENTIAL SOURCE OF DISCORD.

THE FALKLANDS

6. AS SOON AS THE FALKLANDS CRISIS BROKE, MITTERRAND PERSONALLY DETERMINED THAT FRANCE SHOULD BACK BRITAIN AND HIS MAINTENANCE OF THIS LINE HAS BEEN CONSTANT. AT TIMES THE FRENCH GOVERNMENT HAVE SHOWN SIGNS OF BEING WORRIED ABOUT PUBLIC OPINION; AND SOME SECTORS OF THE PRESS HAVE BEEN UNSYMPATHETIC TO BRITAIN. AFTER THE FIRST REPORTS OF MAJOR CASUALTIES THE GOVERNMENT SHADED ITS POSITION BY PUTTING THE STRESS ON THE NEED FOR A CEASE-FIRE, SINCE THEN THE FRENCH SEEM TO HAVE STEADIED, THOUGH BOTH CHEYSSON AND CHANDERNAGOR HAVE AT TIMES SHOWN SIGNS OF WAVERING, IN PARTICULAR BY SUGGESTING THEY WERE LOOKING FOR A QUID PRO QUO IN TERMS OF BRITISH CONCESSIONS ON THE AGRICULTURAL PRICE REVIEW IN RETURN FOR COMMUNITY SOLIDARITY OVER THE FALKLANDS.

COMMUNITY ISSUES

7. MITTERRAND SHOWS LITTLE INTEREST IN THE TECHNICAL DETAILS OF COMMUNITY ISSUES, AND SEEMS TO HAVE ACQUIRED SOME OVER-SIMPLIFIED IDEAS ABOUT BASIC COMMUNITY PRINCIPLES. AT THE SAME TIME HE HAS CLEAR AND STUBBORN CONCEPTS OF WHERE FRANCE'S INTERESTS LIE. HE ATTACHES GREAT IMPORTANCE TO MAINTAINING THE INCOME OF FRENCH FARMERS, AND A PRICE FIXING SETTLEMENT IS HIS TOP PRIORITY. IN THIS HE APPEARS TO BELIEVE THAT HE IS DEFENDING TREATY OBLIGATIONS AS WELL AS FRENCH INTERESTS.

8. SIMILARLY MITTERRAND REJECTS A LONG-TERM SOLUTION FOR THE UNITED KINGDOM BUDGET PROBLEM, BASED ON OBJECTIVE MECHANISMS, ON THE DOCTRINAL GROUNDS THAT THIS WOULD CHANGES THE CHARACTER OF THE COMMUNITY. IT WILL NOT BE EASY TO PERSUADE HIM OF THE NEED FOR MOVEMENT FROM FRANCE ON THE MANDATE AT THE MOMENT. HE WILL BE

INCLINED TO REST ON THE OFFERS CURRENTLY ON THE TABLE. NEVERTHELESS, AT THE END OF THE DAY HE MIGHT WELL BE PREPARED TO CONCEDE MORE ON AMOUNT AND DURATION THAN IS PRESENTLY OFFERED, BUT ON A LIMITED BASIS AND PROVIDED THAT THE AGREEMENT CONTAINS NO LONG-TERM MECHANISM. HE HAS NOT YET ACCEPTED THAT A SOLUTION ON THE BUDGET IS ESSENTIAL TO UNLOCK THE AGRICULTURAL PRICE SETTLEMENT WHICH HE WANTS. THE GOVERNMENT DOES NOT SEEM READY TO SACRIFICE THE LUXEMBOURG COMPROMISE TO GET A SETTLEMENT WITHOUT BRITAIN AND IF NECESSARY WILL RESORT TO NATIONAL AIDS TO FARMERS.

VERSAILLES SUMMIT

9. MITTERRAND'S AIM WILL BE TO PERSUADE THE PRIME MINISTER TO ACCEPT FRENCH IDEAS FOR THE OUTCOME OF THE SUMMIT BUT SINCE HE IS ANXIOUS THAT IT SHOULD BE A SUCCESS DUE TO HIS EFFORTS AND CHAIRMANSHIP, HE WILL BE READY TO LOOK FOR COMPROMISES ON CONTENTIOUS ISSUES.

BILATERAL RELATIONS

10. WE ARE CLEARLY HEADING INTO CHOPPY SEAS. A FULL-SCALE COMMUNITY CONFRONTATION OVER AGRICULTURAL PRICES AND THE BUDGET WOULD CAST A PALL OVER ALL ASPECTS OF RELATIONS. AS LONG AS THESE COMMUNITY TENSIONS REMAIN UNRESOLVED THERE IS A RISK THAT MORE INTENSIVE MILITARY CONFLICT OVER THE FALKLANDS WILL STRAIN THE SOLIDARITY WHICH THE FRENCH GOVERNMENT HAS SO FAR MANIFESTED AND INTENSIFY PUBLIC PRESSURES FOR A MORE EQUIVOCAL LINE.

11. FOLLOWING THE RECENT TALKS IN PARIS BETWEEN THE FRENCH MINISTER OF TRANSPORT AND MR LAMONT THE NEED TO TAKE A DECISION ON CONCORDE'S FUTURE HAS BEEN POSTPONED UNTIL JULY. THERE THEREFORE SEEMS NO REASON WHY THIS SHOULD FIGURE IN THE TALKS THIS WEEKEND.

12. ENCOURAGING PROGRESS HAS BEEN MADE IN EXAMINING THE OPTION FOR COLLABORATING WITH FRANCE ON FAST BREEDER REACTORS. THE FRENCH RESPONDED QUICKLY TO OUR REQUEST FOR URGENT TALKS AND THEIR DRAFT INTERGOVERNMENTAL AGREEMENT FORMS A HELPFUL BASIS FOR DISCUSSIONS.

13. ALTHOUGH THERE IS STILL CONSIDERABLE DOUBT ABOUT COMMERCIAL PROSPECTS FOR THE A320 AIRBUS, THE FRENCH ARE COMMITTED AND KEEN TO GET ON. ROLLS ROYCE'S DECISION TO COLLABORATE WITH

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PRATT AND WHITNEY HAS COME AS A BLOW, BUT THERE IS STILL SCOPE FOR COLLABORATION BETWEEN ROLLS ROYCE AND SNECMA IN THE MILITARY FIELD.

14. AS REPORTED IN MY TELNO 476 MAUROY WILL PROBABLY RAISE THE SUBJECT OF THE CHANNEL TUNNEL WITH THE PRIME MINISTER. APART FROM ITS IMMEDIATE POLITICAL AND ECONOMIC INTEREST THE TUNNEL REMAINS FOR THE FRENCH ^{OF} SYMBOLIC IMPORTANCE IN TERMS OF BRITAIN'S RELATIONS WITH EUROPE.

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