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FM PARIS 301600Z JUL 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 651 OF 30 JULY

INFO IMMEDIATE MODUK (FOR PS/S OF S, PUS AND CDP), PRIORITY BONN,
ROME, MADRID.

MIPT: EFA: MITTERRAND'S POSITION.

1. THE FOLLOWING BACKGROUND MAY BE USEFUL IN CONSIDERING WHAT LINE TO TAKE WITH THE FRENCH ON EFA.

2. MITTERRAND HAS ONLY RECENTLY BEGUN TO TAKE A CLOSE INTEREST IN EFA. HIS KNOWLEDGE OF THE ISSUES IS BOUND TO BE SKETCHY AND BIASED. IN ADDITION TO OFFICIAL BRIEFINGS HE WILL HAVE BEEN HEARING ABOUT EFA DIRECT FROM DASSAULT AND FROM HIS BROTHER, GENERAL JACQUES MITTERRAND. THE LATTER SUPPORTS THE DASSAULT LINE AND WILL HAVE TOLD HIM OF THE STRONG SUPPORT IN THE FRENCH AEROSPACE INDUSTRY AND THE UNIONS FOR A NATIONAL SOLUTION OR AT LEAST ONE THAT GIVES FRANCE A PREPONDERANT SHARE OF ANY COLLABORATIVE PROJECT. EVERYTHING HE KNOWS ABOUT THE BRITISH POSITION IS LIKELY TO HAVE BEEN FILTERED THROUGH PEOPLE WHO VIEW THE UK'S ATTITUDE AS BEING INIMICAL TO FRENCH INTERESTS.

3. MITTERRAND WILL THUS START OUT WITH THE FOLLOWING PICTURE OF THE PROBLEM. THERE IS A FIRM EUROPEAN REQUIREMENT FOR A NEW FIGHTER AIRCRAFT AND A GOOD POTENTIAL WORLD MARKET FOR THE RIGHT MODEL. DASSAULT HAVE DESIGNED AN AIRCRAFT WHICH MEETS THE MAIN EUROPEAN REQUIREMENT VIS-A-VIS THE WARSAW PACT AND WOULD SELL WELL ABROAD. DASSAULT ARE NATURALLY ENTITLED TO A GOOD SHARE OF THE PROJECT: THEY ARE THE ONLY EXPERTS IN EUROPE ON THIS TYPE OF AIRCRAFT: THEY HAVE A PROVEN RECORD OF SUCCESS IN THE EXPORT MARKET: AND FRANCE WILL BE A PRIME CUSTOMER. ITALY AND SPAIN COULD BE EXPECTED TO FALL IN WITH THE FRENCH DESIGN AND GERMANY WOULD HARDLY STAND OUT AGAINST THEM AT THE TOP POLITICAL LEVEL, PARTICULARLY IN VIEW OF THE BAIT OF CLOSER DEFENCE RELATIONS WITH FRANCE CURRENTLY BEING EXTENDED. THE BRITISH HAVE SABOTAGED THIS EXCELLENT PROSPECT BY INSISTING ON A HEAVIER AIRCRAFT AND ON ENGINE REQUIREMENTS KNOWN TO EXCEED THOSE WHICH FRENCH INDUSTRY CAN MEET. (THE WHOLE FRENCH MILITARY ESTABLISHMENT WILL VOUCH FOR THE FACT THAT THESE BRITISH DEMANDS ARE EXCESSIVE AND UNNECESSARY). UNFORTUNATELY THE BRITISH HAVE MANAGED TO DRAG OTHER PARTNERS IN THEIR WAKE AND EVEN TO FORM A FOUR-POWER COALITION AGAINST FRANCE. TIME IS NEEDED TO BREAK THIS, WITH THE HELP OF KOHL AND GENSCHER, BUT THE BRITISH LOBBY IN THE GERMAN MINISTRY OF DEFENCE IS STRONG AND PRESSING FOR IMMEDIATE DECISIONS. THE MATTER MUST BE PLAYED LONG SO THAT MITTERRAND CAN PERSONALLY TACKLE KOHL AND PUT IT IN THE OVERALL PERSPECTIVE OF FRANCO-GERMAN RELATIONS ON 24 AUGUST. EVERY DAY GAINED BRINGS THE SHIP NEARER HARBOUR.

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4. I SEE NO WAY OF CONVINCING MITTERRAND THAT HE HAS BEEN MISLED BY HIS GENERALS, INDUSTRIALISTS AND HIS OWN BROTHER. THE MOST WE CAN HOPE TO DO IS CONVINCING HIM OF OUR GOOD FAITH IN INSISTING ON ADEQUATE PERFORMANCE AND IN BEING READY TO COMPROMISE TO FIND A FIVE-POWER SOLUTION. BUT MITTERRAND WILL NOT REALLY BE IMPRESSED IF OUR BEST EFFORTS AT COMPROMISE STILL DEPRIVE FRENCH INDUSTRY OF ITS PRIME ROLE IN THE PROJECT. THE ONLY ARGUMENT WHICH WOULD CONVINCING MITTERRAND WOULD BE TO AGREE TO BASE THE DESIGN ON DASSAULT'S ACX, WITH AN ENGINE WHICH FRENCH INDUSTRY COULD MAKE AND A GREAT DEAL MORE THAN A 25 PERCENT SHARE. HE MAY INDEED SAY THAT IF WE ARE GENUINE IN OUR PROCLAIMED WISH FOR A JOINT PROJECT, THIS IS THE WAY TO GO. HE WILL TAKE NO INTEREST IN OUR TECHNICAL ARGUMENTS AND WILL ASSUME THEY ARE ALL DESIGNED TO BOLSTER THE CASE FOR A LARGELY BRITISH DESIGNED AIRCRAFT, WITH A ROLLS-ROYCE ENGINE, WHICH IS REQUIRED FOR THE TORNADO BUT IS NOT ESSENTIAL FOR EFA.

5. THE ONLY WAY I CAN SUGGEST IS TO TRY TO PIN HIM DOWN TO ACCEPTANCE OF THE LATEST GERMAN COMPROMISE PROPOSAL, POINTING OUT THAT WE ARE PREPARED TO CONSIDER GOING THAT FAR (OR AT LEAST IN THAT DIRECTION) IN A FINAL EFFORT TO ACHIEVE AGREEMENT AND THAT IT IS UP TO FRANCE TO DO THE SAME IF THERE IS TO BE A FIVE-POWER AGREEMENT. (THE FACT THAT THE PROPOSAL IS OF GERMAN ORIGIN DOES NOT MAKE IT ABOVE SUSPICION HERE, BUT AT LEAST MAKES IT HARDER TO ATTACK). OUR WILLINGNESS TO CONSIDER THIS FURTHER SACRIFICE TO MAKE IT POSSIBLE FOR FRANCE TO JOIN THE OTHER FOUR NATIONS INDICATES THE IMPORTANCE WE ATTACH TO THIS BEING A GENUINE EUROPEAN VENTURE.

6. IT MIGHT ALSO BE APPROPRIATE TO MAKE THE POINT THAT AGREEMENT BY THE FIVE NATIONS ON THIS PROJECT WOULD BE OF MAJOR POLITICAL SIGNIFICANCE IN EUROPEAN TERMS, COMING SO SOON AFTER THE EUREKA MINISTERIAL MEETING WHICH MITTERRAND HIMSELF LAUNCHED IN PARIS ON 13 JULY. HMG STRONGLY SUPPORTS THE EUREKA INITIATIVE IN ENCOURAGING EUROPEAN INDUSTRY TO WORK TOGETHER IN AREAS OF ADVANCED TECHNOLOGY.

7. AT THE SAME TIME IT WILL BE NECESSARY TO MAKE IT CLEAR TO THE FRENCH THAT FURTHER DELAYS ARE UNACCEPTABLE AND THAT IF FRANCE IS NOT NOW IN A POSITION TO PARTICIPATE, THE PROJECT WILL GO AHEAD. I THINK IT WOULD BE BETTER NOT TO HINT THAT IN THESE CIRCUMSTANCES THE AIRCRAFT MIGHT EVOLVE FURTHER AWAY FROM DIMENSIONS WHICH THE FRENCH HAVE RELUCTANTLY ACCEPTED: THEY WOULD IMMEDIATELY USE THIS ARGUMENT AGAINST US WITH THE GERMANS TO SUGGEST THAT WE INTENDED TO RENEGE ON THE PROPOSED COMPROMISE.

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5. THE FRENCH ARE MASTERS AT SHOWING INDIGNATION WHEN THEY ARE PUT UNDER TIME PRESSURE: AND GERMAN RESOLUTION MAY CRACK. BUT MY JUDGEMENT IS THAT THE FRENCH WILL GO ON STALLING UNTIL THEY FACE ABSOLUTE CERTAINTY THAT THE FOUR ARE PREPARED TO GO AHEAD WITHOUT THEM. THE BEST CHANCE APPEARS TO BE TO TAKE UP WOERNER'S EARLIER SUGGESTION OF A FOUR POWER MEETING, TO WHICH THE FRENCH WOULD BE INVITED BUT WHICH THEY COULD NOT VETO. TO HAVE ANY CHANCE OF SUCCESS EITHER IN FORCING MAJOR FRENCH CONCESSIONS OR IN LAUNCHING A FOUR POWER PROJECT THIS MEETING WOULD HAVE TO TAKE PLACE SOON. OTHERWISE THE FRENCH WILL CONVINCED THE GERMANS THAT IT IS OUT OF THE QUESTION TO ACT IN THIS WAY WHEN KOHL AND MITTERRAND ARE ABOUT TO MEET.

FRETWELL

LIMITED.

DEF D

WED

SED

ELD'S

PLANNING STAFF

NEWS D

PS

PS/MR LUCE

PS/PUS

MR DEREK THOMAS

MR BRAITHWAITE

MR GOODALL

MR RENWICK

MR JENKINS

MR DAUNT

BACKGROUND BRIEF

(A) French Economic Policy and Performance

1. Following the unsuccessful attempt at a 'go-it-alone' strategy of consumption-led expansion in 1981-82, the French authorities are now following policies similar to those in the rest of Western Europe. Disinflation is the major thrust of policy, the aim being to restore competitiveness and improve profits, investment and the foreign balance. De-indexation, wage and price controls, backed up by monetary restraint, have been the main policy instruments acting directly on prices while fiscal tightening has reduced domestic demand with the aim of pushing resources into the traded sector.

2. Against these objectives, French performance since March 1983 has been fairly successful. Inflation fell to 6.7%, the best performance since 1973. The trade deficit was halved between 1983 and 1984 and the current account of the balance of payments brought into rough balance. Profits in the industrial sector have indeed increased and are now back to the level of 1979. This has been sufficient to reduce the rate of decline in private sector investment though not yet to allow an increase.

3. On the debit side, the French economy is still cyclically out of phase with the rest of Europe, partly as a result of the belated conversion to policies of economic rigour. Output grew by only 1½% in 1984, faster than 1983 but distinctly poorer than the 2½% recorded for the EC as a whole. French unemployment began to increase again after stabilising in 1983 and the average for the year was 9.3%. Moreover, inflation, though falling, is still higher than many of France's main competitors and the adverse movement in competitiveness contributed to some loss of market share in manufactured exports.

4. For 1985, domestic demand is expected to continue to be sluggish and consumer price inflation should fall to 5½% by the end of the year (still above the government's original target of 4½%). Because of slower growth in world trade, loss of competitiveness and some disappointing trade results in early 1985, the contribution of

/exports

exports to growth is expected to fall this year. GDP growth of only 1.2% is now expected and unemployment will rise further. Overall, any advantages that the French economy gained on output and employment during 1981 and 1982 are expected to have been eliminated by 1986. The inflation-unemployment combination now expected for France is not dissimilar to that for the UK (see Annex for statistics on comparative economic performance).

(B) Unemployment Benefit in France

5. The unemployment benefit system has been largely recast in recent years. The new arrangements mark a significant reduction in provision compared with what was available in 1982. The level and duration of benefit depend on the recipient's previous salary and length of employment. Those qualifying for the basic benefit receive on average an amount equivalent to 80% of the minimum wage. But two-thirds of the registered jobless receive either nothing or, in the case of some of those who are either long-term unemployed or outside the insurance system, an allowance of only FF41.40 or FF64.50 per day depending on circumstances. (The higher rate was introduced in June this year in response to pressure from the unions.) Of those who receive nothing (over a third of the total), some do not bother to apply but the majority have either had their applications turned down or come to the end of their entitlement. The French have no universal 'safety net' comparable to our own supplementary benefit system, so that those whose entitlement to benefit runs out swell the ranks of the 'new poor', now estimated at between 500,000 and 1.1 million. In the face of political pressure, the government last year introduced additional financial assistance in the form of new family benefits, financed by an increase in wealth tax.