Foreign and Commonwealth Office

London SW1A 2AH

13 October, 1982

Dear John.

The Prime Minister is to see Mr Pym at 1430 on Monday, 18 October to discuss the forthcoming Anglo-French Summit (your letter of 28 September refers).

I enclose an annotated agenda which could serve as a framework for discussion. I also enclose as background a copy of Sir J Fretwell's first impressions despatch of 13 August.

Yours ever,

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
Private Secretary
10 Downing Street

Anglo-French Summit: Points for Discussion at the Prime Minister's Meeting with the Foreign and Commonwealth Secretary on 18 October

1. Summit likely to be difficult because:

(i) The French will be unhelpful over the Community budget, particularly given their own economic problems;

(ii) There is little to show on collaborative projects, to follow up the good Summit last year.

2. It will therefore need careful handling. Our tactics (having in mind that the French are hosts) might be:

(i) To begin by discussing those subjects on which a broad measure of agreement is possible:

(a) the international economic situation

(b) transatlantic and East/West relations

(ii) To move on to the more contentious Community issues, especially the Budget. We must persuade the French that we have a real case and are determined to reach a fair solution.

(iii) To explain that lack of progress on collaborative projects stems from genuine difficulties not lack of will.

3. The good relations between the Prime Minister and President Mitterrand will greatly help. They might be made closer still if the Prime Minister were to send to President Mitterrand before the Summit a personal message stressing the importance the Prime Minister attaches to the meeting.

SUMMARY

1. The despatch offers some first impressions of France a year after the election of a Socialist government (para 1).

Political

2. Mitterrand intends to use the extensive powers of the Presidency and his full seven year mandate to make long-term changes in France. So far he has tried to stand apart from day-to-day politics. He now needs to display a tighter grip on economic realities (para 2).

3. The Opposition's confidence and unity have partially recovered but they face a long wait to the National Assembly elections in 1986 (para 3). The French trade unions are unlikely to engage in an all-out confrontation with the government when the wage and price freeze expires on 31 October (para 4).

4. The government is now seeking to consolidate the main structural reforms adopted since Mitterrand's election. Decentralisation should reduce the authority of the state, but nationalisation will reinforce it (para 5). Further reforms may tend to reduce individual initiative in favour of the state (para 6).

/The Economy

The Economy

5. Economic prospects are gloomy. Inflationary pressures are building up; the trade figures show a record deficit; investment has weakened and unemployment has risen (para 7).

6. The Mitterrand faithful claim the economy is under control and that nationalised industry will pull France out of recession. But the critics foresee mounting difficulties. The government was guilty of serious mishandling of the economy in its first year and the consequences will not be easily overcome. Pressures for import controls could grow (paras 8 and 9). Arms sales remain buoyant (para 10).

Foreign policy

7. Mitterrand appears to be genuinely concerned about the East-West balance. Relations with the US have recently deteriorated, but the French are aware of the need to keep disagreements within bounds. Some normalisation of the chilly relations with the Soviet bloc seems likely (paras 11 and 12). Mitterrand has an unusual style of conducting foreign affairs (para 13). The French relationship with Germany has become a little less special than it was under Giscard. The "socialist" element in foreign policy is most evident in relation to Latin America (para 14).

UK/French relations

8. As a result of his war-time experiences, Mitterrand has a more helpful attitude to Anglo/French relations than Giscard /(para 16).

(para 16). Since his election British and French viewpoints on some international issues have moved closer together (para 17). A warmer total relationship could help towards a solution of UK/French differences in the European Community, but the task will not be easy given the distorted view of the differences in France. The French sense of rivalry with Britain in foreign affairs will not disappear, but a closer dialogue may be useful in overcoming past suspicions (paras 18 and 19).

BRITISH EMBASSY,
PARIS.

13 August 1982

The Rt Hon Francis Pym MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

Sir,

FIRST IMPRESSIONS OF FRANCE

1. The sixties and the seventies were two exceptionally good decades for France. The country established for the first time a prosperous consumer society. Sustained economic expansion and, in the later years, an unusual run of political stability enabled the French to consolidate a position of authority in the European Community and to pursue to advantage an independent line, slanted towards short term national interests, in foreign policy. Washington learned to live with its wayward ally; Moscow still thought it worthwhile to woo. One year after the election of a Socialist government many Frenchmen now believe the prospect is at best for economic stagnation, at worst for steep national decline. Others still remain convinced that changes in the structure of French society were long overdue and that, despite temporary setbacks, the government has set the right course to achieve future prosperity. Political controversy is growing sharper as the Opposition diagnose mounting popular dissatisfaction and try to

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think of ways in which political change could be secured before the National Assembly elections in 1986; whilst the Socialist Party in return voices suspicion that its opponents have still not accepted last year's verdict by the electorate and contemplate unconstitutional means of overturning it. In short, France shows no sign of settling down quietly to seven years of socialism under the Mitterrand presidency. It is of this uneasy scene that I have the honour to submit some first impressions in this despatch.

Political

2. The constitution of the Fifth Republic vests such far-reaching powers in the hands of the President that his ideas and personality dominate the political stage. In the last resort he can by-pass Parliament and govern by decree. By comparison a US President, with a four-year term and an obstreperous Congress, is far more at the mercy of events and of the opinion polls. Mitterrand waited long and worked assiduously to secure the Presidency. There can be little doubt that he firmly intends to serve his full seven years and to use them to make long-term changes in France. An astute politician, he knows the value of radiating serene confidence. He likes to present himself, as did his predecessors, as the President of all the French. He seeks to convey the impression of the reflective statesman, a little apart from the swirl of current events, with the concomitant risk of appearing at times complacent and slightly out of touch with reality. He prefers to set a political course and let others get on with the problems of economic management, a formula which has not proved entirely successful so far. When he has intervened directly and openly, as over the question of wage compensation for reduced

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working hours, he has revealed an imperfect grasp. He has a growing need to convince public opinion that he has a tighter grip on economic realities than has yet been apparent.

3. After the bitter disappointment and resentment engendered by the 1981 electoral defeats, the Opposition has edged towards united action; and Chirac has emerged more clearly as its potential leader, helped by the government's ill-conceived attack on his Parisian power-base. But Giscard is biding his time in the wings; and the breach between the two men still stands in the way of the Centre and Right eventually mounting a genuinely unified challenge to Mitterrand. The Opposition were encouraged by their success in the cantonal elections; they confidently believe that the tide of opinion is running their way, and look forward to the municipal elections next March. A success then will add to their feeling of frustration at their inability to block by parliamentary means a further dose of socialism and - as they would see it - of mismanagement. They would not be unduly distressed if popular discontent with unemployment and wage restraint, or traditional agricultural grievances, led to direct action which could force on the government a change of course or, in an extreme case, could bring about a loss of will by the government to go on ruling the country.

4. France has a long tradition of taking to the streets in the pursuit of political objectives; and there is a tendency to treat a certain level of disorder, especially by disgruntled peasants, as an unfortunate fact of life, calling for conciliation not

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repression. The power of French trade unions seems to stem as much from fear of their capacity to go on the rampage as from respect of their ability to take sustained industrial action. In terms of their numbers the French unions are no match for their British counterparts: only some 20% of the work-force is unionised; and the Transport and General Workers' Union, for instance, far outnumbers the whole of the Communist-led CGT. The French unions compete fiercely for membership and more often work against each other than against the employer. They could nonetheless give the government a great deal of trouble if they chose to use their muscle to back demands for high wage increases when the wage and price freeze ends on 31 October. At the moment the indications are that the leadership of two of the main confederations, the CGT and CFDT, tied as they are to the Communist and Socialist Parties respectively, will exercise restraint so as not to damage the government: there will be pressure through collective bargaining and perhaps demands for increased trade union rights, but not an all-out confrontation. Some trouble is to be expected from parts of the trade union movement and from small employers, who are in an increasingly militant mood, but there is as yet no real prospect of the more lurid scenarios which some have forecast for the autumn.

5. If it is right to assume that Mitterrand and his government will come through the rough water which lies ahead in the next year or so and will retain control of the National Assembly at least until 1986, there is room for much speculation about how

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stiff a dose of socialism they will administer to France over that period and with what effect. The main structural reforms - nationalisation and decentralisation - have already reached the statute book, but Mitterrand certainly has in mind a further round of changes beyond those adopted in his first year, though the direction and context are not yet clear. We seem now to be in a period of consolidation, which may be quite prolonged, while the newly nationalised banks and industries sort themselves out, the decentralised system of regional and local government gradually comes into operation, and legislation is put through to strengthen workers' rights in industry and workers' control in the Social Security system. The measures taken so far are in a sense contradictory. Decentralisation should in time weaken the authority which the state has hitherto exercised over all aspects of life in the provinces, whereas the various acts of nationalisation reinforce the government's control over important segments of the economy. Decentralisation is in some ways a greater break with French tradition than nationalisation. Right and Left in France do not appear to disagree so much over the principle that the state should play a major role in economic decision-making as over the degree and form of control. French industry has a long tradition of looking to the state for support, protection and guidance. Initial resentment of nationalisation seems to have focussed more on damage done to individual owners and managers than on fear that the dead hand of the state would paralyse initiative. However, voices are now being raised warning against the use of the nationalised industries for short term political

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purposes in relation to employment and workers' rights; and some on the Right believe that the state is now acquiring an excessive degree of control which will ultimately have destructive consequences for the mixed economy. Decentralisation probably makes sense in the long run, though it is inevitably creating some administrative confusion. However, the socialists have had the galling experience of seeing their opponents enjoy the first fruits of the reform through their electoral gains in this spring's departmental council elections: this may perhaps have begun to dilute their enthusiasm for decentralisation as a cause.

6. On balance it seems likely that the thrust of the government's policy will be in the direction of increasing the authority of the state at the expense of the independence and power of initiative of the individual. This will almost certainly be accompanied by further efforts to shift the balance of wealth and income towards the less well-off. The more the Socialist Party's own supporters and the government's Communist allies are called on to accept sacrifices, for instance through wage restraint, the harder they will press in return for action against the privileged strata of French society, who have hitherto suffered noticeably less from 20th century egalitarianism than their counterparts in most European countries. In all of this one can expect Mitterrand himself to continue to set the tone and give the direction. His government is commonly charged with incoherence. This is true in the sense that individual policies and decisions emerge without adequate preparation and then have to be hastily revised, which gives the critics a field day and

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damages the government's standing. There are also deeper unresolved conflicts of priority in the government's economic policies. But one could not conclude that Mitterrand himself has lost confidence in his policies or his sense of where he is trying to go; and as long as that is true his government can be expected to retain broadly its present sense of direction.

The Economy

7. I commented on the economy and its prospects in a despatch of 24 May. Since then the news has been gloomy and the outlook is unpromising. The four-month wage and price freeze will not in itself ensure that French industry benefits fully from the devaluation. A sustained effort will be needed to bring down the rate of inflation from 14% to the 8% projected for next year. There is already a lot of suppressed inflationary pressure, not only in delayed wage claims and reduced profit margins but also in artificially low nationalised industry prices, especially for electricity and gas. The surge in public spending this year will be very hard to bring under control in 1983. The adverse trade balance is at record levels and foreign currency reserves are not being re-built. Two devaluations of the franc have added to the cost of servicing the massive foreign borrowings of the old nationalised industries. The weakness of the franc in relation to the dollar makes imported oil increasingly expensive. In 1981-82 industrial investment has declined by an estimated 18% in volume terms, and unemployment is moving slowly higher. It is a catalogue of woe, relieved only a little by the unions' grudging acquiescence in the wage freeze. The government have

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a string of excuses almost as long: their unfortunate heritage from Giscard's regime, high US interest rates, the failure of other countries to respond to their reflationary moves and so on. They claim that their policies have at least secured a better growth rate than in most OECD countries, but this may not last.

8. The optimistic view which one hears from some of Mitterrand's closest advisers is that the government has the whole problem firmly under control. The reflationary policies applied in the first year of office were correct; a minor adjustment has now been made to take account of adverse external circumstances; the inflation rate will be brought down rapidly and the government's broad strategy can then resume. This strategy relies heavily on the role of the newly nationalised industries to stimulate investment and act as the spearhead of technological progress. In particular, massive investment is planned in the electronics field in order to put France in the same league as Japan. Similar concentrated programmes under previous presidencies gave France a pre-eminent position in nuclear energy and in telephone communications equipment. Investment in the selected sectors is not expected in itself to do much to alleviate unemployment, but it is hoped that it will stimulate confidence, investment and growth in the private sector, which in turn will create new employment. The government's critics take a far more pessimistic view of the likely course of events. They foresee continuing high inflation, potential social unrest, a deteriorating trade balance, a weakening franc and a continued failure by private

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industry to invest, due to the lack of profitability and to the hostility of the government to the private ownership of capital. The pessimists therefore see a likelihood of a continuing downward spiral in the economy.

9. Reality will no doubt lie somewhere between the two extreme points of view. But I think there is validity in the charge that the government seriously mishandled the economy in its first year of office by greatly increasing the budget deficit and failing to get a grip on inflation at a time when the international climate was very unpropitious for experiments in quick consumption-led growth. The inflationary forces which were allowed to run unchecked will not be easily repressed, and the struggle to get the economy back on an even keel will be longer and harder than the government has as yet openly acknowledged. There is a risk that if the trade deficit continues at its present level the government will come under mounting pressure from within the Socialist Party to exercise some form of direct control over imports. If the franc were to continue to weaken and confidence in its management of the economy to erode, one could not be certain that the government would in all circumstances resist such pressures.

10. In the meantime, one side effect of France's economic problems is worth noting. One of the major successes of French industry in recent years has been in the field of armaments. Arms sales make a major contribution to the balance of trade and often play a part in the conduct of foreign policy, for instance in relations with

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Iraq, Saudi Arabia and India. This may not in itself explain the intensity with which French arms salesmen pursue their targets, but it helps to explain why they receive so much sympathy and support from the government. The reservations voiced by the Socialist Party in opposition about the arms trade have rapidly been stilled. We have to assume that few considerations of policy or morality, including respect for British or other allied interests, will stand for long between a French arms merchant and a potential client. That is one reason why the French believe we are particularly indebted to them for their action over the Falklands and why we cannot expect much restraint now the armed conflict is over.

Foreign policy

11. There has so far been little which one could describe specifically as socialist in the foreign policy of the Mitterrand government. Mitterrand appears to be genuinely concerned about the strategic imbalance between the forces of the Warsaw Pact and the Western Alliance. He is also highly critical of Soviet policy in Afghanistan and Poland. It is sometimes argued that his harder line towards the Soviet Union is a function of the political game he is playing against the French communists within his own government, since one effect is to make life harder for them, but I think it is right for the moment to accept that Mitterrand means what he says. His stance has brought France somewhat closer to its partners in the North Atlantic Alliance. Direct collaboration with NATO forces remains shrouded in secrecy but

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appears to be somewhat closer than in the past. The French have given strong support to the NATO decision on installing Pershing rockets and cruise missiles in Western Europe and have probably had a favourable influence on German opinion. France's own defence expenditure continues at a very respectable level by European standards. Little has been heard recently of French ideas for some form of closer defence cooperation within Europe, but I expect them to surface again in due course: the subject is a political minefield in France, but there is evidently a disposition to try to feel a way forward and to find an alternative to pure Gaullist doctrine which, for instance, would in theory require French tactical nuclear weapons to be used against an invading Soviet army only when it approached the Rhine. A realisation of the absurdity of this strategic doctrine seems slowly to be spreading, though a move of French tactical missiles is not in sight.

12. The cooling of Franco/Soviet relations was matched in the first year of Mitterrand's government by a flowering of goodwill between Paris and Washington. The trans-atlantic relationship has taken a few knocks in the last two months, mainly because of clashes of economic interest which seem to have been accentuated rather than resolved by the Versailles summit. But Cheysson's talk of a progressive divorce was a characteristic exaggeration; and although tempers may well rise from time to time over specific conflicts of interest, there seems to be a realisation on both sides of the need to keep disagreements within bounds. Relations

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have for the moment returned to something like normality, with continuing consultation and cooperation in some areas and conflicts and confrontations, sometimes given sharp verbal expression, in others. On the other side of the balance some steps have been taken to restore a dialogue with the Soviet Union and eastern Europe; and I think it right to assume that Mitterrand's opening to Hungary will in due course lead towards the resumption of high level contact with Moscow.

13. Whether through inexperience or by a peculiarity of temperament Mitterrand has an unusual style of conducting foreign affairs. In the course of goodwill visits he likes to spell out views which he knows to be unwelcome to the other side. In the Knesset he spoke up about Palestinian rights. In Madrid he emphasised the conditions to be met before Spain could adhere to the European Community. In London he took a particularly uncompromising line on the Community budget. He despatched his foreign minister to Seoul, heralded by talk of a move to recognise North Korea. There is in all this a sense of calm assurance in projecting his own views, which one might well admire, and a trace of Canute-like arrogance and detachment from reality which could cause Mitterrand himself and his partners a lot of difficulty. One wonders, for instance, what he now thinks of his decision to brush aside the Venice Declaration and the idea of joint action by the Ten in the Middle East and to express approval of the Camp David approach: does he perhaps now wonder whether this may have given encouragement to Begin rather than, as he had hoped, stimulating a great debate in Israel

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about the future of the West Bank? We may never know, but on the whole he does not seem to be a man much given to second thoughts.

14. Two other areas stand out as fields in which Mitterrand's election has brought some change in France's foreign relations. (I will refer separately to relations with Britain below.) The relationship with the Federal Republic has become a little less special and exclusive than it was under Giscard. There is still much contact and consultation under the Treaty arrangements, but something of the collusive intimacy seems to have gone out of it. This may be due in part simply to the fact that Mitterrand and Schmidt have no common language in which to converse; and it may also owe something to the absence of a long period of working together, going back in the case of Giscard and Schmidt to their time as finance ministers. But it may be that Mitterrand takes a more pluralist view of western Europe and is less attracted by notions of Franco-German hegemony. Time will tell. Another area of interest is that of French policy towards Latin America. The Socialist Party has long had links with left-wing movements in Latin America. Régis Debray, friend of Cuba and inspirer of revolutionary sentiments amongst French students, now sits in the Elysée. Madame Mitterrand was also in touch over the years with various Central American revolutionary movements. The French socialists may have had to moderate their old ideological views about US imperialism as far as the main East/West relationship is concerned, but they have been able to cling to

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them in relation to Latin America. Such sentiments have motivated the French government to develop a warm relationship with the Sandinista regime in Nicaragua, allegedly in order to help keep it out of the hands of the Cubans and Russians, though that objective is perhaps belied by the efforts being made at the same time to get alongside Castro. US policy in Central America is seen as wrongheaded; and in principle there is no sympathy for any right-wing regimes in Latin America which enjoy the favour of Washington. This ideologically motivated policy conflicts, however, with two other elements in French thinking: the wish to assert French influence on the basis of "latinity" - a sort of common cultural, linguistic, even racial heritage; and the drive to sell arms to anyone with the money to buy them, except the blackest of right-wing dictators. It seems that where ideology clashes with practical interests, ideology loses out. The Argentine regime is now well on the way to rehabilitation: a distant glimpse of a possible return to democracy outweighs the thousands of "disappearances"; and the arms salesmen wait like greyhounds in their traps for the word to go. The Socialist ideologues will presumably have to make do with a continuing restriction on arms for the hated Pinochet.

UK/French relations

15. The change from Giscard to Mitterrand should in principle be helpful for British relations with France. Giscard was imbued with a sense of rivalry towards the UK - an attitude inculcated into generations of Frenchmen long before de Gaulle. He saw the

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60s and 70s as a period when France at last came out on top and overcame the centuries of imperial defeat and relative economic backwardness. But if he believed this was a French victory, he certainly did not think it was time for magnanimity. His objective seemed to be rather to keep the UK on the sidelines of European and world events. Mitterrand starts out from an altogether different position. From his days in the French resistance he derived a sense of gratitude towards Britain; and it seems that for him the comradeship in arms during the two world wars is a matter of lasting importance. He referred to it frequently both in private and in public during the Falklands conflict. It was for him the determining factor in deciding where France should stand when Britain faced an act of armed aggression.

16. There are other factors which should help us towards a more satisfactory relationship with France than we have enjoyed in recent years. Given that Mitterrand does not seem to share the traditional French sense of rivalry with Britain, the fact that we now have economic successes to record while France is running into difficulties should tend to facilitate cooperation: one of the problems in dealing with Mitterrand's predecessors was their excessive confidence in their own success and the corresponding disdain for their declining neighbour. The move towards greater realism in evaluating Soviet policy and the bid - even if not wholly consistent - for a better relationship with the United States both tend to bring British and French viewpoints closer together. Frenchmen are finding it harder now to justify

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accusations that the United Kingdom has been and might again be the trojan horse of the United States in Europe, since France itself, for much of the time, takes satisfaction in the quality of its relations with the US. The French government now welcomes collaboration with the UK in various international groupings alongside the United States; and there is a readiness to use such occasions to discuss international questions and interests more frankly than in the past. On the bilateral front the French seem to be at least as keen as we are for practical cooperation on the airbus, the fast breeder reactor and the Channel tunnel. Even within the European Community the issues which bring us into conflict with the French, primarily the budget and certain aspects of the common agricultural policy, are relatively few in number, though of economic importance. Overshadowing all else in the last three months, the French response over the Falklands was spontaneous and immediate; and although they wobbled a little at times, under pressure from Latin American governments, the arms manufacturers and the Socialist Party, they stayed with us on economic sanctions and the arms embargo to the end of the actual conflict.

17. The question arises whether, against this background, we could now look for a much warmer total relationship which could, for instance, contribute to a solution of the difficulties between us in the European Community. I believe that the objective is worth pursuing, but that the path may be a more rocky one than the positive factors outlined above might lead

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one to hope. Mitterrand himself would certainly not accept that his friendly feelings towards Britain, arising from the shared experience of war, could be translated into French concessions at the negotiating table in Brussels. He and many of his advisers seem to have absorbed a distorted idea of the nature of the disagreement between Britain and other member states over the budget and over agricultural matters, which leads them to believe that it would not only be costly to France but also damaging to the foundations of the Community to move far in our direction. It is a primary purpose of this Embassy to try to change these convictions, but we cannot count on early success. We must therefore expect the French to remain our leading adversary in Brussels on the Budget. Whatever others would be prepared to agree to, the French will agree to something less. They probably take a similar view of our policies on agriculture, where they will be pressing for expensive changes to benefit French farmers and we, in turn, will be aiming to impose limits. Some sort of deal ought to make sense, but it is not yet apparent how we could reach a tolerable one.

18. In other areas the French will not always be easy partners. Their desire to cut a dash on the international stage, combined with Cheysson's sudden enthusiasms, changes of course and over-emphatic policy declarations will make cooperation a chancy business. None of this is entirely new in French diplomacy, but under Cheysson it is particularly marked. Much of the French

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foreign policy apparatus at home and abroad will continue to work on the assumption that a major aim of all international activity remains the need to confound perfidious Albion. It is sometimes suggested that this game is played with equal venom by British and by French officials; and that the sense of rivalry exists in similar measure on both sides of the Channel. I have not personally found this to be the case: the French factor seems if anything to rank rather low in British eyes when viewed against the totality of British interests. But since nothing would annoy the French more than to be considered irrelevant it is perhaps as well that they assume the contrary. In any event we should expect that those who execute French foreign policy in the United Nations, in Brussels, and in most of the world's capital cities will regard it as a continuing priority to get the better of the British, rather than to reflect whatever more amiable disposition the President himself may have.

19. This does not mean that relations should remain stuck in the pattern of suspicion and of virtual hostility which they have at times taken in the past. I think the French will welcome and respond to positive indications from us about our ideas on foreign policy and that a dialogue on many subjects will be possible and useful. Where there are major differences, as over the Community budget, they will be interested in exploring a deal bilaterally. The going will be fairly rough and we should not expect too much. Some French ministers and officials will continue to pour sand in the works. But we can hope gradually to make progress.

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20. I am sending copies of this despatch to Her Majesty's Ambassadors at Washington, Moscow and Bonn and to the UK Representatives to the European Community.

I have the honour to be, Sir,
your obedient servant

John Fretwell