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file

From: John Holmes

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PRIME MINISTER

FOREIGN AFFAIRS

French elections

As you will have seen, Chirac has called Parliamentary elections a year early. In a TV broadcast this evening, he clearly tied the decision to EMU. Elections will now be held on 25 May and 1 June. There had been rumours of this possibility for some time, but they had been discounted by most observers, including Michael Jay, even as late as the end of last week. The catalyst for the decision now seems to have been a projection that the French budget deficit this year will be around 3.8 per cent, with the possibility of as much as 4.5 per cent in 1998. Serious new austerity measures will be needed to avoid this and qualify for EMU.

Chirac has clearly decided he could not expect to win Parliamentary elections after they had been put in place. He is gambling that the prospect of such austerity measures will not put people off voting for the Right now. That must be questionable. The opinion polls are not brilliant for him or Juppe, but current trends would give him a majority of around 40. This would still involve over 100 right wing MPs losing their seats, which must be an uncomfortable prospect to say the least.

There is clearly a risk that the RPR and UDF may lose, if French voters dislike this opportunistic move, and the Socialists under Jospin convince them that they

CONFIDENTIAL

CONFIDENTIAL

- 2 -

do not need such pain just to lose the franc. That would effectively scupper EMU, although the Socialists are not against in principle. But Chirac is betting that, if he wins, his hands will be free to pursue EMU hard, as he believes he must, and he will have an unfettered five years thereafter.

It is not clear where these elections will leave the Amsterdam European Council and negotiations on the IGC. To put it no higher, it will obviously be difficult for the French to focus on the proposed informal European Council on 23 May, and agree clear negotiating positions in advance of Amsterdam. The Amsterdam deadline must therefore be in further doubt.

Ireland

The hot money remains on an election in late May, announced next week. The polls are almost evenly balanced between the Fine Gael/Labour coalition and Fianna Fail. Haughey has just been revealed as the recipient of the £1 million slush money from the store owner Michael Dunne. This may damage Fianna Fail further.

Iran

As I mentioned over the weekend, the EU response to the Mykonos trial has been pretty feeble. Most of our partners would be happy to send Ambassadors back almost immediately. There is no support for economic measures of any kind, and only lukewarm support for other ideas we have put forward such as exclusion of Iranian intelligence officers and an arms embargo.

We have been pressing for a tougher line. The Americans are now weighing in too, and have sent Tarnoff (State Department) on a tour of European capitals to

CONFIDENTIAL

- 3 -

stiffen sinews. I will be seeing him on Wednesday morning. I propose to take a robust line in support of tough action against the Iranians. Are you content with this?

You may also like to see the attached message to you from Netanyahu on this subject.

India

Following the Congress machinations which resulted in the resignation of Deve Gowda, I K Gujral has now been chosen to be the next Prime Minister for the Left Front Coalition. He was Deve Gowda's Foreign Minister and is generally a good thing. He is particularly keen on better relations between India and Pakistan. The main downside is that the Finance Minister, Chidambaram, has been a casualty of the manoeuvrings. This is a pity, as he was an effective proponent of economic reform, as you may remember. Gujral has to pass a vote of confidence. I will put up a suitably warm message from you once this is over in the next few days.



JOHN HOLMES