

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND
THE PRESIDENT OF THE FRENCH REPUBLIC AT THE ELYSÉE PALACE,
PARIS AT 5.30 p.m. ON WEDNESDAY 18 OCTOBER 1972

Present:

Prime Minister

President Pompidou

Mr. A.M. Palliser

M.C. Andronikof

After President Pompidou had expressed his pleasure at seeing Mr. Heath, the Prime Minister said that he too was delighted at the opportunity for a further meeting with M. Pompidou and particularly that it should be taking place in Paris on the day when the British Instrument of Ratification of the Treaty was being deposited in Rome.

President Pompidou asked whether they should have a general discussion or talk about any particular questions. The Prime Minister said that he would be happy to do both; they might also have a short exchange about the proceedings at the Conference itself.

President Pompidou said that his impression was that there was broad agreement between the French and the British Governments on the subjects for discussion at the Conference. The Prime Minister agreed. In particular they were agreed on the importance of moving towards monetary union and on the adoption of a common European position towards reform of the International Monetary System. He saw the key to the

SECRET

- 2 -

Conference lying in the establishment by the nine member Governments of a common attitude in all major matters.

In this context the Prime Minister said how glad he was that President Pompidou had proposed his draft declaration: he had been greatly impressed both by the content of the draft and by the elegance of its style. He found himself in agreement with it.

The Prime Minister then asked whether M. Pompidou was satisfied with the arrangements being made for, and progress generally towards, European monetary union.

M. Pompidou said that he thought satisfactory progress was being made. They could not expect during the Conference to take things much beyond the stage that had been reached by their Ministers of Finance. But the Conference could emphasise the common determination of the participants to arrive at a common position. Naturally there were certain problems on which they could not expect at present to reach unanimous agreement within the Community. For example, no agreement was possible at present on the price of gold. Nor indeed could they hope to agree on the modalities of a return to convertibility of the dollar: many of their partners would be unwilling to commit themselves on this point, and in any case no advance could be made without American agreement. But progress had nevertheless been made, and this could be confirmed in the final communiqué of the

SECRET

10.11.
SECRET

- 3 -

Conference. Naturally the Germans would insist on parallelism or harmonisation of monetary and economic policies, especially in regard to the fight against inflation (the Prime Minister indicated assent). The French Government of course agreed with this proposition. But it was difficult to define or put into practice means of common action against inflation. However, it should be possible for the Conference to request the Ministers of Finance, at their meeting at the end of October, to draw up and submit to the member Governments a common plan of recommended measures against inflation.

The Prime Minister said that it might be helpful for him to repeat the British Government's position in regard to fixed parities. As had been explained at the time of the floating of the pound in July, they fully accepted the principle of such parities and, as they had declared publicly and in the House of Commons, they hoped that it would be possible to return to a fixed parity for sterling before 1 January 1973. But they could not give a specific undertaking at this point. As M. Schumann had said during his recent visit to the Prime Minister, this was a question of trust and confidence; the Prime Minister could confirm this and the Government's desire to return to the principle of a fixed parity. They were at present engaged on

SECRET

SECRET

- 4 -

important discussions about the country's economic situation and the inflationary problem with representatives of the trades unions and of industry. He hoped that these might perhaps be brought to a successful conclusion at the next round of talks on 26 October: such an outcome would have a considerable influence on both the economic and the monetary situation in Britain. The Government's purpose, however, was to revert to a fixed parity with the "snake in the tunnel" machinery in a situation where they could be confident of holding firmly to this, without the risk of further changes which would be damaging both to Britain and to the Community as a whole.

President Pompidou asked whether the Prime Minister was thinking in terms of a date or a rate. The Prime Minister replied that he was thinking of both. This was of course something to be considered as appropriate with their colleagues in the Community.

President Pompidou thanked the Prime Minister and said that he would be frank: he greatly hoped that it would be possible, in the interest both of Britain and of all her Community partners, for the return to a fixed parity to take place before 1 January. The rate at which the parity was fixed was of course a matter for the British Government: but his own main concern was that it should be established at a figure that would not inevitably entail a change for Italy

SECRET

SECRET

- 5 -

as well. The Prime Minister said that he agreed on the importance of this. He also wished to refer to another matter relating to sterling which he had discussed with President Pompidou in May 1971. This was the question of the official sterling balances. As the President knew, the proportion of these balances held by sterling area countries had been reduced under the relevant agreement and in addition the proportion of their reserves that these countries held in sterling had declined and was continuing to decline. This was in spite of the fact that many countries had moved out of dollars and had in certain cases tended to increase their holdings of sterling. Moreover, when the pound was allowed to float controls had been applied over capital flows to Commonwealth and other sterling area countries. There was thus both a system of exchange control over movements within the sterling area and, as he had explained to Monsieur Pompidou at Chequers, measures to facilitate capital movements between Britain and Community countries. Indeed, he understood that this greater freedom of capital movement was causing certain problems for Monsieur Pompidou in France. President Pompidou assented. He had asked that the Prime Minister should be informed about this. He saw no objection to an inflow of British capital if this was for genuine investment purposes. But the City of London was proving

SECRET

SECRET

- 6 -

itself particularly dynamic at present, especially in the processed foods sector. Already about half of the French food industry was under American control. If the French Government allowed matters to take their course, the other half would very shortly come under British control; though this was sometimes in camouflaged form (here President Pompidou referred to the activities of Mr. Jimmy Goldsmith, but asked that this should not be mentioned in the record).

The Prime Minister said that we would wish to see a discussion at the Summit of Regional Policy. He had noted a reference to this in the President's draft declaration. President Pompidou said that there would certainly have to be such a discussion, though he was not sure that French views were wholly in line with those of Britain. When the Irish Prime Minister had seen him earlier in the day, Mr. Lynch had asked for there to be a more direct reference to this topic in the declaration, including particularly express mention of the need to combat regional disparities within the Community. Monsieur Pompidou had told Mr. Lynch that he was not opposed to this in principle: but there were two aspects to the French attitude. First, on substance, they believed that Regional Policy consisted primarily of measures to help develop purely agricultural areas where the population had at present no means of existence other than agriculture. Ireland and Southern Italy were the prime

SECRET

SECRET

- 7 -

examples of this, though there were cases in other countries too. Secondly, as regards method, he hoped that the Prime Minister agreed that there should be no need for a "Ministry" of ten thousand civil servants in Brussels. Clearly, the principles on which Community aid to the regions should be based must be worked out in Brussels, and control over the application of those principles should also be exercised from Brussels. But the Policy should be administered by national administrations. Otherwise there would be an enormous increase in staff in Brussels; this was neither possible nor desirable.

The Prime Minister said that on method he wholeheartedly agreed with the President; there should certainly not be a huge "Ministry" in Brussels. As regards substance, he of course agreed on the need to help Southern Italy and Ireland. But in the British view there was also a need for help to industrial areas confronted with radical change; for example, where the coal industry was declining and other industries had to be established in order to revive the area and provide work for the people from the declining industries.

The Prime Minister said that he agreed with the President that it might not be appropriate to expand on this subject in the proposed draft declaration or seek to have specific decisions included therein. It would be preferable for decisions on Regional Policy to be included in the statement

SECRET

10.11.
SECRET

- 8 -

of decisions adopted by the Heads of Government in the text that, as he had suggested, should form the second part of the document on which the Conference might agree - the first part being the declaration proposed by Monsieur Pompidou.

Monsieur Pompidou said that he had received the Prime Minister's suggested text, but unfortunately had had no time so far to study it, as he had been obliged to receive the Irish Prime Minister. It was being examined. The French Government were also preparing a similar text, and would circulate it the following day: and other Governments might be doing likewise. These texts would have to be discussed. But he of course agreed that, after the declaration of principles by the Conference, there should be a statement of the decisions they had reached.

The Prime Minister repeated his satisfaction at the way in which the President had sought in his draft declaration to cover the range of views held by various Heads of Government. However, he was doubtful of the wisdom of including in any list of decisions of the Conference something as specific as seemed to be intended about a full-blooded Mediterranean Policy, with reverse preferences, applicable to all the countries bordering the Mediterranean and certain other neighbouring states. President Pompidou said that he agreed. They should be prudent. This approach exasperated the Americans, and it could also represent something of the thin

SECRET

end of a wedge. Naturally it was felt that the Maghreb countries should be included because of their former relationship with France. Malta and Cyprus had a similar relationship with Britain. But then there was a cry for Israel to be included: and at once someone then insisted on the inclusion of Egypt: and so on. He fully agreed on the need for caution. They should also avoid a situation in which there was a general demand for an extension of the generalised preference scheme. Romania wanted this, Bulgaria seemed to want it; before long everyone would want it. If the Community continued in this way and extended itself to all comers, there would in due course be no Community. The Prime Minister assented. This was a case where the Community would be well advised to do good by stealth.

The Prime Minister said that the Conference would wish to discuss and to seek to reach decisions on aid to developing countries. The British Government had proposed a waiver of interest payments due from the most heavily indebted countries. Clearly this was not a concept that they would normally wish to adopt nor was it one that was welcome to Treasuries. However, we had found that in certain cases where countries were under an excessive burden of debt service, there tended to be a reaction against the countries providing the aid, and this sometimes resulted in a change of regime which might well be a change for the worse so far as donor countries were

SECRET

- 10 -

concerned. The waiver of debt service seemed a practical way to help such Governments. He hoped the Community would be prepared in future to lend money on less onerous terms with a smaller resultant burden of interest payment. It would seem to be compatible with such an intention for them to be prepared now to waive interest on past indebtedness.

President Pompidou expressed serious misgivings about this proposal. Naturally they could discuss future debt arrangements and the terms on which loans were made, for example from the European Development Fund, and consider possible improvements. But he was sceptical about a waiver of debt for a certain category of countries. It might be possible to look at each case individually. But he feared that countries that paid interest regularly on their debts would be indignant at the idea of others being allowed to waive such payments, and there could be a general demand for a cancellation of all debt servicing. This would represent an unacceptable burden on Treasuries. It would also greatly irritate the United States who had been and remained by far the biggest lenders and would complain that the Community had started an irreversible movement against repayment of debt. Accordingly he felt serious doubts about such a proposal. On this important problem of underdeveloped countries (they were called "developing" in order to keep them happy, but they were really underdeveloped) he had two comments to make,

SECRET

19.11.
SECRET

- 11 -

which he intended to include in his statement to the Conference the following day. First, the Community had certain priorities which related particularly to the Commonwealth and to the countries of the former French Empire. For France this meant the present signatories of the Yaoundé Convention and for Britain he knew that there were about twenty Commonwealth countries who could be expected in one form or another to be associated with the Community. The Germans also had a particular interest in certain countries as did the Italians. Basically this meant the countries of Africa, together with certain small Commonwealth countries outside Africa. Secondly, came the poorest countries. He thought that there would be general agreement that these merited special assistance. As he had said to Sir Christopher Soames, he believed that, at the Conference, they should work on the UNCTAD list of such countries and not on an arbitrary list selected by themselves; and the best thing might well be to fix an aid target related both to the GNP and to flows of official aid: and this should be stated as a target which all the Governments would seek to achieve. That was the French position. There was no difference between himself and the Prime Minister on the desirability of establishing lower interest rates for future loans to developing countries. But he could not see that it would be wise to take the most heavily indebted countries and then say in effect that the less

SECRET

SECRET

- 12 -

they paid, the less they would have to pay. The result was bound to be a general tendency by all debtor countries to refuse to pay anything.

President Pompidou said that he would like to ask a precise question. In the case of Pakistan which owed money to a great many countries - not much to France but a great deal to Britain and America - if the Prime Minister's system were applied, who would be waiving how much?

The Prime Minister said that our proposal was, working on the list of the poorest countries, to think in terms of interest due in ratio to the total of aid received. The President had mentioned the UNCTAD list of countries. We had been thinking in terms of a longer list because our calculations suggested that, if we worked on the basis of the UNCTAD list, the total involved would only be in the neighbourhood of £30 million. If we worked on the basis of our proposed list, the total would be upwards of £100 million and this seemed to us to be a figure that an enlarged Community of nine could reasonably afford. In the case of Pakistan our proposal would be that the members of the Community should be prepared to waive interest due on loans made to that country. The Prime Minister said that he wished to repeat a general point, namely that we had on occasion been confronted by developing countries in serious difficulties owing to the need to repay large amounts of interest; as a result of these

SECRET

difficulties there had been internal unrest and even the overthrow of the Government and its replacement by another and often dictatorial regime: Ghana was an example. Presumably, if the President were, as he had said, ready to examine cases individually he would not necessarily exclude a waiver of interest if this seemed to be justified in a particular case; and in any event for future loans.

President Pompidou said that he was afraid of the contagious effect of such a policy. If they were to agree the next day to such a waiver of interest to Chad, the Ivory Coast would seek to avoid paying their debts. And even if the Ivory Coast might perhaps not dare to try this, Dahomey or Ghana might well. He preferred the idea of giving aid on softer terms in future rather than simply waiving interest on current debts. Of course in certain cases it was necessary to accept a moratorium. Indeed, this was current French practice. Such a moratorium might in practice prove a near-permanency. But it did not represent a complete waiver of the debt, and thus in his view was not subject to the objections he saw to the Prime Minister's proposal.

President Pompidou added that the Prime Minister would no doubt have heard, as he had, from Herr Brandt that the German Government could not envisage any additional expenditure on aid to the underdeveloped countries. The Prime Minister said that he had not heard this. President Pompidou said that it

SECRET

- 14 -

had been contained in a message he had received that morning from the Federal Chancellor, commenting on his draft declaration.

The Prime Minister said that he wished to explain to the President a particular difficulty for us in the aid context, namely the idea of a target of 0.7 per cent of aid from official sources. He knew that France was now contributing well over 1 per cent of her GNP in total aid. Britain was just behind this with a figure of about 1.04 per cent. But within that only 0.43 per cent represented official aid. The rest was private enterprise aid consisting of private investment and technical know-how. If the British Government were obliged to move to 0.7 per cent of official aid within a foreseeable time-span, this would represent an unacceptable burden on the budget and would also probably entail the need to cut back on private investment. In the British view what was important was the total aid involved; indeed we were inclined to the view that private aid and technical know-how was often more satisfactory than official aid.

President Pompidou said that he thought that this was an area of disagreement essentially between Britain and France; but equally one on which it should be possible for them satisfactorily to agree on a text. If they could do this, he doubted whether there would be much difficulty with any of the other participants in the Conference. The Prime Minister assented.

SECRET

SECRET

- 15 -

The Prime Minister said that he had two further points he wished to raise. First, the European Parliament. We had suggested that there should be a study of the Parliament and that this should be entrusted to members or former members of Governments. This was because we feared that if the study were carried out exclusively by members of the European Parliament, they might advance unrealistic or, for Governments, unacceptable claims. President Pompidou said that there would no doubt be some irritation at the Conference about the Parliament, especially on the part of the Dutch who would wish to discuss it and would no doubt then be joined by the Italians and possibly also by the Germans. Admittedly Herr Brandt was not too keen: but he had to take account of the Opposition in Germany. One should not confuse Parliament and Parliament. Britain had a Parliament: but it was a very different affair from the European Assembly. However, they had to remember that the Treaty made specific provisions for the Assembly to make proposals for the holding of direct elections and it could not be prevented from doing so. So far, however, the French had always managed to stall on progress by saying that it required the agreement of the Council of Ministers and by then ensuring that no action was taken by the Council. However, if there were to be a study of the possible strengthening of the powers of the Parliament,

SECRET

10 R.
SECRET

- 16 -

then he wholly agreed with the Prime Minister that it should be carried out by members of Government (or possibly former members) and at all events by people with proper experience of Parliamentary control. Above all they should avoid involving "experts". President Pompidou delved in his desk for the text of the Treaty of Rome and quoted the relevant section of Article 138. What some of their colleagues would wish them to do would be to fix a date for the Council to decide about the holding of direct elections.

The Prime Minister said that his second question related to the European Commission. As he had earlier informed the President at Chequers, and had subsequently confirmed by letter before the announcement was made, the British Government were proposing the names of Sir Christopher Soames and Mr. George Thomson as the two British members of the Commission. We were of course ready to support the French in seeking the next Presidency for one of the French Commissioners: and if M. Pompidou wished the other French Commissioner to be responsible for relations with the Yaounde associates, we should be ready to accept that. For our part, we would like the President to know that we hoped Sir Christopher Soames could be responsible for external affairs and Mr. Thomson for Regional Policy.

President Pompidou said that, as he had also told the Prime Minister before, the French Government intended to propose M. Ortoli as President. He could not yet

SECRET

SECRET

- 17 -

definitely inform him of the name of the other French Commissioner designate. But speaking in strict confidence he thought that it was possible that M. Deniau would remain in the Commission: that at least was the President's hope. As regards the responsibilities entrusted to the Commissioners, he noted the Prime Minister's view and that we hoped Sir Christopher Soames could have external affairs. As regards Regional Policy, France had no claim to this but no doubt others would. President Pompidou added that he wished to congratulate the Prime Minister on the unanimous welcome in Britain for the two candidates he had chosen. This was indeed rare.

The Prime Minister said that we had much confidence in M. Deniau. Had the Prime Minister any views on which member of the Commission should be entrusted with agriculture?

M. Pompidou said that he had not any firm opinion on this. Normally one of the smaller agricultural countries might expect to get the post. He supposed that Denmark could be a candidate; and Mr. Lynch had told him that he hoped that the Irish Commissioner could have agriculture: no doubt in due course the Dutch might pose their candidature. He repeated that he himself had no firm view. But he thought that the job might go to one of these small countries.

The Prime Minister said that his understanding (though Sgr. Andreotti had not said this to him) was that the Italians hoped their Commissioner who was at present

SECRET

SECRET

- 18 -

responsible for agriculture would remain in charge of it. In view of this it might be embarrassing to try to move him from the post. Equally, he agreed that one of the smaller countries might be able to make a case.

President Pompidou seemed to be unaware either of the name of the Italian Commissioner or that he was expected to remain: and it was explained to him that Sgr. Scarascia-Mugnozza, who had succeeded Dr. Mansholt in charge of agriculture, had been appointed at the time of Sgr. Malfatti's resignation, and on the understanding that he would continue to serve in the next Commission. President Pompidou then said that if Sgr. Scarascia was remaining in the Commission and wanted to keep the post it would seem remarkably difficult to shift him from it.

The Prime Minister renewed his thanks to the President and offered him his good wishes for the success of the Conference under his chairmanship. President Pompidou expressed his thanks. He had tried to draft his declaration in prudent terms and so as to avoid giving offence to any of his colleagues. However, Mr. Lynch had asked for a change in the reference to European Alliances and had said he would prefer something along the lines of "the member States in their Alliances". The Prime Minister said jokingly that they should perhaps talk about "friends and allies".

The meeting ended at 6.50 p.m.

SECRET