

3:00 p.m., Tuesday, July 31, 1973

Meeting with French Finance Minister
Giscard d'Estaing

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MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET/EYES ONLY

July 30, 1973

MEMORANDUM FOR MR. KISSINGER

FROM: Helmut Sonnenfeldt *HS*

SUBJECT: Your Meeting with French Finance Minister
Giscard d'Estaing
Tuesday, July 31 - 3:00 p.m.

1. Economic Matters

You probably don't want to get into these in any detail. But here is some material for your information, so you are prepared.

* * *

Last week Giscard emphasized to Ambassador Irwin his concern with the current monetary situation (Tab A). See also the comments of Elysee Secretary General Balladur (Tab B). He said that he felt U.S. political leaders did not understand the seriousness of the political problem which the decline of the dollar to a rate 10% below the February 12 parity was causing the French and other European governments, e.g. the present exchange rates could diminish competitiveness of certain European business and will thus lead to unemployment. If unemployment and the attendant political difficulties were thus to spread in Europe, the monetary question would be much harder to resolve and this would have important repercussions on defense and security issues. Resolving monetary issues would not resolve all other issues, but failure to resolve them would exacerbate other issues.

Giscard has a point. Although limited intervention by the U.S. has taken place, this has clearly not been enough to strengthen the dollar over the last several weeks. The attached analysis by Chuck Cooper (Tab C) indicates the types of difficulties which will arise if the situation continues.

You might take advantage of this opportunity to get a more detailed assessment from Giscard of what he believes the effects of a continuation of this situation would be and to have him explain in detail his suggestions for dealing with the problem. If Giscard indicates the need for intervention, you might raise the following questions:

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-- How much intervention might be necessary to achieve a 4 or 5% recovery (the figures he mentioned to Irwin) in the value of the dollar above its present value.

-- What is the risk in attempting a large-scale intervention, failing to achieve our objective, and thereby contributing to a further lack of confidence in both the dollar and the ability of governments to deal with the dollar's weakness.

NOTE: A good analysis of the French view on soybean control is at Tab D.

2. Year of Europe

Since you will have to work with Jobert, you should be very cautious about what you say to Giscard on the Year of Europe and specifically the French problems connected with it.

You can, however, point out to Giscard that one of our motivations in launching the initiative was to put the various economic negotiations with the Europeans into a political context. This is why the reserved, not to say niggling, European response has been so baffling to us. All we were asking of the Europeans was to give us the flexibility to appeal to higher political values in the economic negotiations. That was the only "globalization" we had in mind, not the simple-minded view attributed to us of trying to negotiate all issues in the same forum or to trade military commitments for European economic concessions.

You should also make the point that after four years of cultivating bilateral relations with the French we were prepared in the Year of Europe to give the strongest support to France's leading role in Europe and to the evolution of a European identity. In fact, we were accused by others of being too solicitous of French concerns. But Giscard heard the President in Iceland and that was his firmly held view.

3. Soviet Relations

You should tell Giscard that we are still studying Pompidou's ideas about the Soviet position with respect to the international monetary system and about the better management of agricultural sales to the East. The President hopes shortly to reply to Pompidou's message but this is obviously a set of subjects on which we should continue to remain in touch.

You may want to ask Giscard about his impressions regarding Soviet-French economic relations and his view of the recent Comecon decision to deal directly with the EC.

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URGENT

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HAK

HS

Talk With French Charge.

During a ~~xxxxxxxxxxxx~~ lunch today, which had been arranged a long time ago, I managed to keep 95% of the conversation on French policy during the American Revolution, French administrative practices and the personality of Debre.

At the end, however, de la Gorce said he had never heard anything from Jobert in response to the two questions you raised when he gave you Jobert's letter. I said we were aware of that. De la Gorce then said that the Copenhagen meeting seemed to have made some real progress in preparing for the President's trip and working out some joint documents. He said parenthetically that he and his Ambassador were pleased about this because they had given a very positive evaluation of your speech last April.

I said I did not want to anticipate what you might say should you get a response to your questions to Jobert, but I did want to point out that the procedure decided on in Copenhagen ~~xxxxxxxx~~ presented a serious problem. What seemed to be happening was that the Europeans who had asked us to talk bilaterally to them on substance were now telling us that they could no longer conduct such conversations and instead wanted to present us with a collective view which we had had no part in formulating, even though it dealt with our common concerns and interests.

De la Gorce said he was afraid we would feel that way, especially since he had of course noticed in Jobert's last

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message that the French were no longer willing, as they had previously agreed, to let us have some language for a Declaration. I said we had hoped to make this a collaborative and organic intra-Western effort, as required by the problems of our times, but now the Europeans seemed to be turning it into an adversary negotiation. De la Gorce said that ~~waszhixzkeellinxxtsox~~ he could understand that. ~~ixxaxixzbx~~

De la Gorce asked whether the Europeans we had talked to favored some sort of a summit meeting of the West when the President goes to Europe. I said that had been our impression, though all of them had questioned whether the French were interested. I said I personally ^{considered} ~~found~~ it highly doubtful whether the President would consider a European trip that ~~reputed~~ his itinerary of 1969 (de la Gorce was present at the meeting with the NAC in Brussels) and that involved collective meetings in which other heads of Government were not participating. De la Gorce said he had heard that might be the President's attitude. He said he personally regretted what was happening because he very much agreed with our original approach and the reasons for it.

I said, finally, there seemed to be an absurd notion in Europe that we expected this year to define every last aspect of Atlantic relations. Obviously, what we had suggested was a major symbolic and political act that would provide the momentum and the political base from which to move ahead in the period to come, both in East-West relations and in intra-Western relations. De la Gorce said he and his Ambassador had understood this completely and so reported; he personally was especially conscious of what I was saying because he had been

following the Congressional debate on our troops abroad.

De la Corce said he would report our talk to his
Minister.

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E.O. 11652: GDS
TAGS: EPIN, FR
SUBJECT: CALL ON FRENCH MINISTER OF FINANCE GISCARD D'ESTAING

1. DURING A CALL I MADE ON FINANCE MINISTER GISCARD D'ESTAING THIS AFTERNOON, HE EMPHASIZED HI CONCERN WITH THE CURRENT MONETARY SITUATION. HE SAID HE FELT U.S. POLITICAL LEADERS DID NOT UNDERSTAND THE SERIOUSNESS OF THE POLITICAL PROBLEM WHICH THE DECLINE OF THE DOLLAR TO A RATE 10 PERCENT BELOW THE FEBRUARY 12 PARITY WAS CAUSING THE FRENCH GOVERNMENT AND OTHER EUROPEAN GOVERNMENTS TOO. HE MENTIONED A RECENT TALK HE HAD HAD WITH A FRENCH BUSINESSMAN WHO HAD EXPRESSED THE FEAR HE WOULD BE UNABLE TO COMPETE IN THE U.S. MARKET AT THE PRESENT DOLLAR/FRANC EXCHANGE RATE AND WOULD HAVE TO LET OFF SUBSTANTIAL NUMBERS OF PEOPLE. IF UNEMPLOYMENT AND POLITICAL



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DIFFICULTIES WERE THUS TO SPREAD IN EUROPE, THAT WOULD MAKE MONETARY PROBLEM VERY MUCH HARDER TO RESOLVE.

2. I QUESTIONED GISCARD AS TO WHAT ALTERNATIVE HE SAW TO FLOATING RATES IN THE PRESENT TRANSITION PERIOD. GISCARD REPLIED THAT THE IMPORTANT THING WAS FOR THE U.S. TO SHOW WILLINGNESS TO SUPPORT THE DOLLAR. REPEATING THAT HE BELIEVED THE DOLLAR WAS SUBSTANTIALLY UNDER-VALUED PERHAPS AS MUCH AS 10 PERCENT HE SAID HE THOUGHT IT COULD BE SUPPORTED AT THE PRESENT LEVEL THROUGH THE USE OF SWAP FACILITIES WITHOUT GETTING INTO THE MORE COMPLICATED PROBLEM OF CONSOLIDATION OF BALANCES. HE FEELS OBJECTIVE SHOULD BE AT A MINIMUM TO KEEP RATE FROM FALLING BELOW PRESENT LEVEL AND, IF POSSIBLE, TO ACHIEVE SOME RECOVERY - SAY, BY ABOUT FOUR OR FIVE PERCENT ABOVE ITS PRESENT VALUE. HE SAID HE WAS NOT ARGUING WE SHOULD SUPPORT THE DOLLAR ALL THE WAY BACK UP TO THE LEVEL RESULTING FROM THE DEVALUATION. HE FELT THE U.S. HAD MADE A MISTAKE IN TAKING A COMPLETELY "HANDS OFF" ATTITUDE AFTER THE LAST DEVALUATION.

3. I TOOK ISSUE WITH GISCARD'S SUGGESTION THAT THE U.S. WAS INDIFFERENT TO THE STRENGTH OF THE DOLLAR. I NOTED THAT THE U.S. HAD MORE THAN MET THE PRESIDENT'S TARGET OF KEEPING GOVERNMENT EXPENDITURES BELOW \$250 BILLION IN FY 1973 AND THAT THE FINAL BUDGET DEFICIT FOR FY 73 WAS \$14 BILLION RATHER THAN THE \$18 BILLION FORECAST IN JANUARY. I MENTIONED THAT PRESIDENT NIXON HAD EXPRESSED HIS DETERMINATION TO ACHIEVE A BALANCED BUDGET IN FY 1974. I CALLED ATTENTION TO THE STRONG PHASE IV PROGRAM FOR DEALING WITH THE IMMEDIATE INFLATIONARY PROBLEMS. FINALLY I POINTED TO THE SECOND QUARTER TRADE RESULTS AS EVIDENCE THAT OUR EFFORTS WERE BEGINNING TO BEAR FRUIT. GISCARD AGREED THESE WERE IMPORTANT DEVELOPMENTS.

4. IN FURTHER DISCUSSION IT BECAME CLEAR THAT GISCARD FEELS THAT US/EUROPEAN DIFFERENCES OVER THE MONETARY SITUATION CAN HAVE IMPORTANT REPERCUSSIONS ON OTHER ISSUES, PARTICULARLY ON THE EC ITSELF, AND ON DEFENSE AND SECURITY QUESTIONS. RESOLVING MONETARY PROBLEMS WOULD NOT RESOLVE ALL OTHER ISSUES HE SAID, BUT A FAILURE TO RESOLVE THE MONETARY PROBLEMS WOULD CERTAINLY EXACERBATE OTHER ISSUES.

5. IN PARTING GISCARD COMMENTED THAT "IN DIPLOMACY MISTRUST



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IS DEEP-ROOTED" AND HOPED WE COULD WORK TOGETHER TO DEAL WITH SUCH MISTRUST BY FULL AND FRANK EXCHANGES. ACCORDINGLY WE AGREED TO PICK UP DISCUSSION AGAIN IN SEPTEMBER.

6. IN LIGHT OF THE SERIOUSNESS OF FRENCH CONCERNS, HOWEVER, I URGED GISCARD TO SPEAK DIRECTLY TO SECRETARY SHULTZ IN WASHINGTON NEXT WEEK TO EXPLORE POSSIBLE SOLUTIONS.
IRWIN

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REFERENCE TO MESSMER REPLY TO MITTERAND., END SUMMARY

2. I INVITED SYG OF THE ELYSEE BALLADUR TO LUNCH TODAY TO CONTINUE THE DISCUSSION REPORTED REFTEL. BALLADUR BEGAN BY EMPHASIZING FRENCH PREOCCUPATION WITH MONETARY SITUATION. FRENCH FEEL PRESENT MONETARY SITUATION POSES GRAVE RISKS FOR US/EUROPEAN RELATIONS AND FOR THE PROCESS OF EUROPEAN CONSTRUCTION. THEY WOULD LIKE TO BE REASSURED.

3. IN RESPONSE TO MY QUESTION AS TO WHAT WE COULD DO TO REASSURE THEM, BALLADUR SAID THE QUESTION WAS MORE PSYCHOLOGICAL THAN TECHNICAL. HOLDERS OF DOLLARS HAD TO BE CONVINCED OF US WILLINGNESS TO DO SOMETHING. VARIOUS MEASURES WERE POSSIBLE. FOR INSTANCE, TWO WEEKS AGO AT BASEL CENTRAL BANKERS HAD AGREED TO SET UP SWAP LINES BUT US APPARENTLY HAD HARDLY USED THEM AND US MONETARY AUTHORITIES SEEMED TO HAVE NO INTEREST IN TAKING ACTION.

4. I OUTLINED THINGS THE US HAD DONE AND SOME OF THE REASONS WHICH MIGHT SUGGEST THE DOLLAR WOULD NOW IMPROVE. I CITED THE FACT OF OUR TRADE SURPLUSES IN THE LAST QUARTER, THE IMPLEMENTATION OF PHASE 4, THE AGREEMENT IN BASEL AND THE ANNOUNCEMENT THAT WE HAD INTERVENED AFTER JULY 10. BALLADUR SAID NEVERTHELESS THE DOLLAR HAD CONTINUED TO DECLINE OVER THE PAST MONTH. WHAT WAS AT STAKE WAS THE ECONOMIC SOLIDARITY OF THE WEST, WHICH AS PRESIDENT NIXON HAD SAID AT REYKJAVIK NEEDED TO BE PRESERVED PARTICULARLY IN A PERIOD WHEN WE WERE MOVING TOWARD DETENTE.

5. I SAID WE OFTEN HEARD IN FRANCE THAT THE US SHOULD "DO SOMETHING" TO SUPPORT THE DOLLAR, BUT THAT MY IMPRESSION FROM TALKING WITH THOSE MORE EXPERT THAN I WAS THAT IT WAS DIFFICULT OPERATION AS TO SPECIFIC ACTION AND TIMING. I SAID WE RECOGNIZED THE SERIOUSNESS OF FRENCH CONCERN BUT THAT NOT EVEN AMONG EUROPEAN GOVERNMENTS WAS THERE AGREEMENT ON WHAT SHOULD BE DONE OR WHEN IT SHOULD BE DONE. I EXPRESSED BELIEF THAT FRENCH CONCERNS COULD BEST BE EXPLAINED TO USG

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BY HAVING MINISTER GISCARD D'ESTAING TALK ABOUT THEM TO SECRETARY SCHULTZ NEXT WEEK WHEN THEY MEET IN WASHINGTON.

6. BALLADUR ASKED ME WHETHER I THOUGHT THE PRESENT FRANC/DOLLAR EXCHANGE RATE WAS REALISTIC, OR WHETHER THE DOLLAR MIGHT CONTINUE TO GO DOWN OR COME BACK UP. I REPLIED THAT PREDICTIONS WERE DIFFICULT, BUT THAT OBJECTIVELY IT APPEARED THAT THE LEVEL RESULTING FROM THE LAST DEVALUATION IN FEBRUARY WAS A MORE REALISTIC ONE THAN THE PRESENT LEVEL.

7. REFERRING TO THE C-20 DISCUSSIONS, BALLADUR SAID THERE WERE A NUMBER OF POINTS STILL AT ISSUE BUT THAT ON TWO POINTS AGREEMENT SEEMED TO BE NEAR.

8. FIRST, CONTRARY TO THE SCHOOL OF THOUGHT REPRESENTED BY GERMAN FINANCE MINISTER SCHILLER AND MILTON FREIDMAN, TOTAL FREEDOM OF EXCHANGE RATES CLEARLY WOULD NOT WORK. NEITHER, OF COURSE, DO RIGID ONES. WHAT WAS NEEDED WAS STABLE BUT ADAPTABLE OR FLEXIBLE RATES.

9. SECOND, INTERNATIONAL SPECULATION WAS A TOTALLY NEW PHENOMENON OF OUR EPOCH. IT WAS CAUSED IN PART BY MULTINATIONAL CORPORATIONS AND OTHER HOLDERS OF SUBSTANTIAL PRIVATE RESERVE BALANCES. EVEN IF MEANS ARE WORKED OUT TO STABILIZE THE USE OF PUBLIC RESERVE BALANCES, THE FRENCH ESTIMATE THAT UP TO 250 BILLION DOLLARS REMAINS AVAILABLE IN PRIVATE RESERVES FOR SPECULATION. THE FRENCH FEEL WE MUST FIND A WAY TO DEAL WITH THIS MASS OF FLOATING CAPITAL EVEN THOUGH TRADITIONAL THEORY MAY NOT HAVE DEALT WITH THE NEW PHENOMENON.

10 I SAID I UNDERSTOOD WE HAD AGREED IN CONCEPT TO THE FIRST POINT EVEN THOUGH AGREEMENT OF THE MECHANICS OF HOW EXCHANGE RATE ADJUSTMENTS WOULD WORK WAS STILL NEEDED. PARTICULARLY, AGREEMENT WAS NEEDED OF THE RESPECTIVE RESPONSIBILITIES OF SURPLUS AND DEFICIT COUNTRIES.

11. ON SECOND POINT, I SAID THE 200 OR 250 BILLION SEEMED AN EXCESSIVE ESTIMATE, THAT OUR TREASURY ATTACHE ESTIMATED

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THER WERE SOME \$90 BILLION IN US LIQUID LIABILITIES TO FOREIGNERS OF WHICH SOME \$70 BILLION WAS IN THE HANDS OF FOREIGN OFFICIAL INSTITUTIONS AND NOT LIKELY TO EXERT SIGNIFICANT PRESSURES ON EXCHANGE MARKETS. THERE WERE ALSO HOWEVER, SIZEABLE EURODOLLAR HOLDINGS OUTSTANDING TO THE ORDER OF \$70 BILLION.

12. AS AN EXAMPLE OF THE SERIOUS PROBLEM WHICH THE PRESENT MONETARY SITUATION CAUSES FOR THE EUROPEANS, BALLADUR MENTIONED THAT THE FALL OF THE LIRE AND THE RISE OF THE DEUTSCH MARK HAD RESULTED IN A 37PC PRICE DIFFERENTIAL FOR AGRICULTURAL PRODUCTS BETWEEN ITALY AND GERMANY. IF THE US REALLY CARED ABOUT EUROPE AND THE COMMON MARKET, BALLADUR SAID, WE WOULD TRY TO DO

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SOMETHING ABOUT THIS PROBLEM. EMPHASIZING THE POLITICAL NATURE OF THE PROBLEM, BALLADUR SAID IT WAS NOT JUST ENOUGH FOR FINANCE MINISTERS TO TALK TO EACH OTHER, BUT THEY MUST BE DIRECTED BY THEIR POLITICAL SUPERIORS TO FIND A SOLUTION.

13. BALLADUR THEN EXPLAINED FRENCH POSITION ON TRADE NEGOTIATIONS REFERRING TO PRIME MINISTER MESSMER'S LETTER TO MITTERAND. FRANCE WOULD GO TO TOKYO AND PARTICIPATE IN THE OPENING NEGOTIATIONS WITHOUT MAKING MONETARY PROGRESS AND PRECONDITION. FRANCE WOULD CONTINUE TO BEAR IN MIND, HOWEVER, THE MONETARY SITUATION AT EACH STAGE IN THE TRADE NEGOTIATIONS. REFERRING TO THE CURRENT DEBATE IN GENEVA, BALLADUR NOTED THE EUROPEANS HAD REACHED A COMMON POSITION WHICH APPEARED TO DIFFER FROM THAT OF THE US ON THE RELATIONSHIP BETWEEN THE MONETARY SITUATION AND TRADE TALKS.

14. I REPLIED THAT I FULLY ACCEPTED THERE WAS A RELATIONSHIP BETWEEN MONETARY AND TRADE

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ISSUES AND REMINDED BALLADUR, WHICH SEEMED TO SURPRISE HIM, THAT WHEN THE US HAD RECOMMENDED A STUDY ON THE LINKS BETWEEN MONETARY AND TRADE ISSUES IN THE OECD OVER A YEAR AGO, FRANCE HAD LED THE OPPOSITION TO THE IDEA OF A LINK BETWEEN THE TWO FIELDS. BECAUSE OF THE TIME WHICH TRADE NEGOTIATIONS WILL TAKE, HOWEVER, I SAID WE DID NOT FEEL THE PRESENT MONETARY SITUATION SHOULD BAR BEGINNING SERIOUS TRADE NEGOTIATIONS. WE RECOGNIZED THAT PARTICIPANTS COULD REFUSE TO SIGN THE RESULTING AGREEMENT UNTIL THE MONETARY SITUATION BECAME CLEARER.

15. BALLADUR OBSERVED THAT WHILE WE NOW SEEMED TO AGREE THERE WAS A LINK BETWEEN THE TWO AREAS WE SEEMED TO HAVE GOTTEN TO THAT POSITION FROM QUITE DIFFERENT STARTING POINTS. THE FRENCH SAY THAT TO NEGOTIATE ON TRADE ONE MUST KEEP IN MIND HOW THINGS STAND ON THE MONETARY SIDE. WE SAY THAT TO NEGOTIATE ON MONETARY REFORM WE MUST KNOW HOW THE TRADE NEGOTIATIONS WILL COME OUT.

16. M. BALLADUR RAISED THE REMARK OF DR. KISSINGER ABOUT EUROPE'S REGIONAL INTERESTS VERSUS THE US'S GLOBAL INTERESTS. I SAID THAT HE MUST HAVE READ THE CLARIFICATION THAT DR. KISSINGER WAS SPEAKING OF WHAT APPEARED TO BE EUROPE'S PRIMARY INTEREST, THAT WE WOULD WELCOME EUROPE TAKING A MORE GLOBAL ROLE. I POINTED OUT THAT EUROPE'S TRADE PROTECTIONIST POLICY WAS AN EXAMPLE, THAT EUROPE BY ITS DESIRE TO PROTECT UNECONOMIC AND UNCOMPETITIVE SECTORS OF ITS ECONOMY, WHETHER AGRICULTURAL OR INDUSTRIAL, WAS EXPRESSING ITS REGIONALISM FOR POLITICAL OR OTHER REASONS. WHILE WE RECOGNIZED THEIR NEED FOR REASONABLE PROTECTION, WE WOULD WELCOME THEIR TAKING MORE OF A GLOBAL VIEW.

BALLADUR REPLIED THAT HE UNDERSTOOD EC TARIFFS WERE GENERALLY LOWER THAN US TARIFFS. I REPLIED THAT A CASE BY CASE COMPARISON WAS MORE APPROPRIATE AND THAT AGRICULTURE ALSO WAS SPECIAL CASE IN POINT. TO THIS BALLADUR REPLIED WITH A SMILE, "WE ARE READY TO BUY ALL THE SOYBEANS YOU WISH TO SELL." THIS

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GAVE AN OPPORTUNITY TO REFER TO THE EMBASSY'S PRESS RELEASE ON SOYBEANS AND TO REVIEW THE FACTS WE HAD SET FORTH THERE.

17. PICKING UP MY REFERENCE TO THE NEED FOR GLOBAL SOLUTIONS, BALLADUR EMPHASIZED PRESIDENT POMPIDOU'S CONCERN THAT WE ARE NO LONGER IN A PERIOD OF SURPLUS PRODUCTION OF FOOD AND PRIMARY PRODUCTS BUT IN A PERIOD OF GLOBAL PENURY. IN SUCH A PERIOD THE FRENCH FEEL PARTICULARLY THAT THE DEVELOPED COUNTRIES MUST ENTER INTO COMMODITY AGREEMENTS, PRODUCT PRODUCT, TO ASSURE STABILITY OF SUPPLY AND PRICE AND TO SATISFY THE NEEDS OF THE LDC'S. BALLADUR SAID PRESIDENT POMPIDOU HAD EXPLAINED THESE VIEWS AT SOME LENGTH TO PRESIDENT NIXON IN REYKJAVIK. POMPIDOU BELIEVES IT IS SILLY FOR THE US AND EUROPE TO FIGHT OVER ACCESS TO EUROPEAN MARKETS WHEN A LARGE PART OF THE WORLD DOES NOT HAVE ENOUGH TO EAT AND WHEN BOTH THE US AND EUROPE SHOULD BE EXPORTING TO THE LESS DEVELOPED WORLD.

18. I REPLIED THAT TRADITIONALLY IN THE US WE HAVE FOUND COMMODITY AGREEMENTS NOT TO BE VERY SUCCESSFUL AND HAVE PREFERRED TO DEPEND ON MARKET FORCES. THE REASONS FOR PRESENT SHORTAGES WERE LIKELY TO DISAPPEAR AND IN FUTURE YEARS WE MIGHT FIND WE ARE AGAIN IN SURPLUS, THAT WE SHOULD PLAN ON TARIFF STRUCTURES FOR THE LONG TERM. BALLADUR REPLIED THAT THE COUNTRIES WHICH HAVE TRADITIONALLY PURCHASED THESE COMMODITIES AND CAN AFFORD THEM MIGHT BE IN SURPLUS BUT THAT THE WORLD AS A WHOLE WAS UNLIKELY TO BE. THE FRENCH BELIEVE IT IS IMPORTANT THEREFORE TO ESTABLISH A MECHANISM TO HELP THE REST OF THE WORLD.

19. I SUGGESTED THAT THIS ARGUED THAT AMONG DEVELOPED COUNTRIES WE SHOULD FAVOR PRODUCTION BY THE COUNTRY THAT PRODUCES THE MOST ECONOMICALLY, PARTICULARLY AS WE MUST PLAN TO GIVE AWAY PART OF THIS PRODUCTION TO LESS DEVELOPED COUNTRIES.

20. BALLADUR AND I AGREED TO MEET AGAIN IN SEPTEMBER.
YRWIN

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MEMORANDUM

SECRET

NATIONAL SECURITY COUNCIL

INFORMATION

July 30, 1973

MEMORANDUM FOR:

MR. KISSINGER

FROM:

CHARLES A. COOPER
ROBERT D. HORMATS

SUBJECT:

Foreign Policy Implications of International
Economic Situation

The present international monetary crisis, the fourth since December 1971, has serious implications for our foreign policy. The announcement last week of Phase IV and the acknowledgment of Federal Reserve Bank intervention (still in view of many too little to do the job) strengthened the dollar briefly, but its decline has resumed. Our inability to deal with this situation affects foreign confidence in the United States, threatens trade and monetary negotiations, increasingly casts the U.S. as the villain in European attempts to curtail politically pernicious inflation, and will have serious long-term economic and political implications.

The Monetary Crisis

The monetary crisis--in which the major continental currencies have since February appreciated by an average of 14% vis-a-vis the dollar--reflects not only continuing U.S. balance of payments problems and domestic uncertainties but also a change in the psychology in the international currency market. Multinational corporations, banks, and a number of developing and oil-producing countries have come to believe that in the present monetary turmoil their best interests lie in moving funds into the strongest currencies, which they expect will appreciate in value. Doing so protects their assets from devaluation and provides a good chance for windfall profits. This psychology, to the extent that it has caused a move out of dollars and into such currencies as D marks, has become a self-fulfilling prophecy leading to a depreciation of the dollar and an appreciation of the mark.

The Effect on Europe

The resulting monetary instability has worsened the inflation problem in such countries as Germany, which have had to absorb massive currency inflows. This has complicated German efforts to slow the growth of its money supply as a means of combatting inflation. The appreciation of most European currencies vis-a-vis the dollar has not as yet harmed their trade balances

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since most of their trade is not with the U.S., and because of lags in the adjustment process. Also, the boom in the U.S. and most other economies has created a continuing high demand for imports and thereby prevented any diminution of European exports resulting from their currency appreciation. The fact that trade has not been affected explains the lack of strong counter-measures against what all agree is an excessive dollar depreciation. Nevertheless, some Europeans, the French in particular, believe that the United States has been given an unfair advantage by the low value of the dollar.

The Effect on the U.S.

For the United States dollar depreciation has not been an unambiguous blessing. Imports are more expensive because of devaluation, and this contributes to U.S. domestic inflation. The price of oil imports in particular has increased because of successful contract negotiations by producing countries and the direct effects of devaluation. U.S. agricultural products are now selling at bargain international prices creating a greater foreign demand for them and thus contributed to the need for U.S. export controls. The controls themselves have dampened U.S. balance of payments prospects thereby intensifying downward pressure on the dollar, which in turn puts greater pressure on U.S. domestic agricultural supplies. Controls have also limited supplies abroad thereby contributing to inflation in many countries and undercuts our ability to press our legitimate long-term goal of freer access to foreign agricultural markets. On the other hand, after adjustment, a number of U.S. products will benefit from the fact that devaluation has increased foreign demand for our exports. Investment in the U.S. has also become more attractive to foreigners. These factors will help create jobs and reduce unemployment in the U.S.

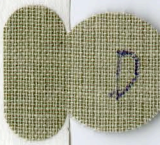
Longer-Term Implications

In the longer run, the very low value of the dollar will adversely affect our trading partners. Although their trade position has been little damaged so far, cheaper U.S. goods and increased investment in the U.S. -- rather than in the domestic economies of these countries -- will eventually create more jobs in the U.S. and less job opportunities abroad. Other nations are now attempting to apply restrictions to curtail domestic inflation, the result of which would, under normal circumstances, bring about a slow-down in their economies. Such a foreign-created loss of job opportunities during this period could contribute to recession in their countries and cause some of the blame therefore to be shifted to us. The problem will become more acute as the slow-down in foreign economies becomes pronounced, but the fear is clearly there already.

The outgrowth of this concern by our trading partners is increased pressure, emanating chiefly from France, for Europe to take a harder position vis-a-vis the U.S. in trade and monetary negotiations and to avoid "giving away" any concessions to the U.S. which in their view will soon begin to reap the benefits of a devalued dollar.

This concern has colored relations in a number of policy areas:

- In Article 24:6 negotiations the French, and others, have been extremely reluctant to make concessions to the U.S. Although today we received information that Jobert had indicated to a high EC official his desire of avoiding a confrontation with the U.S. on this issue, little progress has as yet been made toward a solution.
- In discussions on trade negotiations, the French have taken the view that negotiations should not begin until currencies have returned to their rates agreed to by Finance Minister in February, i. e., the over-devalued dollar appreciated by roughly 14% vis-a-vis the European. The other EC members have overruled the French on this, but the French can be counted on to reassert their position even more strongly if the dollar continues to decline.
- The U.S. Trade Bill, presently in the Ways and Means Committee, is moving more slowly than expected. This slow pace reflects in part a reluctance by the Congress to give the President a great deal of negotiating flexibility, but also has been influenced by the very unstable international economic climate.
- Monetary negotiations being conducted in the Committee of Twenty are going very slowly. No basic agreement will be reached by the IMF annual meeting in Nairobi in September. This slowness results in part from an inability of the major nations to agree, and from the preoccupation of many countries with the dollar's decline.



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ACTION EB-11

INFO OCT-01 EUR-25 IO-13 ADP-00 AGR-20 CEA-02 CIAE-00
COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06
NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15
STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 OMB-01 RSR-01
/183 W

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R 270915Z JUL 73
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2138
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION EC BRUSSELS
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E.O. 11652: N/A
TAGS: EGEN, EAGR, ETRD, FR
SUBJECT: FRENCH REACTION TO SOYBEAN CONTROLS SITUATION

REF: A. STATE 135419; B. PARIS 19464

SUMMARY: FRENCH REACTION TO THE U.S. EXPORT CONTROLS ON SOYBEANS HAS BEEN SHARPER THAN THE FACTS OF THE SITUATION WOULD SEEM TO JUSTIFY, AND WE BELIEVE THAT THE REAL CAUSES OF THIS REACTION MUST BE SOUGHT ELSEWHERE.

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2. IN OUR VIEW THERE ARE FOUR MAIN EXPLANATIONS OF FRENCH BEHAVIOR: (1) THE GOF WISHES TO MAKE POLITICAL CAPITAL WITH THE ALL-IMPORTANT FARM CONSTITUENCY; (2) IT IS SEEKING TO EXPLOIT THE TEMPORARY SHORTAGE OF SOYBEANS TO FURTHER THE LONG-STANDING FRENCH OBJECTIVE OF DEVELOPING EUROPEAN SELF-SUFFICIENCY IN OIL SEED PRODUCTION; (3) IT IS ALSO SEEKING TO USE THE SHORTAGE AS AN ARGUMENT AGAINST LIBERALIZING AGRICULTURAL TRADE IN THE MTN; (4) FRENCH BEHAVIOR IS A FURTHER MANIFESTATION OF POMPIDOU'S GROWING PESSIMISM ABOUT FRANCE'S ABILITY TO ACHIEVE MAJOR FOREIGN POLICY OBJECTIVES AND HIS CURRENT IRRITATION WITH MANY US POLICIES.

3. THE IMPLICATIONS OF THIS ANALYSIS FOR US POLICY ARE CLEAR. ALTHOUGH WE RECOGNIZE THE DOMESTIC SHORTAGE AND PRESSURES WHICH GAVE RISE TO PRESENT SITUATION, THE SOONER WE CAN RETURN TO UNRESTRICTED EXPORTS OF SOYBEANS THE BETTER FOR OUR INTERESTS. THE ISSUE IS ONE WHICH THE FRENCH CAN USE WITH GREAT EFFECT TO COUNTER US OBJECTIVES IN THE TRADE NEGOTIATIONS AND THEY SEEM DETERMINED TO USE IT.
END SUMMARY.

4. FRENCH REACTION TO US EXPORT CONTROLS ON SOYBEANS HAS BEEN FAR SHARPER THAN THAT OF EC PARTNERS. FOR EXAMPLE, FRENCH MINISTER OF AGRICULTURE CHIRAC AT JULY 16 EC COUNCIL OF MINISTERS MEETING IN BRUSSELS SPOKE BITTERLY OF EC'S ABSURD RELIANCE ON "WHIMS" OF THIRD COUNTRIES AND COMPLAINED OF US "AGGRESSION" IN LIMITING EXPORTS OF SOYBEANS. HE THEN ATTACKED FRENCH EC COMMISSIONER FOR DISREGARDING FRANCE'S NATIONAL INTERESTS. THE PRESS SPEAKS REGULARLY OF A SOYBEAN WAR. POMPIDOU REFERRED PUBLICLY TO A LETTER ADDRESSED TO PRESIDENT NIXON ON THIS SUBJECT AND ON JULY 11 STATED AT A COUNCIL OF MINISTERS MEETING THAT "IT WAS UNTHINKABLE TO DEPEND ON A FOREIGN SOURCE FOR A COMMODITY IN SUCH SHORT SUPPLY."

5. FRENCH REACTION HAS BEEN SO SHARP IN FACT THAT IT INEVITABLY RAISES QUESTIONS ABOUT GOF'S TRUE MOTIVES. THE SUSPICION THAT THESE GO BEYOND MERE CONCERN ABOUT SOYBEAN SUPPLY SITUATION IS STRENGTHENED BY AN ANALYSIS OF SUPPLY DATA.

6. ALTHOUGH ACCURATE INFORMATION ON THE SOYBEAN SUPPLY SITUATION IN FRANCE IS NOT AVAILABLE, WE BELIEVE THAT FRANCE IS

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FAR LESS DEPENDENT ON US SUPPLIES THAN ITS EC PARTNERS, AND WE DO NOT BELIEVE THAT THE SHORTFALL WILL BE SIGNIFICANT ENOUGH TO CAUSE SERIOUS ECONOMIC DAMAGE. THIS CONCLUSION IS SUPPORTED BY THE FOLLOWING FACTS: FIRST, COMMERCIAL COMPOUND FEEDS (THAT EMPLOY PROTEIN MEALS) ARE GENERALLY LESS USED BY FRENCH LIVESTOCK PRODUCERS THAN PRODUCERS IN OTHER EC COUNTRIES. THUS, UNLESS FRENCH WERE MORE DILATORY THAN OTHER EC COUNTRIES IN PLACING ORDERS (WHICH WE HAVE NO REASON TO BELIEVE WAS THE CASE), THE IMPACT ON THEIR AGRICULTURE WOULD APPEAR TO BE LESS THAN FOR OTHER EC COUNTRIES. SECOND, WE BELIEVE THAT IMPORTS OF OTHER PROTEINS, ESPECIALLY PEANUT MEAL, ARE ABOUT AVERAGE. THIRD, US SOYBEAN EXPORTS TO FRANCE ARE UP SHARPLY DURING PRESENT CROP YEAR. FOR THE PERIOD SEPTEMBER-MARCH (LATEST FIGURES) FRENCH SOYBEAN IMPORTS FROM THE US ARE UP 25 PERCENT AND SOYBEAN MEAL UP 27 PERCENT. FOURTH, THE FRENCH ARE MAJOR PRODUCERS OF CORN AND CEREALS AND COULD PRESUMABLY COVER THEMSELVES -- ALBEIT AT A GREATER COST -- FOR A TWO OR THREE-MONTH PERIOD. FINALLY, IT IS NOTABLE THAT PRESS RELEASES PUT OUT LAST WEEK BY VARIOUS FRENCH FARM ORGANIZATIONS, UNLIKE EARLIER STATEMENTS, SPEAK OF A WORLD PROTEIN SHORTAGE RATHER THAN A SPECIFIC SHORTAGE IN FRANCE.

7. ALTHOUGH DIFFICULT TO DETERMINE AT THIS TIME, IT IS THUS ENTIRELY POSSIBLE THAT FRANCE WILL SQUEAK THROUGH UNTIL NEW CROP BECOMES AVAILABLE WITHOUT SHARP PRICE INCREASES IN THE FOOD PRODUCTS EFFECTED. ADMITTEDLY, EVEN A MODERATELY INFLATIONARY EFFECT WOULD BE OF CONCERN TO THE GOF GIVEN THE FACT THAT INFLATION IS FRANCE'S NUMBER ONE ECONOMIC PROBLEM. ANOTHER CAUSE OF CONCERN IS THE FACT THAT, WHILE SUPPLY SHORTAGES DO NOT APPEAR SERIOUS, THEY ARE CONCENTRATED IN BRITTANY, A POLITICALLY SENSITIVE, ECONOMICALLY BACKWARD REGION. MOREOVER, THE SHORTAGE HAS UNDOUBTEDLY MADE LIFE MORE DIFFICULT FOR FRENCH HOG AND POULTRY PRODUCERS.

8. NONETHELESS, THE SHRILLNESS OF THE FRENCH REACTION SEEMS TO US TO BE OUT OF PROPORTION TO THE FACTS OF THE SITUATION AND WE BELIEVE THAT THE REAL CAUSES OF THIS REACTION MUST BE SOUGHT ELSEWHERE.

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ACTION EB-11

INFO OCT-01 EUR-25 IO-13 ADP-00 AGR-20 CEA-02 CIAE-00
COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06
NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15
STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 OMB-01 RSR-01

/183 W

***** 070571

R 270915Z JUL 73
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2139
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMOURG
AMEMBASSY ROME
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USMISSION GENEVA

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9. IN OUR VIEW THERE ARE FOUR MAIN EXPLANATIONS OF FRENCH BEHAVIOR: (1) THE GOF WISHES TO MAKE POLITICAL CAPITAL WITH THE ALL-IMPORTANT FARM CONSTITUENCY; (2) IT IS SEEKING TO EXPLOIT THE TEMPORARY SHORTAGE OF SOYBEANS TO FURTHER THE LONG-STANDING FRENCH OBJECTIVE OF DEVELOPING EUROPEAN SELF-SUFFICIENCY IN OIL SEED PRODUCTION; (3) IT IS ALSO SEEKING TO USE THE SHORTAGE AS AN ARGUMENT AGAINST LIBERALIZING AGRICULTURAL TRADE IN THE MTN; (4) FRENCH BEHAVIOR IS A FURTHER MANIFESTATION OF POMPIDOU'S GROWING PESSIMISM ABOUT FRANCE'S ABILITY TO ACHIEVE MAJOR FOREIGN POLICY OBJECTIVES AND HIS CURRENT IRRITATION WITH MANY US POLICIES.

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10. THE FARM VOTE - THE RESULTS OF LAST SPRING'S LEGISLATIVE ELECTIONS CONVINCED THE UDR THAT THE FARM VOTE WAS ESSENTIAL TO ITS CONTINUANCE IN POWER. IN DISTRICT AFTER DISTRICT, THE FARM VOTE SPELLED THE DIFFERENCE BETWEEN VICTORY AND DEFEAT FOR THE UDR CANDIDATES. AGRICULTURE MINISTER CHIRAC, WHO IS MUCH MORE A POLITICIAN THAN AN AGRICULTURE MINISTER, HAS BEEN TAKING AN INCREASINGLY SHARP LINE IN DEFENSE OF THE INTERESTS OF FRENCH FARMERS IN AN EFFORT TO CONSOLIDATE RURAL SUPPORT BY CONVINCING THE FARMERS THAT THE UDR IS THEIR ONLY TRUE FRIEND. CHIRAC'S EMOTIONAL OUTBURSTS ON SOYBEANS IN BRUSSELS, ALTHOUGH IN PART A REFLECTION OF THE MAN'S OWN TEMPERAMENT, ARE CLEARLY A PART OF THIS CAMPAIGN.

11. SELF-SUFFICIENCY IN OIL SEED PRODUCTION - FOR SEVERAL YEARS THE GOF HAS BEEN TRYING TO PUSH THE EC INTO ESTABLISHING A CAP FOR OIL SEEDS ON THE GROUND THAT EUROPE MUST NOT BE DEPENDENT ON EXTERNAL SOURCES FOR VITAL PROTEIN SUPPLIES. THIS OBJECTIVE IS INSPIRED BY CONSIDERATIONS WHICH ARE CENTRAL TO IMPORTANT FRENCH INTERESTS. IN THE FIRST PLACE, IF THE EC DID DECIDE TO ESTABLISH A CAP FOR OIL SEEDS, THE FRENCH FOR GEOGRAPHIC AND CLIMATIC REASONS WOULD BE THE PRINCIPAL PRODUCER. THE FRENCH HAVE BEEN EXPERIMENTING WITH SOYBEAN PRODUCTION IN RECENT YEARS, AND IT IS ESTIMATED THAT AT PRESENT WORLD PRICES ABOUT 100,000 HECTARES OF FRENCH FARMLAND COULD BE CONVERTED TO SOYBEANS. IF THE WORLD PRICE WERE TO RISE HIGH ENOUGH, THIS ACREAGE COULD BE SUBSTANTIALLY INCREASED AND, ONCE THE CAP MECHANISM WAS IN PLACE, IT WOULD BE DIFFICULT TO CUT BACK PRODUCTION EVEN IF THE WORLD PRICE WENT BACK DOWN. THERE IS ALSO A POLITICAL FACTOR. GIVEN THE FRENCH DRIVE FOR "INDEPENDENCE" FROM THE US, DEPENDENCE BY EUROPE ON THE US FOR SUPPLIES OF SUCH A VITAL COMMODITY IS UNDOUBTEDLY IRKSOME TO THE GOF. SOME FRENCH COMMENTATORS HAVE GONE SO FAR AS TO ARGUE THAT THE US COULD USE ITS MONOPOLY OF SOYBEAN PRODUCTION TO BLACKMAIL EUROPE. THE CURRENT SHORTAGE ADMIRABLY SUPPORTS THE FRENCH THESIS AND THE GOF HAS BEEN QUICK TO CAPITALIZE ON IT.

12. AGRICULTURE IN MTN - AS THE PRINCIPAL BENEFICIARY OF THE CAP, FRANCE HAS BEEN THE MOST OUTSPOKEN OPPONENT OF THE US OBJECTIVE OF OBTAINING SIGNIFICANT LIBERALIZATION OF THE AGRICULTURAL TRADE IN THE MTN. IN SPITE OF REPEATED US ASSURANCES THAT

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WE ARE NOT TRYING TO BREAK UP THE CAP, THE FRENCH SEEM QUITE GENUINELY TO BELIEVE THAT LIBERALIZATION OF TRADE IN AGRICULTURE IS IRRECONCILABLE WITH PRESERVATION OF THE CAP. THE SOYBEAN SHORTAGE HAS GIVEN THE FRENCH A GOLDEN OPPORTUNITY TO MOBILIZE OPPOSITION WITHIN THE EC AGAINST THE US OBJECTIVE AND TO GENERATE SUPPORT FOR THE FRENCH VIEW THAT THE OBJECTIVE OF THE NEGOTIATIONS SHOULD NOT BE INCREASED ACCESS FOR AGRICULTURAL EXPORTS BUT INTERNATIONAL COMMODITY AGREEMENTS DESIGNED TO ORGANIZE WORLD MARKETS IN A SITUATION OF SERIOUS AND PROBABLY LONG-LASTING SHORTAGE.

13. POMPIDOU'S MALAISE - THE FRENCH PRESS HAS BEEN SPEAKING OPENLY OF PRESIDENT POMPIDOU'S PESSIMISM, HIS GROWING BELIEF THAT EVENTS BEYOND HIS CONTROL ARE MAKING IT INCREASINGLY DIFFICULT FOR HIM TO ACHIEVE HIS GOAL OF A EUROPE INDEPENDENT OF THE TWO HEGEMONIES (US AND USSR) UNDER FRENCH LEADERSHIP. WHEREVER HE TURNS, HE SEES THE US STANDING IN FRANCE'S WAY. THE EFFECT OF THE DEPRECIATION OF THE DOLLAR ON FRENCH MONETARY OBJECTIVES (SEE PARIS 19376), THE STUBBORN INSISTENCE OF FRANCE'S EC PARTNERS ON PLACING THEIR TIES WITH THE US ABOVE WHAT FRANCE CONSIDERS EUROPE'S INTERESTS, THE US-USSR RAPPROCHMENT WITH ITS THREAT, IN FRENCH EYES, OF CONDOMINIUM ARE ALL CASES IN POINT. THE SOYBEAN EXPORT CONTROLS ARE ONE MORE BITTER REMINDER OF THE US POWER TO AFFECT EUROPE'S DESTINY.

14. THE IMPLICATIONS OF THIS ANALYSIS FOR US POLICY ARE CLEAR. ALTHOUGH WE RECOGNIZE THE DOMESTIC SHORTAGE AND PRESSURES WHICH GAVE RISE TO PRESENT SITUATION, THE SOONER WE CAN RETURN TO UNRESTRICTED EXPORTS OF SOYBEANS, THE BETTER FOR OUR INTERESTS. THE ISSUE IS ONE WHICH THE FRENCH CAN USE WITH GREAT EFFECT TO COUNTER US OBJECTIVES IN THE TRADE NEGOTIATIONS AND THEY SEEM DETERMINED TO USE IT.

DECONTROL DECEMBER 31, 1973. IRWIN

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