

MEMORANDUM OF CONVERSATION

Subject: Meeting at Azores at Mr. Pompidou's Residence

Date and Time: 13 December 1971; 0845

Present: President Pompidou
Dr. Kissinger
Mr. Andronikof
Major General Walters

Dr. Kissinger: President Nixon has asked me on one hand to discuss the general approach to the negotiations and on the other hand to make some concrete suggestions concerning the international monetary situation. In fact, he would not want you to feel that these were unreasonable from the outset, because if there is one European nation with whom we have special relations, it is France. And if there is one Chief of State with whom the President feels he has a special relationship, it is with the President of the French Republic. Your previous meetings have shown that you have the same general view of things, even though you may not be entirely in agreement on the details. Your overall view is similar.

The President feels that we must have a special relationship with France because the general stability of Europe depends in great measure upon the general understanding between France and the United States. This is why the President felt that the first meetings which he will have with world leaders should be with you. We also believe that divergences or a confrontation between France and the United States would leave Germany free to pursue a nationalist policy and other countries might try and play upon such a rivalry. I tell you this to describe clearly the way President Nixon approaches the talks he will have with you.

I am not an economist myself. This lack of knowledge is for me an argument against universal suffrage. The President felt that there would be some advantage in my explaining to you some of his considerations on monetary problems that he would like to examine with you more in a historical than in a strictly commercial context. This discussion may be somewhat complicated, as I tell you frankly that some of the somewhat spectacular tactics which may have been used are more related to the personality of those who favored them. This is the general framework of the President's thinking on these matters. During your talks he is ready to tell you that the U. S. will remove the 10 percent surcharge as well as the measures relating to job credit, and he is ready to do this at once. Additionally, despite the difficulties that this represents for him,

he will propose to Congress a change in the price of Gold which you yourself have recommended a long time ago. He is willing to consider a realignment of the dollar in relation to the franc of 9 or 10 percent. Nevertheless, I tell you frankly, and this shows that I am a poor negotiator, that this is not his last word and he will not stick on this issue. Apart from this the DM should be located some 4 to 5 percent above the franc, the yen 5 percent in relation to the DM and the pound and the lira would maintain their present relationship to the franc.

The exact relationship between the franc and the dollar remains open to discussion. Either you may prefer to reevaluate and we would devaluate to a certain relationship, or there might merely be a devaluation on our part to establish an equitable relationship between our currencies. For our part we would prefer a devaluation of the dollar of about 6 percent and a revaluation of the franc of 3 percent. This is not a hard attitude on our part and if you insist, we are prepared to act alone.

For political considerations it would be desirable for us to reach agreement on commercial matters. We are certainly not trying to make difficulties for you. I don't understand these matters well, but I believe an agreement on farm products and tobacco would be desirable so we could show that we have obtained something. Mr. Connally has other ideas on agricultural matters but this is the basis of our position.

Mr. Pompidou: To be frank, lemons and oranges are California and tobacco is Virginia.

Dr. Kissinger: There is no question for the time being of returning to convertibility, but we are ready to discuss a long-term system and in the meanwhile to furnish the IMF with all the means it requires for its operations.

This is the general attitude of the President. He has asked me to describe it to you so that you will know in what state of mind he approaches his discussions with you. We believe, in fact, that if the two Presidents can agree on such a basis that their meeting will mark the point of departure of a new international system. Even more important, it would be the symbol of the kind of relations which should be established in the world between allied nations and more particularly between our two countries.

Mr. Pompidou: If the world were not very complicated, I would ask President Nixon what assistance he could give France to correct our

balance of payments with the U. S. It is only balanced at 50 percent and the European Community is very much in imbalance insofar as industry and agriculture are concerned especially France which alone bears the burden of half the deficit.

Overall it is clear that we cannot move in our parities with Great Britain and Italy. You understand this. This means that neither Great Britain nor especially Italy, nor France could consider a differential of 9 or 10 percent in relation to the dollar. Nevertheless, we can discuss this problem. Questions will arise within the community. Germany would like a differential of 4 to 5 percent in relation to the franc. Brandt spoke of 5 percent. I told him that 7 percent seemed necessary to us. He replied that this could be discussed. It should be easy to find a meeting point, between 5 and 7 percent. Only, that is Brandt's opinion, not Schiller's and I don't know who has the final word in this matter. I believe that Germany would nevertheless be prepared to accept a substantial differential between the pound, the lira and the franc, all the more so if the yen were even higher. There will therefore be a discussion on figures and one can with certain reservations look forward to the possibility of an agreement. A movement of 9 to 10 percent in the dollar is too much. It is not simply a matter of the reevaluation of the price of gold but of a devaluation of the dollar in relation to gold. A reevaluation of gold conceived of as a rise of 20 to 50 percent is out of the question at this time. Anyway there are different ways to arrive at the figures if you base yourself on gold or on the dollar which result in a difference of about 1/2 percent. If you increase the price of the ounce of gold by 2 1/2 dollars you can figure it in relation to 35 (dollars an ounce) that is 37.5. There is a difference in the way of presenting the matter.

You have the problem of Congress. We know it is not easy. Therefore the European Community led by France has accepted the possibility of negotiating commercial measures on condition that Congress approves devaluation. These negotiations could begin now and decisions could even be taken now, but they would enter into effect only after the vote of Congress. This is what Brandt calls the "Junktum". We must, however, know whether the new parities will be defended. At the present time no one defends the dollar except others; Germany, France and the United Kingdom buy it when it is below par. We feel everyone should defend his currency.

Dr. Kissinger: That is our intention.

Mr. Pompidou: That is very important.

Dr. Kissinger: Some people believe that it will be easier for others to devalue their currencies after the new parities are fixed. We will be compelled to defend our currencies they say but others may change theirs.

Mr. Pompidou: The European countries can commit themselves to defend together their parities for all of the European currencies collectively and not just individually. As far as convertibility is concerned it is true that dollars are wandering about almost everywhere. For a year or perhaps two, certain measures to defend the American balance will have to be taken. I note however that you would be willing to discuss convertibility within the framework of a general conference. Nevertheless measures must be taken to consolidate present dollar balances on condition that this not become a perpetual consolidation. It will be necessary to look at the calendar to discuss in a general way monetary as well as commercial problems. It has been said at the European community that there would be a "Nixon Round" after the reelection and I for my part very much hope that this will be the case.

As for the dollar balances remaining, at least over the next 18 months, the U.S. will be able to deal with them by drawing upon the IMF. After all, your availabilities are greater than the resources of the IMF.

From a purely French point of view we have made very careful calculations. A devaluation, even slight, say about 5 percent such as was discussed at the Community, would create a number of difficulties in France and would in particular aggravate unemployment. This is important. The 10 percent surcharge is not too bothersome, for us in any case. But a generalized deflation would lead to a more difficult economic situation. I too have an internal situation, and even elections. We do understand, however, the general interest as well as yours.

There might be some advantage in talking to our finance ministers before we talk about it ourselves. The monetary questions might, for example, only be brought up during the afternoon meeting.

Dr. Kissinger: This is also the President's feeling. I would recall the relationship which we would like to see between the price of gold and commercial matters. I know that some would object to such a connection.

Mr. Pompidou: We too.

Dr. Kissinger: Personally, I would have preferred not to see the two questions connected.

Mr. Pompidou: I understand this very well. President Nixon would be agreeable to the decisions resulting from the commercial negotiations being implemented only upon a decision concerning the price of gold. The negotiations would not have to wait until an agreement or a reasonable compromise had been reached on this subject.

Dr. Kissinger: It's like the case on Berlin. In a practical sense do you believe that the general framework envisaged by the President is reasonable?

Mr. Pompidou: It is a reasonable framework.

Dr. Kissinger: The Ministers of Finance might meet this morning and you would take up the monetary questions only during the afternoon meeting.

The President also asked me to enquire whether you would object to his calling me in from time to time to explain certain details.

Mr. Pompidou: I see no objection to that.

Dr. Kissinger: I would also like to tell you that in regard to the Indian-Pakistan conflict we are hoping for a settlement within the next 72 hours. We have begun a move to get a possible resolution without any veto from anyone. We are not against India but the existence of Western Pakistan seems very important.

MEMORANDUM OF CONVERSATION

Subject: Meeting at Junta Geral, Angra do Heroismo, Terceira, Azores

Date and Time: 13 December 1971; 0900

Present: The President
President Pompidou
Dr. Kissinger
Mr. Andronikof
Maj Gen Walters

President Nixon opened the discussions by saying that he felt that they had had a good talk that morning and that President Pompidou had expressed a most perceptive view of the Soviet leaders. What was important was not so much their views as what they were like. The President then said that if President Pompidou found it useful, Dr. Kissinger could give him on a confidential basis his appraisal of where the China initiative stands. The President and President Pompidou had talked together concerning Sino-Soviet relations. They had skirted the Chinese Soviet confrontation in South Asia that was going on. The President said that if President Pompidou had different views, he would appreciate hearing them.

Dr. Kissinger then said that the President had given the background. His trip had been a chance to explore with the Chinese. It was rather complicated but we had put a series of propositions up to the Chinese. They did not have to accept or refuse. We had used intermediaries trusted by them. After contact was established, the original initiative for the invitation came more from the Chinese side than from ours. Vietnam was almost not discussed. Our analysis was that they were concerned principally by four main countries of which three were their immediate neighbors. With a common frontier or close by. Before he had gone, the President had given him detailed instructions to explore their views of the world situation to see whether there was a basis for a discussion. He had spent 20 hours with Chou En-lai the first time and had had 35 hours with him on the second visit.

Dr. Kissinger said that as an illustrative anecdote, on the second visit there had been a sign at the airport which said, "Defeat the American Imperialists". He had mentioned it to the Foreign Minister and that afternoon the sign had been replaced by one greeting the Afro-Asian Tennis Team.

Mostly the Chinese feared the Soviet Union, and to a lesser degree Japan. There were underground shelters in Peking and other cities. They were not against us. They had showed some of these tunnels and they were 35 kilometers long. The Chinese were far more exercised by the million Soviet troops along their borders than they were by our forces in Japan.

With regard to Vietnam it was our basic impression that the Chinese would like this to be settled, but they do not know how to go about it with ^{out} moving Hanoi closer to Moscow and increasing their feeling of being encircled.

The President said that in our discussions with the Chinese there seemed to be two separate problems. We had a whole series of matters to discuss. They do not and this may complicate the problem. At the beginning of the evolution of the Chinese situation they had to set the direction and their difficulty in doing this was understandable. Chinese policy was affected by three conflicting motives: ideology which was hostile to us, their requirements for survival and their desire to lead the third world would often lead them into opposition to both the USSR and to U.S. and would lead them to zigzags.

The President then asked Dr. Kissinger to explain what was planned in the way of meetings there.

Dr. Kissinger said the President would have extensive talks with Prime Minister Chou En-lai and would also see Chairman Mao. It is expected that he will see Mao twice. It was impossible that he should not see him. There will be simultaneous meetings at different levels with the experts. Prime Minister Chou En-lai expects to accompany the President. This has not been announced. Discussions will be far reaching. There is no agenda and each side can submit for discussion anything they want. The talks will be bilateral.

The President then said that he gathered from Dr. Kissinger's talks with the Chinese that they take the long view. They do not view the talks as producing immediate results in Taiwan or elsewhere and tend to regard these talks as the beginning of a long process. In the case of the Russians they will probably insist upon shorter range discussions when he goes to Moscow and will want decisions.

Dr. Kissinger said that there was a different style between the Soviets and the Chinese. The Russians like general statements that can be interpreted in many different ways. The Chinese prefer declarations which can be carried out and like to state differences as well as agreements.

The President then said that the attitude of the Chinese towards their neighbors can be summed up in this way. The Russians they hate and fear now. The Japanese they fear later but do not hate. For the Indians they feel contempt but they are there and backed by the USSR. The Indo-Pakistan situation fits into their analysis of developments.

Dr. Kissinger said that on the subject of the Indo-Pak war we had hopes of substantial progress in the next 24 hours. The issue was not simply one of East Pakistan. It has appeared to us for months that India was pressing a settlement of the problem of East Pakistan in such a way as to make the rest of Pakistan non-viable. For many months the President has attempted to settle this conflict. Every time a demand was met it was escalated to create an unmanageable situation. Our concern in this matter was two fold. If a major country with a population of 130 million, which has treaty relations with all nations, can be attacked and defeated by a country which is protected by Soviet diplomacy, threats and dispositions, this can produce several series of consequences. In our view such a development could produce a situation in the Middle East, Iran and Indonesia and the outcome would be that East Pakistan would have a relationship with India like Bhutan's and West Pakistan like Nepal's. Our policy was aimed at protesting the situation in East Pakistan but to prevent the destruction of West Pakistan. When people accused the President of leaning towards Pakistan while there were 500 million Indians and 100 million Pakistanis, the reason is not because of numbers or because we cannot count. If we leaned towards India, Pakistan would be destroyed and our basic strategy was to create a legal basis for resisting this when resistance takes place. - It is diplomatic not military. Then there was the factor of China. China has to look at the threat of Soviet encirclement through the same methods used in East Pakistan. Tibet and Sinkiang are vulnerable.

The President then said that in the greatest confidence he would tell President Pompidou that if in the last 72 hours we had pursued a policy of abstention, the objective consequence would have been a total Indian victory. Our strategy was to create enough pressure on India

and the USSR so that they would not pursue the war to its ultimate consequences. That was why we had contacted the Security Council in the hope of saving West Pakistan and we have used our influence to this end lest the Chinese regard our abstention as collusion and betrayal. The President went on to say that as we saw it, it was a struggle between two impoverished countries which would have repercussions on both the USSR and China. On one hand, if India and the Soviet Union succeed in destroying Pakistan as a military and political entity, this can only have a devastating effect in encouraging the USSR to use the same tactics elsewhere and if not resisted here we feared strongly that other nations might become the object of such tactics. This would very definitely change the balance of power in Asia if events were allowed to run their course. The Soviet Union would have dominance over India and Pakistan. This would mean that the Chinese could only conclude that they might have to pursue a different policy to avoid similar things happening in their border areas. A victory of India over Pakistan was the same as a victory of the Soviet Union over China. The U.S. has treaty obligations to Pakistan as the Soviet Union had to India.

Dr. Kissinger said that he did not want to mislead President Pompidou. We did not have a final agreement.

The President said that to sum up, it was a very difficult situation for us. The long term consequences worried us. If an agreement can be worked out in which neither the USSR nor China are in a position of having won or lost, this would be the best solution.

President Pompidou said that as far as the two countries were concerned India has always wanted to smash Pakistan. Mrs. Gandhi had told him that if President Shastri had not died at Tashkent, he would have been assassinated on his return to India. In his view the President of Pakistan was wrong in not trying to achieve a political settlement in East Pakistan. West Pakistan would have lost a part of its authority in the East. Now it had none. Technically, the U.S. had asked for a meeting of the Security Council in the belief that a resolution could be adopted by the Security Council and imposed on India and Pakistan. If there was no veto, he thought the Security Council would follow the major powers and that would mean a solution adopted by the USSR and China. In this affair France had only a moral capability. They had exercised great pressure on Yahya Khan to settle with Mujibur Rahman. He had felt that he would rather have East Pakistan torn away than give it up of

his own free will for political reasons. He had said that Mrs. Gandhi had refused to make a gesture and that she was hard like Mrs. Meir. President Pompidou had told Mrs. Gandhi that there would be several influences in Bangla Desh and that the Indian influence would probably not be predominant. She had not believed him. He wondered whether Communist China was really hostile to the Independence of Bangla Desh. She perhaps felt she could develop her influence there better than the Soviets. In any case, if a solution like the one we had mentioned was possible, he was sure that there would be no French objection at the Security Council. The French believed that the Independence of East Pakistan was inevitable. To conclude he felt that this was another aspect in the struggle between China and the USSR for power in Asia. There was a Soviet thrust to the Indian Ocean and this was why he felt that India would have concern for her own independence and if she is handled gently in the final settlement, she will ask the U. S., U. K., and France to help her so that she is not entirely in the hands of the Soviets. The French had had similar experience elsewhere.

The President said that India may have a pyrrhic victory. One sups with the devil with a long spoon. The U. S. in the past 15 years had given India ten billion dollars and for India to take a pro-Soviet stand was not in India's own interest. There were two important things. The India-Pakistan adventure shows the importance of not letting the balance of power get out of hand. A weak Pakistan invites an Indian attack. We in the U. S. had restrictions on what we could do and the sale of arms was forbidden. There was interest in maintaining the balance of power in the area. It was important that Pakistan be able to purchase arms, but not to the point where she could threaten India or initiate an attack. If France and other countries could help maintain the balance it would contribute to peace.

With regard to the two ladies, there was one difference. Both were tough and ruthless. Mrs. Meir acknowledges that she was helped. Mrs. Gandhi reproaches others.

President Pompidou said that it was necessary to have peace. In the matter of arms sales he hoped that the President would also say this to the British who manufactured Pakistan and India. President Pompidou said that he had not stopped what had been contracted for and was in the pipeline. He had stopped all new contracts and would

only begin to sell arms again after peace. French opinion had been very moved by the plight of Bangla Desh. It was not just commercial. Their chances of being paid were slight.

The President said he understood and had only suggested that it would be easier to preserve the peace if some way could be found to maintain the balance and to assist Pakistan on a different basis.

President Pompidou said that he agreed.

The President said that on the economic side, we had more freedom of action. We would be generous to Pakistan and helpful to India. The President then said that they might discuss the complicated economic matters before them. They both knew that the world was watching them. Without an agreement between them there could be no real settlement. If the U.S. could not make a deal with Europe then it would have to continue to float and try to make separate arrangements with other countries. This did not seem to us to be the preferable solution. He felt that President Pompidou would agree after the political discussion which they had had that a confrontation between Europe and the U.S. might be good as a short-term solution but it was not the best as a long-term solution. There were honest differences of opinion between the two governments. If they could explore areas where they could agree and it would be helpful to long-range goals if they could make progress in economic matters as well. The President said he would like to begin by pointing out that there was no use in trying to play games. It was a difficult political problem. He knew of the French interest in the price of gold. However, if they could make an arrangement on other matters, he would have greater political strength and commitments and we could move in that direction. If we do make major concessions the cries in the U.S. that France had won would not bother him. In a package agreement France would get something and we would get something. The French position was that we must return to convertibility. This was out of the question at this time even with the expectation of a change of exchange rates. We could not redress our balance of payments. On the rates of exchange and revaluation he would like to hear President Pompidou's views.

Dr. Kissinger said that one answer to the question asked this morning was this. When the basic proposition is approved will we be prepared to defend the dollar? His impression was yes and that this was the purpose of the new exchange parities.

President Pompidou said he knew that the President expected him to speak frankly and he would do so. It was not so much for the French at the present time a question of the price of gold. There had been much talk about this. There was the Rueff theory that the price of gold should be doubled. This was not the question at present. For the present we should consider the general interest as between proponents of a liberal economy, that is, the Western World plus Japan. We should seek to reestablish truly firm parities. They believed that to return to truly firm parities was really necessary. There must be a U.S. contribution and the U.S. must accept a certain devaluation of the dollar in relation to the price of gold. In the eyes of the French this was in particular because if the dollar does not move first the problem of revaluation in Europe is very difficult. This was so because of the problem of the settlement of agricultural problems and the realignment of European currencies raises an almost insoluble problem. The Europeans acted by the wish that the U.S. would decide a certain devaluation of the dollar less as a concession than as an affirmation that it is on a new course and will support the new rate. If there was no agreement the dollar could float forever. There would be no system of fixed parities for all. He did not know whether the U.S. press would say that it was a French victory or could prove it. The French interest was in a small devaluation of the dollar. They had as French a position vis-a-vis the European currencies. Two thirds of their trade was with Europe. They felt that first the franc, the pound and the lira should remain in the same relationship with one another. In the second place there was the problem of the relationship between the franc and the mark. President Pompidou said he had talked to Brandt about this and as he had told Dr. Kissinger, Brandt had said that he was prepared to accept a 5 percent revaluation. This was not Schiller's opinion but Brandt had said it. For the French this was a minimum. They wanted 7 percent. Brandt, after hearing this, had said that a discussion was possible. The conclusion he drew was that the Germans, that is, the Chancellor, was ready to accept a 6 percent revaluation between the franc and the mark. The French felt on the basis of their figures that this was really a minimum. The President said that the rate was now higher. President Pompidou replied that it was 12 or 13 percent. President Nixon said, "The hurts." President Pompidou said that the 6 percent figure was really a minimum. The French did not want to have to consider periodic revaluations of the mark all of the time. There might be some advantages but it would really mean a continued rise of prices and salaries by contagion. That was why when he spoke of the parity between the pound, lira and franc, they should try and find figures for a permanent settlement. This was why he proposed it and believed we should arrive at

such a settlement. If the crisis is solved the community countries would have a common management of their currencies and could give the central banks a policy of defending the rates and there would be no distortion between the community currencies. Naturally, they could only defend them in respect to other currencies if their parities were also fixed. The dollar and the others. He believed that insofar as Japan was concerned that it was normal that the yen be revalued in relation to the dollar as well as in relation to the Deutsch Mark. He did not believe that it was reasonable for the Japanese to think that they could always expand their economy at the rate of 10 percent a year and ask others to continue to buy from them. This was true for the U.S. and for the rest. Japan must also buy other goods vis-a-vis the U.S. If they placed themselves on commercial terms Europe had a deficit. In the case of France this was 50 percent. In consequence it was theoretically unreasonable for the French to accept a revaluation in relation to the dollar. Nevertheless they were ready to do so to arrive at a general solution, but on condition that this meant a real system of fixed parities within reasonable limits. President Pompidou felt that the President would find Mr. Heath at least as desirous as the French that the devaluation of the dollar be moderate and this was even more the case with the Italians, but they felt that with increased margins there could be an even smaller devaluation of the dollar. If the dollar were devalued by 6 percent in its relationship with the pound and lira, they could bring it back to 3 percent through the margins. Even in this area, however, the interests of the European States were not the same. The 10 percent surcharge was much more of a hindrance to Germany than it was to France. They had, however, established a common line. First, there should be a return to fixed parities. Second, along with the fixed parities there should be a certain devaluation of the dollar. Third, all States must commit themselves to the defense of the new parities and as he had said, the Europe of the 6 (or 7) would defend theirs jointly. Finally, there was the problem of convertibility.

Before speaking of it there was the problem of margins. If they are fluctuating, he believed that one could not avoid a certain broadening of the margins, but this must remain moderate. Why? There were general reasons. If the margins were too broad there was the perspective that there would be a devaluation and revaluation of fact and this would have to be implemented every 2 or 3 years. For European reasons they wanted to defend their parities jointly. They could not leave wide margins between currencies. There really would be no economic commitment if the margins

were too wide. In such a situation there would be a drain of all currencies towards the strongest. This is now the Deutsche Mark. Just as a dollar standard did not suit him, neither did a Mark standard.

As to convertibility to gold, this did not exist now as the U.S. had decided by themselves in 1945. The French understood this. With regard to the special drawing rights, this was really "monkey money". It was supposed to be equivalent to gold, but no one would give you gold for special drawing rights. Perhaps someday they would. The French were speaking only of convertibility of currency to currency. He also understood that the U.S. cannot say it is today returning to that sort of convertibility. There were two reasons. The first was the balance of payments and this could not be restored right away. If a solution were found there would be a flow towards the dollar. The second reason was more durable and this was the existence of a mass of dollars outside the U.S. in central banks, Eurodollars which could not be converted into anything from one day to the other. But the French believed that a joint decision concerning currencies would have no credibility if it were not accompanied by an affirmation regarding the goal of convertibility and the undertaking of commitments showing that convertibility was a real goal and not the moon. Or rather, he should say Jupiter or Saturn (since the U.S. had reached the moon and Mars).

Convertibility must be seen as a probable conclusion in a reasonable time. This would, of course, presuppose a certain consolidation of dollar balances. In their theoretical concept some assistance to the U.S. in this affair seems normal and legitimate. He did not forget that the U.S. had helped Europe and France. Secondly the U.S. by an appointed day could then supplement its balance of payments by using drawing rights on the I.M.F. to defend the new parities and absorb the deficit that may last for some time and progressively reduce the masses of dollars abroad and gradually consolidate its balances. Two things would depend on the new parities to absorb excess dollars during a year or 18 months and thus defend the U.S. balance of payments. With convertibility it is possible that this would be definitive and would consolidate the U.S. balance of payments and make it possible for it to become positive. Outside of the balance of payments the drawing rights make possible the acquisition of European and Japanese currencies for the first stage, that is, the defense of the newly established parities.

To reestablish the excess of the U.S. balance of payments means clearly to improve the commercial balance. This is one of the immediate aims of the monetary realignment. It would also lessen burdens, which as the President had said meant that the U.S. must lessen its burden or ask for a greater effort from the others. Finally, there was the question of limiting the movement of capital, because if this was not done, then there could not be a solid monetary system even temporarily. If capital moves, even short term, Europe would have to take measures to protect itself from wandering capital. It would be best if this were accompanied by U.S. measures to limit the export of such capital. To conclude, he would like to make a profession of faith. The U. S. and the French to a lesser extent had the greatest ability to simply wait. But the real danger was that others might not be able to wait and we would then be faced with a bad situation in Germany where Germany could not accept the revaluation of which they were speaking. Because France is a Western Nation, and he tells this to all, including the Russians who tend to forget it, that for the West there is no greater danger than an economic crisis and they must therefore try and get out of such a situation. This we know for reasons of German policy rather than for strictly economic reasons. He knew that this created a problem for the U.S. The French could not accept that following a devaluation and consolidation of balances there be ever broadening margins. She could accept that there would not be immediate convertibility. France is allergic to unemployment. It would be a major problem for them if unemployment were to increase. There would be agitation and he had a tough election coming in a year. It would be worse if he had a poor employment situation and it would create great electoral difficulties for him. He felt it was in the general interest of the West to find a solution under which they might have to accept risks and burdens. From the U.S. point of view the affair had to be settled either before or after the President went to Peking, or after the U.S. election. This would be too late. Even if the President did not agree, President Pompidou felt that he was making many concessions.

The President said that President Pompidou's analysis was very candid as he had said it would be. We could and should look at all levels of the problem. We too were allergic to unemployment. The French rate was 2 1/2 percent. Ours was 6 percent. President Pompidou had put his finger on the economic story. We could go it alone and make separate deals, but a general economic crisis with its effects on the U.S. and on

France, and certainly others, was not in the general interest. It was not altruistic but in our own self interest to try and make progress at this meeting towards breaking the stalemate on a provisional basis so that the group of 10 could discuss these matters and make further progress later that week.

With regard to President Pompidou's discussion of convertibility they were the remarks of an expert. It could not be expected that we could decide such intricate matters for all time at this point. The question of developing a new monetary system is one which will take not a few days or hours. It will take a few months or a few years. When implemented in full, it may take years. President Pompidou agreed. The President went on to say that we should consider what could be done now, what problems could be discussed in the future with an open mind. On the U.S.'s part it was, as the President had been informed, prepared to give on two major issues. The price of gold and surcharges. On the other side for this there would have to be a realignment and that is something that is subject to negotiations. It is like giving up the surcharge. Many Americans would like to make progress in the trade negotiations first. He understood that there had been a discussion of this earlier in the morning at other levels. Secretary Connolly had said that we would defend the dollar. As to convertibility, as he had indicated, this is not something that we could even conceive of now. On the other hand this question as he understood it was along with others a long-term one and subject to further negotiation. Now the question before them was whether they might in principle decide that they can and would move along the pattern outlined. We would agree to raise the price of gold and give up the surcharge. On the other side there would be a realignment at a level to be negotiated and some progress on the trade front and the matter of investments and tax credits.

President Pompidou said that we must not fear words. There was no question of the dollar becoming convertible into gold but if there is a consolidation of U.S. balances and the U.S. defends the dollar, then the dollar is convertible from currency to currency. He understood the President's reservation on an immediate statement but that is what it means or then there would be no real defense of the dollar.

Dr. Kissinger said that we would have to buy dollars with other currencies in order to defend it. President Pompidou replied that this was correct. There was no other defense. Dr. Kissinger said that gold was out and President Pompidou said he understood this.

President Pompidou then said that with regard to realignment as he understood it there was an area of difficulty. On one hand Dr. Kissinger said 5 percent and on the other side 10 percent (creeping gesture with fingers). It seemed to him that this was a matter that should be negotiated. They could only negotiate on the basis of realities. Certainly if it was too low it is not realistic and if too high it would not be realistic for the U.S. For the French this problem was more important in relation to other European currencies. At the present time as far as he knew the U.K. always liked to please the U.S. but they could not go to 10. The Italians would seek to get wide margins. The tough point in this respect is with the Germans. German businessmen would like 3 or 4. Schiller too would like 3 or 4. The Chancellor would go to 5. He himself had spoken of 7. Frankly, he felt somewhere around 6 was possible for the French, the U.K. and the Italians. He was telling the President this to present his point of view. He could not decide for the Germans.

Dr. Kissinger said that this would be a 6 percent differential between the Deutsche Mark and the Franc.

President Pompidou said that to this should be added the devaluation of the dollar.

The President said that the hour was late and that they should decide now how they would like to proceed. If they felt that they could reach agreement that they should come back the following day with a direct discussion of what is negotiable. He asked if Dr. Kissinger had any suggestions.

Dr. Kissinger said that as President Pompidou had pointed out we were not able to decide what the differential would be between the Deutsche Mark and the Franc. We could perhaps agree tentatively on a rate of devaluation of the dollar with which other adjustments would take place. This would set the framework. Perhaps we could discuss the principles of the trade questions and the international operation of the systems. The questions of margins and what reserves would be needed for the operation of the International Monetary Fund, if they could maintain an open mind as to the ultimate operation of the system. If these issues were approximately settled in principle, the subsequent negotiations the following week would put the stamp of approval on the agreement between the President and President Pompidou.

President Pompidou said that he would agree although he was not sure it would facilitate things for all concerned. It was easier for the U.S. than for him. He felt that the other Europeans and Japan did not especially want the two of them to settle the problem but he was ready to talk and pursue the negotiations to the degree of precision stated earlier. He would be ready to start earlier in the morning, say 9:00 a.m.

The President said that we could get some preliminary thinking done. He suggested that Dr. Kissinger might see President Pompidou at breakfast and discuss the agenda at about 8:00 a.m.

Dr. Kissinger said he would have to find out if Secretary Connolly was agreeable on the defense of the dollar and the matter of consolidation.

The President said he did not want to haggle; 12 percent or 5 percent would be a bad bargain. In any case he would have Dr. Kissinger call on President Pompidou early the following morning.

MEMORANDUM OF CONVERSATION

Subject: Meeting between Mr. Pompidou and Dr. Kissinger, Azores

Date and Time: 14 December 1971; 0830

Present: President Pompidou
Dr. Kissinger
Mr. Andronikof
Major General Walters

Dr. Kissinger opened the conversation by thanking President Pompidou for the arrangements for him to have breakfast with him.

President Pompidou said he had spoken to Secretary of the Treasury Connolly and after that he believed Mr. Connolly had spoken to Dr. Kissinger. He had found someone who had firm ideas. He had said that the U.S. would defend the dollar after devaluation. As one knew this was like going to confession. The U.S. had the firm purpose of defending the dollar after a deal had been made but not the means and did not seem disposed such means as it had.

Dr. Kissinger said he understood what President Pompidou was saying. After talking to him he had spoken to the President and the President's view is that when we speak of defending the dollar, as he understood it, we are talking about what happens in the new monetary system. The President believes that as long as there is the expression on our part that is what President Pompidou described as defending the dollar, but President Pompidou seemed to feel that there were others. Leaving aside the present balances, the way to defend is to buy when it falls.

President Pompidou said that this was so. He drew on his experience with the French Franc. When the franc lost value, no one in the world, no central bank kept francs and the French had to give hard currency to bolster it (dollars). When the French found that they had exhausted their special drawing rights at the International Monetary Fund, their reserves and loans, all of which were insufficient, then they devalued. Afterwards, with the French franc at a correct level Central Banks still did not keep French Francs and if there were too many and we had a negative balance of payments the French had to give foreign currencies. This applied to the U.K. as well as to France. This is the process which he thought would be applied to the devaluation of the dollar. He understood that present dollar balances would not be included as they were too big. The President apparently felt we were thinking of something else. Reproduced at the Richard Nixon Presidential Library

Dr. Kissinger said that his impression after talking to Secretary Connolly is that the Secretary feels if the exchange alignment is correct then we will be prepared to operate the system, if what we had already talked about was not enough. Secretary Connolly preferred to delay the final commitment until the final settlement of the new international system. Dr. Kissinger said he would read what we were prepared to do as part of a general package on margins and rates. This was the formulation:

"Discussions will promptly be undertaken in the appropriate forums to resolve the longer term issues of the International Monetary Reform. Attention should be directed to appropriate means and division of responsibilities for defending established exchange rates; the proper role of gold, reserve currencies and special drawing rights in the operation of the system; the volume of liquidity and reexamination of permissible margins in established exchange rates and other means of establishing suitable flexibility in exchange rates. It is recognized that the decision in each of these areas will be interdependent." That was Secretary Connolly's formulation.

President Pompidou said he understood it but it was difficult for him.

Dr. Kissinger said that the President's view was that one way of proceeding would be the following: If President Pompidou thought it was reasonable, he and President Nixon could agree today on the approach to both the interim and long-term solution. They both, France and the U.S., could support that position in the negotiations in the following week. President Nixon and President Pompidou could agree to a certain devaluation of the dollar. If President Pompidou desired margins and a restart of the Trade Negotiations as well as the clause which we had given him, we could then support the definition of the exact rates between the French Franc and the German Mark which President Pompidou had indicated he desired on the previous day. Alternatively, the Presidents could turn the matter over to the Finance Ministers for discussion the following week. The President believed that he and President Pompidou approached the discussion in a broader spirit.

President Pompidou said it was difficult for him to react immediately on the first point, that is, the clause Dr. Kissinger had read. The rest he understood. If he had correctly understood what Dr. Kissinger said,

there would first be a realignment of currencies, a certain devaluation of the dollar to be discussed and a reevaluation in fact of all of the other currencies in relation to the dollar. In that phase which was interim we should set certain margins.

Dr. Kissinger said that we were ready to do so.

President Pompidou said that if the U.S. maintained its formula, it would undertake to defend the rate without defining the defense .

Dr. Kissinger said that since he was honest he could not say that he was sure that Secretary Connolly's definition was the same as President Pompidou's. There was a difference in the way Texans bargained.

President Pompidou said he was not a Texan. President Nixon had told him on the previous day that he could not go further. Having had the Congress already vote a certain devaluation, he could not say that he would hold it or he would be in a difficult political position. As he was not a Texan, he would say that having had Congress vote a rate of gold and the dollar and whatever was said, he did not see how the President of the U.S. could come back to get another vote because he could not defend the dollar.

Dr. Kissinger said that he was not a good negotiator because he would tell President Pompidou what he really thought. Three months ago Secretary Train argued with equal vehemence for convertibility. Dr. Kissinger believed, as did the President, that the realities of the new situation will bring what President Pompidou had described. In fact, one argument advanced by Secretary Connolly as to why he is so tough is that it is so much harder for the U.S. to change the rate than it is for others.

President Pompidou said that in regard to the statement Dr. Kissinger had read he could not give agreement. He would have Giscard d'Estaing speak to Secretary Connolly. He did want to make two or three observations. In the statement he could not accept the absence of any mention of fixed parities and perhaps the problem of the substance of the role of reserve currencies. He had thought that in the last few months that the U.S. Government had admitted that in the new monetary system, at least in the final settlement, in reality that no currency should have this theoretical privilege. The reserve role of the dollar is actually a burden. Rather in parts of special drawing rights there is something similar for the reserves of Central Banks, including gold. The Central Banks agree to keep a certain percentage of currencies. This is not a privilege. They would be considered reserve instruments. President

Pompidou said he wished to stress the matter of flexibility of currency rates. This was a very serious matter involving the whole concept of the role of margins. If it means that in the light of the evolving situation with its ups and downs that margins make living possible, he would agree. If it means that margins are a means of perpetuating revaluations and devaluations, with no fixed parities and flexible rates, then he could not agree.

Dr. Kissinger said the whole idea was based on fixed parities, otherwise it would make no sense.

President Pompidou said that referring to what Dr. Kissinger had said about the new parities, he wished to emphasize the French point of view. No European currency would follow the dollar. He would pass over the Benelux. He was concerned that the DM should be 6 percent over the franc. Seven percent was too much. Five percent not enough. The French had made precise calculations just as we had done with Canada, with whom we did half our trade.

Dr. Kissinger said that Secretary Connolly had told him that according to his information, Schiller said 3 or 4 percent and Brandt said 5 percent would be negotiable.

President Pompidou said 5 percent would be the absolute minimum. Schiller was a Texan. He was more stubborn than Brandt. To move to the question of the dollar rate and margins, the French position was for the narrowest margins possible. The trend was towards wide margins. We could not return to 1 and the trend was towards 3.

Dr. Kissinger said that Secretary Connolly asked him to say that this was not unsurmountable.

President Pompidou said that 2 would be acceptable. He knew that the Germans were for 3. Brandt said that was too much. The Gilstra report explains how with 3 two currencies could not be reserve. It would be an encouragement to speculation. Suppose movement capital believed that the dollar would move down 3 points and the DM up 3 points.

Dr. Kissinger said that he had talked to Secretary Connolly about margins. He would prefer to wait on this until the end of the meeting. He would be prepared to handle this if we settled the other matters. The President was prepared to split the difference between 2 and 2 1/2.

President Pompidou asked what we should say if the Ministers agree.

Dr. Kissinger said that we had not settled the matter of devaluation.

President Pompidou said he would prefer to speak in terms of the price of gold, 5 percent to 7 percent, even if this is what the public is told. For the Congress it appeared it would be \$37 per ounce. The French preferred 37.50. He believed that we could go to \$38 an ounce. It would not be hard.

Dr. Kissinger said that what was really meant was a percentage.

President Pompidou said he felt it should be \$38.00 an ounce.

Dr. Kissinger said that we would not raise our voices on that.

President Pompidou said to the U.K. and Italy it would be 8 percent.

Dr. Kissinger, to speak with the same frankness, it was Secretary Connolly's view that he must never accept less than 10 or 9 percent devaluation in fact. But what President Pompidou and President Nixon decided would go. What did President Pompidou have to say.

President Pompidou said that above all they must not unleash speculation. How far could they go in the statement.

Dr. Kissinger said that it should be a general statement, that they had requested the Finance Ministers to look into the matter. If questions were asked about their meeting (President Pompidou and Dr. Kissinger), they should say that they had been discussing the Agenda.

President Pompidou agreed and said that they should leave for the meetings at the Junta Geral.

MEMORANDUM OF CONVERSATION

Subject: Meeting at Azores at Mr. Pompidou's Residence

Date and Time: 13 December 1971; 0845

Present: President Pompidou
Dr. Kissinger
Mr. Andronikof
Major General Walters

Dr. Kissinger: President Nixon has asked me on one hand to discuss the general approach to the negotiations and on the other hand to make some concrete suggestions concerning the international monetary situation. In fact, he would not want you to feel that these were unreasonable from the outset, because if there is one European nation with whom we have special relations, it is France. And if there is one Chief of State with whom the President feels he has a special relationship, it is with the President of the French Republic. Your previous meetings have shown that you have the same general view of things, even though you may not be entirely in agreement on the details. Your overall view is similar.

The President feels that we must have a special relationship with France because the general stability of Europe depends in great measure upon the general understanding between France and the United States. This is why the President felt that the first meetings which he will have with world leaders should be with you. We also believe that divergences or a confrontation between France and the United States would leave Germany free to pursue a nationalist policy and other countries might try and play upon such a rivalry. I tell you this to describe clearly the way President Nixon approaches the talks he will have with you.

I am not an economist myself. This lack of knowledge is for me an argument against universal suffrage. The President felt that there would be some advantage in my explaining to you some of his considerations on monetary problems that he would like to examine with you more in a historical than in a strictly commercial context. This discussion may be somewhat complicated, as I tell you frankly that some of the somewhat spectacular tactics which may have been used are more related to the personality of those who favored them. This is the general framework of the President's thinking on these matters. During your talks he is ready to tell you that the U. S. will remove the 10 percent surcharge as well as the measures relating to job credit, and he is ready to do this at once. Additionally, despite the difficulties that this represents for him,

he will propose to Congress a change in the price of Gold which you yourself have recommended a long time ago. He is willing to consider a realignment of the dollar in relation to the franc of 9 or 10 percent. Nevertheless, I tell you frankly, and this shows that I am a poor negotiator, that this is not his last word and he will not stick on this issue. Apart from this the DM should be located some 4 to 5 percent above the franc, the yen 5 percent in relation to the DM and the pound and the lira would maintain their present relationship to the franc.

The exact relationship between the franc and the dollar remains open to discussion. Either you may prefer to revalue and we would devalue to a certain relationship, or there might merely be a devaluation on our part to establish an equitable relationship between our currencies. For our part we would prefer a devaluation of the dollar of about 6 percent and a revaluation of the franc of 3 percent. This is not a hard attitude on our part and if you insist, we are prepared to act alone.

For political considerations it would be desirable for us to reach agreement on commercial matters. We are certainly not trying to make difficulties for you. I don't understand these matters well, but I believe an agreement on farm products and tobacco would be desirable so we could show that we have obtained something. Mr. Connally has other ideas on agricultural matters but this is the basis of our position.

Mr. Pompidou: To be frank, lemons and oranges are California and tobacco is Virginia.

Dr. Kissinger: There is no question for the time being of returning to convertibility, but we are ready to discuss a long-term system and in the meanwhile to furnish the IMF with all the means it requires for its operations.

This is the general attitude of the President. He has asked me to describe it to you so that you will know in what state of mind he approaches his discussions with you. We believe, in fact, that if the two Presidents can agree on such a basis that their meeting will mark the point of departure of a new international system. Even more important, it would be the symbol of the kind of relations which should be established in the world between allied nations and more particularly between our two countries.

Mr. Pompidou: If the world were not very complicated, I would ask President Nixon what assistance he could give France to correct our

balance of payments with the U.S. It is only balanced at 50 percent and the European Community is very much in imbalance insofar as industry and agriculture are concerned especially France which alone bears the burden of half the deficit.

Overall it is clear that we cannot move in our parities with Great Britain and Italy. You understand this. This means that neither Great Britain nor especially Italy, nor France could consider a differential of 9 or 10 percent in relation to the dollar. Nevertheless, we can discuss this problem. Questions will arise within the community. Germany would like a differential of 4 to 5 percent in relation to the franc. Brandt spoke of 5 percent. I told him that 7 percent seemed necessary to us. He replied that this could be discussed. It should be easy to find a meeting point, between 5 and 7 percent. Only, that is Brandt's opinion, not Schiller's and I don't know who has the final word in this matter. I believe that Germany would nevertheless be prepared to accept a substantial differential between the pound, the lira and the franc, all the more so if the yen were even higher. There will therefore be a discussion on figures and one can with certain reservations look forward to the possibility of an agreement. A movement of 9 to 10 percent in the dollar is too much. It is not simply a matter of the reevaluation of the price of gold but of a devaluation of the dollar in relation to gold. A reevaluation of gold conceived of as a rise of 20 to 50 percent is out of the question at this time. Anyway there are different ways to arrive at the figures if you base yourself on gold or on the dollar which result in a difference of about 1/2 percent. If you increase the price of the ounce of gold by 2 1/2 dollars you can figure it in relation to 35 (dollars an ounce) that is 37.5. There is a difference in the way of presenting the matter.

You have the problem of Congress. We know it is not easy. Therefore the European Community led by France has accepted the possibility of negotiating commercial measures on condition that Congress approves devaluation. These negotiations could begin now and decisions could even be taken now, but they would enter into effect only after the vote of Congress. This is what Brandt calls the "Junktum". We must, however, know whether the new parities will be defended. At the present time no one defends the dollar except others; Germany, France and the United Kingdom buy it when it is below par. We feel everyone should defend his currency.

Dr. Kissinger: That is our intention.

Mr. Pompidou: That is very important.

Dr. Kissinger: Some people believe that it will be easier for others to devalue their currencies after the new parities are fixed. We will be compelled to defend our currencies they say but others may change theirs.

Mr. Pompidou: The European countries can commit themselves to defend together their parities for all of the European currencies collectively and not just individually. As far as convertibility is concerned it is true that dollars are wandering about almost everywhere. For a year or perhaps two, certain measures to defend the American balance will have to be taken. I note however that you would be willing to discuss convertibility within the framework of a general conference. Nevertheless measures must be taken to consolidate present dollar balances on condition that this not become a perpetual consolidation. It will be necessary to look at the calendar to discuss in a general way monetary as well as commercial problems. It has been said at the European community that there would be a "Nixon Round" after the reelection and I for my part very much hope that this will be the case.

As for the dollar balances remaining, at least over the next 18 months, the U.S. will be able to deal with them by drawing upon the IMF. After all, your availabilities are greater than the resources of the IMF.

From a purely French point of view we have made very careful calculations. A devaluation, even slight, say about 5 percent such as was discussed at the Community, would create a number of difficulties in France and would in particular aggravate unemployment. This is important. The 10 percent surcharge is not too bothersome, for us in any case. But a generalized deflation would lead to a more difficult economic situation. I too have an internal situation, and even elections. We do understand, however, the general interest as well as yours.

There might be some advantage in talking to our finance ministers before we talk about it ourselves. The monetary questions might, for example, only be brought up during the afternoon meeting.

Dr. Kissinger: This is also the President's feeling. I would recall the relationship which we would like to see between the price of gold and commercial matters. I know that some would object to such a connection.

Mr. Pompidou: We too.

Dr. Kissinger: Personally, I would have preferred not to see the two questions connected.

Mr. Pompidou: I understand this very well. President Nixon would be agreeable to the decisions resulting from the commercial negotiations being implemented only upon a decision concerning the price of gold. The negotiations would not have to wait until an agreement or a reasonable compromise had been reached on this subject.

Dr. Kissinger: It's like the case on Berlin. In a practical sense do you believe that the general framework envisaged by the President is reasonable?

Mr. Pompidou: It is a reasonable framework.

Dr. Kissinger: The Ministers of Finance might meet this morning and you would take up the monetary questions only during the afternoon meeting.

The President also asked me to enquire whether you would object to his calling me in from time to time to explain certain details.

Mr. Pompidou: I see no objection to that.

Dr. Kissinger: I would also like to tell you that in regard to the Indian-Pakistan conflict we are hoping for a settlement within the next 72 hours. We have begun a move to get a possible resolution without any veto from anyone. We are not against India but the existence of Western Pakistan seems very important.

MEMORANDUM OF CONVERSATION

Subject: Meeting at Junta Geral, Angra do Heroismo, Terceira, Azores

Date and Time: 13 December 1971; 1600

Present: The President
President Pompidou
Mr. Andronikof
Major General Walters

The President opened the conversation by saying he appreciated this opportunity of having this first of his meetings with Heads of Major Governments with the President of France. Their meeting, quite apart from the usual matters they would discuss, had attracted world attention. Obviously what France and the U. S. could agree upon was of great importance to Europe and to the world. Some of these matters were highly technical in which President Pompidou was more learned than he himself was in such fields as the monetary and trade questions. These were matters they might well discuss at the afternoon meeting after a chance to see what their positions were in other areas. He was prepared to handle it any way President Pompidou preferred and as far as he was concerned the agenda was open. He would like to discuss Europe with its problems, the South Asian situation (India-Pakistan) and, of course, bilateral problems and finally the tough problem of the monetary situation which, if President Pompidou agreed, they could discuss that afternoon.

President Pompidou said he was agreeable to this.

President Nixon then said he was prepared to discuss any other matters that might be of interest to President Pompidou. Did he have any suggestions.

President Pompidou said that if they spoke of Europe, America, the Soviet Union, China, Asia and even Australia, the most interesting in his view, outside of the monetary problem, but part of it was the relations between Western Europe on one hand and East-West relations on the other, that is relations between Western Europe and the U. S. and the Soviet Union and its allies.

President Nixon then said it seemed to him that in looking at his problem, it was not just a monetary problem but an area involving

political relations as well. In this, cooperation between France and the U.S. was the keystone. For that reason if he and President Pompidou arrived at some understanding, it would aid progress in the political field as well and have a great effect on the rest of Europe and the eventual outcome.

There was a curious situation in regard to the monetary situation. Some writers said that France was the key, others the U.K., Germany, Italy or the Japanese. In any event all have different problems in that area. But the relationship between France and the U.S. is central to a solution. This is also true in the political area. One of the major contributions that has been made in the past three years has been the closer relationship that has developed between France and the U.S. Fortunately, we also had good relations with General De Gaulle as President Pompidou knew. President Pompidou and he had carried on in the same spirit that De Gaulle and President Nixon had established in 1969.

One thing that might be useful would be for him to get President Pompidou's appraisal of the Soviets. He himself had not met either Brezhnev or Kosygin. President Pompidou had been to Moscow and had seen them in France. The President would like this only for guidance and was not seeking confidential disclosures but he would be interested to get President Pompidou's views of the Soviets, their intentions and his analysis of them.

President Pompidou said that first of all, in reply to what President Nixon had so kindly said about French and U.S. relations, he would sum up in three or four sentences his political philosophy. France is a Western country. This was true historically and in sentiment. She was determined to remain a friend and ally of the U.S. France had close to her the Soviet Armies and the mass of the Soviet Union. In such circumstances only two policies were possible. Either she hid behind a wall or tried to understand one another. In a third area he believed that it was necessary to give Western Europe as much economic unity as possible and later political unity and, if all went well, equally so in the Defense area because this is the only possible counterweight to the USSR. All the more so because he was sure that the U.S. progressively would not want to bear all of the burden of their presence in Europe. As he had told the President, he hoped it would not happen soon but it (a U.S. withdrawal) would take place and they needed a United Europe to face the East. This was in part necessary because Germany is at present

very strongly anchored to the West but one could never know for sure what form their evolution could take as only the Soviets could give them what they wanted: unification. Perhaps someday the Germans might decide to give priority to this. One could wonder. He also believed that the development of this policy of European Unity and detente with the East is favored by the existence of China and the fact that the Soviets are not looking for crises in Europe and are very concerned with Asia. This results as he told Chancellor Brandt in the greatest difficulty in the construction of Europe, that is, the definition of its relationship with the U.S. Fundamentally vis-a-vis the Soviets the Europeans have a common position of detente and vigilance. On Asian problems the Europeans can get together because they are not directly concerned. With regard to Africa they would like to tie Africa as close to Europe as possible. France and the U.K., despite difficulties, did have some influence in this area.

The difficulty lay in the equitable distribution of the financial and economic burden and establishing the political relationship as one of alliance but not simple subordination. Herein lay the difficulty. By that he meant, not that it was impossible but delicate to define. Here lay the reason for the fact that France had a role to play that was greater than her intrinsic power. Fundamentally, Chancellor Brandt and Germany needed a France not too concerned by their Ostpolitik. They needed her blessing. Everyone in Europe was counting on France to defend certain commercial and financial interests with the United States. It is a comfortable situation for them. In case of any difficulty they can say, "Well, it's the French." In reality there remain in the USSR great apprehensions regarding Germany. These memories mean that the present Soviet leaders prefer France to have an important role in Europe rather than see the leadership go to Germany by default. This is not awkward for the United States. There is in France a Government determined not to let the Communists come to power. He would now return to what the President had said about the Soviet leaders.

He had seen Kosygin three times and Brezhnev three times. He had been to the USSR as Prime Minister and had seen both Brezhnev and Kosygin. He had seen Kosygin as Prime Minister. He had returned to the USSR as President and, as President Nixon knew, Brezhnev had recently been in France. They were very different men. Kosygin's temperament is not very gay. He was very studious on economic and technical problems. He was fascinated by industrial progress. He was from Leningrad and in this respect he was perhaps more reserved

towards Germany than others. He was afraid of the Germans and if pushed might react violently. Brezhnev was a Ukrainian and a Southerner. He was jovial and cordial and liked to eat and drink. He was folksy, liked good cars. He owned a Rolls Royce, a Mercedes, a Citroën and a Maserati. He did not yet have a Mustang. President Nixon commented that Brezhnev had all kinds of cars but not an American one. President Pompidou said that a 21L looked like an American car. Brezhnev liked good living. He was easy in conversation but in depth he was very tough. He was permanently conscious of the importance of military power but was also aware that he had to raise the living standards of his fellow citizens. We were close to a period of anniversaries. The U.S. would soon celebrate its 200th Anniversary, the French were celebrating the 100th Anniversary of the Republic. Brezhnev wanted to celebrate the 50th Anniversary of the Soviet Constitution and to them commemorate means to distribute more consumer goods to the people. Brezhnev counted on France and Germany and the West in general to furnish the means of rapidly producing more consumer goods. He is determined to import consumer goods if necessary. Despite all of this he never forgets the importance of power and at the bottom of things Soviet Policy presents two characteristics:

1. It is like a river -- if it finds a hollow, it flows in until stopped by rock.
2. It is obsessed by China constantly.

For now the Soviets are desirous of accentuating detente in Europe and would like to conclude their agreements with the Germans and obtain the ratification of the treaties. They are in a hurry. They watch without pleasure the formation of the Common Market. Above all they are concerned with everything that happens in Asia and try to cut the ground from under Chinese ambitions. They are presently more concerned with Chinese potential than ambitions.

President Pompidou said that he had mentioned that the Soviet leaders were obsessed with China. The dream of Yalta may not be over for Soviets who may still dream of sharing the world with the U.S. This is a deeply rooted idea. China disturbs this idea, and they don't like it. President Pompidou said that leaving aside current events (Indo-Pakistan War) he believed the Soviets would seek to reach agreement with the U.S. But one must understand, and this President Nixon knew as well as he did, that to them an arrangement means retreat nowhere and advance whenever possible. This is true of all powerful people!

President Nixon said that this analysis by President Pompidou was very perceptive and very candid. It was extremely helpful and he could assure the French President that his candor would be respected and his confidence would not be betrayed. He would like to ask a question: Which did the Soviets fear most - China or the U.S. ? President Pompidou replied that they feared China most, not immediately but they felt they could do nothing against China which was indestructible by its mass and in 20 to 50 years it will be so enormous that they will not be able to cope with it. Next they fear Germany. They feel Germany is capable of fomenting something. With the U.S. they feel complicity.

President Nixon said that there was one difference. They feared China certainly and Germany possibly because they are neighbors and might be a threat from a territorial standpoint. While they fear American power, they do not fear any U.S. territorial ambitions against them. He believed that in the broad landscape President Pompidou had painted we should now look at the pieces and see how those pieces could be moved to our advantage rather than theirs. To begin with, in respect to the relationship between Western Europe and the U.S., it was no secret that the Germans felt that the U.S. could not be depended on. The reasons were they felt that it was inevitable that the U.S. would withdraw from Europe except perhaps for a small force but the U.S. could not be counted upon to risk its survival to defend Europe in a nuclear war. The actions of the U.S. Senate, the Mansfield Amendment reinforces that point of view. It was all well and good for us to make the usual protests that the U.S. would stand by the European countries and that we could be counted on. In the final analysis what determines U.S. and French policy is self interest. This was the basis for his contention that the U.S. and Western Europe, despite some differences of which they were aware, were inextricably tied together. In the long term it would be disastrous for the U.S. to leave Europe as a hostage to the USSR. That is why it was necessary for the U.S. and Europe to have close economic relations. Militarily it was vital to the U.S. to preserve Europe and to remain and not to reduce its forces unless on a very clear multilateral basis such as a reduction vis-a-vis the Communist bloc would be disastrous. MBFR had begun in 1968 before he was elected. U.S. policy was that it must be pursued on a multilateral basis. We had yet to find any formula by which such a reduction would not downgrade our interests in relation to the Soviet bloc. We could continue the Brosio discussions and consult to the extent that President Pompidou desired. Personally the President was very skeptical. His concern was that MBFR be used simply to obtain a U.S. withdrawal. Only with a visible U.S. presence could we maintain our interest. The Soviets know this and that is why they want us out as soon as possible.

In the matter of our talks with the Soviets either at SALT or in May when the President would meet with Brezhnev and Kosygin he wished to assure President Pompidou that there would be absolutely no U. S. Soviet talks apart from or at the expense of the European Alliance. President Pompidou had spoken of the Soviet interest in a Yalta type agreement with the U. S. Many in the U. S. felt that Yalta was very detrimental for Europe politically and economically and basically beneficial to the USSR and detrimental to the U. S. Therefore the President looked on the forthcoming talks as very tough and hard. The Soviets want progress on trade. This is possible but will not be nearly as great as many think. Some progress on arms limitation may be possible if there is an equal deal on other subjects. However, there must be a clear understanding that during this period when the Soviets have nuclear parity with the U. S. this does not mean that the Soviets can get away with a policy to humiliate the U. S. or weaken the U. S. in defense of the position of its allies in Europe.

It seemed to the President that in this framework the maintenance of strength and cohesion was more important than ever. The U. S. in the long run cannot have a viable world without Europe. Europe cannot survive without the U. S. contribution to nuclear strength at this time. The Soviets know this and would like to divide the U. S. and Europe. The Soviets also know that at the heart of the European problem are the Germans. President Pompidou could not be more correct when he pointed out that Germany, which is the heart of Europe, is always potentially, despite its cultural and economic ties to the West, drawn towards the East. The East holds millions of Germans as hostages. This is why we must keep Germany economically, politically and militarily tightly within the European Community. Ostpolitik is a nice concept and can win a Nobel Prize. President Pompidou or himself in Brandt's place might do the same. But politically it was dangerous to risk old friends for those who would never be friends. We should be very tough with the Soviets on the matter of European security. The agreements with Brandt should be signed sealed and delivered. Into this picture now come France, Britain and Germany. If President Pompidou and he, in the course of their meetings, could, without being belligerent (which neither he nor President Pompidou wanted), reach a strong understanding on principles, it would be helpful and not just for both countries. It would help his meetings with the Germans and with the U. K. to make progress on Europe. We must realize that many cynics and some honest people felt that when France left NATO that this meant the end of the European Alliance. The President was aware that France remains in the Alliance but is outside the Integrated Military Structure. He felt we would play

into the hands of our potential opponents if it appeared that France, except for some economic ties, was determined to go her own way in a race to Moscow. The President was not suggesting that France and others should not have independent policies towards the East. This was why he was having meetings with our Western European Allies so as to make crystal clear in our initiatives with the Soviets and the Chinese that our primary allegiance is to the West, not in any sense of belligerence but that is where our interests lie. This will help in making a better deal with the Soviets.

One of the reasons, as he had mentioned earlier, why he sought improved relations with the French by meeting with General De Gaulle. Some people who were whistling in the dark believed we could build a European relationship without France. The President said that it was his belief that there could be no viable Europe without France. Just as France is not viable without Europe and to square the circle he did not believe that even the U.S. could in the long run pursue a policy of isolation. Our fate was tied up with that of Europe.

President Pompidou then said that the President had brought up a number of attitudes by Democrats, Mansfield and others, in the Senate which was really more significant than Pearl Harbor. In other words, in the hypothesis of a major conflict it is not just part of the U.S. Fleet that might be destroyed but Western Europe which would be lost to the Soviets. The U.S. would, of course, revenge them, but this would be small consolation to the Europeans in the cemetery. The President agreed.

President Pompidou then said that he had three remarks to make about what the President had said. Brezhnev had spoken a great deal about MBFR. He drew an idyllic picture of almost no soldiers in Europe in 10 years. In any case, France will not diminish her military effort. She will pursue it whatever happens. The President commented that this was "good".

President Pompidou said that he had told Chancellor Brandt about what the President had said of the danger that negotiations might be a pretext for U.S. opinion to demand the departure from Europe of the U.S. Forces. The Chancellor had replied that the U.S. Forces should not leave unless the Russians went too. President Pompidou said he must admit that he did not understand the German attitude on this point. They should be the most hostile to the reductions envisaged in MBFR. After all, they would be the first to be endangered. He must say that Brandt had told him that he was hostile to the neutralization or "Finlandization" of Germany. But the day the U.S. leaves Germany, the U.K. and France will not be far behind and then Germany would not be far from neutralization.

President Nixon said that the problem in the U.S. as in Europe was largely psychological. Many Americans were naive and softhearted. Many intellectuals, the media and professors don't believe there is any threat from the Russians. Some of the young also. President Pompidou interrupted to say, "Bishops too." President Nixon said that some of the Protestant and Catholic clergy feel this way too and the inherent difficulties are increased when political leaders who know the Soviets add fuel to the fire. What used to be called the cold war rhetoric is no longer saleable. What was needed was the type of spirit with which President Pompidou had met the Soviets and in which he himself planned to meet them. A totally pragmatic meeting of Eastern and Western leaders. He had no illusions regarding the difficulties of his forthcoming meetings. There would be no "spirit of Moscow or Peking" arising out of his trips. He remembered Khrushchev. He had a sense of humor. He was tough and impressive. He would not allow the almost passionate desire of so many of our people to believe the best about the Soviet leaders' desire to seek peace to blind them to reality. Not because the Russians were Communists but because they were a powerful country who saw their goals as antagonistic to ours. The French had lived too long to be so naive. His attitude towards both the Communist Superpowers was that we cannot live with them but then we cannot live without them. Live and let live based on fantasies of our own. Our society and civilization need to recognize that their attitudes, desires and foreign policies are different from our own basically because they are Communists. From time to time they may recede from their policies of expansion but Communist theology requires a dedication to expansion taking advantage of every temporary circumstance. By that he did not mean that non-communist nations did not try and take advantages but not in areas of fundamental policy of conquest. The nations of Europe and the U.S. do not have this as part of their national policies.

The President did not know why the Soviet leaders and the Chinese leaders had arrived at the decision to meet with U.S. leaders. Not primarily because they wanted better relations or liked us. If there was not a strong Europe and if the Soviets did not have a threat in the East they would not be interested in talking to the U.S. By the same token he would like to have Dr. Kissinger tell President Pompidou what the Chinese think. He did not believe that Mao would be talking to the leader of the capitalists and courting the U.S. unless he was concerned by the Soviets and to a lesser extent by the Japanese. If one said this publicly they would deny it. Some in our country said when the President announced his trip to Peking that the Soviets would refuse to talk with us.

Actually the Soviets were more willing to talk SALT, Europe and Berlin after Peking announced the visit than they had been before. After the announcement of his visit to Moscow the Chinese had showed a greater interest in talking to us than before.

President Nixon recalled that he had told President Pompidou before that when he had seen General De Gaulle while he (President Nixon) was out of office and has asked him whether he had any advice for the U.S., President De Gaulle had replied that rather than put all of its eggs in the Soviet basket the U.S. should have a more open policy towards the Chinese like France. His responsibility was like President Pompidou's. They must go into these things with their eyes open and try to defend our point of view.

President Pompidou said that the U.S. view of things was more world wide than that of France because of our means. This was why he considered the time favorable to commit Europe in a procedure of detente which could backfire but that Soviets could reverse only by a theatrical of forceful move. They are very concerned by Asia, China and their discussions with the U.S. on nuclear matters. They want peace in Europe. He believed that the Soviets harbored the illusion that the French, Germans, Italians and other countries could give them considerable economic aid. These are illusions and he had said so publicly. One could only sell to the Russians in exchange for what one buys and this was not much. No one could give unlimited credit. The European picture was very favorable except on MBFR on which he had already given the President his views. The French were not disposed to reduce their arms effort. One word about the problem of a European Security Conference. This point is evident. A security conference is beginning to be discussed seriously. He believed that all European countries were agreed on holding such a conference but felt that if the U.S. preferred a later date they would be agreeable to keeping the U.S. happy. Until, however, the U.S. agreed, there could be no real serious preparation of such a conference. Why did the French believe that such a conference could be of interest? They felt that communism as such represented by communist regimes was false from the economic and social point of view in many so called Socialist nations. Poles, Romanians and especially the Czechs and Hungarians wanted to shake off the tutelage. They believe that with the Western bloc divided and the Eastern bloc united that they lost. He felt that on one side there were the free countries who were independent and France felt that she was. On the other side there were countries who wanted to take steps towards freedom and independence. If the superpowers or the West (that is, the U.S.) feel that this liberty and independence is bad, then harm is done. The Russians feel it is bad but cannot stop it.

President Pompidou had been struck in his last talks with the Romanian President and Foreign Minister by their anguish at the idea that multilateral preparations and meetings on this conference might be delayed. They believe that when all are seated around a table they will be protected and not until then. The U.S. and France did not have exactly the same view. The problem is one of interpretation of the situation rather than that of a disagreement on goals.

President Nixon replied that, first of all, as to the matter of whether there would be a European Security Conference the question as President Pompidou had implied was one of timing and tactics. As President Pompidou had indicated, we believed that until the German treaties are finished plans for a European Security Conference cannot be implemented. We also believed that it was vitally important that extensive discussions among ourselves be held with regard to the agenda. He agreed with the French President that there was some possibility that this conference might not be an unmixed blessing for the Soviets although they very much wanted it. The extent to which it opens up to the West the Eastern countries to whom President Pompidou referred can be a leavening factor in the attitude of those countries. We have in each case to distinguish between the leadership and the countries. The people of Czechoslovakia, Hungary and Poland had demonstrated on several occasions that there was nothing that they would like better than to get rid of Soviet influence and leadership. Certainly a country like Romania where Ceaucescu is a devoted Stalinist is also devotedly a Romanian and to the extent that he can safely do so he takes an independent line from time to time. The President's views long term were the same as President Pompidou's. There are risks for the Soviets in such a conference just as they think it contains risks for us. They feel it will have the effect all over Western Europe of creating a false atmosphere of security and will lead to the letting down of our guard and the belief that real peace is just around the corner and that the cold war is finished. His own view in summary was that in a deliberate way we should move towards such a conference but have in mind the fact that we should harbor no illusions as to the Soviet aims in holding it. Our planning should be such as to serve our purposes while they will attempt to serve theirs.

Overhanging the whole area of Soviet-U.S. relations is the sober, sombre fact that if the Soviet leader decided to risk nuclear war and the U.S. was involved, he knew that he had the power to kill 70 million Americans and we had the power to kill 70 million Russians. The U.S. President knows this too. There are limitations on power and a restraining influence not because of love but because of fear. It was essential that the two

nations pursue the negotiating track rather than the confrontation track. We have impressed this on the Soviets with regard to Southern Asia in the last 24 hours. The President wished to add in regard to the desire for detente that he totally agreed with President Pompidou. The people of the U.S. and Europe wanted it, at least a majority of them did. In Europe perhaps for different reasons. The Germans want it because the Soviets can give them East Germany, U.K., France and Italy because they are convinced that we live in a dangerous world. The danger presently represented by nuclear war, not the loss of 3,000 men as at Pearl Harbor. The whole place would be turned into a graveyard. No one wanted that. It was very important to look at the two attitudes on detente. Some sought a European Conference on the naive assumption that the Soviet aims have changed and that their designs in Europe and in the rest of the world are basically peaceful. On the other hand, some who seek detente on our side have no illusions and recognize that a different relationship and good relations between Europe and the USSR and the U.S. and the USSR are a practical necessity, that there are dangers in a policy of confrontation. But we must have no illusions about the basic aims of the Communist States. They are quite different from one another. Even if they wanted it would be impossible for European or U.S. leaders to take an intransigent stand and refuse to talk. Ten years ago this was possible in the U.S. It is no longer. On the other hand, it is important that the leaders recognize that naive public opinion often demands talks that will make the whole world peaceful. We should seek such negotiations but for the right reason. By the facts of Soviet power, the risks of confrontation in the Middle East or elsewhere are unacceptable. Therefore, we should seek to lessen the risk of war and seek, as President Pompidou had indicated, to make Europe a more viable area and to open Eastern Europe whose peoples' hearts are with the West.

The President wished to add in a different sense. He would like to discuss the motives for his trip to Peking in the afternoon. China today was a major power with the largest population in the world. She was a mini economic power with a production less than half of Japan's although she had 800 million people to Japan's 100 million. China was a mini nuclear power in relation to the USSR but we take the long view as do the Soviets and President Pompidou. Twenty years from now China will be a major nuclear power if they so wish. Do we allow that to come about with China isolated. We should make an effort for a new start. The President had made this choice himself with his eyes open to seek by necessity a peaceful relationship with them.

President Pompidou said he believed that the two Presidents were being told to go.

President Nixon said that he understood they would break now. What subjects should be discussed in the afternoon -- economic subjects?

President Pompidou said that he had seen Dr. Kissinger earlier that morning concerning monetary and economic problems. He would also like to talk about China since the President had also expressed this desire. He could tell the President what he thought and then Dr. Kissinger could tell them about his impressions in China.

President Nixon said he felt that this would be important. If President Pompidou had no objection he would like to have Dr. Kissinger sit in on the afternoon session. We had had some very interesting contacts in the last few days and he would like to have President Pompidou brought up to date.

President Pompidou then expressed the belief that the Chinese were much more complicated than the Soviets. The President said that they were perhaps more sophisticated and more subtle.

President Pompidou said that Soviet policy was realistic. Their problem was to follow their calendar but one could understand the substance of what they were trying to do. The Chinese were more complicated. The situation in Pakistan interested him very much. He understood their clash with the Soviets but he was not sure that the Soviet policy towards Pakistan was simple.

The two Presidents then agreed that the press and others would want to know what they had talked about and discussed what should be said.

The President said that they could have their Press Secretaries say that they had had a far ranging discussion of bilateral problems, European problems and global problems but that this would still not be much.

President Pompidou said he felt that they should be told that the two Presidents had not discussed monetary problems, otherwise they would be agitated. President Nixon suggested that they might be told that these problems would be discussed that afternoon. "And tomorrow", suggested President Pompidou. The President said that if President Pompidou agreed, they could say that they had discussed the

President's forthcoming trips to Peking and Moscow to which the President was going only to represent the U. S. and not on behalf of Europe.

President Pompidou said that he understood that the Press had already picked up the fact that Dr. Kissinger had been to see him earlier that morning and the two Presidents agreed that they would say he had called on President Pompidou to set up the agenda for the meetings.