

## 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 Junta Geral, Angra do Heroismo, Terceira, Azores

Date and Time: 15 December 1971; 0900

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

The President opened the conversation by saying he believed that the Portuguese had done an outstanding job as hosts.

President Pompidou agreed fully with the President.

The President then said that the key items they had been discussing were monetary. He had thought about it overnight and he knew that Dr. Kissinger had talked to President Pompidou earlier that morning, that it was his belief that these matters were as much a political as an economic issue in both countries. This was important in both countries. Since the basic decisions would be made by political leaders, it was the two Presidents who would ultimately make them. Rather than engage in haggling between the two Finance Ministers it would be better if they came up with recommendations that the two Presidents could live with in a political way. For that reason he felt that it would be useful to have presented this morning in a frank discussion what he could do in a political way. He would let Dr. Kissinger sum up the morning's discussions. His Finance Minister John Connally was a very tough guy, and he said that we ought to have a revaluation of 12 percent. That is what he should say as Finance Minister. But the reality was what President Pompidou had pointed out he could not live with. He (The President) had to make the basic decision to devalue in the spirit of their discussions. He could make the final decision and was prepared to do so if they could agree.

President Pompidou said he could.

Dr. Kissinger then said he would sum up his impressions. The first point which had never been mentioned was that it was self evident that the surcharge and associated restrictions would be lifted.

The President then asked whether they had mentioned controls and Dr. Kissinger said he would have to reserve on that. As a second point we would propose to Congress a certain devaluation in terms of gold. He had told President Pompidou that our figure was 10 percent. President Pompidou had in all frankness told him what he could do in terms of his own studies and in terms of what he thought other countries might accept. This was to raise the price of gold from \$35 an ounce to \$38. This was an 8.6 percent increase.

The President commented that this was much less than we wanted and Dr. Kissinger said it was much less.

Dr. Kissinger said that Secretary Connally felt that the devaluation should be of at least 10 percent in relation to France.

President Pompidou said that if the differential was greater than he had mentioned, then the U.K. and the lira would have to devalue. The French felt strongly that the relationship between the pound, the lira and the franc should remain.

The President then said that if President Pompidou really felt that was the maximum figure he would agree. He had not heard the question of margins discussed but it was his strong view that as political leaders they had to do what was possible. There was no sense in talking about a deal which would disturb the U.K., Italy or others. If it was unacceptable to them, then it would have to be a basis of 8.6 percent.

Dr. Kissinger said that it depended on the package.

President Pompidou said that \$38 an ounce was then maximum. They could not unstick from the pound and the lira. This he could not accept. To change the parity between the franc and the pound and lira would represent an immediate financial loss for the Bank of France on the order of \$300 million if the dollar were devalued and the price of gold were not changed since the French franc would not move in relation to Gold. The Bank of France would lose 300 million dollars in 24 hours.

The President said that this was educating him and President Pompidou said that the President had experience in this matter. The President said he was learning.

Dr. Kissinger said that the next part related to the proposal of which President Pompidou had been advised yesterday. After discussion of the ultimate differential between the franc and the mark, which the French felt should be 7 percent, Schiller 3 or 4 percent and Brandt 5 percent, the latter had said that the difference was negotiable.

President Pompidou said that Chancellor Brandt had spoken of 5 percent. He himself had mentioned 7 percent and Brandt had indicated that the difference between them was negotiable.

The President said that Connally had indicated that he felt 7 percent would be impossible for Brandt.

President Pompidou said that Schiller's figure was much lower. Schiller believed that the DM could accept a further revaluation and that the German economy was sufficiently strong. German business had screamed and Schiller would like to make the German business community happy. For him the matter was more political than it was financial.

The President then asked President Pompidou what rate of differential he would accept. President Pompidou said that he would fight for 6 and under no circumstances would he go below 5.

The President then asked how this would be arranged with the Germans -- bilaterally?

President Pompidou said that on his return to France he would give general indications to their partners in the community. He could not give them the impression that he and the President had fixed the rates and that they must accept them. They could not set the relationship between the dollar, the European Community currencies and the yen. The French would say to the U.K. that in margin to their discussions with us on the rate of the dollar they believed that there was a maximum figure beyond which they could not go. If the British devalued, then the French would too.

Dr. Kissinger said that to return for a minute to the Indo-Pak problem, the Security Council was discussing the matter.

The President said that we were doing what we could in the Security Council to save West Pakistan.

Dr. Kissinger said that there had been a veto in the Security Council the previous evening and we were now trying to find a formula on which all could agree.

The President said that Foreign Minister Schumann had said that the French would go along and be helpful on finding a formula.

Dr. Kissinger said that he did not expect anything to be forthcoming in the next 1 1/2 hours but that messages might come in during the night.

The President then said that to return to monetary matters he wondered whether there was not a misunderstanding. President Pompidou had said he would fight for 6 percent and would not go under 5 percent.

Dr. Kissinger said that he had told President Pompidou after talking to Secretary Connally that we would have no objection to a greater differential if they could get the Germans to agree. President Pompidou had pointed out after the summary that they must find appropriate words to convey their decisions and not give the impression that there was nothing left to negotiate.

President Pompidou said that this was right.

The President said that they must not lose time.

President Pompidou said that they might bring in the Ministers of Finance and the President said that they were there for that.

President Pompidou then said that he had told Finance Minister Giscard d'Estaing not to argue over figures but to seek a general formula. They should create an atmosphere and see what could be agreed without creating speculation during the afternoon. If there were leaks they would have to close the stock markets at once. Things were still at the old parity and such leaks could enable speculations to make a 7 or 8 percent profit.

Dr. Kissinger said that the next point related to margins. The French could accept up to 2 percent. Our figure was 3 percent. Secretary Connally had told him he could go to 2 1/2 percent and they could put the difference up to the two Presidents.

The President said he would bow on the 2 1/2 percent figure. The French figure was higher. He would give 75 percent.

President Pompidou then said that he must in honesty advise the President that the French would ask the European community for a slight reduction in this margin. It was now 1 percent for the European community. He would ask for the same for the Community currencies. That would leave the dollar its margin but they would attempt to tighten the Community currencies. A considerable broadening of margins would impede progress towards a margin between Community currencies but that was not for tomorrow.

Dr. Kissinger said that the next point related to the future system which would be one of great complexity. President Pompidou had made some comments on its operation.

The President said that this was a matter of great complexity. He had been impressed by President Pompidou's analysis as had Dr. Kissinger. He could only say that no one could read the future but he hoped they could find language on which they could agree. At a later time they could find the best answer. President Pompidou might have the best answer. He did not know. We were aiming towards the same goal, that is, stability of the monetary system. We must move towards a more stable system.

President Pompidou said that as far as he was concerned the whole matter was far more political than it was monetary. There was some problem with respect to the role of the dollar and other currencies. Previously, the dollar had all of the power and bore all of the burdens. The U.S. could not bear all of the burdens and the other countries could not accept it having all of the power. Some suggested the creation of a European currency and its weight would surpass that of the dollar. The Europeans were moving towards a European currency but a capitulation between Europe and the U.S. would be bad. He personally believed that it was much more normal to seek an international forum such as the IMF with a notion of reserve and liquidity rather than to try and recast the dollar and create a European currency. This would waste time and create a monetary war.

The President said that he wished to say in total confidence because this involved his own advisers, Dr. Burns, the Chairman of the Federal Reserve, The Treasury, George Shultz and the Bureau of the Budget. He had discussed the issue with them at length. He wished to say in confidence that he did not have a frozen position on these matters. He wished to find the right language that would give the necessary flexibility for the right solution.

Dr. Kissinger said that there was one other point and this was the matter of trade. Our proposal was that the French Government support a mandate to the European Community to enter into negotiations to resolve pending short term issues.

The President said that he felt that in terms of President vis-a-vis President this was not really a big problem. To us it was a difficult political issue, even if symbolical, since we give up the surcharge. That is why Secretary Connally has such a firm position on the problem. We know that it is also a problem for the Community. The political forces in our country felt strongly that we should make some progress in this area, that is, on the trade front. This was the problem. We did not need anything specific but progress could be very helpful.

President Pompidou said that the European Community had adopted a draft statement that once monetary measures had been taken they were ready for trade discussions of a general nature or sort of "Nixon Round" but on the other hand what they had adopted was not a mandate. The matter should be referred to the permanent representatives for study of the special problems of an immediate nature on general points and on the matter of reciprocity. It would sum up the requirements of each side and point out existing difficulties on both sides in moving towards the freest possible trade. To speak of more immediate matters which Secretary Connally and Eberle had brought up, he could tell the President in confidence that citrus products did not create any real difficulty for the French. This would create some problems with Italy, Morocco and Israel but the French themselves did not mind. On tobacco they must find a formula, but this was more of a German than a French problem. It would mean an increase in the price of tobacco. All of these could be discussed now. What could not be discussed in the immediate future was the production of cereals, except for soft wheat. The European Community was not an exporter. It was an active importer from Canada. The European Community produced only 60 percent of its requirements. There were two inconveniences. It would raise the price

of cereals for the Germans and the French were not seeking to raise the price of cereals. A German revaluation would make this even more difficult for the Germans. It would be politically impossible. Everyone else would be obliged to raise the price of their cereals. If the leaders were to give to the European farmers the impression that they were tampering with European agriculture, it would create an impossible political position.

The President said that after they got back home he would like to get President Pompidou's thoughts as to the state of play. It would be helpful if we could work together.

Dr. Kissinger said that this would be important since the Soviets did not fully understand what we wanted to do. He had talked to Secretary Connally the previous evening on the matter of trade. It was too complex a matter for the two Presidents to enter into details. If they could agree there that the President of France would agree to a mandate for the European Community to try and get this issue settled between Eberle and the European Community, neither President would have to go into the details.

President Pompidou said that he did not think that there would be too much difficulty. Remembering what had been said at Brussels, it would all be part of a package. Nothing would enter into effect until after the vote in Congress on the price of gold. That would be the last item in the package.

Dr. Kissinger said that this was of course so.

The President said such a mandate would help him with the vote in Congress on the price of gold. He could guarantee it.

Dr. Kissinger said that the Trade Negotiations would not go into effect until after the vote in Congress on the price of gold and President Pompidou agreed with a nod.

The President said that President Pompidou probably wondered what he could do with Congress on the matter of the price of gold in view of the fact that there was a majority of Democrats in both Houses. As a matter of fact, a coalition of responsible Democrats and Republicans would support this policy. But some agreement on trade matters would make this move more quickly.

President Pompidou said that he understood that if the 10 agreed the following weekend on a system of parities and the structure of a future monetary system, the President would immediately ask for a vote of the Congress as the negotiations continue. The U.S. would not subordinate one to the other. This was very important.

The President said that Congress adjourned that day and returned on January 18 but he could get the procedures started in the Congressional committees. An agreement the following weekend by the group of 10 would set in train action on gold even before the end of the work of the group of 10. The President would call in the Congressional leaders. They could get the Finance Ministers in to work out the language.

President Pompidou agreed that they could call in the Finance Ministers. He said that they would have the trade discussions with Eberle and the European Commission. He could not imagine a conversation in which they would have the doors opened every two hours for the U.S. experts and the U.S. Senators to be called in. The Community could not vote on trade negotiations under permanent pressure. Once they had undertaken a commitment they would carry it out loyally but without pressure of either side on the other. One side could not say that if the other would not agree on tobacco then they would go back to \$37 an ounce, or Europe would be disarmed.

Dr. Kissinger said that we did not want to use the price of gold for blackmail.

President Pompidou said that he could tell us very frankly that (and this was very favorable to the U.S.) they were ready as French and Europeans to discuss with the U.S. and Canada world grain market organization. The President expressed his satisfaction at this.

President Pompidou said that it was absurd for the U.S. to subsidize farmers to sell wheat cheaply to the USSR and Chinese.

The President said that this was a good point and we would follow it up. Before they called in the Ministers there was one political point which he was sure the President understood, that revaluation was unfortunately more important than trade. Congress did not understand monetary matters.

President Pompidou said he had a Parliament that did not give a damn about monetary matters. The U.S. had a system where it was possible for a Republican President to govern with a Democratic Congress. If he in France were to have a hostile majority in both houses this would lead to a grave crisis. The French had a more fragile constitution. It was only 13 years old.

The President then said that we had noted a buildup of North Vietnamese Forces along the DMZ and in Laos and Cambodia. We would in the next few days take action against this. We had hoped and still hoped that the North Vietnamese would be prepared to negotiate seriously.

President Pompidou replied that he felt that they would reply to an approach. They had told him so.

The President then said that Secretary Connally was an excellent man for his job. He worked very well in our system and used his experts skillfully. He understood that many decisions could not be made on a purely economic basis but had to take political considerations into account. President Pompidou agreed with this.

The President said that he would make a further statement on the withdrawal of U.S. Forces in Vietnam announcing a higher rate of withdrawal. The critical problem now remaining was not the ability of the South Vietnamese to carry on but the question of the Prisoners of War.

He would not withdraw all of our forces while they still held American prisoners.

President Pompidou nodded noncommittally.

It was then agreed by both Presidents that the Foreign and Finance Ministers be brought in. This discussion is covered in a separate Memorandum.

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The President said he would bow on the 2 1/2 percent figure. The French figure was higher. He would give 75 percent.

President Pompidou then said that he must in honesty advise the President that the French would ask the European community for a slight reduction in this margin. It was now 1 percent for the European community. He would ask for the same for the Community currencies. That would leave the dollar its margin but they would attempt to tighten the Community currencies. A considerable broadening of margins would impede progress towards a margin between Community currencies but that was not for tomorrow.

Dr. Kissinger said that the next point related to the future system which would be one of great complexity. President Pompidou had made some comments on its operation.

The President said that this was a matter of great complexity. He had been impressed by President Pompidou's analysis as had Dr. Kissinger. He could only say that no one could read the future but he hoped they could find language on which they could agree. At a later time they could find the best answer. President Pompidou might have the best answer. He did not know. We were aiming towards the same goal, that is, stability of the monetary system. We must move towards a more stable system.

President Pompidou said that as far as he was concerned the whole matter was far more political than it was monetary. There was some problem with respect to the role of the dollar and other currencies. Previously, the dollar had all of the power and bore all of the burdens. The U.S. could not bear all of the burdens and the other countries could not accept it having all of the power. Some suggested the creation of a European currency and its weight would surpass that of the dollar. The Europeans were moving towards a European currency but a capitulation between Europe and the U.S. would be bad. He personally believed that it was much more normal to seek an international forum such as the IMF with a notion of reserve and liquidity rather than to try and recast the dollar and create a European currency. This would waste time and create a monetary war.

The President said that he wished to say in total confidence because this involved his own advisers, Dr. Burns, the Chairman of the Federal Reserve, The Treasury, George Shultz and the Bureau of the Budget. He had discussed the issue with them at length. He wished to say in confidence that he did not have a frozen position on these matters. He wished to find the right language that would give the necessary flexibility for the right solution.

Dr. Kissinger said that there was one other point and this was the matter of trade. Our proposal was that the French Government support a mandate to the European Community to enter into negotiations to resolve pending short term issues.

The President said that he felt that in terms of President vis-a-vis President this was not really a big problem. To us it was a difficult political issue, even if symbolical, since we give up the surcharge. That is why Secretary Connally has such a firm position on the problem. We know that it is also a problem for the Community. The political forces in our country felt strongly that we should make some progress in this area, that is, on the trade front. This was the problem. We did not need anything specific but progress could be very helpful.

President Pompidou said that the European Community had adopted a draft statement that once monetary measures had been taken they were ready for trade discussions of a general nature or sort of "Nixon Round" but on the other hand what they had adopted was not a mandate. The matter should be referred to the permanent representatives for study of the special problems of an immediate nature on general points and on the matter of reciprocity. It would sum up the requirements of each side and point out existing difficulties on both sides in moving towards the freest possible trade. To speak of more immediate matters which Secretary Connally and Eberle had brought up, he could tell the President in confidence that citrus products did not create any real difficulty for the French. This would create some problems with Italy, Morocco and Israel but the French themselves did not mind. On tobacco they must find a formula, but this was more of a German than a French problem. It would mean an increase in the price of tobacco. All of these could be discussed now. What could not be discussed in the immediate future was the production of cereals, except for soft wheat. The European Community was not an exporter. It was an active importer from Canada. The European Community produced only 60 percent of its requirements. There were two inconveniences. It would raise the price

of cereals for the Germans and the French were not seeking to raise the price of cereals. A German revaluation would make this even more difficult for the Germans. It would be politically impossible. Everyone else would be obliged to raise the price of their cereals. If the leaders were to give to the European farmers the impression that they were tampering with European agriculture, it would create an impossible political position.

The President said that after they got back home he would like to get President Pompidou's thoughts as to the state of play. It would be helpful if we could work together.

Dr. Kissinger said that this would be important since the Soviets did not fully understand what we wanted to do. He had talked to Secretary Connally the previous evening on the matter of trade. It was too complex a matter for the two Presidents to enter into details. If they could agree there that the President of France would agree to a mandate for the European Community to try and get this issue settled between Eberle and the European Community, neither President would have to go into the details.

President Pompidou said that he did not think that there would be too much difficulty. Remembering what had been said at Brussels, it would all be part of a package. Nothing would enter into effect until after the vote in Congress on the price of gold. That would be the last item in the package.

Dr. Kissinger said that this was of course so.

The President said such a mandate would help him with the vote in Congress on the price of gold. He could guarantee it.

Dr. Kissinger said that the Trade Negotiations would not go into effect until after the vote in Congress on the price of gold and President Pompidou agreed with a nod.

The President said that President Pompidou probably wondered what he could do with Congress on the matter of the price of gold in view of the fact that there was a majority of Democrats in both Houses. As a matter of fact, a coalition of responsible Democrats and Republicans would support this policy. But some agreement on trade matters would make this move more quickly.

President Pompidou said that he understood that if the 10 agreed the following weekend on a system of parities and the structure of a future monetary system, the President would immediately ask for a vote of the Congress as the negotiations continue. The U.S. would not subordinate one to the other. This was very important.

The President said that Congress adjourned that day and returned on January 18 but he could get the procedures started in the Congressional committees. An agreement the following weekend by the group of 10 would set in train action on gold even before the end of the work of the group of 10. The President would call in the Congressional leaders. They could get the Finance Ministers in to work out the language.

President Pompidou agreed that they could call in the Finance Ministers. He said that they would have the trade discussions with Eberle and the European Commission. He could not imagine a conversation in which they would have the doors opened every two hours for the U.S. experts and the U.S. Senators to be called in. The Community could not vote on trade negotiations under permanent pressure. Once they had undertaken a commitment they would carry it out loyally but without pressure of either side on the other. One side could not say that if the other would not agree on tobacco then they would go back to \$37 an ounce, or Europe would be disarmed.

Dr. Kissinger said that we did not want to use the price of gold for blackmail.

President Pompidou said that he could tell us very frankly that (and this was very favorable to the U.S.) they were ready as French and Europeans to discuss with the U.S. and Canada world grain market organization. The President expressed his satisfaction at this.

President Pompidou said that it was absurd for the U.S. to subsidize farmers to sell wheat cheaply to the USSR and Chinese.

The President said that this was a good point and we would follow it up. Before they called in the Ministers there was one political point which he was sure the President understood, that revaluation was unfortunately more important than trade. Congress did not understand monetary matters.

President Pompidou said he had a Parliament that did not give a damn about monetary matters. The U.S. had a system where it was possible for a Republican President to govern with a Democratic Congress. If he in France were to have a hostile majority in both houses this would lead to a grave crisis. The French had a more fragile constitution. It was only 13 years old.

The President then said that we had noted a buildup of North Vietnamese Forces along the DMZ and in Laos and Cambodia. We would in the next few days take action against this. We had hoped and still hoped that the North Vietnamese would be prepared to negotiate seriously.

President Pompidou replied that he felt that they would reply to an approach. They had told him so.

The President then said that Secretary Connally was an excellent man for his job. He worked very well in our system and used his experts skillfully. He understood that many decisions could not be made on a purely economic basis but had to take political considerations into account. President Pompidou agreed with this.

The President said that he would make a further statement on the withdrawal of U.S. Forces in Vietnam announcing a higher rate of withdrawal. The critical problem now remaining was not the ability of the South Vietnamese to carry on but the question of the Prisoners of War.

He would not withdraw all of our forces while they still held American prisoners.

President Pompidou nodded noncommittally.

It was then agreed by both Presidents that the Foreign and Finance Ministers be brought in. This discussion is covered in a separate Memorandum.

## MEMORANDUM OF CONVERSATION

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

Date and Time: 15 December 1971; 1400

Present: The President  
President Pompidou  
Secretary Rogers  
Secretary Connally  
Foreign Minister Schuman  
Finance Minister Giscard d'Estaing  
Mr. Andronikof  
Maj Gen Walters

Secretary Connally opened the general discussion by saying that the first point commits the U. S. to remove the surcharge and related tax laws. The Job Development Credit is automatically removed.

President Pompidou commented that this was a free gift for the Germans and the Japanese.

Secretary Conally replied that it was a gift to all.

Minister Giscard d'Estaing said he understood that this would be simultaneous with the establishment of the new parities.

Secretary Conally said we would agree to remove the surcharge when there had been agreement on realignment among the group of 10. The second point commits the President to submit to Congress in suitable fashion a devaluation of the dollar in terms of gold of 10 percent. Giscard said that 10 percent was too high. He suggested that the price of gold be established at \$38 an ounce or 8.6 percent. The Secretary really felt we ought to have 10 percent. We had analyzed with our computers French trade with other nations and did not feel that it would suffer any deterioration at this rate.

Minister Giscard said he was for \$37.5 an ounce.

The President said that he had discussed this with Secretary Connally whose arguments were persuasive. He thought that it was vital that an agreement be reached if at all possible and this might require that

some give on one issue and others on other issues. He was prepared in this case to go to \$38 an ounce. He did not like to overrule the Secretary of the Treasury.

Secretary Connally said that the President was the boss.

Secretary Connally then said that the next point was that we had said that we anticipated that the DM be revalued by 4 or 5 percent. The French say 6 percent. We said 4 or 5 and would go to 5 or 6. We would ask the Japanese to revalue from 8 to 10 percent.

Minister Giscard said we should demand 10 percent.

Secretary Connally said we would agree to try 10 percent, try 11 percent but it would be very difficult.

The President said jokingly that the only people harder than the Japanese were the French.

President Pompidou smilingly shook his head as though to say, "no".

Secretary Connally then said that we wanted a 3 percent revaluation, the French 2.25.

Giscard said they must maintain parity with the pound and the lira. The President said that all agreed on this.

Secretary Connally then said that on the 5th point they had changed the language.

Minister Giscard then said that <sup>on</sup>the delicate problem of the rate of devaluation of the U.S. dollar there arose the problem of convertibility during an intermediate period. He was not asking the U.S. to assure commitment in the interim period but did not exclude that the U.S. might contribute during the interim period to the use of reserve instruments to maintain the stability of the system.

The President said he could ask Secretary Connally if the difficulty was with this language or convertibility.

President Pompidou said that he understood the U.S. prudence in not affirming the convertibility of the dollar would be assured by all means. The dollar balances aside, he was convinced that the President of the United States, if he had devalued the dollar, could not go back a year later and ask for another devaluation because he had to support the parities.

Secretary Connally said that we would obviously go back to the fixed exchange rate within the system. Once back in the firm exchange system we would be locked in this exercise.

President Pompidou said that this would have no impact on the heart of Schiller or Heath.

The President said that he would ask whether President Pompidou would agree with the general terms of the draft given to Giscard.

President Pompidou said that there was give and take. We should be prepared to ask the Japanese for a 10 percent revaluation and to ask Congress for the devaluation, that is, the increase in the price of gold.

Secretary Rogers said he was certain that Congress would follow the President's lead. The rogue Democrats would go along.

President Pompidou then asked whether in spite of the trade and other difficulties the U.S. was really favorable to the European Community.

President Nixon said we shouldn't be in favor of it but we are. He had favored the European community as anyone knew long before he had become President. He had spoken of it while he was Vice President and as he saw it, it was basically a political and economic matter. The economy of the European Community would, frankly, be highly competitive and detrimental to some U.S. business interests. Politically a united Europe, the united economies of the European countries would create a strong free world force that would be beneficial to us in the long run and would be helpful in moving towards a world of peace.

President Pompidou said that this was true for relations with the Alliance and between Europe and the U.S. as well as vis-a-vis the East. If Western Europe does not move towards cohesion, there will be a race between European States to curry favor with the Soviets. France favored detente and entente with East for reasons of peace and did not want to see the European States racing one another for Soviet favor. This would damage the cohesion of Western Europe and the Alliance and relations with the U.S. The Soviets hope detente will lead to an early departure of the U.S. from Europe. He had no advice to give the U.S.

The President said that to be candid, U.S. firms were encountering tough competition and feared a protectionist bloc against them.

President Pompidou said that this would not occur and that the Europeans were quite willing to talk to U.S. businessmen.

President Pompidou said that the French had a problem with the franc area states and in fact with most of the underdeveloped areas. These are all being cultivated by the U.S., Western Europe and the Soviets. We should avoid a situation where the competition between the Western countries would force them into the arms of the Chinese or Soviets. It should be a major concern to avoid polarization outside of the Western world.

Foreign Minister Schumann said that the text of the European Community Treaty includes a paragraph covering relations with the underdeveloped world.

The President asked what was the future of Black Africa. This was a big question.

President Pompidou said that Francophone Africa had 30 million inhabitants. The most satisfactory measures are those which contribute to development. The African countries which are in the best shape are those who have reasonable leaders. These are still close to France. In the Anglophone countries the situation is different. There were two countries which were really important. These were Nigeria and Zaire. His impression was that Mobutu's country has great possibilities for responsible development. Nigeria is the largest country in Africa in population. He was less familiar with it. Perhaps Foreign Minister knew it better. It had chosen not to associate with the European Economic Community. He did not know how to interpret this. Either as a proof of strength, of British influence or a desire to remain completely independent vis-a-vis Western Europe. In general, black Africa had the advantage of not being overpopulated. It had no immediate neighbors ready to invade it. He was not a pessimist. The area of perhaps greater concern was East Africa. Tanzania, the situation of the Portuguese -- Mozambique. There was contradicting information on this. There was the possibility of Chinese penetration. The Chinese showed great interest in black Africa. For the present the French did not feel pessimistic but the situation required vigilance and sacrifices. Even though Nigeria was not a "progressive" country, it had good relations with the USSR.

Secretary Rogers said that he had travelled in Africa a great deal and had been greatly impressed by the nations that had formerly been French. They were generally in better condition than the others and the French had better relations with them. They had a bright future if they could get together in the years ahead. Especially in the light of the Chinese influence in Tanzania and other areas.

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