

SECRET

151

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE  
PRESIDENT OF THE FRENCH REPUBLIC AT CHEQUERS AT 10.35 A.M.  
ON SATURDAY 17 NOVEMBER 1973

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Present:

Prime Minister  
Sir M. Palliser

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M. Pompidou  
M. Andronikof

The Prime Minister and the President agreed that they would devote the morning to Community matters and to bilateral questions.

The Prime Minister said that the President and he had always managed to achieve a broad area of agreement in Community matters. He was confident that this could be maintained. M. Pompidou had always shown himself well informed about British public opinion and ready to take sympathetic and understanding account of it. So far as British opinion was concerned, the Prime Minister believed that the end of the first year of our membership of the Community provided an opportunity, through the implementation of the programme of work of the 1972 Paris Summit and with the prospect of the Copenhagen meeting ahead, to demonstrate that the Community was developing in a positive and meaningful way. They should seek to take full advantage of this opportunity. There had been a tendency for British opinion to feel that the first nine months of British membership had <sup>been</sup> characterised largely by a series of arguments and disagreements within the Community. British opinion had not yet understood the process described the previous day by M. Pompidou, whereby the clash of national interests within the Community and resultant disagreements was inevitable. And equally it usually ended in agreement. This atmosphere of conflict had a bad effect on public opinion, especially since



so much of it seemed to focus around Franco/British disagreement. The British Government would take every opportunity, in the House of Commons or more widely, to explain how the Community process worked. But it would be extremely helpful if they could at least settle the end of the year package of current problems with an appearance of harmony within the Community - though he recognised the difficulties.

The Prime Minister said that neither M. Pompidou nor he could expect to settle all outstanding problems. But it would be useful if they could reach broad agreement on their attitude towards them, before they were discussed in detail in Brussels. It might be helpful for him to indicate the British view on a number of these matters.

Economic and Monetary Union (EMU). The British Government hoped to see the Community beginning the second stage of EMU on 1 January. They had noted the desire of the French Government to make further and more rapid progress towards EMU and the French could count on British support for this. He had observed that both M. Jobert in his recent speech and M. Giscard d'Estaing had dealt with this subject within the last few days. M. Pompidou had always shown understanding of the reasons why it had not yet been possible for sterling to return to the Community "snake" and he believed that the President continued to appreciate the reasons for this at present. He hoped that he also realised how disappointed the Prime Minister was that this situation still obtained. The British Government had made a determined effort to get the balance of payments into better balance. But in the present situation, where the entire Community was affected by substantial increases in /the price



SECRET

- 3 -

as well as the more general difficulties of this problem.

the price of oil, the difficulties were increasingly common to all member countries. When the President and he had discussed the position of sterling in May 1971, the Prime Minister had said that we were determined to disengage sterling from its role as a reserve currency. They had progressively been taking steps to this end. If the Group of Twenty had been more successful in reaching ~~earlier~~ decisions ~~in regard to~~ international monetary reform, this task would have been easier. Nevertheless the Government had in September taken further steps in relation to the sterling balances and in particular to reduce the proportion of the sterling guarantee. And in the past year the proportion of external reserves held in sterling had fallen from 12% to 7%. This demonstrated that the measures being taken were having a gradual effect. For the President's strictly private information, he could tell him that the <sup>offi</sup> balances had fallen from a figure of £3½ billion to £2½ billion.

The British Government had put forward no fewer than 32 proposals designed to achieve progress in EMU from 1 January 1974 over the next three-year period. The Commission had ~~now~~ put forward its own further proposals which covered much of the same ground. He hoped that the French Government would now feel that a fruitful discussion on Stage II of the EMU could go ahead within the Community on the basis of all these proposals and that real progress could be made with effect from 1 January. He took it that this would fit in with M. Pompidou's own proposals for special meetings of Ministers of Finance in the context of the Community's fight against inflation.

President Pompidou said that they could leave on one side the question of sterling returning to the "snake". In the first place he understood the Prime Minister's particular difficulties

SECRET



SECRET

- 4 -

as well as the more general difficulties of this problem. It was obvious that the international monetary situation remained very fluid. It changed from week to week with the result that in present circumstances the whole system of the "snake" was under constant threat. For example, in recent weeks they had witnessed an attack on the mark designed to push it upwards and on the franc designed to push it downwards. But at present the mark was almost at the bottom of the snake and the franc towards the middle. Yet nothing had happened in France or Germany to justify this. It was the consequence of pure speculation. This applied equally from day-to-day to e.g. the Danish or Norwegian krone or to the Netherlands florin. There was a mood of such general uncertainty that holders of capital tended to speculate on movements of parities without any substantial motive but purely on the basis of hunches. This underlined the need for a much greater effort within the Community to resist such pressures. Accordingly the French Government were proposing that the European Monetary Fund should be substantially increased, to enable it to play a more effective part in the provision of short-term support and thereby try to counteract pressures of the kind he had described.

President Pompidou said that on the other hand he could not agree with the Prime Minister about even a partial pooling of reserves of Community Central Banks. Although he readily admitted that such pooling should be their aim in due course, the idea seemed to him to need more careful study at present.

To sum up, therefore, M. Pompidou felt that for a currency as important as the pound to return to the snake before it had achieved the necessary degree of stability would be harmful not only to the pound itself but to all the Community currencies.

SECRET



SECRET

- 5 -

They should all approach this subject with care.

At the same time, M. Pompidou agreed that a questionmark hung over the balance of payments situation of virtually all member countries. The previous day he had seen a telegram reporting that Libya intended to increase its oil price by 13 per cent compared with the previous month. This presented a problem to the Community as a whole. There must be a common reaction to such a wholly irresponsible attitude - as a Russian might say! Clearly they must be careful not to damage their relations with the Arab countries; but equally they could not continue for ever to accept such substantial - indeed almost fantastic - increases, more particularly since the increase in the value of the dollar would also be of advantage to the oil producers.

President Pompidou said that this was all related to their struggle against inflation. He agreed on the need for a proper co-ordination of effort within the Community. They would certainly be under pressure from the German Federal Government in this direction. But, given the continuing rise in the price of raw materials, he did not see how they could hope to limit such inflation if their peoples <sup>continued to</sup> demand increased wages and profits and if the cost of energy continued to rise. In that situation they could no doubt co-ordinate their inflation: but they would not be able to stop it.

The French Government had a number of ideas on how to handle this, though he believed that some of them might now be out of date. These should be discussed by the Ministers of Finance and Economic Affairs. They included interest rates,

SECRET



SECRET

- 6 -

credit restrictions, money supply and no doubt reductions, or a slowing down, of public expenditure. There was no shortage of ideas but in a number of areas the situation still escaped their control. An example of this was the current level of bank rate in most of their countries. The size of these interest rates would be totally absurd were it not necessary.

2? On the passage to the second stage of EMU the Prime Minister would know as well as he that the Germans disliked this concept. They did not wish to be committed to beginning stage 3 before the first stage had been completed: and they were quite right to say that it certainly had not been. The French Government would also prefer a somewhat different formula. Not only was the first stage far from being completed but the second stage had not yet been clearly defined. However, he was quite ready to seek a formula that would enable some advance to be made to EMU in all areas provided that it took due account of the fact that the first stage had not yet been completed. It could perhaps be an intermediate stage and the length of it would have to be agreed whether it lasted one, two or three years. Sir M. Palliser would know better than he how the discussions on this were proceeding in Brussels. The French Government had quite an open mind and were prepared to consider any suggestions. But he doubted whether it would seem credible either to public opinion or to the specialists to claim to have completed Stage 1 when everyone knew that this had not been done. Surely it was better to state our firm intention of making progress and to define the areas where this could be done.

SECRET

SECRET

- 7 -

The Prime Minister agreed with what M. Pompidou had said about the fluid situation of all their currencies at present. He would only add that, when he had seen the President in Paris in May, M. Pompidou had predicted that the United States balance of payments would get into better shape more quickly than was generally expected and that the dollar would strengthen within a few months time. Both these things had happened but M. Pompidou was the only person the Prime Minister had seen at that time who had forecast it.

On EMU the Prime Minister said that it seemed to him that Stage 1 had in fact been completed, except for the fact that two currencies remained outside the Snake. On Stage 2 the British Government's concern was that the Community should go as far as possible in the direction of further progress, except in so far as the factor of the Snake was concerned. On the definition of the second stage, he felt that it should be possible to find a suitable name for the period to be covered over the next three years. On the content of the second stage, the sooner that the discussions in Brussels could establish the areas where progress could be made the clearer the situation would become. Whatever the content of the next stage, one of its effects should be the increasing rapprochement of the Community currencies; and it should strengthen their hand in coping with the uncertainty in world exchange markets. One point they should clearly discuss was how to prevent constant capital movements from doing serious damage to Community currencies.



When Chancellor Brandt had visited London he had told the Prime Minister that he was ready to make as much progress as possible in this field: though he sometimes seemed to have certain difficulties with Herr Helmut Schmidt. The mere fact that they were all working together on these matters would in itself be helpful, given the increasing interaction between the economies of the Community countries. The Germans were trying to deal with the situation solely through the use of interest rates. As a result, all the others had to follow them to a very large extent. The British Government had a prices and incomes policy in addition to cutting public expenditure. The French Government, he believed, had a prices policy and used monetary instruments as well. But the more they could manage specifically to co-ordinate policies the better for them all. If Germany could be induced to adopt other measures than the use of interest rates it might be possible for those rates to be reduced below their present ludicrous levels.

The Prime Minister said that he supported the President's proposal for an increase in the size of the European Monetary Fund. Nevertheless he had a constant nagging worry about the scale of short term movements affecting Community currencies. This was so great that he wondered whether even a larger fund would really be able to deal with them. He had been in Bonn at a time when the Germans had been obliged to take in \$8 billion in three days: and yet, despite this, they had still been obliged to revalue the deutschemark. They had thus got the worst of both worlds. Any currency could be attacked and could use up all its reserves and yet still be obliged to move to a lower parity rate, thereby also getting the worst



of both worlds. However he agreed that it would nevertheless be desirable to increase the size of the Fund and he hoped that it would be able to cope with at least some of these capital movements.

President Pompidou asked whether some system of control could not be established over these capital movements. The German Government said this was impossible. He would be interested in the Prime Minister's view. The French Government favoured the idea in principle, though they could not be sure of the effect of such measures. But surely some kind of exchange control common to the nine Community countries was becoming essential. The alternative would be a generalised system of floating. But this was in fact tantamount to abdication of responsibility in the face of speculation and in the face of the dollar. The Prime Minister said that he would be very glad to have this possibility studied. He could say straight away that he did not take the rather purist view of the German Government. President Pompidou said that for the time being he was not taking a view either way. He had an open mind but felt that the matter should be considered.

#### The Common Agricultural Policy (CAP)

The Prime Minister said that he hoped that many of the suspicions of British intentions that had prevailed within the Community had now been dispelled. The British Government's sole desire, within the framework of the CAP, was to ensure that as much as possible was done to help Governments attack inflation. This meant action on the prices front and a refusal to allow the accumulation of unnecessary surpluses.



SECRET

- 10 -

And, as the President knew, he was always a little doubtful of what Ministers of Agriculture got up to when left to their own devices.

President Pompidou said that he thought the problem of the CAP had lost much of its intensity. The enlargement of the Community coincided with worldwide increases in agricultural prices and with widespread shortage in many products. A mistaken view of the CAP had been taken because the point of departure for its critics had been that the world was living in an age of surplus production. He believed that phase to be now at an end. The French Government's information - he wondered whether the British Government took the same view - was that Mr. Brezhnev's forecasts about the size of this year's Soviet crop were untrue: that the Soviet Union were only claiming to be likely exporters in order to keep prices low: and that in fact they would once again be in the market. This analysis was related to an idea of his, namely that there was a need for world agreements on agricultural commodities, coupled with stabilisation agreements and provision for the stocking of surpluses and for aid to developing countries. Projections of probable population increases throughout the world demonstrated how unreal it was to think in terms of a period of surplus. Of course, if they considered countries such as Canada, the United States, New Zealand or Australia it might look as if much too much wheat or milk was likely to be produced. But the problem for countries such as India or those in South East Asia or Latin America was one of shortage not of surplus. Furthermore countries exporting tropical products needed some assurance that they would be able to sell their products regularly and at reasonable prices. It would be necessary to bring



pressure to this effect on the United States and Japan who had become used to buying these products at the lowest possible price. So far as the CAP was concerned, arguments would no doubt continue in the Community about its secondary aspects but he no longer regarded it as a subject that was basically divisive within the Community. So far as public opinion was concerned, and especially British opinion, his view was that if the Ministers, Permanent Representatives and Commission in Brussels could organise their work in such a way as to ensure that everything they did was not reported in the press the same evening, things would be greatly improved.

The Prime Minister agreed. They perhaps ought to pass on this view to other Ministers. M. Pompidou said that the trouble lay in the system itself. It worked in a constant climate of publicity.

The Prime Minister said that he agreed that it would be desirable to make arrangements of the kind suggested by the President. Clearly if such arrangements were made in respect of crops in the production of which the Community countries themselves were directly concerned, they had a certain safeguard. But he was increasingly concerned lest the success of the Arabs in using the oil weapon to attain much higher prices might not be exploited by other producers of raw materials to force up their prices in the same way. During the Commonwealth Conference in Ottawa this indeed was exactly what the Australian Prime Minister had proposed to the developing countries in the Commonwealth. He had referred to the fact that Australia now had large supplies of minerals and that in certain cases these were available in only three countries in the world. Mr. Whitlam had proposed that this small



group of producers should get together to fix their own prices and then compel everyone else to pay those prices. This was a very dangerous process. But he wondered whether it might not be possible, within the framework of the current negotiations with the associable States (under Protocol 22 of the Treaty of Accession) for the Community countries to keep some form of control over the arrangements made in respect of commodities of this kind. Something along these lines might perhaps form part of the Association negotiations.

President Pompidou said that he was not opposed to this. Since the Prime Minister had raised this matter he wished to remind him of the first talk they had had in Paris before British entry to the Community. He thought it essential that steps be taken to dispel the impression gained by the French-speaking African states - and that had caused them to ask for the meeting that had taken place a few days previously in Paris - that a number of the English-speaking countries and particularly Nigeria were bent on sabotaging the renewal of the Yaoundé Convention. He had been much struck by the collective reaction of these countries. Most of whom, though much less rich, with far fewer resources and much smaller populations than Nigeria, nevertheless wished to co-operate with that country. But suddenly he had found them very frightened. They had come to Paris in effect to say "you must help us to get this Convention renewed". But this had always been the position of the French Government; and he felt that they should now return to the initial conception which was indeed, he thought, in conformity with the view expressed to him originally by the Prime Minister. This was that there should be a Convention



SECRET

- 13 -

of Association between the Community, the existing Associates and those associables who wished to join it. There could then be different agreements for other countries who did not wish to join the Association. He saw no need for all the countries to be treated alike: their situations were in fact very different.

The Prime Minister said that he well remembered the conversation to which M. Pompidou referred. As he had said in a subsequent message that he had sent to the President after General Gowon's State Visit to Britain, he had spoken very frankly to General Gowon about this. British relations with the General were now very good, though it had taken some four to five years from the end of the Civil War to restore them to this position. Moreover General Gowon had at that time been the current Chairman of the Organisation for African Unity (OAU) and this had been a second reason why it had been important to raise the matter with him. He had told Gowon that Nigeria was a big country with substantial oil resources. It would be wrong for them to use their influence to try to persuade other less well endowed countries not to become Associates of the Community. General Gowon had undertaken not to do this and the British Government's <sup>information</sup> ~~opinion~~ was that he had kept his word. The Prime Minister had spoken to him about it again during the Commonwealth Conference and had made clear the British Government's position that, if the smaller Commonwealth countries wished to associate with the Community they must be left entirely free to do so: again General Gowon had agreed. So far as the Prime Minister understood the position in the two rounds of negotiation which had taken place so far between the Community and the associables, about 40 countries had made clear that they did not accept that the system of reverse preferences should form part of the



SECRET

- 14 -

new Convention. But the British position was that if any country did wish to give these preferences it should be free to do so. When President Senghor had visited Oxford a fortnight ago to receive an honorary doctorate of Literature he had called on the Prime Minister. When asked about these two negotiating meetings he had expressed satisfaction with the way they had gone but had emphasised his desire to see the negotiations proceed more speedily.

President Pompidou said that the question of reverse preferences seemed to him to form part of the legal and political framework to the negotiations rather than to represent any economic reality. A country such as the Ivory Coast which was now very prosperous was wide open to foreign exports especially to those from the United States. This had had an increasing effect on French trade with the Ivory Coast and would continue to do so. This seemed perfectly normal to him. On the other hand (with a broad grin) it <sup>was</sup> ~~is~~ only natural that countries who were paying for their imports with French money - whatever might be said officially one way or the other about this - should buy from French companies. As those countries became more prosperous so the proportion of such purchases from France would diminish. The short point was that foreign competition with France, especially from the United States, began when people were able to pay with their own money for what they bought. The Japanese, for example, were becoming more and more interested in the Gabon with their eyes of course on that country's rich oil resources.

The Prime Minister commented that the situation was similar within the Commonwealth. Indeed, the effect of our sanctions <sup>policy</sup> ~~was~~ towards Rhodesia had been to bring our trade

SECRET



SECRET

- 15 -

with that country to an end; and the Japanese were now reaping the benefit.

President Pompidou suggested that they should now discuss briefly those areas of Community policy where headway should be made. The Prime Minister would have seen reports of Herr Brandt's speech that week at Strasbourg and would have noted that he had made proposals in three areas. He himself (Pompidou) was raising this matter so as to put the Prime Minister at his ease. The areas were regional policy; social policy; and, in addition to the harmonisation of economic policies which they had already discussed, institutional matters. The latter subject covered essentially questions of financial control and of the powers of the Strasbourg Assembly. He himself would add energy policy to the list.

The Prime Minister said that during Herr Brandt's visit <sup>had</sup> he said that there was widespread criticism in Germany - as indeed there was in the United Kingdom - that the Community had no proper control over the expenditure of money from the Budget nor indeed anything corresponding to the normal control exercised over expenditure within each of their countries, designed to ensure that money was being properly spent - or, indeed, in certain cases, <sup>K. Kasanin</sup> where money ~~had~~ <sup>was</sup> get to. Herr Brandt had said that his Minister for Finance held very strong views in this matter. He would see advantage in the Community entrusting specific responsibility of these matters to a single member of the Commission. There should also be some kind of Community audit board comparable to the arrangements existing in most of their countries. If President Pompidou and the German Chancellor both shared this view and wished to put forward these proposals, the British Government would certainly support them.

SECRET



SECRET

- 16 -

President Pompidou said that they were ready to examine the concept of an audit board, on condition that it ~~would be~~ <sup>was</sup> genuinely independent ~~from~~ <sup>of</sup> the Commission. They were inclined to take a more reserved view on the question of giving special powers to a member of the Commission. It was not clear what would be the nature of his relationship with other members of the Commission, and particularly with the President himself. This idea seemed to him to raise the whole principle of the organisation of the Commission. Although, under the present allocation of responsibilities it seemed likely that a task of this kind would fall to one of the French members of the Community, the French Government still were not clear how this task could be done. The Commission was not a government. Moreover in France there was a general tendency to resent the undue weight exercised in this field by the Ministry of Finance which tended, rather than simply exerting efficient control over expenditure, to paralyse it ~~all together~~ <sup>completely</sup>. He doubted whether this idea was a good one. On the other hand he could certainly support the establishment of an audit board: together with anything required to reduce Community expenditure to a minimum and control over it to a maximum. One of the problems which would not be solved by an audit board, which could only deal a posteriori with financial control was how this control should be exercised a priori. He was doubtful whether the Assembly could do this, even <sup>if</sup> armed with new powers -   
a) he wished to make it clear that, in principle, he was in favour of doing something to make the Assembly more effective. But in this field of expenditure he was not certain that the Assembly was the best body for the task. He noted that, since enlargement, the Assembly's budget had almost tripled (about 2.5 to

SECRET



SECRET

- 17 -

2.6 times) and the number of officials in the Assembly had doubled. Of course it was easier to control other people's expenditure than one's own. But the general attitude of the Assembly did not seem to him sufficiently indicative of a desire for really serious financial control.

The Prime Minister said that we had not thought in terms of the Commissioner ~~who would be~~ charged with this responsibility (who would indeed no doubt be one of the French members) ~~who~~ have powers equivalent to those of a National Treasury. But, as we saw it, he could keep a watch on all fields of Community activity with a view to ensuring that the Community got value for its money. The existing members of the Commission already had too heavy a workload to be able to concentrate on that aspect: and Ministers of Finance could not really be expected to scrutinise the internal operations of the Community and to ensure that they were carried out more economically and effectively. If the Commission itself were prepared to agree to this idea, surely it would be worth trying. The object was simply to ensure that we got better value for money. He recognised, however, the force of the President's comment about a posteriori and a priori control.

President Pompidou said that the situation in France - and he did not know what happened in Britain - was that, once the Budget had been adopted, a representative of the Finance Ministry sat in each <sup>spending</sup> ~~planning~~ Ministry and in effect approved expenditure commitments and satisfied himself that they were in conformity with the Budget: while a posteriori control was exerted by the Cour des Comptes, the private industry were checked by a Commissaire des Comptes (auditor). Thinking <sup>along</sup> ~~allowed~~ he wondered whether someone might not be appointed, perhaps

SECRET



SECRET

- 18 -

alongside the Audit Board, who would be unconnected in any way with the Commission but without too tightly defined powers, who would be able to comment to the Commission, and indeed possibly to the Council, that certain expenditure was not in conformity with the Budget. He thought that this would be <sup>a</sup>better arrangement than the appointment of a member of the Commission, with extraordinary powers. This would surely lead to difficulties within the Commission. However, he emphasised that this was an idea which had only just occurred to him. He had not discussed it either with M. Jobert or with M. Giscard d'Estaing.

The Prime Minister said that Herr Brandt had made it clear that if he were able to re-assure his Cabinet, and especially the Minister of Finance, that there would be some form of control-and the Audit Board would clearly be satisfactory in this connection as indeed, he thought, would be President Pompidou's suggestion - it would be easier for the Federal Government to take a more positive view of Community policies that entailed a substantial German financial contribution. This was clearly an important consideration in regard, for example, to the regional fund which M. Pompidou had mentioned and in which they all had an interest. M. Pompidou had always realised the great political importance of this matter to Britain, in addition to its economic importance in the creation of a better economic balance within the Community. He would add that the last thing he had done before their meeting was to examine the latest map prepared by the Commission so as to ensure that the Auvergne figured prominently on it. He recalled his last conversation on this subject with M. Pompidou.

SECRET



M. Pompidou laughed and said that he well realised that the Prime Minister's approach to this subject was even more political than economic. It was because of this that he (M. Pompidou) was disposed to be more generous in his approach than M. Giscard d'Estaing. In the end (though the French Government did not propose this) his impression was that there would be some kind of distribution by percentage shares of the Fund between the member countries. The consequence he believed would be that Ireland would do exceptionally well: Italy would do very well indeed: the United Kingdom would do pretty well: France would certainly be in deficit, though hopefully not too much so: and Germany would do very badly (there were perhaps other countries whom he should have mentioned). Clearly agreement had to be reached on the size of the Fund and on the period for it i.e. should it be for one year or for three years? M. Giscard d'Estaing favoured a Fund for a single year because all French Ministers of Finance were attached to the principle of annual budgeting. Speaking personally, the President was unconvinced by that argument. He did not accept it in the context of a number of programmes in France that required regular financing on more than an annual basis; so he could not see why it had to apply to Community expenditure. Programmes designed to run over a period of years could not be linked in this way to annual budgeting. There had to be greater flexibility and he felt sure that this would also be the British Government's view.



SECRET

- 20 -

So far as the amount of the Fund was concerned and despite the Prime Minister's comment about the Auvergne, there would clearly have to be discussions. He thought that it should be possible to find a reasonable compromise between the maximum demands of certain countries and the highly restrictive attitude of Germany who would be making the biggest contribution. But the French Government for their part were approaching the problem in a forthcoming way ("avec un esprit ouvert").

The Prime Minister expressed his appreciation of this. An aspect that was of much importance to Britain was that of the criteria for the Fund. These must be clearly defined and closely controlled. We knew from our own experience how easy it was to use money in uneconomic or unproductive ways unless this kind of control was properly exercised.

M. Pompidou agreed. The Prime Minister also agreed that there should be a practical approach to the programme of the Fund. When decisions had been reached on the Fund itself the Community would need time to formulate projects, and to see whether they conformed to the established criteria and then <sup>to</sup> begin the project. In the national context, our experience was that this could not be done overnight. It was therefore necessary to agree on a three-year programme. Clearly a smaller proportion of the total would be needed in the first year while projects were being prepared and examined. The Prime Minister also agreed broadly with what M. Pompidou had said about the countries benefiting from the Fund. The establishment of percentages, or quotas, would enable a country to assess the limits likely to affect its projects. His understanding of the French position had been that they would be roughly in balance and that the Fund should certainly cost them very little. <sup>He</sup> They had understood that the percentages

SECRET



SECRET

- 21 -

emerging at present were roughly 20 per cent for France and 25 per cent for Britain. This was certainly the minimum percentage that would be either politically or economically acceptable to the British Government. They took the view that a fund of 3,000 million units of account should be established for the first three year period. He believed that the German Government could be induced to take a helpful view of this matter especially if progress could be made on other fronts as well. He wished to add that M. Ortoli had shown great understanding of the importance of the regional problem during his visits to Community capitals. Moreover, the British Government would be very ready to do everything in their power to ensure that the Fund was properly administered and that there were no abuses.

President Pompidou said that the Prime Minister would not expect him to comment on the figures that he had mentioned. To do this would be to remove all substance from the battle that had to be fought in Brussels. But he considered that Community regional aid should usually take the form of participation in national projects and should not be devoted to individual projects. Otherwise it was inevitable that the only projects to be supported by the Fund would be the "deadbeats" in all their countries. The principal purpose of a Fund of the size they were discussing would be to ensure the harmonious development of the regions of the Community: it must not be used to prop up "lame ducks". He was one of those who believed that purely economic criteria were inadequate. The future of Europe - and this was something on which there were strong feelings in France - would require action in the environmental field and designed to protect the quality of life which could<sup>not</sup> be



justified on straight economic grounds but had to be justified for political or social reasons. However, he remained of the view that the regional Fund should not be used as a lifebelt for sinking industries - this might be a task for social funds but it was not within the scope of regional policy.

The Prime Minister agreed that the purpose of the Fund should be to contribute to the stability of society. So far as the United Kingdom was concerned it was now becoming easier to deal constructively with their regional problems. The rate of unemployment had declined (the United Kingdom unemployment rate was still twice that of the Federal Republic but the present situation still represented a considerable improvement); in this situation it was becoming easier to allow lame ducks to disappear and to concentrate regional development where it really made economic sense.

#### Sugar

The Prime Minister said that this was a point affecting both the economic situation within the Community and that of the developing countries where, once again, he believed that France and Britain shared a common interest. It was of vital importance to Britain that the 1.4 million tons of sugar to be imported from the developing countries should be accepted by the Community. They were now removing about 375,000 tons from the market in the shape of the former Australian quota. Thus there remained a gap of that amount to be filled within the Community. This gap could be filled by beet sugar which could be produced within the Community and the Community regime for beet should be such as to encourage the efficient producers, namely Britain



SECRET

- 23 -

and France. He thought that there had been a serious misunderstanding about the position of Tate and Lyle and the refining margin. He had discussed this in June with M. Chirac and a paper had subsequently been sent to him setting out the position as we saw it in regard to the refining margin in France and Britain and demonstrating that Tate and Lyle could expect to suffer considerably from the change from cane to beet. They would have to close refineries and throw 3,000 men out of work in an area near Liverpool where there was already substantial unemployment. Not only was there no question of Tate and Lyle being about to dominate the Community market, as some people appeared to think, but they would in fact have to contract very considerably and cause considerable unemployment.

The Prime Minister said that it was politically important for the United Kingdom to reach agreement in Brussels on the figure of 1.4 million tons. This would remove one of the main opposition arguments against British entry to the Community in the context of its attitude towards developing countries. In addition to that he hoped that it would be possible to achieve a satisfactory arrangement for beet sugar that could be of benefit to both their countries.

M. Pompidou said that on this second point it might well be that the French position was close to that of Britain: he simply did not know. But he saw no reason for the Community to limit its production as a matter of principle or thereby to help the interests of external producers, by which he meant external not only to the Community but also to the Commonwealth countries concerned. ~~But~~ On the first point the French Government were ready to assure exporters of cane sugar to the United Kingdom a guarantee in financial terms rather than

SECRET



SECRET

- 24 -

a guarantee in terms of quantity. That at least was the present French position. However, he noted the importance the Prime Minister attached to this and he would look into the matter again on his return to Paris. He was not wholly clear about it, but he was saying to the Prime Minister what he recalled being advised to say to the Jamaican Prime Minister( when the latter had visited him sometime ago). However, he could assure the Prime Minister that if he could convince M. Chirac then the battle was won. M. Chirac was greatly attached to the interests of French agricultural producers in particular and to those of the Community in general.

The Prime Minister said he was grateful to the President for undertaking to look into this matter. There was one point to which he would draw his attention, though this might perhaps have been done in any case by the Prime Minister of Jamaica. There was objection to seeking to resolve this project by a financial rather than a quantitative solution. Quite apart from the political aspects of the problem to which he had drawn M. Pompidou's attention, any solution based on the principle of lower production at higher price levels was bound to increase unemployment in the West Indies. This was already at levels of 14-15 per cent in certain countries. The "Black Power" movement was seeking to extend its influence throughout the area. It had already done quite well in Trinidad and was causing concern in Guyana. It was therefore very important for the Carribean region as a whole that nothing should be done to increase unemployment and thereby threaten stability. (Although M. Pompidou made no comment he listened to these remarks with particular attention and clearly took note of them).



Social Policy

The Prime Minister said that they should also exchange views on this matter to which Herr Brandt had referred in his recent speech. He thought that the French and British Governments would probably take a broadly similar approach to it. The British Government disliked certain of the German ideas about two-tier boards etc. They thought that member countries should have greater flexibility to deal with these kind of problems in a way that was adapted to the requirements of their industries.

President Pompidou agreed. But they had to take account of the German attitude. German capitalism, rightly or wrongly, regarded itself as more progressive in the social field than French capitalism - he did not know what they thought about the situation in Britain. Herr Brandt was under attack within his own party on the charge of paying too little attention to social policy. Nevertheless he agreed on the need for caution and flexibility both in industrial organisation, management, etc. and in expenditure. In France the so-called social budget was largely within the State budget itself. They simply could not do any more nor were they prepared to be accused of being anti-social as a means of obliging them to spend much more money than a Socialist Government ever would. They had virtually reached the limit of social expenditures. Clearly this matter would have to be discussed in Brussels and he was confident that the French and British Governments would approach it in the same way. But they had to accept the need, within reasonable limits, to give Herr Brandt satisfaction for his public opinion and his party.



The Prime Minister said that they could no doubt help by agreeing that the system in question should be one of a number that could be used within the Community, without saying that it must be used in all Community countries.

### Spain

The Prime Minister said that he wished to raise another matter affecting in part the external relations of the Community, on which M. Jobert had proved most helpful. He wished M. Pompidou to be aware of it. This was the question of relations with Spain in the context of Gibraltar and the agreement with Spain being negotiated by the Community. The Prime Minister said that the Spanish Government had expressed the intention of discriminating against British trade and investment: and we had already experienced examples of what looked like discrimination against our investment. This threat had been ascribed publicly to the Spanish Foreign Minister. We had therefore asked for an assurance that there would be no such discrimination after the agreement had been concluded with the Community. So far however we had only received very vague verbal assurances. The British Government wished to have the best possible relations with Spain. The matter was complicated by the fact that the main British Opposition party, and even more so Mr. Wilson himself, took every opportunity of attacking Spain. Nevertheless the Government sought good relations. However, the Spaniards unfortunately seemed to believe that they could bring pressure on Gibraltar by cutting off its contacts with the outside world, by removing Spanish labour and by preventing Gibraltarians going to Spain, etc. This policy only increased the indignation of the people of Gibraltar. The British Government had urged



the Spaniards to seek to agree with the Gibraltarians and to establish good relations. Thereafter it should be possible to make satisfactory progress towards some arrangements for the Spain/Gibraltar relationship. As he saw it there were two ways of handling the problem. Either a very firm assurance of non-discrimination could be written into the EEC/Spain agreement. Alternatively, if the Spanish Foreign Ministry would send us a note conveying the necessary assurance we would readily accept it. The Prime Minister hoped that French influence could be deployed to persuade the Spaniards to send us a straightforward communication of this kind. This would then be an end for the problem.

President Pompidou said that he was unaware of this problem. But from what the Prime Minister had said M. Jobert was informed of it.

#### Institutions

President Pompidou said that he only wished to say a brief word on this subject. He thought the whole matter was largely a dispute between theologians. But he hoped that discussion of it could be kept as limited as possible.

The Prime Minister agreed. He thought that the step M. Pompidou had taken in proposing the Summit meeting went a long way to meet the concern felt by certain people about institutions. He himself regarded it as a major step forward.

#### Bilateral matters

President Pompidou said that a number of French oil companies were taking part in exploration in the North Sea and the Sea of Norway for natural gas. He observed that they were to sell



the whole of their output to the United Kingdom. The French Minister responsible for this subject had written politely to his British colleague saying that he hoped that some part of this gas could come to France. President Pompidou wholly endorsed this view and indeed thought that it represented a "necessary counterpart". He hoped that the Prime Minister would look into this matter personally having in mind particularly the fact that, as the energy crisis got worse, each country could be expected to act in an increasingly selfish way and that the French situation, at least theoretically, was not so good as that of Britain.

The Prime Minister said that he was not aware of this problem. He would certainly look into it.

#### The Continental Shelf

President Pompidou said that he knew there was considerable disagreement between their two countries. He hoped however that they could reach agreement. Clearly he and the Prime Minister could not simply take a tape measure and settle it there and then. But he thought the time had come to inject a great<sup>er</sup> urgency into the search for a reasonable solution and then to get on as quickly as possible with exploration.

The Prime Minister said that the British Government had always wished to come to a friendly arrangement with France. They had made a number of proposals: and their latest proposal, as he understood it, was that the dividing line should be established somewhat to the North of the Median line. He was inclined to wonder whether any more progress could be made at official level. But he could assure the President of his desire to reach a friendly agreement and to enable



SECRET

- 29 -

exploration to go forward from which both of them could hope to benefit. The President would appreciate that in the present situation all eyes in both their countries and elsewhere would focus on any settlement that they reached. He did not know if the President was aware of the latest British proposals but he regarded them as very reasonable and indeed distinctly generous to France. He suggested that the President should look at them as quickly as possible. The President said that he was not aware of these proposals and would make enquiries. But he was inclined to agree with the Prime Minister that it would be preferable now to take this out of the hands of officials and move it to the political level.

The meeting ended at 1.25 p.m.

27 November 1973