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VISIT OF THE PRIME MINISTER TO PARIS  
19-21 MAY 1971

[SUBJECT] [Insert subject in capitals]

Brief by [name of originating Department]

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[At the foot of the last page:]

[Department of origin] [e. g. Foreign and Commonwealth Office SW]

[Date of origin]

[CLASSIFICATION]

11 May 1971

We spoke yesterday about the possibility of a meeting between the Prime Minister and the Foreign and Commonwealth Secretary to discuss the E.E.C. negotiations in view of the Foreign and Commonwealth Secretary's inability to attend the meeting at Chequers on Friday.

The Prime Minister would like to have such a meeting with Sir Alec, but suggests that it might conveniently be held on Saturday morning in Aberdeen. I have therefore asked Hurd to bear this in mind when arranging the Prime Minister timetable for that morning.

Signed A.J.C. SIMCOCK

P.J. McCormick, Esq.,  
Foreign and Commonwealth Office.





10 Downing Street  
Whitehall

## Prime Minister

This folder contains most of  
the Europe briefs in provisional  
form.

The two notes on the outside  
of the folder are directly relevant  
to tomorrow's meetings.

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MR ARMSTRONG

Briefs for Meeting with M Pompidou

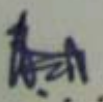
1. For the sterling item, the Treasury have prepared a full brief, covered by a shorter summary. I attach both: the Prime Minister will find much useful factual supporting material in the full brief and its annexed tables. I feel the brief does not sufficiently bring out the three points which can be offered to M Pompidou, i.e.:

a. a declaration of intent to co-operate in running down the sterling balances within the context of monetary harmonisation and on the three conditions in the brief;

b. a token move by us as evidence of good faith, e.g. lowering of the Minimum Sterling ~~Preparations~~, *Proposals*;

c. acceptance of non-discrimination, as between New Zealand, Australia and South Africa on the one hand and the Six on the other, for capital movements.

2. With the French smarting from the floatation of the German Mark, it will be more important than ever that our attitude in this field is both positive and positively presented; and the brief brings out the difficulties of going much further than the three points in the preceding paragraph.



WILLIAM NIELD

11 May 1971

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DRAFT BRIEF FOR PRIME MINISTER'S MEETING WITH PRESIDENT POMPIDOU

STERLING

The approach in this brief is to consider how far we could meet points raised by the French on sterling, if this appeared decisive for the negotiations. They have little or no support from the rest of the Six on these matters.

Introductory points

2. We acknowledge the traditional French dislike of the use of national currencies as reserve assets. But this banking function, whose advantages can be exaggerated, can hardly be avoided in practice by a major trading country with worldwide interests. (Note the increasing use of D-marks as a reserve asset). The reserve role is easier to acquire than give up. But relative to world reserves the use of sterling in this way has been declining over a long period; this will go on.

Running down sterling balances after entry

3. If it is felt, therefore, that the reserve role of sterling is not compatible with the economic and monetary development of the Community, we have no objection in principle to an orderly rundown. As members of the Community we should be willing to explore with other members an international scheme to bring this about. It is not easy to do. Three conditions would have to be satisfied.

- (a) The interests of sterling holders have to be consulted, e.g. what other asset (dollars? SDR?) should they hold?
- (b) The conversion of sterling into the alternative asset must not place an unacceptable burden on us. Of course we accept the servicing obligation. But the conversion cost must be funded.



(c) The process must be compatible with good order in the international monetary system.

Short-term actions on balances

4. If the above were accepted as sufficient, it would be desirable to go no further. But the French dislike the fact that since the Sterling Agreements of 1968 there has been an absolute rise in the balances of about £300 m. a year, reflecting the operation of the MSP (minimum sterling proportion) on rising OSA reserves. They want us to modify the Agreements, before 1973, so as to restrict this rise.

5. There are good arguments against going too far -

(a) The quick conversion of the balances into other currencies would be a cost to our balance of payments over and above the other costs of entry. It could not be sensible to impose on us an extra balance of payments cost in this way at the outset.

(b) Any immediate conversion would be mainly into dollars. Is a further increase in dollar holdings better for the Community than keeping the money in sterling? As we have seen, excess dollar holdings end up at the Bundesbank and embarrass the Germans. Is this a Community interest?

6. If necessary, we could however concede that, if we are joining the EEC, we would modify the Sterling Agreements, in the event that the balances continue to rise, with the aim of stabilising them. It would not be possible to accept a precise quantified target on timing, as we cannot control external factors, e.g. the weakness of the dollar.

[Detailed explanations on these points might be remitted to officials. The probable method of stabilising would be by reduction of MSPs. and we might be able to fit this into the



conclusion of the current renewal negotiations with the sterling area. As we at present expect the balances to increase by some £200 m. a year over the next two years, the concession would mean foregoing this source of help to our reserves.]

#### Volatility

7. The French have expressed concern lest any quick withdrawal of balances should be a charge on the Community's facilities for assistance under Article 108. They seem to be satisfied with our assurances that on Article 108 we would consult and be guided by the Community. (This might involve our seeking assistance in a wider international setting.)

#### Capital movements

8. Our basic position is clear. We have undertaken to comply fully with all Community directives on capital movements by the end of a transitional period. It is not easy for us to understand why we should be asked to do more.

9. The French appear to have two counts against us. First, they say that our capital outflow, particularly to the sterling area, is excessive in relation to our current balance of payments. This is not so at present. Our net outward investment (i.e. after offsetting inward foreign investment in the UK) was well within our current surplus in 1970 and will be again in 1971. Much of the "outflow" in the statistics represents reinvested profits and as in other countries our companies borrow internationally for new investment (servicing the loans from foreign currency earnings). thus reducing the cost to our reserves.

#### Non-discrimination

10. Secondly, the French say that from the date of accession we should remove all discrimination in favour of the developed



sterling area countries (Australia, New Zealand, South Africa) as compared with the EEC. They therefore hold that we should accept the EEC rules from the outset without a transitional period. Then to whatever extent our balance of payments required some restriction of capital outflow, this would involve non-discriminatory "derogations" from the rules.

11. So long as the Voluntary Programme is applied to the developed sterling countries, the discrimination in their favour is mainly in the field of personal transfers (portfolio, property, emigration, etc.). (Short-term capital movements, which are not liberalised within the EEC, are also unrestricted to the OSA). Ending discrimination would mean either

(a) imposing exchange control on the sterling area (it would be impracticable to confine it to the three countries). This would be incompatible with renewing the Sterling Agreements and could therefore lead to an early and costly conversion of official and private sterling balances.

or (b) liberalising these transfers to the EEC from the outset. But this could add up to £100 m. a year to the balance of payments costs of entry from 1973 onwards.

*cost of discrimination by EEC*

Limit of our negotiating position

12. These potential costs make it highly desirable not to go beyond our existing position, i.e.

- (i) we fully accept the principle of non-discrimination;
- (ii) our own proposals will end discrimination de facto by the end of the transitional period.

13. If it is found that the French make the immediate ending of discrimination a crucial issue, the extent to which an advance on the position at 12 can be offered depends greatly on the relation of confidence and discretion established in the talks



and President Pompidou's willingness to accept that the matter will be difficult to manage both technically and politically.

14. If these conditions are satisfied, the best line might be to give an assurance (not for publication) that we understand the central importance of non-discrimination to the French and as members will consult with a view to moving as early as possible. We must, however, be relied on to manage the details and timing in our own way. [The difficulty is that the mix of measures needed seems bound to involve exchange control on the sterling area. While, in the view of officials, this is not to be excluded as against our long-term interests, any leak of this intention could promote forestalling capital movements by both UK residents and sterling area holders which might well force our hand in a disorderly situation and would reinforce political opposition to our entry.]

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MR NEALE

c.c. Mr Bell (o.r.)

Mr Henley

Mr Mackay

Mr Owen

Mr Rawlinson

Mr Liesner

Mr Littler

Mr Slater

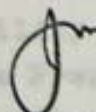
Mr Hay

Mr P Marshall (FCO)

Mr C J Morse } B/England  
Mr R Fenton }

EEC NEGOTIATIONS: MONETARY QUESTIONS

I attach six copies of a revised version of this brief, to be attached to the shorter document you have sent forward. This takes account of comments received on earlier drafts and can I think be regarded as final for this moment of time. Obviously, it might well need revision in the light of this week's Ministerial meetings in Brussels.

  
J A MARSHALL

10 May 1971



## EEC NEGOTIATIONS: MONETARY QUESTIONS

## BRIEF FOR FINAL STAGE

## INTRODUCTION

1. The purpose of this brief is to state the points related to sterling etc. upon which some change of position by the UK may, in the last resort, be necessary to achieve success in the EEC entry negotiations; and to set out the options.

## STERLING BALANCES

2. The Problem: The official sterling balances of the Overseas Sterling Area (OSA) have risen from their low point of September 1968 (£1,506 million), owing to the balance of payments surplus of the OSA and the operation of the Sterling Agreements. At end-1970 they stood at £2,244 million. By September 1971 they are expected to have increased to nearly £2,600 million. If (as the UK has proposed) the Agreements are extended from September 1971 to September 1973 a further substantial rise is likely.<sup>(1)</sup> Because the existence of the balances implies a non-European constraint on UK economic management, in turn affecting UK ability to co-operate as a member of an enlarged Community, the French take the view that the balances should be reduced. The Five would probably accept a rise in the next two years particularly if it were used to improve our short-term debt/reserve position; but the French (on the latest information - their views appear to shift) want stabilisation (at an unstated level) followed by progressive reduction (e.g. 5% per annum) from date of signature (not accession).

3. The Main Constraint: Whatever method is used, the most important consideration is the implied financing cost to the UK. Merely to stabilise the balances would mean that in 1971-73 the UK would, in terms of financing flows, be some £250-300 million a year worse off than would otherwise be the

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(1) It could be of the order of £5-550 million over the two-year period; but any estimate is subject to a number of major uncertainties - oil production, commodity prices, etc.



case. This could have serious implications for the management of the economy. The same is true a fortiori if an actual reduction in the balances took place. The suggested 5 per cent would involve an additional cost (i.e. beyond the cost of stabilisation) of over £100 million a year.

4. The Options: The UK could not possibly pledge herself to produce some precise result in terms of the level of official OSA sterling holdings. Too many factors beyond our control are operating. The methods below will not allow of fine tuning, but aim at producing a movement of the order and direction desired. The first two have been suggested by the French.

- (i) Reduce the proportion of sterling enjoying the dollar value guarantee. Not a good course. It would require renegotiation of the Sterling Agreements; would be unattractive to the OSA; and by itself would not be very effective since most OSA countries hold little more than a moderate working margin above the minimum sterling level required under the Agreements - they have no room to drop substantially because of a lesser guarantee.
- (ii) Reduce the interest paid on official OSA holdings. If this means a reduction in interest rates across the board, it is nonsense. If it means a special low rate for OSA official holdings, it would be even more difficult to negotiate with the OSA than (i), being closely akin to a guarantee charge arrangement requested by us in 1968 and almost universally rejected. There is in any case no reason to think that they keep funds here for interest rate reasons - if that were so they would not have kept their balances so near to the minimum required.
- (iii) Reduce the MSP<sup>(2)</sup>. Taken alone, this could be done unilaterally by the UK (as a straight concession to

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(2) Minimum Sterling Proportion - the minimum proportion of its total reserves each OSA country undertakes to keep in sterling. It varies from country to country.



the OSA in the current renewal negotiations). It would be a tangible concession to the French, and would be welcome to the OSA. If coupled with (i) - so that the UK got a quid pro quo in the form of a reduced contingent liability - it would still have some attraction for the OSA but would involve renegotiation of the Agreements. A reduction of MSP, once-for-all or in stages, with no quid pro quo for the UK, is the one course wholly within the UK's power. An MSP reduction is the change most likely to lead to stabilisation of, or a fall in, the balances (depending upon the size of the reduction).

5. Timing: All courses, even course (iii), involve timing difficulties. To broach changes with the OSA before the latter have accepted the current offer of "straight renewal" would be to invite bids for larger reductions in MSP, or other unacceptable changes, which could thus put the two-year extension in jeopardy; but it is not yet clear that OSA acceptance of "straight renewal" will be sufficiently complete to enable an offer of e.g. reduced MSP's to be made before the crux of the EEC entry negotiations is reached; and a subsequent offer patently stemming from European pressures could be politically embarrassing. Nor could any such offer be made if (in the context of capital movements - see paragraph 15 et seq. below) the UK is still contemplating the possibility of imposing exchange control on transactions with the OSA.

6. The longer term: On the position beyond 1973, the UK has already stated, in the Ad Hoc Group and in public, her willingness "to explore possibilities for change with all those concerned, including the official holders of sterling". It has been made clear that any such change would have to be subject to three conditions:

- (1) it should avoid an unacceptable burden on the UK;



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(ii) it should promote the healthy development of the international monetary system;

(iii) it should protect the interests of the sterling holders.

Within these limits it would be possible to express an even stronger willingness than hitherto to seek and work out with the others concerned a way of reducing sterling's reserve role. But care is needed to avoid promising more than this, since in practice this is not a matter on which the UK can act unilaterally.

ARTICLE 108

7. The Problem: Under Article 108 of the Treaty, financial assistance may be provided to a member who is "in balance of payments difficulties." The French have pointed to the vulnerability of the UK's external monetary position to overseas developments and said that we ought not to have access to assistance under Article 108 if the difficulties stem from movements in the sterling balances. (The Ad Hoc Group agreed that in principle the solution to such difficulties should be found in an international rather than a Community context; so this problem may give no further trouble).

8. UK attitude: We have made it clear informally (in the Ad Hoc Group) that, if in difficulties, from whatever cause, we would consult with the appropriate organs of the enlarged Community and would be guided by whatever decisions were there reached (which might be that, instead of invoking the Article 108 machinery, the UK.- or the Community - should seek assistance from some wider international financial grouping). This is an impeccable position, and should be maintained. It could be repeated as a formal assurance if desired (it only states what we should be bound to do anyway as members).

9. Abdication of Article 108 rights: In 1967 the UK expressed her readiness to abjure in advance her rights under Article 108



where difficulties arose through movements in the balances. This led to suspicions that the UK was not really "communautaire" in her approach and was seeking to avoid consultation. To repeat such an abjuration now could be similarly damaging, and would be less defensible than the attitude already adopted, which gives the French all they can ask for. In any case it is now thought that such abjuration would lead to severe practical difficulties.

#### CAPITAL MOVEMENTS: (1) PRIVATE OUTWARD INVESTMENT

10. The Problem: The UK is traditionally a capital-exporting country. Our level of outward private investment fluctuates, but has tended to rise in recent years regardless of the state of the remainder of the balance of payments account. The French argue that the UK should curb this outflow. This would make possible faster repayment of short-term debt, a rundown of the sterling balances, a strengthening of the reserves, the financing of a higher contribution to the Community, or some combination of these. There is also a suggestion in the summary of the Ad. Hoc Group's Report that the UK should maintain an equilibrium between her net long term capital exports and her current account surplus.

11. The Facts: UK gross outward long-term private investment is larger than, but still of a size comparable with, most EEC countries - but not as large as Germany's. Measured as a proportion of visible exports, the UK is well in the centre of the EEC range. In recent years it has been rising, but less sharply than that of any EEC country. The gross figures for recent years (based on EEC definitions) are at Annex A. If one turns to the net of inward and outward private investment, a very large part of UK outward investment can be regarded as matched by inward investment, leaving only a relatively small net outflow. In 1965-69 inclusive over 35% of UK outward investment was thus matched. This was true neither of Germany nor of Italy - see Annex B.



12. The Arguments: The UK's position on this is strong. There is no case for any change, nor is there any concession to the view set out in para.10 which could sensibly be made. In particular:

- (1) The level of UK investment is maintained without significant cost to the reserves. Half of it is financed out of retained profits (but see (ii) below). Of the rest, most (apart from some in the Sterling Area) makes no impact on the UK reserves at the time it is undertaken because, through the operation of exchange control, it is financed by overseas borrowing, the cost of liquidating which is in principle met out of the balance of payments advantages the investment creates.
- (ii) To finance overseas investment out of retained profits is of course to forgo an advantage to the UK reserves. But to compel profits to be repatriated would in many cases make little economic sense; be difficult to enforce; sour industry's attitude to EEC entry; and deny the UK the subsequent current income receipts.
- (iii) It may be suggested that the UK should keep her net overseas investment in equilibrium with the outturn on her current account, on the ground that an industrialised country's capital exports should correspond with her real savings. (In passing it is worth noting that in the period 1965-69 the UK's current account outturn added to her net long term capital exports came to much the same as the comparable figure for France). Quite apart from the - very strong - argument in (i) above, the whole concept of hypothecating one identified inward flow as the source of finance for one identified outflow ignores the fact that the UK has a whole complex of flows in both directions. It is the net of all of these flows which provides the scope for improvement in the reserve/debt position and thus - if that scope is deemed inadequate - dictates the need for policy



adjustments - perhaps in the long term capital field, perhaps elsewhere - to improve the overall position.

- (iv) After entry the UK would be subject to normal Community consultations, recommendations and directives on this as on other economic matters. It is not clear, therefore, why - in the light of (i)-(iii) above - she should be expected to undertake in advance to restrict her outward private investment in a special way.

#### CAPITAL MOVEMENTS: (ii) DISCRIMINATION

13. The Problem: We have undertaken to implement progressively over a transitional period of five years all the specific obligations in the Treaty and its Directives relating to intra-Community capital movements. The French have argued, however, that it would be contrary to the "principles of the Community" if the UK, from accession, were to accord more favoured treatment on capital movements to "white" countries in the OSA (i.e. to Australia, New Zealand and South Africa) than to her fellow members of the Community. It is possible that the Six may propose as a compromise that we should, from accession, permit all transfers to fellow-members which we allow to those three countries.

14. The Facts: The Treaty and its derived legislation require compliance with specific rules on capital movements; they do not require that members should refrain from according more favourable treatment to non-members. (The Treaty provides that exchange control policies vis-a-vis third countries shall be progressively co-ordinated; but action has not yet been taken under that provision). Under our proposals for the transitional period, we should in fact be giving more favourable treatment to the three countries concerned in two different respects:-

- (1) there is no machinery of exchange control on capital movements to the sterling area, whereas all transfers to the NSA (including fellow-members of the enlarged



EEC) would be subject to such machinery<sup>(3)</sup>. There would thus be discrimination in form.

- (11) apart from the limitations set by the operation of the Voluntary Programme (which must be temporary), there would be no restrictions upon transfers to the three countries, whereas during the transitional period restrictions would be maintained for limited periods upon certain transfers to fellow-members. In addition, even at the end of the transitional period, certain forms of UK/EEC transfer (notably short term capital movements) which are not covered by present EEC Directives, would remain subject to restriction while similar UK/OSA transfers would be free. Both of these imply discrimination in substance.

15. The Options: If we were to move from our present position to that which it is reported that the Six may take up, and agree to permit all transfers to fellow-members which we allow to the three countries concerned, we could do so in one of two different ways:-

- (1) We could from accession liberalise all those capital movements to the Six which are covered by EEC Directives (with the exception of such transfers to the three OSA countries as may at that time be limited de facto by the Voluntary Programme - if this has been continued, which is doubtfully feasible).

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(3) Transfers to the OSA cannot find their way out to the NSA because of the "ring fence" of exchange controls operated by OSA countries. It is because some EEC countries operate no such control that transfers to the EEC would still have to be subject to the machinery of UK exchange control. But this does not necessarily imply any restriction on transfers genuinely destined for the EEC and not simply using the EEC as an escape route to the rest of the NSA.



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(11) We could adhere to the proposals we have made to the Six for the progressive implementation of the Treaty's obligations over a five-year period; but additionally introduce on entry exchange control machinery to cover transfers to the OSA<sup>(4)</sup>, using it to impose identical restrictions upon such transfers as those applying to our fellow-members.

Note: This involves the serious difficulty that nothing of such an intention could be said publicly (and therefore to the Six) in advance of implementation, because of the forestalling movements it would provoke.<sup>7</sup>

16. To liberalise on entry would involve two things:

- (a) It would bring forward to the first year of membership an annual cost of £100 million or so to the balance of payments, a cost which under our proposals would not be reached until the fifth and final year of the transitional period.
- (b) Insofar as in certain circumstances some exchange control restrictions against fellow members could plausibly be invoked under the Treaty of Rome, we should be denying ourselves the use of that economic weapon in the future.

17. To impose exchange control on the Sterling Area would complete the network of control over world-wide UK financial transactions in an area in which the scale of confidence movements could be important and enable the effect of the Voluntary Programme to be continued on a legal basis and improved. There would also be advantages in the frustration of future movements of UK resident capital to tax havens. But there would be serious disadvantages too. There are in the OSA very large holders of sterling assets. The official sterling balances are at present covered by the Sterling Agreements, and these would have to be renegotiated, probably in an unfriendly atmosphere. Failure to renegotiate successfully could be a very serious matter. In addition very

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(4) For practical reasons it would not be possible to confine such control to the three OSA countries only.



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large sterling assets are held by private OSA residents. There could be a risk of switches of such private assets on a damaging scale unless other Sterling Area countries continued to maintain a Sterling Area ring fence or some other protective arrangement could be agreed or imposed.

H M TREASURY  
GREAT GEORGE STREET  
LONDON, S.W.1.

10 May 1971



Gross outward long-term private investment<sup>\*</sup> by EEC countries and by the UK

|             | 1965 | 1966 | 1967  | 1968  | 1969  |  | Total |  | Outward investment in 1969 compared with exports % | Outward investment in 1965+1969 compared with that in 1964+1969 % |
|-------------|------|------|-------|-------|-------|--|-------|--|--|---|
|             | £m   | £m   | £m    | £m    | £m    |  | £m    |  | %  | %   |
| Germany     | -450 | -565 | -733  | -1989 | -3194 |  | -6931 |  | 9  | 511   |
| France      | -175 | -214 | -539  | -777  | -350  |  | -2055 |  | 2  | 290   |
| Italy       | -300 | -591 | -505  | -644  | -1313 |  | -3353 |  | 8  | 220   |
| Netherlands | -302 | -315 | -478  | -681  | -838  |  | -2614 |  | 7  | 246   |
| BLEU        | -108 | -178 | -162  | -314  | -265  |  | -1030 |  | 3  | 203   |
| UK          | -491 | -848 | -1267 | -1764 | -1481 |  | -6351 |  | 6  | 176   |

<sup>\*</sup> net of disinvestment

Source: Balances of Payments 1970 yearbook: Statistical Office of the European Community



Net outward and inward long-term private investment by EEC countries and by the UK

|             | 1965 | 1966 | 1967 | 1968  | 1969  | Total | Current<br>surplus/<br>deficit<br>1965-1969 | Total net<br>investment<br>added to<br>current<br>surplus/deficit |
|-------------|------|------|------|-------|-------|-------|---|---|
|             | £m   | £m   | £m   | £m    | £m    | £m    | £m  | £m  |
| Germany     | +391 | +415 | -57  | -1678 | -2125 | -3854 | +5406                                       | +1552   |
| France      | +361 | +156 | +79  | -474  | +303  | +425  | -1720                                       | -1295   |
| Italy       | +202 | -381 | -198 | -137  | -942  | -1456 | +10919                                      | +9463   |
| Netherlands | +5   | +41  | -35  | -45   | +21   | -13   | -96   | -109  |
| BLEU        | +120 | +12  | +162 | -88   | +234  | +490  | +378  | +868  |
| UK          | -227 | -81  | -304 | -389  | -1189 | -812  | -655  | -1467   |

Source: Balances of Payments 1970 yearbook: Statistical Office of the European Community



SIR WILLIAM NIELD

Community Finance

I attach a note about the latest French proposals for establishing the level of our contribution to Community finance which may be helpful to the Prime Minister in our discussion on this subject tomorrow. As you know, we have not yet had final confirmation from Brussels of the details of these French proposals but we are virtually certain we have got it right (subject to possible minor changes which would have no significant effect on the cost).

P.E.T.

P E THORNTON

11 May 1971

Mr Armstrong

The new French proposals are likely to be the basis of negotiation on Community Finance from now on: especially as they set an acceptable framework for agreement, but do not state the numbers to go in the frame.

11/5/71



Community Finance

The French proposals in effect apply to us the system which the Six agreed for themselves in April 1970 for the period 1971-77 inclusive. Under their proposals we should in theory be liable from 1973 to a full contribution on exactly the same basis as the Six. But in practice we should have a rebate which diminished in equal annual steps from 1973-77. From 1978 we should be liable to pay our full contribution under "ressources propres". The attached table sets out our calculations of the UK key in 1973-77 under this system and shows under Columns marked A and B respectively what this would mean for us in terms of actual contributions if we paid 30 per cent and 50 per cent respectively of our total theoretical obligation in 1973. (We should also be obliged, as a minimum, to hand over 90 per cent of our levy collections each year. But these, estimated at 2.5 per cent of the total Community budget in 1973 rising to 10.5 per cent in 1977, would be much less than the probable liability under the "key", so the key would determine our total contribution.)

2. Although the French system is a new way of describing the obligations of new members, the size of the initial rebate in fact governs the size of our contribution throughout the 5 years and thus the same issues as ever arise:-

- (a) What proportion of the Community Budget can we afford to contribute
  - (i) in 1973 and (ii) in 1977?
- (b) What cumulative total can we afford over 1973-77?
- (c) Is 5 years enough or do we need some arrangements for continuing beyond 1977?



| Year | UK<br>Key % | A<br>% of<br>Key | A<br>%<br>Contribution | A<br>Net<br>Contribution<br>£m<br>Actual(cumulative) | B<br>% of<br>Key | B<br>%<br>Contribution | B<br>Net<br>Contribution<br>£m<br>Actual (cumulative) |
|------|-------------|------------------|------------------------|--|------------------|------------------------|---|
| 1973 | 19.8        | 30               | 5.9                    | 65 (65)  | 50               | 9.9                    | 120 (120)   |
| 1974 | 20.0        | 44               | 8.8                    | 90 (155)   | 60               | 12                     | 135 (255)   |
| 1975 | 20.4        | 58               | 11.8                   | 120 (275)  | 70               | 14.3                   | 155 (410)   |
| 1976 | 20.8        | 72               | 15.0                   | 155 (430)  | 80               | 16.7                   | 185 (595)   |
| 1977 | 21.2        | 86               | 18.3                   | 195 (625)  | 90               | 19.1                   | 210 (805)   |

- (1) French have suggested our key for 1970 should be deemed to be our g.n.p. share in that year which they put at 19.22% and we at 19.1%
- (2) Our key, like theirs, would rise by not more than 1% of itself in the years to 1974 inclusive: and by not more than 2% a year in 1975-77.
- (3) We should, in any event, pay 90% of our levy collection from 1973 which we estimate would start at about 2½% rising to 10½% (of total Community expenditure) by 1977. This obligation would thus cost less than our obligation under (1) and (2) which accordingly are overriding.
- (4) The French proposal leaves open what our "% over key" should be for the years 1973-77, referring to it only by letters i.e. N,P,Q,R,S (see telegram CODEL 321 of 6 May).



SECRET

10



Treasury Chambers,  
Great George Street,  
London, S.W.1

Whitehall 1234, ext.290

10 May 1971

R T Armstrong Esq  
10 Downing Street

*Dear Robert,*

... I attach a copy of my letter to Bill Nield covering a first draft brief on sterling for the Paris meeting. You mentioned to me that you would find it helpful to acquaint yourself with this as soon as possible. By all means let us have a word about it if it needs amplifying.

*Yours sincerely*

*Max*

A D Neale

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10A  
SECRET

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10 May 1971

Sir William Nield KCB  
Cabinet Office

PRIME MINISTER'S MEETING WITH PRESIDENT POMPIDOU

... I attach copies for you and Peter Thornton of a draft brief on sterling. This is a product of consultations between us and the Bank. We have tried to keep it as succinct as possible but I dare say we may be able to improve it in this respect before it is finalised. A rather longer piece, containing some more detailed explanations for use by the Delegation, will be available tomorrow.

2. I think you are planning a meeting later in the week to consider the briefs and I shall aim to attend this with Jeremy Morse. I have given copies to Raymond Bell so that he can pass the brief on to Con O'Neill in Brussels. I have given it no other circulation.

3. You will appreciate that at this stage it is ad referendum to the Chancellor, to whom I shall be submitting it in the course of the day.

4. I am copying this letter to Jeremy Morse.

A D Heale

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DRAFT BRIEF FOR PRIME MINISTER'S MEETING WITH PRESIDENT POMPIDOU

STERLING

The approach in this brief is to consider how far we could meet points raised by the French on sterling, if this appeared decisive for the negotiations. They have little or no support from the rest of the Six on these matters.

Introductory points

2. We acknowledge the traditional French dislike of the use of national currencies as reserve assets. But this banking function, whose advantages can be exaggerated, can hardly be avoided in practice by a major trading country with worldwide interests. (Note the increasing use of D-marks as a reserve asset). The reserve role is easier to acquire than give up. But relative to world reserves the use of sterling in this way has been declining over a long period; this will go on.

Running down sterling balances after entry

3. If it is felt, therefore, that the reserve role of sterling is not compatible with the economic and monetary development of the Community, we have no objection in principle to an orderly rundown. As members of the Community we should be willing to explore with other members an international scheme to bring this about. It is not easy to do. Three conditions would have to be satisfied.

- (a) The interests of sterling holders have to be consulted, e.g. what other asset (dollars? GDR?) should they hold?
- (b) The conversion of sterling into the alternative asset must not place an unacceptable burden on us. Of course we accept the servicing obligation. But the conversion cost must be funded.



- (c) The process must be compatible with good order in the international monetary system.

Short-term actions on balances

4. If the above were accepted as sufficient, it would be desirable to go no further. But the French dislike the fact that since the Sterling Agreements of 1968 there has been an absolute rise in the balances of about £300 m. a year, reflecting the operation of the MSP (minimum sterling proportion) on rising OSA reserves. They want us to modify the Agreements, before 1973, so as to restrict this rise.

5. There are good arguments against going too far -

(a) The quick conversion of the balances into other currencies would be a cost to our balance of payments over and above the other costs of entry. It could not be sensible to impose on us an extra balance of payments cost in this way at the outset.

(b) Any immediate conversion would be mainly into dollars. Is a further increase in dollar holdings better for the Community than keeping the money in sterling? As we have seen, excess dollar holdings end up at the Bundesbank and embarrass the Germans. Is this a Community interest?

6. If necessary, we could however concede that, if we are joining the EEC, we would modify the Sterling Agreements, in the event that the balances continue to rise, with the aim of stabilising them. It would not be possible to accept a precise quantified target on timing, as we cannot control external factors, e.g. the weakness of the dollar.

[Detailed explanations on these points might be remitted to officials. The probable method of stabilising would be by reduction of MSPs, and we might be able to fit this into the



conclusion of the current renewal negotiations with the sterling area. As we at present expect the balances to increase by some £200 m. a year over the next two years, the concession would mean foregoing this source of help to our reserves.]

#### Volatility

7. The French have expressed concern lest any quick withdrawal of balances should be a charge on the Community's facilities for assistance under Article 108. They seem to be satisfied with our assurances that on Article 108 we would consult and be guided by the Community. (This might involve our seeking assistance in a wider international setting.)

#### Capital movements

8. Our basic position is clear. We have undertaken to comply fully with all Community directives on capital movements by the end of a transitional period. It is not easy for us to understand why we should be asked to do more.

9. The French appear to have two counts against us. First, they say that our capital outflow, particularly to the sterling area, is excessive in relation to our current balance of payments. This is not so at present. Our net outward investment (i.e. after offsetting inward foreign investment in the UK) was well within our current surplus in 1970 and will be again in 1971. Much of the "outflow" in the statistics represents reinvested profits and as in other countries our companies borrow internationally for new investment (servicing the loans from foreign currency earnings), thus reducing the cost to our reserves.

#### Non-discrimination

10. Secondly, the French say that from the date of accession we should remove all discrimination in favour of the developed



sterling area countries (Australia, New Zealand, South Africa) as compared with the EEC. They therefore hold that we should accept the EEC rules from the outset without a transitional period. Then to whatever extent our balance of payments required some restriction of capital outflow, this would involve non-discriminatory "derogations" from the rules.

11. So long as the Voluntary Programme is applied to the developed sterling countries, the discrimination in their favour is mainly in the field of personal transfers (portfolio, property, emigration, etc.). (Short-term capital movements, which are not liberalised within the EEC, are also unrestricted to the USA). Ending discrimination would mean either

- (a) imposing exchange control on the sterling area (it would be impracticable to confine it to the three countries). This would be incompatible with renewing the Sterling Agreements and could therefore lead to an early and costly conversion of official and private sterling balances.
- or (b) liberalising these transfers to the EEC from the outset. But this could add up to £100 m. a year to the balance of payments costs of entry from 1973 onwards.

#### Limit of our negotiating position

12. These potential costs make it highly desirable not to go beyond our existing position, i.e.

- (i) we fully accept the principle of non-discrimination;
- (ii) our own proposals will end discrimination de facto by the end of the transitional period.

13. If it is found that the French make the immediate ending of discrimination a crucial issue, the extent to which an advance on the position at 12 can be offered depends greatly on the relation of confidence and discretion established in the talks



and President Pompidou's willingness to accept that the matter will be difficult to manage both technically and politically.

14. If these conditions are satisfied, the best line might be to give an assurance (not for publication) that we understand the central importance of non-discrimination to the French and as members will consult with a view to moving as early as possible. We must, however, be relied on to manage the details and timing in our own way. [The difficulty is that the mix of measures needed seems bound to involve exchange control on the sterling area. While, in the view of officials, this is not to be excluded as against our long-term interests, any leak of this intention could promote forestalling capital movements by both UK residents and sterling area holders which might well force our hand in a disorderly situation and would reinforce political opposition to our entry.]



SECRET

Prime Minister 9



BRITISH EMBASSY,  
PARIS.

7 May 1971

My dear Alec,

European Defence - Views  
of the French Defence Minister

I recently had Debré to a tête-à-tête lunch which proved a relaxed and cordial occasion. On the other hand, as you will see from the enclosed summary, Debré's general approach remained closely in line with the views he expressed to Peter Carrington when he came here last year.

Record at  
Flag A.

On one point, however, it seemed to me that he went further than in our previous exchanges with him. This comes out at the end of the enclosed Note. You will see that he expressed his strong conviction in the Prime Minister's determination to give Britain's whole political, military and economic strategy a more European orientation: and in this context he expressed the desire, if only we could disengage from our entanglements with the Americans, to see close cooperation between Britain and France on future nuclear delivery systems.

/I am not suggesting

The Right Honourable  
Sir Alec Douglas-Home, KT, MP

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I am not suggesting that this in any way invalidates the advice I have already given from here on this subject or the conclusions reached in the exchanges between the Prime Minister, yourself and Peter Carrington. But I do not, of course, know how far our commitments to the Americans would in practice inhibit exchanges with the French on future systems; and I thought that you would all wish to know the lines along which Debré's mind is moving since this is so clearly relevant both to the impending visit of the Prime Minister and to Peter Carrington's next meeting with Debré, which I hope we will be able to arrange within the coming weeks.

I am sending copies of this letter to the Prime Minister and to Peter Carrington.

*Yours ever*

*Christopher*

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RECORD OF A LUNCH-TIME CONVERSATION WITH MONSIEUR MICHEL DEBRE

I said that, as I understood M. Debré's philosophy from what I had heard him say to Lord Carrington and from his recent article in "Foreign Affairs", he believed that, short of a total political union in Europe, it was impossible to have any degree of intimate nuclear cooperation. But since it was also apparently M. Debré's view that European political union would not come in his life time or in that of his children, he seemed, in effect, to be saying that Europe was condemned for at least a generation to have no closer nuclear cooperation than it had today. Could Europe afford such a luxury? Would M. Debré not agree that, if the American Government felt obliged to loose off its strategic nuclear weapons, there was at least a possibility that the French and British Governments might also decide that it was in their interests to do likewise? Would he not furthermore agree that it was at least a possibility, if not a probability, that, in the event of a Russian advance westwards, even if the Americans decided not to use their ultimate weapon, the French and British Governments might both decide to use theirs? Without therefore in any way detracting from our respective national rights and particularly our ultimate control over the final decision, would it not at least be prudent to plan together for both of these possible eventualities?

2 M. Debré's reply was not convincing. He said that the only advantage of the French nuclear force, which had been produced at great cost to France in terms of both finance and resources, was that it left the Russians in no doubt that the finger on the trigger was exclusively French. He accepted that the arguments, used with him both by Lord Carrington some months ago and again that day by myself, of the advantages to Europe in General, and to France and Britain in particular, of an eventual close nuclear cooperation between us, in terms of research and development, production and deployment, were intellectually totally valid. He had no quarrel with them at all. But he failed to see how, as things stood today, we could proceed towards this desirable objective. He perfectly understood the reasons why we had come to be dependent upon the United States for our nuclear cooperation. He would not argue that we were wrong, from our point of view, to have taken the decisions which led to this situation. But it was a fact, with which the French and British Governments both had to live. It was no use closing our eyes to the impediment which it placed in the way of Anglo-French nuclear cooperation. The fact that, in spite of what we might have wished, it was clearly impossible for us to help the French as they had requested over the questions of manning of nuclear submarines, because the Americans did not wish us to, was clear evidence of this.

3. M. Debré said that he was personally convinced from all that he had heard of Mr. Heath's attitudes that the Prime Minister's every instinct led him towards seeking a European solution to European problems. If Mr. Heath remained in power long enough, M. Debré was confident that Britain's whole political, military and economic strategy would become more Europe-oriented. At that point everything would be possible and no one would be more pleased than he, M. Debré. But for the moment he was convinced that we were totally tied to the United States and that it would not be easy for us to change this. For instance he would like to see close co-operation between Britain and France on future delivery systems. This was currently one of his major problems. But he frankly did not believe that we were in a

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position to cooperate with France in the necessary exchange of information, knowledge and know-how necessary to achieve cooperation in this field.

C. Soames



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*I can talk to  
- Aberdeen  
- meeting  
- h+ in time  
- [signature]*

PRIME MINISTER

I understand that you agreed that Sir Alec Douglas Home should be invited to the general briefing meeting on E.E.C. matters at Chequers on Friday morning. Unfortunately Sir Alec has to speak at the Foreign Affairs debate of the S.C.U.A. Conference in Aberdeen on Friday afternoon and transport arrangements, without hiring a special plane, will not permit him to attend your meeting and speak in Aberdeen.

Would you like to invite Sir Alec to No. 10 for half an hour on Thursday evening to discuss these matters with you or might I leave it over until Monday in view of the pressures on your diary on Thursday?

*[Signature]*

10 May 1971



# CONFIDENTIAL

1

FROM THE  
SPECIAL ADVISER TO THE GOVERNMENT

PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON S.W.1

PRIME MINISTER

*Agreed basic  
document  
19/1/71*

EUROPE: PARLIAMENT and PUBLIC OPINION

1. This paper looks at some of the tactics to be pursued in Parliament and in the country once it seems likely that acceptable terms will be offered.

For working purposes it is assumed that we will know whether or not such terms are likely by July 1. Any substantial variation from that date would of course affect both the timing and the nature of the tactics. On the other hand, the handling of negotiations etc. between now and July 1 should have due regard for the tactics to be employed later.

2. On timing, it is argued that a vote in Parliament of some kind (perhaps only a 'take-note') should be sought before the recess. This might entail extending the session into August.

On campaigning, it is argued that the Government machine should direct most of its energies and resources to reassuring public opinion on the prices issue.

New Zealand, community finance, etc., are essentially Parliamentary and opinion-former issues which should be handled at the same time by the responsible Cabinet Ministers (Foreign Secretary and Chancellor), but should not be allowed to divert from the main campaign on prices.

The Prime Minister, it is argued, should continue on a high 'destiny' level, with a particular appeal to youth.

3. Finally, it is argued that the calls for 'alternative plans' in case of a breakdown in negotiations should be resisted. But some thinking should be done as to what use could be made of such an eventuality to promote the Government's existing policies.

*Michael Wolff*

MICHAEL WOLFF

10 May 1971



# CONFIDENTIAL

## Europe: Parliament and Public Opinion

### TIMING

1. It has always been agreed that once the negotiations got moving towards a successful outcome both interest and the degree of approval would increase dramatically. But once the negotiations are adjourned for the summer there is bound to be a falling-off in interest and there will be considerable loss of momentum.

2. Therefore the Government should exploit the impetus of this stage of negotiations by seeking to commit as many people as possible as far as possible. This will tide us over the vacuum left by the Summer and stand the Government in good stead as the final decisions are taken at the end of the year. The converse is also true: once the momentum is lost 'the rats' will begin to get at public, parliamentary and 'informed' opinion.

### An early vote?

3. All this points to obtaining an approving vote of some kind in Parliament before the Summer recess.

4. The chief objections against such an early vote are that public opinion will not have had time to change appreciably, that it would be dangerous to give the impression of trying to 'bounce' MPs into taking a decision, and that it would place pro-European Labour MPs in an intolerable position to expect them to stand up and be counted so soon after a negative vote at their special Party Conference on July 24.

5. None of these objections seems to outweigh the disadvantages of losing the initiative which the new momentum would give the Government. Nevertheless, each can be met to a large extent.



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- (a) At this stage, it is the trend of public opinion, not the actual size and distribution, that will be influential. Properly handled, the short campaign following on positive negotiations will shift that trend in the right direction, even if actual numbers are still substantially 'against entry'.
- (b) Parliament should not be asked to take any final and irrevocable decision. It should either approve the negotiations which have taken place or that further negotiations should take place, or it should take note of a White Paper.
- (c) As much time as possible should be allowed before a vote is actually taken, so that the campaigning can get under way and have effect, and so that MPs cannot complain of being rushed.

## An August session?

6. Six weeks is probably the ideal period from all points of view: four weeks between publication of a White Paper and a vote is possible. Anything much less would run us the risk of trouble.

7. If a White Paper could be published on July 1 it would theoretically be possible to have a debate on July 27-28, with a vote at the end. But it would be cutting things very fine, both from a campaigning and a 'don't rush Parliament' point of view. It would also create difficulties for the Opposition.

8. The July 1 target date would therefore either have to be advanced - and this would involve a Ministerial meeting in Brussels earlier than June 21 (see also para.22), or the vote will have to be taken later.

9. There is something to be said for Parliament sitting into August with a vote, say, on August 3, or even 10. The drama of an August sitting would help focus public attention on it - though there are obvious disadvantages in over-dramatising the occasion (quite apart from the obvious inconveniences!)



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10. A decision can probably be delayed until nearer the time. But it might even at this stage be wise to put in a bid for the June Ministerial meeting to be brought forward by a week or perhaps even a fortnight.

11. Whatever the timing of the pre-recess vote, it will be necessary to make the maximum impact on public opinion before. For this reason, planning - and even beginning - the campaign should not be delayed.

## THE CAMPAIGN

12. All the evidence points to the effect of entry on prices as being the main cause of public hostility towards the Common Market. Politically, the position of New Zealand is the most sensitive issue, and among commentators the cost (especially in terms of balance of payments) of Britain's contribution to Community finance may still loom large. Sovereignty and labour mobility will be raised as additional political issues, and in Scotland fishing will be important.

13. It would be wrong, in the course of a sharp six-week campaign, to attempt to give equal weight to all these issues. It is important to be selective.

### Prices

14. The full weight of Government campaigning should be directed at the prices issue. This means pulling out all the stops - including admitting the unpalatable (but self-evident) fact that prices have already got high (e.g. butter up 80% in a year). This is essentially a campaign for the mass media: and while it must have a strict regard for truth and carry credibility, it should tend to err on the optimistic side (e.g. estimates of growth and wages).

15. The prime responsibility for this campaign falls on the Secretary for Employment, the Minister of Agriculture and their departments. But powerful support work should come from the Department of Health and Social Security and from the Department of Trade and Industry.



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16. Outside bodies like the European Movement and the Conservative Party should be enlisted for this campaign. They already have the necessary outlets, especially among women.

## New Zealand, Costs, etc.

17. The politically sensitive issues should be dealt with firmly by the Minister concerned at Parliamentary, national and party level.

18. The FCO should clearly take responsibility for New Zealand, the Treasury for Community financing costs, the Scottish Office and Ministry of Agriculture and Fisheries for fishing, etc.. They can deploy their arguments in Parliament, in speeches in the country and on television. But it is important not to allow the mainstream of the campaign on prices to be diverted by these issues.

## The Prime Minister's role

19. If these issues are effectively dealt with by other Ministers in other ways, the Prime Minister will be free to stand back and take a loftier view. He can put Britain's application to join the Community in the context of world affairs; not just western Europe but Eastern Europe, Russia and China, the United States, the 'Third World'; not just political but military, economic, and social.

20. It is an appeal that can be based on high ideals and national destiny and should be particularly aimed at youth. It would be powerfully reinforced if the Prime Minister felt free to underline the consequences of failure as well as the rewards of success.

## Maintaining the momentum

21. From now on the negotiations and ministerial comings and goings will create their own impetus. But care will have to be taken that there is not too great an interval between events.



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22. With this in mind, the gap between May 21 and June 21 (the next scheduled Ministerial meeting) is rather disturbing. Quite apart from the considerations set out in para.8, it might be advantageous to bring this meeting forward to, say, June 14, or even June 7; or at least to have some major meeting in the intervening period.

23. Television will play a crucial role, and it is important that Ministers seek out and accept as many invitations as possible - provided that they can be assured that the format of the programme will enable them to get their particular point across with conviction. This will probably not be possible until after July 1: but in the meantime, certain types of television programme (e.g. News at Ten) should be carefully considered in order to keep the momentum of public debate going.

24. There is a case for a 'child's guide' version of any White Paper that is published. There are no precedents for the Government to produce this kind of 'persuasive' document when legislation is proposed (though no doubt one day this tradition will have to be broken). It might therefore be necessary:

- (a) to write the White Paper press release in such a style that it could be taken straight and in full by a popular paper

and/or

- (b) to get, say, the Daily Mirror to produce a 'pop' version and to distribute it nationwide, perhaps in association with the European Movement.

## Political implications

25. It will be argued that the period of the campaign should be kept as free as possible from <sup>party</sup> political controversy. There is something to be said for 'going easy' once the local government elections are out of the way, if only to protect pro-European Labour MPs from undue embarrassment before and after July 24.



26. The trouble is there will still be a number of highly political events taking place.

- (i) Three by-elections on May 27. If a political dog-fight is undesirable, a Common Market by-election would be a good deal worse.
- (ii) The Industrial Relations Bill, which is due to return to the House of Commons for final - and lengthy - debate at the end of July. It may be for consideration whether it cannot now go over to the spill-over session.
- (iii) The economic outlook, particularly unemployment and closures. Here it may be helpful, if the Chancellor were to introduce further measures sooner or later, for the Chancellor to do so sooner rather than later.

## AN ALTERNATIVE PLAN

27. It has been widely argued, with some justice, that in 1963 the Government were at fault in not having any alternatives to put before the nation after the French veto. From this it is now argued that this Government must have an alternative plan available in case the negotiations fail once again.

28. In fact, the situation would be quite different. In 1963, the Conservative Party was in its 12th year of office, the Parliament in possibly its last, or at least penultimate session. Both men and policies were becoming exhausted, and there were no ideas for new ones. In 1971, we have a fresh government, still in its first year of office; a new Parliament, still in its first session; a vast programme of radical change to be carried out which will be right for the country whether we are members of the Community or not.

29. There is therefore no case for changing tack if we were to be excluded from the EEC, and it might be as well to make this plain now. This would not exclude, of course, certain necessary reappraisals on such topics as defence and tariffs - but these do not constitute an 'alternative'.

30. Nevertheless, it may be that advantage could be gained from the trauma of 'a third Non' to put into effect policies, particularly in the economic sphere, which are crucial to the long-term programme.



H.M. Treasury

SECRET

MR NEALE

c.c. Mr Bell (o.r.)

Mr Henley

Mr Mackay

Mr Owen

Mr Rawlinson

Mr Liesner

Mr Littler

Mr Slater

Mr Hay

Mr P Marshall (FCO)

Mr C J Morse } B/England

Mr R Fenton }

EEC NEGOTIATIONS: MONETARY QUESTIONS

I attach six copies of a revised version of this brief, to be attached to the shorter document you have sent forward. This takes account of comments received on earlier drafts and can I think be regarded as final for this moment of time. Obviously, it might well need revision in the light of this week's Ministerial meetings in Brussels.



J A MARSHALL

10 May 1971



CONFIDENTIAL

C.C. AJCS  
DM

10 May, 1971.

Prime Minister's Visit to Paris

... I am enclosing with this letter a list of the Prime Minister's official party for his visit to Paris which may be used for planning purposes.

With regard to the programme, the outline in Paris telegram No. 543 of 8 May is acceptable to the Prime Minister (the wreath laying should be included unless there are any contrary views on this). The Prime Minister would like to travel to Paris on the Wednesday evening, taking off from London Airport at approximately 6.30 p.m. He wishes to use the first evening in Paris for a working dinner at the Embassy. Given the departure time from London, this should presumably be around 8.30 p.m., and subject to the Ambassador's views "informal".

The programme at present makes no provision for time for the Press, and it will be necessary for this to be discussed with Donald Maitland. It may be that the right time for this is after lunch on Friday, 21 May. The Prime Minister will, however, need to take off from Paris Airport not later than 4.30 p.m. on that day to meet his commitments here.

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- 2 -

We shall need to give early thought to speeches. I assume that the main speech will be at the Elysee Dinner on the evening of Thursday, 20 May. Will there be speeches at either or both of the lunches, and will there be any other public statements, for example, at any greeting ceremony at the Elysee? Proposed texts for all speeches should reach me not later than noon next Friday, 14 May. I realise that these will need up-dating, but it will be helpful to have texts to work on in good time.

I would like in due course to arrange for the No. 10 Duty Clerks who will be taking part in the visit to meet whoever in the Foreign and Commonwealth Office is going to be responsible for the detailed preparation of the programme to discuss the information which we will require. Perhaps you could let me know with whom they should get in touch.

I am sending copies of this letter to Peggy Metcalfe and to Brian Norbury (Cabinet Office).

(SGD) P.J.S. MOON

N.J. Berrington, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL



Prime Minister's Visit to Paris: Official Party

No.10

Mr. R.T. Armstrong ✓

Mr. D.J.D. Maitland

Mr. Timothy Kitson ✓

Mr. Douglas Hurd

Mr. P.J.S. Moon

Dr. Brian Warren

2 Duty Clerks

3 Garden Room Girls

2 Detectives

1 Baggage Master

Foreign and Commonwealth Office

Sir Denis Greenhill ✓

Sir Con O'Neill ✓

Cabinet Office

Sir William Nield ✓

Mr. Peter Thornton



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CYPHER CAT A

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*bin Davis*

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[GILL]

DESKBY 110900Z

TO IMMEDIATE FCO TELNO. 282 OF 10 MAY 1971 INFO IMMEDIATE

PARIS, THE HAGUE, BRUSSELS, LUXEMBOURG, BONN, CODEL BRUSSELS.

YOUR TELNO. 368 TO BONN: PRIME MINISTER'S MEETING WITH POMPIDOU.

I SAW SECRETARY GENERAL OF ITALIAN FOREIGN OFFICE THIS EVENING AND TOOK HIM THROUGH THE GUIDANCE IN YOUR TELEGRAM UNDER REFERENCE. I SAID THAT NO DOUBT HE HAD ALREADY RECEIVED MOST OF THIS FROM ITALIAN AMBASSADOR IN LONDON. GAJA REPLIED THAT, SO FAR AS HE KNEW, THERE HAD BEEN NO TELEGRAM FROM MANZINI. HE WAS THEREFORE GLAD TO KNOW IN WHAT LIGHT WE SAW THE FORTHCOMING MEETING.

2. GAJA ADDED THAT HE THOUGHT THAT IT WAS SENSIBLE TO ARRANGE A MEETING WITH POMPIDOU AT THIS STAGE. WHILE THE ITALIANS SHARED OUR VIEW THAT THE NEGOTIATIONS MUST BE WITH THE SIX IN BRUSSELS. THEY ALSO THOUGHT THAT IT WAS RIGHT TO KEEP IN TOUCH WITH THE FRENCH AND TO DO WHAT WE COULD TO ADVANCE OUR CASE, WHICH WAS ALSO THE CASE OF EUROPE. THE ITALIANS WERE NOT IN THE LEAST DISTURBED ABOUT THE FORTHCOMING MEETING.

3. GAJA SAID THAT MORO HAD BEEN GIVING MUCH THOUGHT TO THE FRENCH ATTITUDE TO THE NEGOTIATIONS. HE HAD CONCLUDED:

(A) THAT IT WAS IN THE FRENCH INTEREST TO CONCLUDE BY THE END OF JUNE SEMICOLON

(B) IF THE NEGOTIATIONS WERE NOT IN FACT CONCLUDED BY THAT TIME, THEN THE WAY FORWARD IN EUROPE WOULD BE LONG AND UNCERTAIN.

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/ s. I ASKED



4. I ASKED GAJA IF HE COULD TELL ME ANYTHING ABOUT POMPIDOU'S REPLY TO COLOMBO'S LETTER, WHICH HAD NOW BEEN RECEIVED ACCORDING TO THE PRESS. I REMINDED HIM ( MY TELEGRAM NO. 251) THAT HE HAD WISHED TO WAIT FOR POMPIDOU'S REPLY BEFORE TELLING ME MORE.

5. GAJA SAID THAT POMPIDOU'S REPLY HAD BEEN DISAPPOINTING. IT HAD BEEN SHORT ( ONE AND A HALF PAGES) AND IT HAD SIMPLY RE - STATED FRENCH POSITION BUT IN UNCOMPROMISING TERMS. GAJA DID NOT SHOW ME THE TEXT, BUT HE SHOWED ME A COMMENT WHICH THE ITALIAN MINISTRY OF F.A. HAD PREPARED FOR COLOMBO'S OFFICE.

(A) A REFERENCE BY POMPIDOU TO THE NECESSITY FOR AGREEMENT WITH NON - CANDIDATE EFTA COUNTRIES SEMICOLON

(B) POMPIDOU'S FAILURE TO GIVE ANY CREDIT TO THE UK FOR ACCEPTING THE TREATY OF ROME AND RULES MADE UNDER IT

(: )8(C) POMPIDOU'S INSISTENCE THAT ALL THE SIX SHOULD STICK TO ' ' COMMUNITY POSITIONS ' ' ALTHOUGH HE DID NOT SAY WHAT THESE POSITIONS WERE.

6. BUT GAJA SAID THAT NEITHER MORO NOR HE ATTACHED GREAT IMPORTANCE TO THE POMPIDOU LETTER, ALTHOUGH THEY HAD FOUND IT A BIT DEPRESSING. THEY THOUGHT THAT POMPIDOU HAD SIMPLY CAUSED SOMEONE TO DRAFT A RE - STATEMENT OF THE FRENCH POSITION WHICH GAVE NOTHING AWAY. POSSIBLY POMPIDOU HAD BEEN EITHER BORED OR ANNOYED WITH THE CORRESPONDENCE.

HANCOCK

EUROPEAN ECONOMIC & POLITICAL (SECRET)

DISSEMINATION:

END

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FM F.C.O. 101800Z

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FRAME

TO ROUTINE BONN TELNO. 377 OF 10 MAY INFO PARIS, BRUSSELS, ROME, THE HAGUE, LUXEMBOURG AND CODEL BRUSSELS.

## PRIME MINISTER'S VISIT TO PARIS.

THE CHANCELLOR OF THE DUCHY SUMMONED THE AMBASSADORS OF THE FIVE ON SATURDAY 8 MAY AT 3.00 PM TO INFORM THEM OF THE PRIME MINISTER'S VISIT TO PARIS. THE GERMAN, ITALIAN, LUXEMBOURG AND BELGIAN AMBASSADORS CAME IN PERSON AND THE DUTCH AMBASSADOR SENT A REPRESENTATIVE.

2. MR RIPPON GAVE THE NEWS, AND AFTERWARDS DISTRIBUTED A COPY OF THE PRESS ANNOUNCEMENT. HE EMPHASISED THAT THE VISIT SHOULD BE SEEN IN THE CONTEXT OF THE PRIME MINISTER'S OTHER MEETINGS WITH HEADS OF GOVERNMENT AND SAID IT IN NO WAY DIMINISHED THE IMPORTANCE OF THE MINISTERIAL MEETING IN BRUSSELS NEXT WEEK.

3. MR RIPPON ALSO UNDERLINED THE IMPORTANCE OF THE PACKAGE WE HAD PROPOSED TO THE SIX IN THEIR CAPITALS ON AGRICULTURAL TRANSITION, AND COMMUNITY PREFERENCE. IF THE SIX COULD AGREE ON THIS PROPOSAL, HE WOULD PUT IT FORWARD FORMALLY IN BRUSSELS NEXT WEEK. OTHERWISE HE WOULD BE OBLIGED TO MAKE A MUCH LESS SPECIFIC AND MORE GENERAL STATEMENT. THE PACKAGE WE HAD PROPOSED WAS GENEROUS, AND HE HOPED IT WOULD PROVIDE A SETTLEMENT TO THE PROBLEM. A SETTLEMENT HERE SHOULD PAVE THE WAY TO SETTLEMENTS ON NEW ZEALAND, SUGAR AND COMMUNITY FINANCE.

DOUGLAS-HOME

EUROPEAN ECONOMIC AND POLITICAL DISTRIBUTION  
EID

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ADDITIONAL DISTRIBUTION  
FRAME



M WASHINGTON 100415Z.

TOP SECRET

D E D I P.

DESKBY 100900 BST.

TO IMMEDIATE FCO TELNO 1608 OF 10/5 AND REPEATED FOR INFORMATION  
ROUTINE TO PARIS. (PERSONAL FOR AMBASSADOR)  
PERSONAL FOR P.U.S.

KISSINGER CAME TO SEE ME LATE THIS EVENING ON RETURN FROM  
HOLIDAY.

I EXPLAINED TO HIM PROBLEM OF DATES ARISING OUT OF THE ANNOUNCED  
MEETING OF P.M. WITH PRESIDENT POMPIDOU. HE READILY THOUGH CLEARLY  
UNHAPPILY ACCEPTED THE QUOTE TROJAN HORSE UNQUOTE SIGNIFICANCE OF  
A VISIT TOO CLOSE TO THE MEETING. HE SAID HE WOULD BE ABLE TO  
SATISFY PRESIDENT POMPIDOU BUT ADMITTED THAT THE FRENCH PRESS  
COULD NOT BE COUNTED ON. HE HAS UNDERTAKEN TO LET ME KNOW MONDAY  
OR TUESDAY WHAT HIS TRAVELLING INTENTIONS ARE BUT IS STILL WHOLLY  
UNWILLING TO DISCLOSE MOTIVES OF HIS JOURNEY.

REFERRING TO YOUR TELEGRAM 1245 OF 5 MAY I ELICITED THE FOLLOWING  
INFORMATION. THIS INFORMATION NOW TO BE GIVEN TO THE FRENCH STEMS  
FROM A FRENCH REQUEST SOME FIFTEEN MONTHS AGO. THE TIME LAPSE HAS  
BEEN REQUIRED BY WASHINGTON BUREAUCRATIC PROCESSING. HE THOUGHT THE  
FRENCH WOULD BE INFORMED THIS COMING WEEK BUT UNDERTOOK TO ADVISE  
ME ON THIS BEFORE HEATH/POMPIDOU MEETING. THERE IS NO SIGNIFICANCE  
IN THE TIMING. HE AFFIRMED THAT THIS SUBJECT IS LOW LEVEL AND  
CONCENTRATES ON SAFETY. AS TO THE COMPUTERS, WHILST THE FRENCH  
HAVE BEEN ABLE PREVIOUSLY TO BUY COMPUTERS OF THIS SCOPE THEY HAVE  
HAD HITHERTO TO GIVE A SIGNED UNDERTAKING THAT THEY WOULD NOT BE  
APPLIED TO NUCLEAR PURPOSES. SUCH CERTIFICATION IS NO LONGER  
BEING REQUIRED UP TO THIS CAPACITY BUT IS STILL REQUIRED IN RESPECT  
OF MORE POWERFUL COMPUTERS WHICH SUBJECT TO SUCH CERTIFICATION  
THEY ARE ABLE TO ACQUIRE.

ON FURTHER ENQUIRY, KISSINGER STATED THAT THIS DID INITIATE A  
NEW MOVE TOWARDS THE FRENCH ON THE PART OF THE WHITE HOUSE, BUT THAT  
THE STATE DEPARTMENT ATTITUDE HAD NOT CHANGED, OR THAT OF THE REST  
OF THE WASHINGTON MACHINE, PARTICULARLY THE DEFENCE DEPT. HE  
SAID THAT IF PRESIDENT NIXON WAS RE-ELECTED IN 1972 THEY WOULD HOPE  
TO GO CONSIDERABLY FURTHER. THE PRESIDENT, HE INDICATED WANTED  
TO GO AS FAR AS HIS POWERS PERMITTED HIM BUT HE WAS STRICTLY  
LIMITED



THIS OPENED THE OPPORTUNITY TO ASK IF HE SAW ANY DANGERS FROM THE U.S. POINT OF VIEW OF THE P.M. INTIMATING TO PRESIDENT POMPIDOU THE NEED THAT WOULD ARISE AFTER THE EEC ENLARGEMENT NEGOTIATIONS TO DISCUSS THE FUTURE OF WESTERN EUROPEAN DEFENCE KNOWING THAT THIS WOULD EARLY ON RAISE QUESTIONS OF DISCUSSION OF NUCLEAR ARMS. HE SAID THAT PROVIDED WE COULD BE CONFIDENT THAT PRESIDENT POMPIDOU WOULD NOT DISCLOSE THE NUCLEAR ELEMENT OF SUCH DISCUSSION THE PRESIDENT WOULD SEE NO HARM IN IT. IF THE SUBJECT WERE TO COME OUT IN THE OPEN OR LEAK BACK TO WASHINGTON BUREAUCRACY IT COULD DO GREAT HARM. HE AGAIN EMPHASISED THE PRESIDENT'S LIMITED POWERS AND THE ANTAGONISM OF DEFENCE DEPT AND OTHER TOWARDS SUCH MOVES.

CROMER.

P E R H U N:





Peter Morn

The PM said he  
w<sup>d</sup> like to leave after  
his afternoon speech  
(i.e. leave Central London  
about 4 pm.) +  
arrive in Paris at  
6 pm or so.

And we are now  
talking in terms of  
the HS 125.

Let us talk.

RIA

10.v.



PART 7 begins:-

RTAC PJM - 10.5.71

PART 6 ends:-

Paris / FCO 546 - 8.5.71