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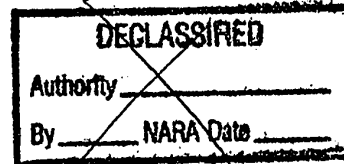
By JA NARS; Date 2/16/92

MEMORANDUM OF CONVERSATION

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

Date and Time: 13 December 1971; 0845

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



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

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

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

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

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

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

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

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

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

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

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

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

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

Dr. Kissinger: That is our intention.

Mr. Pompidou: That is very important.

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

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

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

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

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

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

Mr. Pompidou: We too.

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

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

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

Mr. Pompidou: It is a reasonable framework.

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

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

Mr. Pompidou: I see no objection to that.

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