

SECRET

RECORD OR A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRESIDENT OF THE FRENCH REPUBLIC AT THE ELYSEE PALACE IN
PARIS ON FRIDAY 21 MAY 1971 AT 1600 HOURS

Present:

Prime Minister	President Pompidou
Mr. A.M. Palliser	M. Chaban Delmas
	M.C. Andronikov

The Prime Minister and the President discussed and agreed on a number of the paragraphs in the draft Agreed Minute.

Sterling

The Prime Minister said that at their previous meeting the President had indicated that he attached prime importance to certain principles; while the Prime Minister had undertaken to consider the draft which included a certain figure. But he had said at the time that he would prefer to work on the basis which appeared acceptable to the President, namely that they should concentrate on principle and not include any specific figures. After careful reflection he would still prefer to omit any reference to figures. He had been in touch with the Governor of the Bank of England who had told him that, when the Basle Agreement was being renewed, he had informed the countries concerned that since there would be a further negotiation in 1973 he would meanwhile undertake no fresh commitments without consulting them. It was therefore preferable to adhere in their agreed minute solely to the point of principle, more particularly since it might conceivably not prove necessary to re-negotiate the Basle Agreements. There were various ways of bringing about the situation required by such a statement of principle. One was the proposed stabilisation through the unilateral reduction of the minimum sterling proportion (this was not a benefit to the member countries but a demand made on them). But he did not know what particular technique the British Government would wish to use in 1973.

SECRET

The Prime Minister and the President then discussed various possible formulations about sterling that would omit reference to any figures. They agreed on the wording used in the Agreed Minute.

Information of Partners in the Six

President Pompidou said that it might be helpful if he explained how he envisaged informing France's partners within the Six and particularly Chancellor Brandt and Prime Minister Colombo.

He and the Prime Minister had agreed that the Agreed Minute resulting from their conversations would be kept strictly confidential. In addition it was important that they should not give the impression to their negotiating partners in the Community that they had definitively settled matters that were for negotiation in Brussels.

The President therefore proposed - and he took it for granted that the Prime Minister and he would wish to adopt a common attitude - to write to Herr Brandt and Signor Colombo along the following lines. Both of them had written to him expressing the desire that Mr. Heath and he should meet. They had now met in Paris and had had wide-ranging discussions which were wholly in the spirit of the wishes expressed by Herr Brandt and Signor Colombo. In their conversations they had at no stage sought to supplant the negotiations taking place in Brussels between Britain and the Community. They had essentially carried out a review of fundamental questions and had compared their conception of Europe, of how it should be organised and what its future should be. These conversations showed that the views of Mr. Heath and himself closely coincided.

The President went on to say that he would inform his correspondents that he had in particular been convinced that the British Government was finally resolved fully to enter the Community and to contribute to its deepening.

He would continue that Mr. Heath and he could naturally not fail to consider the problems that were still outstanding in the Brussels negotiations, both in respect of the financial regulation and of issues such as that of New Zealand.

President Pompidou commented that the purpose of Mr. Heath and himself was not to arrive at solutions. These were not dependent solely on them. But he thought that he could say in his letter that their respective viewpoints represented significant progress and that this should facilitate the solution of these problems during the forthcoming negotiating meetings in June. He suggested that it would be impossible to avoid some mention of monetary matters: total silence on this subject would seem suspect. He might therefore say something along the lines that the Prime Minister and he, within the framework of the problems being considered in parallel with the negotiations, had had an extensive tour d'horizon of monetary problems, especially those relating to the present reserve role of sterling. He would add that, in his view, Mr. Heath realised that the development of monetary union in the Community would entail some substantial changes in this field.

The President commented that that would suffice. His conscience would then be at peace.

The Prime Minister said that he had been reflecting on the last section of M. Pompidou's proposed letter. He wondered whether this might not be expressed in positive form, along the lines that the British Prime Minister fully supported the development of economic and monetary union, (or its co-ordination, or whatever had been the expression employed in the Hague Communiqué), and also supported the action required to bring this about. He was concerned that the recipients of the letter should not be led to expect abrupt changes which

might seem likely to affect their respective currencies.

President Pompidou said that he wholly agreed and would act accordingly. The Prime Minister might wish to add that, in his view, there had been an evolution in French policy and that any possible concern about French reticence had been dissipated.

The Prime Minister agreed. He too intended to write to Herr Brandt and Signor Colombo.

President Pompidou said that it was important that neither of them should say more than the other in their letters. If there was any substantial difference between them, this would inevitably create uncertainty and prompt the question whether there was any reason for the fact that one man had said something different from, or additional to, what had been said by the other.

The Prime Minister agreed. He had taken note of the probable content of the President's letter to the German and Italian heads of Government.

Information of the House of Commons

The Prime Minister said that while they were considering this matter he wished to raise the question of what he proposed to say in the House of Commons. He would be making a Statement, in accordance with normal practice after his visits to other countries, to the House of Commons on Monday, 24 May. He proposed to confine himself to a broad explanation of the contents of the Communiqué. President Pompidou took note of this.

The Prime Minister said that he might be asked a question on the lines of "there have sometimes been misunderstandings in the past arising out of such meetings. How can you be sure that this will not be the case this time?" He proposed to reply that, as at all such meetings, minutes had been kept and he and the President had both seen the conclusions and agreed them.

President Pompidou said that he agreed to this. He would ask M. Schumann to summon the Ambassadors of the Five, take them through the Communiqué and explain it to them.

The Finance Regulation

The Prime Minister and the President examined a draft paragraph for inclusion in the Agreed Minute.

The Prime Minister said that he had listened with much interest to the President's comments on this subject at their previous meeting. He wished again to emphasise the importance of the fact that Britain had accepted the new French proposal for handling this matter, with its system of abatements, etc. This meant that Britain would, from the outset, be fully integrated into the Community system.

As regards percentages, the President had referred to the difficulty of estimating future G.N.P. and thus the relationship required to establish the appropriate key. He understood that the Commission thought that this should be slightly over 18%. But it was difficult to calculate accurately. The President had alluded to a percentage figure for the initial British contribution to the budget. He thought that this might be a preferable way of approaching the problem in that, if it were possible to reach agreement on a figure for this percentage contribution, this would enable a calculation to be made of the proper abatement figures once there could be sufficiently accurate assessments of G.N.P. to enable the key to be calculated. It was of course possible to make a rough calculation of the proper abatement but it was difficult to do this with any precision. Clearly it was right that our initial contribution should cover the cost to the Community of our entry. During the interval between their meetings he had consulted his advisers about the calculation made by Herr Scheel. Since Herr Scheel had spoken about this, British officials had discussed the matter in detail with their German colleagues and with the Commission; and after taking into account Danish

and Irish exports to Britain (since these were the two countries affected during the period in question) they had concluded that the cost to the Community of British entry would be about 4%. From this it emerged that the figure he had quoted the previous day to the President would have represented a 50% increase beyond the initial cost of entry to the Community. Moreover, he and the President had agreed the previous day that the British contribution during the transitional period should rise in a straight line and that there should be no excessive "jump" at the end of that period.

The Prime Minister said that he wished to put it to the President that we now accepted the whole system from the outset, in accordance with the new French proposals: we had agreed that we would advance to the end of the transitional period in a straight line: we had agreed that there should be no sudden "jump" at the end of the transitional period and not only were we now fully integrated in the system but we were prepared to contribute considerably more to it at the beginning than we had originally envisaged. But the President himself had said that he did not wish to put us in a position where our balance of payments was threatened; and it was indeed essential to avoid this. Moreover, if he was to create a feeling of general confidence in Parliament and British public opinion, he needed to be able to defend the initial contribution on the grounds that it was designed to cover the cost of our entry and to make a small additional contribution. This would be stepped up appropriately during the transitional period. But acceptance of such a low initial contribution by the Community would do more than anything to demonstrate to British opinion the desire of the Community to see Britain join. He accepted that it would be necessary to consider a larger initial contribution than that represented by the 30% to which he had referred the previous day. But it could not be much larger, and it might be simplest to seek to arrive at it by calculating it in terms

SECRET

- 7 -

of percentage contribution to the budget. He hoped that, on this very difficult question, it would be possible for the President and himself to move closer together and thus help their negotiators at Brussels. Reflecting over the past twenty-four hours on the sterling problem, he felt that if he had been able to understand more clearly and at an earlier stage the genuine anxiety the President had expressed to him at the nature of the Basle Agreement, he would have been able to deal more rapidly and adequately with that problem. He had only recently perceived the real nature of the concern felt about the sterling area. Equally now that the position was clear over Community finance, he hoped that it would be possible to come to a satisfactory understanding.

M. Pompidou said that he too greatly desired that, at their meeting, they could, without completely solving everything, prepare for the final settlement. But he thought that they were agreed in feeling that there were certain matters on which they could not hope at that stage to achieve final agreement: for example, the reference key. British and Community experts would for example need first to agree whether the G.N.P. in 1972 (the nearest year to entry) would represent about 18, 19 or 19½ per cent. Once this key had been determined, then there would need to be a discussion at Brussels of the abatement figure. But he was prepared to recognise that, in this discussion, there would be a tendency first to calculate the actual percentage contribution to the budget. He wondered, therefore, whether they could or should try to agree on a figure for the British contribution. This would make the Brussels talks seem meaningless. He felt that they must in all sincerity accept that there was at this stage bound to be a gap between the British and the French ideas and that this gap would eventually fall to be discussed in Brussels. The previous day they had discussed percentages but they had

SECRET

SECRET

- 8 -

not been thinking in terms of the same key. He had been working on a basis of around 20 per cent, the Prime Minister on 18 per cent. The key did not depend on them. In that context, the Prime Minister had spoken of an initial British contribution of $6\frac{1}{2}$ per cent. He, working on a different key, and on a different abatement figure, had arrived at $11\frac{1}{2}$ per cent. He wondered whether they could take the discussion much further; they were clearly condemned to meet somewhere near half way between these two figures.

The President said he was prepared to reveal that the French would be ready to go down to slightly below 10 per cent for the initial British contribution. He wished to underline the extent of the change this represented in the French position. Hitherto, and leaving aside their "basic proposals", they had always stuck firmly to the principle of an initial British contribution in double figures.

The Prime Minister said that he saw the difficulties in trying to reach agreement on figures. Perhaps it might now be best for further work to be done in Brussels, taking account of the various factors involved. He wished to say to M. Pompidou that, during the past two days, they had had very frank and very sincere exchanges about the future they both wished to see for Europe. They both agreed in feeling that some great achievements lay ahead of them. The President could claim a large measure of responsibility for this through the initiative he had taken at The Hague Conference. And it now seemed that the process would be completed under French leadership. It was important to ensure that the discussions at Brussels should not become embittered and that their negotiators should not get involved in excessive argument. He asked the President to recognise the extent of the change

SECRET

SECRET

- 9 -

in the British position. We were accepting the new system for calculating our contribution during the transitional period; we were accepting that there should not be too big a "jump" at the end. If we were now to be expected, as the President had suggested, to make an initial payment of around 10 per cent we should in fact be contributing in the first year nearly half of our total contribution over the whole transitional period, subject always to the key that would be established. This was a very big step for Britain to be expected to take in the first year, particularly since she would not be able, during that period, fully to integrate in and thus derive benefit from the Community.

President Pompidou said that, in this matter, his purpose was not to erect barriers to British entry and particularly not financial barriers. In any case this point was the only one of real importance that remained to be settled in Brussels. He agreed that they would not want the discussions there to take place in an unsatisfactory atmosphere. But he did not feel qualified, or indeed inclined, to reach agreement now on a common figure. They were in a Community: from the outset, though dealing with partners who were so anxious to see Britain in the Community that they were prepared to regard discussion as unnecessary, they had consistently sought to maintain the unity of the Six. He felt that M. Schumann could not possibly go to Brussels and say, in effect, that there was no need for the others to do anything more since everything had been done in Paris. Accordingly, he greatly hoped that the Prime Minister would be content with a statement of his (the President's) attitude in the following terms.

Once the reference key had been determined, the French Government would seek, with their partners, to rally to the

SECRET

British viewpoint to the extent necessary to ensure that the cost to Britain of the first year of membership should not be such as to endanger the British balance of payments.

The Prime Minister said that he of course respected the President's wishes. It was a mark of the confidence that had been established between them that he fully accepted what M. Pompidou had said about his intentions and what he and the French Government would do to achieve a settlement in the negotiations. The British Government, and he himself, were confident that the problems that he had placed before the President would be taken fully into account when M. Schumann next met his partners in the Community.

New Zealand

President Pompidou said that he knew there would be a flood of protest on this subject from the French producers of butter and cheese. The Prime Minister and he had discussed everything except the figures. He proposed that in the Agreed Minute they should say that they recognised the importance of the problem; that experts would consider whether, while taking account of the interests of the Community and of New Zealand, a distinction could be made between butter and cheese; that exports of New Zealand dairy products would be progressively diminished over a five year period; that the enlarged Community would then review the situation; and that it would do so in particular in the context of a possible international agreement on dairy products. He thought they should not seek to fix a percentage for the degression during the five year period. This should be left to the negotiators in Brussels. The Prime Minister knew the proposals that the Community had made. The matter could be left to the negotiators, on the understanding that while it might be difficult for political reasons for the Government of France to accept something, he (the President) could accept it if it resulted from a Community decision.

SECRET

- 11 -

The Prime Minister agreed this was the right way to handle the matter in Brussels. The President had shown great understanding of the political problem presented by New Zealand. He recalled that M. Pompidou had said that the New Zealand problem was best left to the end. It had indeed been left to the end of their own discussions and would probably be left to the end of the Brussels negotiations.

The Prime Minister said that his advisers told him that it would indeed be possible to separate the butter and cheese problems. For their part, when the negotiations resumed in Brussels, the British would be prepared to concentrate on butter and, in order to make the outcome politically more acceptable to the President, they would be ready to advise the New Zealanders that it would be best for them to accept this separation and, as regards cheese, to work for a very low final figure, possibly falling to nil. This would be a more sensible solution from the viewpoint of the Community as a whole. The objective should be that supplies of butter from within the enlarged Community should replace those hitherto bought from outside suppliers other than New Zealand. There would at the same time be a slight depression in amounts coming from New Zealand. President Pompidou said that he thought that they could agree on that.

The Prime Minister and the President then examined and agreed the draft paragraph on sterling for inclusion in the Agreed Minute.

They then examined and agreed the final Communiqué.

The Agreed Minute

President Pompidou said that he intended to convey to M. Schumann and to a few officials the substance of the Agreed Minute. But there would only be one copy of the

SECRET

SECRET

- 12 -

complete text itself. This would be kept at the Elysée.

The Prime Minister said that he would act likewise. He asked whether President Pompidou intended to convey to the others he had mentioned the substance of the paragraph in the Agreed Minute relating to sterling. President Pompidou asked whether the Prime Minister wished him to keep that paragraph to himself. The Prime Minister said that he would prefer this. President Pompidou undertook to do so.

Press Arrangements

President Pompidou thought that after two days of silence they could hardly avoid saying something to the Press. They might wish to consider jointly what should be said. But he thought they should keep their remarks general and "atmospheric" in tone. They might say that the progress they had made was such as to justify the expectation that the Ministerial negotiations in June should arrive at a final conclusion on all the important questions still outstanding.

The Prime Minister welcomed this. He said that he understood there was a tradition that the President of the Republic did not answer questions from the Press. He hoped that this could also apply to him, at least on the present occasion. President Pompidou said that this should certainly be so. It would be made clear to the journalists that they were not being invited to a Press conference.

The meeting ended at 6.20 p.m.

SECRET