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MEMORANDUM

THE WHITE HOUSE
WASHINGTON

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MEMORANDUM OF CONVERSATION

GRS

1/8/98

PARTICIPANTS:

American Side
President Nixon
Dr. Henry Kissinger
Alec Toumayan (Notetaker)

French Side
President Pompidou
Mr. Andronikoff (Notetaker)

DATE AND TIME: Thursday, May 31, 1973
3:10 - 5:30 p. m.

PLACE: Kjarvalsstadir
Reykjavik, Iceland

SUBJECT: Year of Europe; Economic Relations

President Nixon: I thought before going into the monetary and economic matters, where I want you to take the lead, Mr. President, that we could spend a few minutes about where we stand on the last item we discussed this morning. Without committing anyone to any action or schedule, our interests are the same as you said. And could you agree that first there could be some private exchanges between Dr. Kissinger and Jobert on your side--and it would be Egon Bahr and Trend--and after these exploratory talks each would report to each of the four of us on the different views presented?

Mr. Kissinger: In greater detail and without deciding the outcome of the procedure, existing negotiations would continue in the existing forums, and this group we set up would look formally into new measures and new initiatives among the four. Later on, in July perhaps, the deputy foreign ministers of all nations could meet to see how a general set of principles could be formulated, leaving open either to have a summit or not.

President Nixon: If and when we will have a summit.

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President Pompidou: The first is to reply to my question as to what is the purpose of all this. This being said, you mentioned Bahr, Jobert, Kissinger, Trend, but you cannot hope that these four men who enjoy the same degree of closeness to their respective chiefs of states, though with different administrative status, can meet without it being known and people asking why. They can't all come down simultaneously with the gout and all be taking the waters at the spa. How can you explain that these four men are meeting and why? Dr. Kissinger likes to travel; he could see them one after another. But I don't see how you could put all four men together now as being individuals. And people will say "what's up?" This would be detrimental to what we seek to attain and I feel that separate conversations would have the same result. You have close ties with the UK and with us and with the FRG. You can exchange views and see what outcome is possible. If not a summit, perhaps another meeting or a major declaration. I see no need for an unusual procedure, by which I mean not going outside embassy channels but having the appearance of a highly normal appearance.

President Nixon: The problem with Mr. Kissinger going around is twofold. First, it is an American initiative, and we feel it should spring from all Europe, and it comes after meetings at the highest level with Heath, Pompidou, Brandt. Concerning the goal, we should not be too precise. Some have said charter, but this preempts our rights and our responsibilities as chiefs of state to make a decision. I see exploratory talks which follow up consultations on the highest level which have taken place over the past few months. In each case agreement was reached, first that our interests are the same--you have said it, Heath and Brandt had said it too. The only difference of opinion is how best to serve the interest and the new Europe, the differences economically, and as we take a hard look at our security arrangements with respect to new developments in the world. Finally, as to presenting a goal, there is a need at this time for a new reevaluation of the Alliance on security and economic matters. Through these exploratory talks we seek to obtain the best thinking of all to carry forward in a constructive way after the bilateral exchanges.

Mr. Kissinger: In your basic outline in your report to Congress and in your speech which you asked me to give, you asked for some aim by the end of 1973 leaving open the question of whether to hold a summit or other forum. The aim being a general declaration of principles to guide us over the next few years. We look for procedures, and the

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deputy foreign ministers of all the nations could be guided by the exchanges that took place between the four.

President Pompidou: I will say only one word on the aim. I don't say those have not changed. It is essential that improvements of the alliance in or out of NATO must face up to the communist threat so the wording of the aim must remain vague. Concerning the methods, I suggest that Mr. Kissinger travel because he likes to. It is, after all, an American initiative, not French or FRG. But we can do it another way. Mr. Kissinger has to go back to Paris and could schedule another meeting on the occasion and make a stopover in London. Bahr can come to London and I will ask Jobert to go to Washington if you think it would be useful. But putting all four men together would be a problem because they do not have the same functions and it would look too much like a special event.

President Nixon: In response to your proposal I suggest that this can be worked out. Mr. Kissinger and I will contact the other three, have extended talks, and they will report back to the four of us. Thus we will avoid the problems of a mini-summit that I know you want to avoid. Concerning the aims, although there should be no charter, it is important to recognize France's new economic position and the new position should be discussed, so we should not limit our representatives to talking about the future of the alliance but about the future of each member and how they can best work together on a whole range of ideas.

There is talk in the U.S. of a confrontation between Europe and the U.S. There will be competition, yes, but if there is confrontation, if we do not come to an agreement on trade and monetary matters, this will not only destroy economic matters, it will destroy the alliance. I look forward to hearing your views, but it is important if we look at the aim to take the long and comprehensive view.

Mr. Kissinger: One more word on procedure. A number of negotiations are in progress. We are making a presentation to the DPC of NATO on general considerations, and a number of other economic discussions will continue in their present format. At one point we can merge all this and the deputy foreign ministers can see how to work on this and into a declaration of principles. Perhaps in a formal meeting of the alliance.

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President Pompidou: Yes, in the NAC, where the deputy foreign ministers can easily gather. As for the Reykjavik declaration, it can include such a reference.

Mr. Kissinger: With that or an ad hoc meeting so that economic matters can be put on the agenda.

President Nixon: I have thought, as I know you have, about the future of the alliance. On the security aspect, I would like some direct correspondence between us. Of course, Mr. Kissinger will echo my views. I would like also some correspondence with Heath and Brandt so that when I come to Europe, in the fall I hope, we can talk over all this again.

President Pompidou: To turn now to economic matters, I do not propose a solution nor do I wish to discuss a solution for the international monetary system or for the future trade negotiation as will take place in GATT. We can talk about those things as you wish. Rather, my purpose would be to speak to you of my very private thoughts which I have not shared with anyone before, which are not very fashionable but which I think may become the reality of tomorrow.

First, and simplest, the commercial aspect. If we argue over it for months, we can argue that the deficit of the U.S. commercial balance bears no relationship to Europe. This can easily be proved statistically. This deficit is essentially with Japan and Canada. The rest of the world does not figure in it very much. But that is not my purpose either. I think we are in error if we speak as if we were in a surplus situation which we are not. The only real problem is grain. We can reason and the U.S. can reason as if we are in a period of surplus, when we are in a period of scarcity. For two reasons: the needs of the less-developed countries will continue to grow continuously, and aid in food will continue to be given to them. And the second reason is that the communist system is in utter contradiction with agriculture and agricultural products. And barring an outstanding year, they will remain constant buyers. Therefore, the main producers, France, the U.S., Argentina, must reason differently. Being in a situation of scarcity we must aid the developing world. This can be seen as direct aid stocks, but there is the real reason why we must be in dispute on this. We are also in error when we try to sell at the cheapest price

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for the Russians who can sell much more and where we think we can help them and they help us.

Mr. Kissinger: The President developed this thesis to me two weeks ago and as a result we are now engaged in an interdepartmental study to see if we could come up with a study along the lines of OPEC. We should have the result of this study in a few weeks. We would be grateful if President Pompidou could give us confidentially how he views such a formula, because it is an imaginative approach that none of our people had thought about.

President Nixon: While keeping the proposal confidential, President Pompidou could float the idea himself. We face the economic fact that the U. S. , a major producer, is no longer in the dominant position which it occupied at the end of World War II. We must look to the financial, commercial balance of payments, etc. There is also a great resentment because it seems that every great idea starts in the U. S. and it seems this is not our idea. It would be good to have you float it, after it has been worked out a little more than some jackass in Washington would do.

President Pompidou: I think I can launch it publicly. I don't give as many press conferences as you do--four or five a year--but I will try. First, let me say a word on agriculture. We are seeking to maintain a level of dairy products. I could cite all kinds of environmental factors but there is primarily the reason that if the five or six per cent of the whole population who are small farmers move to the city, this upsets the political balance of the country.

Concerning the monetary question, I know no solution at present. I wouldn't think a new system will come about before 18 months or two years. Your situation improved far more quickly than the experts said. This is a fortunate development for all. One situation that cannot last is the level of reserves in the National Bank. Take the Bank of France, it has gold and non-convertible dollars unusable to us unless we want to run a balance of trade deficit, or who would give an ounce of gold at the official price? One of these days this system is bound to break down--I have just read the critical communique of the Azores. I feel very deeply and I assure you I am not being dogmatic. And I am not thinking there of gold in a future international system. But I

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feel very deeply that to expect dollar convertibility tomorrow or very soon is a pipe dream. And one way or the other we must give the gold here in the reserve banks a level or price similar to what prevails on the market. I also believe it is difficult to set a price unless we authorize the bank to buy or sell gold at a price convenient to them, because this would merge the two: the French market and the lack of a market.

I think this very deeply, and my idea was once viewed as an attempt to give gold back, and I think this will be acceptable between European countries. Eventually it would have been acceptable long ago except that the FRG has very little gold. I thought I was a genius, but I read just recently that someone has made a very similar suggestion.

Mr. Kissinger: President Pompidou tactfully referred to the talks in the Azores, Jobert also, which leads tactfully to my last question. Perhaps we should have the French review if there was anything concrete we were committed to do that was based on seeing France as a not friendly country.

President Pompidou: I was alluding to the fact that nothing remains of the secret communique we both signed at the Azores, not even the rate of the U. S. dollar.

President Nixon: You are referring to the obligation we undertook to defend the U. S. dollar and the two devaluations that ensued.

President Pompidou: The first devaluation was foreseen. Today, in fact, there is a third devaluation, in the sense that the dollar is quoted at 5% below the level it reached after the second devaluation.

President Nixon: On SDR's, what role should that play, with the U.S. dollar playing a less significant role and gold not as significant as in the past? U.S. experts ask if SDR's should play a major role. Before you answer, let me tell you in secret that, as Mr. Kissinger knows, there was a vigorous debate with our Treasury people on the aircraft coming over as to what our position should be. Some think as doctrinaire economists that you and I must look at the overall political view and ramifications. Shultz was opposed to the convertibility largely as the result of my own insistence, and he agreed largely as a result of

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the Azores. He has indicated in his speech to the IMF that under proper circumstances a new convertibility would and should be instituted. The problem is that you don't want and I don't want to return to a system that will be too rigid and break down. It is ironic to say that to be stable the system must be flexible. We have instructed Treasury to follow this line. U. S. experts expect that SDR's will play a major role.

President Pompidou: Were I an American, I would not say that things were altogether negative at present. After all, the U. S. dollar continues to play its role as in the past, it is a reserve currency, and if I buy Deutsche Marks as a result of intra-European currency agreements, then by the end of the week I am told to give them back and take dollars. But it is not in the interest of the U. S. to have this situation going on.

Much more serious is that I foresee that the Soviet Union will ask to join the IMF. Everyone will agree in the name of detente and the Soviets will come with a currency of fixed parity based on gold and convertibility. Consider the consequences.

As to SDR's, they are based on what? What is their value other than a symbolic value? I cannot believe in your proposal of setting up theoretical roles for issuing SDR's for certain parameters of limits. I frankly found no one yet who believes in it either. But all will be accomplices to connive in this, debtors and inflation, particularly to ask for the West's issuing of SDR's. Less developed countries, for instance, will not have much resistance. In order for me to speak about SDR's I must know to what they are pegged. Is it gold? No one believes this. Who will give gold in return for SDR's? Only the market will decide if SDR's are to be treated as "play" currency or good currency. If SDR's are looked upon as good currency, they will be as good as travelers checks and will be exchanged freely, but if they are judged to be fake they will not last long. SDR's can play a valuable role if they are appreciated by the market, and if not the system won't work. Or else we will have to act, meaning to give a counterpart to SDR's, and if it is gold then we are back where we started. SDR becomes a fictional replacement. I am not opposed to the idea but I seek concrete proposals and reassurances. We also have economists such as Mendes-France who thought that money should be based upon raw materials, but no one else believes in that. A currency must meet two criteria: It must be convenient; it must be secure. It must be recognized as secure and accepted as convenient. We are ready to look into conditions

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needed to make SDR's meet these criteria. We await your clarifications because this is after all a U.S. proposal, but we cannot say in advance without knowing of the role they will play.

Be that as it may, if I ask for these questions to be placed on our agenda and therefore to have M. Giscard d'Estaing here so that Shultz will be here, it was very largely for public consumption, so that the public can say "they spoke about it". I do not intend to try to push an international system or talk about it. But if I were Brezhnev I would tell you, "We are friends; we want to join the IMF, the world is united and saved from those Chinese." If he says that-- and if he does, it won't be because I put him up to it--how can you refuse? We can't legally refuse. This is an awesome weapon in the hands of the Russians who have already tried to regroup currencies for them and their satellites.

We don't want to rush you. Your recovery has been quicker, deeper and longer-lasting. So a time will come when progress is easier but some problems will remain. If one day the U.S. had to have SDR's in Deutsche Marks, francs or lira, this would be all right. I did not intend to seek to make progress today, but just to tell you that the present situation cannot last, all the more so because it is disastrous for Europe. Appearances are good but there is good fragility beneath. But if we are up against a crisis it will put our backs to a wall and we will need solutions urgently.

Dr. Kissinger: Have you made a study of the implications of Soviet entry into the IMF? The first time I heard about this was when your Foreign Minister mentioned it to me last night.

President Pompidou: We have not made a study and the reason Jobert told you is that I told him to.

Dr. Kissinger: It would be valuable to us to have your estimate, and a note from you would be very useful.

President Nixon: I want to be prepared when I deal with the Communists, because this possibility had never occurred to me.

President Pompidou: I am sure it will come. It fits Soviet policies. The Russians recognize the EC, but every time they mention it they mention recognition of the COMECON by the EC so that both will be

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on the same level. EC is economic with a political meaning, and COMECON is something quite different. The satellites are conniving in this sort of approach. Romania asks for a special relationship with the EC saying it helps them in loosening their ties with the Soviets, but then all the other countries follow. We see the same at Helsinki, where Romania plays the role of the independent nation but in the end always follows the Soviets' line.

Dr. Kissinger: To put it concretely, you know our official views. How can we reflect your concern without abandoning our official views?

President Pompidou: I have no tactics. I didn't come with any. Knowing I would see you I just want to share with you, President Nixon, my deep thoughts. I acknowledge that it would entail reversal of U.S. policies. I just hope that Brezhnev will not be in the IMF in three weeks. The situation is difficult now and it will become untenable. I will not say that the Soviets will definitely press their advantage, but all signs point to them doing just that. We have long believed that contact between the West and the Soviet Union would rot them; they are convinced it will rot us, and yet we are compelled to let detente go on.

President Nixon: Concerning military matters, as Secretary Shultz' speech to the IMF indicated, we have moved off total rejection of convertibility. And in the second place I recognize that the present situation is too unstable. In the third place, one of our goals must be to develop with the other major three nations a new system, which might well involve convertibility if safeguards can be found that the system is not too rigid or crisis-prone. These are the guidelines I gave to Secretary Shultz. I do not believe that the world financial press can say that the financial position is totally opposed to the U.S. position. The U.S. position is flexible. The French stand on gold is not as inflexible as will appear from the world financial press. I will not take steps leading to confrontation with the French government and the others in the group of 20 looking to develop a more stable system, more permanent than the present temporary system with the U.S. floating and being non-convertible. To give you an example, I read an article in the financial paper that all major countries were in agreement on the monetary system except for France and the Republic of South Africa, both countries with gold. I don't want a

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situation where we are moving ahead and France remains outside. I think it is important to find a way to have French views represented in whatever system we design.

Dr. Kissinger: You, Mr. President, combine financial expertise with political vision, and our President combines a sense of history with political sense and must leave financial matters to experts.

President Nixon: What he really means is that you are your own Secretary of the Treasury and that I must try to instill political ideas into my Department of the Treasury.

Dr. Kissinger: Could you send a message to President Nixon, drafted in non-technical language, expressing your views why the present situation is against all our interests, including the U.S.'s own, and what is it that you want to achieve? We can guarantee you that this would be an essential part of our considerations, and the dialogue could then be instituted at the level at which our President would be more comfortable rather than talk of rates and levels where he would be more at the mercy of our Treasury people.

President Pompidou: I will do so gladly. I believe also I read the article you referred to, that the Deputies of the 20 all opposed France and the Republic of South Africa which asked that the SDR's be tied to gold. But I am struck by the fact that most countries only have tangential interest in that matter. Heath is not much interested. The City in London is interested in your dollars only because that market happens to be in London. Only the Dutch in the EC have a global view of the monetary problems. I view the problem as a full-fledged political problem because if now a little more or a little less is given for the franc and here the scruples of the technicians are just as useless as in the trade area. Technicians always err because they know too much. They erred on the timing for the U.S. recovery, which they thought was far off into the future. They were also wrong about the UK which rallied far quicker than they thought and which is no longer the sick man of Europe but will be ready to wage a close economic struggle inside the EC.

President Nixon: I have one tactical suggestion and one general observation. Dr. Kissinger will be in Paris on June 6 to see Le Duc Tho. If you like, it would be useful if he had a preliminary meeting with

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Jobert. And you can tell Jobert what your general sentiment is, so that Dr. Kissinger could get the French views first before he travels to London and Germany. He might also make a stopover in London on that occasion but he has to be back in Washington to prepare for the Brezhnev visit.

Dr. Kissinger: I understand that the two parties will depart for the airport tomorrow immediately after the talks. And we have some 200 members of the press who should be briefed and it is important that both spokesmen say exactly the same thing. If you agree I would brief the press this evening for our side and I would say substantially the following:

First I would say what we agreed upon this morning, that the two Presidents carried out a review of the world situation and of the relations within the Atlantic Alliance in a useful and constructive manner. In the course of this review, President Pompidou stressed the important role played by U.S. forces in Europe and the danger of a unilateral reduction of such forces. President Nixon indicated that he fully concurred with President Pompidou's assessment.

In the second place, in connection with what we in the United States have called "The Year of Europe", I would say that we have agreed to carry out this concept in the closest cooperation with the French and use high level bilateral exchanges. I would add that a number of negotiations being currently under way on specific issues will continue in the established forums, and as progress is attained a meeting of the ~~deputy~~ foreign ministers on an ad hoc basis would be envisaged to see how it all fits together. Whether there should be a summit will be decided after the results of the other negotiations are all in.

President Pompidou: Yes.

Dr. Kissinger: Whether there is a summit or not, President Nixon would go to Europe to carry on the bilateral contacts.

On trade and monetary matters the French President gave a thorough presentation of his views and we agreed that we would study them more attentively. Vietnam and the Middle East were touched upon, and a number of bilateral issues will be taken up in the morning's session.

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It will be very useful for the further evolution of our bilateral contacts if the same constructive note is stressed by whoever briefs the press for the French side, because the press will be on the lookout for anything they can peg as confrontation, impasse or unhappiness.

President Nixon: Bring out also, as President Pompidou stated earlier, that the two Presidents agree that our interests are the same and the question is how best to serve these common interests.

President Pompidou: I have said it because I think it is, and they will no doubt call me a reactionary for saying it.

Dr. Kissinger: If the two Presidents agree, I will brief the press strictly along those lines and I will not go beyond this framework.

[The Presidents agreed, and the meeting adjourned.]

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