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France, the Rueff Plan  
and the Free Trade Area

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HEC No. 98/8

# EUI WORKING PAPERS



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**EUROPEAN UNIVERSITY INSTITUTE, FLORENCE**

**DEPARTMENT OF HISTORY AND CIVILIZATION**

**WP 940  
EUR**



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Printed in Italy in December 1998  
European University Institute  
Badia Fiesolana  
I - 50016 San Domenico (FI)  
Italy

Within one week of his election to the Presidency of the new Fifth Republic, de Gaulle had adopted a radical plan for stabilising the French economy. Largely the work of the committee chaired by the right-wing *Inspecteur des finances* Jacques Rueff, the plan entailed cuts in public expenditure, increases in taxation, a devaluation of the franc by 17.5 per cent and its convertibility into dollars, as well as full compliance with the trade liberalization programme of the EEC and the OEEC.<sup>1</sup>

The combination of domestic deflation with the liberalization of foreign trade was quite a novel remedy for curing the persistent twentieth-century problem of inflation in France. For de Gaulle the commitment to liberalize foreign trade was nothing less than revolutionary.<sup>2</sup> His support for the EEC was no less so in view of his antagonism to any form of European integration while in opposition. That de Gaulle took such a revolutionary step in the face of almost universal opposition from his government was critical for establishing French leadership in the EEC on the bases of a strong economy. Contrary to warnings that the beneficial effects of devaluation on the balance of payments would be quickly reversed, leading to renewed protection and foreign indebtedness,<sup>3</sup> that of December 1958 facilitated the participation of the French economy in the trade liberalization programme of both the EEC and GATT with one of the fastest growth rates in Europe.

Why de Gaulle accepted the Rueff plan when Antoine Pinay, his minister of Finance, along with most other ministers and business leaders, opposed it, has been explained in a number of ways. For François Caron, de Gaulle's decision rested on a combination of power and political will. De Gaulle could take the tough measures necessary to stabilise the economy because, unlike his predecessors, he was not at the mercy of pressure groups and political lobbies, and unlike them he was not prepared to continue borrowing from the United States to finance the external deficit.<sup>4</sup> According to Andrew Shennan it was not simply because de Gaulle was convinced by Rueff and his advisers that the plan would reduce inflation and revitalise the economy through the stimulus of competition, but because he was attracted by its theatrical elements – “the symbolism of a new franc to mark a new political order, the grand gesture of carrying out commitments to Europe that the Fourth Republic had given up hopes

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<sup>1</sup> Paula Arnaud-Ameller, *Mesures économiques et financières de décembre 1958* (Paris 1968); also Institut Charles de Gaulle, 1958. *La faillite ou le miracle. Le plan de Gaulle-Rueff* (Paris 1986).

<sup>2</sup> Charles de Gaulle, *Mémoires d'espoir. Le Renouveau 1958-1962* (Paris 1970, 151).

<sup>3</sup> André de Lattre, oral history archives, Institut Charles de Gaulle.

<sup>4</sup> Alain Madelin (ed), *Aux sources du modèle libéral français* (Paris 1997, 445-447).

of honouring and the rhetoric of a coherent plan of renovation as opposed to a collection of policies".<sup>5</sup>

On the other hand, contemporary observers were struck not by the plan's theatrical qualities but by the question of whether it had been imposed on France as a result of Britain's decision to restore the convertibility of sterling in retaliation for France's rejection of the British proposal to set up a Free Trade Area (FTA). Launched in autumn 1956, the British proposal had aimed to create a large free trade area for industrial goods covering all OEEC countries in order to prevent the discrimination which would otherwise arise as the six common market countries began to liberalize trade among themselves on 1 January 1959. In November 1958 the French government, after months of prevarication and apparent indecision, declared its opposition to the FTA.

Contrary to the fears of many French officials and ministers, the rejection of the FTA by France when it was strongly supported by West Germany and Benelux did not lead to the collapse of the EEC. What is not clear is whether the decision marked a reversal of previous government policy, nor indeed why de Gaulle rejected the FTA which, with its intergovernmental character and larger geographical area than the EEC, conformed more closely to his stated views on Europe than did the EEC. Why did he honour the Treaties of Rome when he had reputedly told Michel Debré, who was to become his first prime minister, "what use are these treaties? We will tear them up when we are in office?"<sup>6</sup>

The purpose of this paper is to analyse the reasons for de Gaulle's dramatic policy choices in 1958, which, if they marked a reversal of his earlier views on Europe, were to provide the key to understanding his subsequent policy towards West Germany, Britain and the EEC.

## THE ECONOMIC LEGACY OF THE FOURTH REPUBLIC

Although he was brought back to power after twelve years in the political wilderness chiefly to solve the problem of Algeria, de Gaulle was confronted immediately with a number of economic and financial problems which called into question France's ability to pursue the campaign in Algeria and at the same time honour its trade liberalization commitments to both the EEC and OEEC. Since the second quarter of 1957 France had been running a deficit in its balance of payments, caused partly by the cessation of American credits but increasingly by

<sup>5</sup> Andrew Shennan, *De Gaulle* (London 1993, 88).

<sup>6</sup> Quoted in William B. Cohen, "De Gaulle et L'Europe d'avant 1958", in Institut Charles de Gaulle, *De Gaulle en son siècle, Tome 5, L'Europe* (Paris 1992).

the excess demand arising from the enlarged military budget. Rather than cut its other expenditure or raise more revenue through taxation to finance the war in Algeria, the Mollet government preferred to re-impose import controls. Thus no sooner had the Treaty of Rome been signed by the French government, committing it to the establishment of a customs union beginning on 1 January 1959, than it was demonstrating its inability to sustain any form of trade liberalization. When the re-imposition of import controls in June 1957 failed to correct the deficit in the balance of payments it was followed by a disguised devaluation of the franc in August 1957 by 20 per cent.<sup>7</sup> However, the worsening political situation undermined both these policy measures. On 30 September 1957 the government which had been led by the young Maurice Bourguès Maunoury with a slender majority since May 1957 was brought down by the Gaullists led by Soustelle and forty independents on the question of Algeria. With neither Pinay nor Mollet able to form a government it was not until 5 November 1957 that a still younger Radical with fewer political enemies, Félix Gaillard, managed to form one. Gaillard immediately turned to Jean Monnet, his former boss in the *Commissariat au Plan*, to help solve the critical foreign exchange problem by negotiating foreign credits. The two main sources were Europe and the United States.

Towards the end of November 1957 the Managing Board of the European Payments Union (EPU) made it clear that the economic measures taken by France up to that date fell short of what would be needed for it to secure further credit from the EPU. Quite simply, if the government could not cut its military expenditure it would have to cut its civil expenditure, the Managing Board argued, and honour its commitments to liberalize trade with OEEC.<sup>8</sup> During the negotiations which Monnet subsequently embarked on with the American Treasury he was left in no doubt that if the aid granted, which in total was to amount to 657 million dollars, was not successful in finally stabilising the French economy, further loans would be on terms which would strip the French government of the last shreds of its autonomy in domestic and foreign policy-making. The stabilisation measures which were finally agreed on focused entirely on public finance and credit, as the Managing Board of the EPU had recommended. Thus, for example, a strict ceiling was to be fixed for the budget deficit, medium term credit granted by the Bank of France for housing was to be reduced, and the counterpart of foreign aid was not to be used to meet the current

<sup>7</sup> On 12 August 1957 the French authorities introduced a 20 per cent surcharge on sales of foreign exchange and a 20 per cent premium on purchases of foreign exchange against French francs.

<sup>8</sup> OEEC, TRA 364. Note 27, November 1957.

needs of the Treasury as in the past. Unpopular as these measures might be, Monnet said "*mieux vaut risquer une crise politique que mettre en péril le crédit de la France*".<sup>9</sup>

In addition to these domestic stabilisation measures Monnet was later to elaborate a set of proposals for stabilising France's external finances within the framework of the EEC. What Monnet wanted was to build on the very loose provisions for liberalizing external payments specified under article 106 of the Treaty of Rome in order to set up a clearing union among the Six. This clearing union would have a reserve fund, largely financed by West Germany, which would provide short-term credit for countries with balance of payments deficits as well as the longer term credit to finance the investment which Monnet considered to be indispensable for their economic expansion. All the operations of this Fund would be denominated in a European unit of account – the "Moneur" or European money which would be as stable as the most stable of the participating currencies. The Managing Committee of this Fund would meet regularly with ministers of finance and central bank governors to try to bring their economic and monetary policies into line. All this was to be agreed with the Germans beforehand so that it could be announced as a Franco-German initiative on 9 May 1958 – a date of great symbolic importance in both countries.<sup>10</sup> But in Monnet's view a precondition for French participation in the clearing union as in the common market was the devaluation of the franc. However unpopular a measure it was politically, he saw it as the best, perhaps the only way to bring French prices into line with international prices, as well as to inspire sufficient confidence for French capital held abroad (estimated as between six and eight thousand million dollars) to be repatriated and to attract foreign investment.

Were France to take such a decision the advantages of Monnet's proposal were obvious. As a net debtor in the EPU France stood to lose the automatic credit facilities when it was wound up and currencies became convertible. This would put greater pressure on French governments to balance their budgets and would jeopardize spending on public investment or indeed on the war in Algeria. Depending on when it was wound up, France faced a bill for repaying its debts to the Union. On the other hand the EEC as a whole was a creditor to the EPU and together had almost the required number of votes to determine the timing of the Union's dissolution. Were the EPU to be replaced by a clearing union in the EEC, France could continue to enjoy credit facilities to support both domestic

<sup>9</sup> Pierre Uri, private papers (PU), Letter from Monnet to Pflimlin and Gaillard, 30 November 1957; PU 112, Letter from Monnet, 20 February 1958.

<sup>10</sup> PU 112, Note: Le marché financier européen, 25 February 1968; Proposals from Monnet, 6 March 1958 and 24 March 1958.



spending and the exchange rate. But all this depended on France's reaching a prior agreement with West Germany. However, the escalating crisis over Algeria which brought down the Gaillard government on 15 April 1958, leaving France on the brink of civil war, ruled out holding any such discussions with West Germany by 9 May 1958. The return to power of Charles de Gaulle on 1 June 1958 seemed to rule them out definitively.

How de Gaulle would tackle the country's economic and financial problems was closely linked to his response to the British proposals for creating a Free Trade Area in Europe. From the outset in autumn 1956 when the British had announced their proposal for a FTA the French had faced a dilemma. The same political concerns which had prompted the then prime minister Guy Mollet to propose in September 1956 that France and Britain should form an imperial customs union to keep France out of the common market made the FTA seem attractive when it was proposed soon afterwards. Clearly any treaty which linked Britain to western Europe and thereby moderated German power held strong political appeal in France. On the other hand the British proposal included none of the safeguards which the French had successfully negotiated for the EEC Treaty. Thus Britain did not envisage a common policy for agricultural protection based on common prices and marketing arrangements, insisting that trade in agricultural products should be excluded from the Free Trade Area. This was designed to enable Britain to maintain its system of imperial preferences. Nor did the British proposal envisage the harmonisation of social legislation, the creation of a common investment fund, temporary safeguard measures to protect the exchange rate, the setting of a common external tariff, or the inclusion of the empire and commonwealth. As a result, many officials in the Quai d'Orsay and in the Ministry of Industry and Trade shared the concerns of French industrialists and farmers that the British proposal would suit Britain's economic interests and harm those of France. The general view was that unlike the Treaty of Rome the British proposal failed to find a balance between risks and advantages.

However, the head of the Economic Cooperation Section of the Quai d'Orsay, François Valéry, found these arguments superficial. As he pointed out, the greatest competition which French industry faced was not from Britain but from West Germany. This meant that the wider market offered by the FTA could actually diffuse the pressure from West German industry on the French market. As far as the safeguard measures to prevent a devaluation were concerned he argued that a devaluation of the franc was inevitable since the existing policy protected the least competitive sectors. The advantage of harmonising social

charges was, he considered, more psychological than real, while the exclusion of agriculture could actually be advantageous since it would remove one of the many problems which were envisaged in trying to agree a common agricultural policy in the EEC.<sup>11</sup>

What the French National Assembly decided on 22 January 1957 was that the negotiations for the Free Trade Area were to be concluded as soon as possible after those of the EEC and to carry guarantees equivalent to those of the Treaty of Rome.<sup>12</sup> It became the task of the Intergovernmental Committee set up in October 1957 and chaired by Reginald Maudling, the British paymaster general, to determine the nature of those guarantees.

However, the severe deterioration in the French economic and financial position over the course of 1957 called into question the French government's ability to put the National Assembly's decision into effect. In December 1957 Olivier Wormser, director of economic and financial affairs at the Ministry of Foreign Affairs and the government's chief adviser on the FTA set out the French government's choices. The simple option, Wormser explained, would be to decide not to pursue the negotiations. This would be supported by most parliamentary and public opinion, by agricultural groups and by employers. But such a brutal approach would have a number of external disadvantages in his view. It would provoke an open conflict with Britain which could have serious economic and political consequences for France, particularly in France's relations with the Soviet Union. It would cause an economic crisis in Europe which would jeopardize the Atlantic Alliance and the effective operation of NATO. Nor was it clear that the United States would support such a French strategy, which might make Jean Monnet's task of negotiating a loan even more difficult. More importantly such a negative policy would produce a crisis within the EEC. While Italy might not react too strongly, the same would not be true of West Germany or the Benelux. It was not certain that the EEC would survive such a crisis.

The other option was to accept a Free Trade Area Treaty which was as close as possible to French conditions. This then raised the question of whether time could be bought to negotiate a new treaty which incorporated French conditions. Short of obstructing progress within the Council of Ministers Wormser could not see how the timetable could be altered. What the French government could do, he suggested, was to propose a delay in order to allow the institutions of the EEC time to establish their authority. According to Wormser the French government had to consider its options urgently and if it accepted the

<sup>11</sup> Ministère des Affaires Etrangères (MAE), DE-CE 1945-1960, 740. Note from Valéry, 9 October 1956.

<sup>12</sup> MAE, DE-CE 1945-1960, 744. Note of 24 June 1957.

second one, as he recommended, then it had to begin taking the steps necessary to prepare public opinion to ensure that the treaty would be ratified by the National Assembly. As a result France would gain credit on the international stage for being positive in the face of adversity, he argued.<sup>13</sup>

When French ministers met on 9 January 1958 they seemed overwhelmed by the problems of the FTA. Gaillard, the prime minister, argued that France was not in a position to join a Free Trade Area which had even fewer guarantees than the Common Market, which was itself a risk for France. He advised his ministers simply to resist Maudling's pressure to sign a treaty at that time and to concentrate instead on studying the conditions of competition between Britain and France.<sup>14</sup> The fear of Christian Pineau, minister of foreign affairs, was that France would face a repetition of the EDC fiasco if it signed a treaty under pressure from Britain, which it would then be unable to ratify.<sup>15</sup> In general ministers and officials were divided between a minority who were prepared to accept the FTA or some version of it in order to preserve good relations with the United Kingdom and the common market countries but who did not know how to win over public and parliamentary opinion in France; and a majority who rejected the FTA but did not know how to make that acceptable to Britain and the common market. The only common ground between the two positions was on the need to change the treaty as drafted by Britain. The Quai d'Orsay, which was prepared to accept a FTA for foreign policy reasons, hoped that a treaty which incorporated French conditions could overcome domestic opposition. On the other hand the Ministry of Finance hoped that during the negotiations to agree a new treaty, France's common market partners would come to share France's hostility to the whole idea of a Free Trade Area.

The French counterproposal which was finally drafted towards the end of February 1958 owed much to the ideas of Pierre Pflimlin who had become Minister of Finance the previous November. What Pflimlin argued was that it was time for the French government to go on the offensive and state that its objective was the harmonious development of the European economy. While free trade could be a means to that end it was not an end in itself as the British maintained. But free trade could only be achieved, he argued, through a process comparable to that set out in the Treaty of Rome, with common policies, the harmonisation of costs, an agricultural policy based on European agricultural preference as a counterpart to British imperial preferences, and including at the very least a British commitment not to play European agricultural suppliers off against each

<sup>13</sup> MAE DE-CE 1945-1960, 741. Wormser to Gaillard, December 1957.

<sup>14</sup> MAE DE-CE 1945-1960, 753. Meeting 9 January 1958.

<sup>15</sup> MAE DE-CE 1945-1960, 753. Note 20 January 1958.

other; and a sectoral approach to the problem of external tariffs.<sup>16</sup> A more fighting name than Free Trade Area would therefore, he argued, be a European Economic Union.

The reaction of France's EEC partners to its counter proposal for a European Economic Union was one of disappointment.<sup>17</sup> Indeed Ludwig Erhard, the liberal German Minister for the Economy, found it so unacceptable that the French had to withhold its publication.<sup>18</sup> The most positive response, predictably, came from the Italian government. The Italian Minister for Foreign Trade, Guido Carli, picking up one of the French concerns, immediately drew up a plan for addressing the problems caused by disparities in external tariffs. Under the 'Carli plan' a band for external tariffs was to be set within which goods would be allowed to move freely. In those cases where countries preferred to impose tariffs outside the agreed bands, compensatory taxes could be levied by countries operating within the tariff band. The idea was that this would increase the pressure to harmonize external tariffs and to create a customs union.<sup>19</sup>

To try to agree a common position on this and on other aspects of the French proposals the Six set up a special commission chaired by the Belgian representative to the OEEC, Roger Ockrent. Not only did this delay the wider discussions within OEEC but it increased the concern of the rest of OEEC that the Free Trade Area would not be set up at all. To mitigate the effects of the delay and to buy time for the negotiations for the FTA, the President of the European Commission, Walter Hallstein, proposed at the end of April 1958 that the six common market countries should extend their tariff reductions of ten per cent scheduled for 1 January 1959 to all members of OEEC.<sup>20</sup>

Maudling's own view of the French position was that there was no support at all for the FTA on economic grounds. Given that the only support was political,

<sup>16</sup> MAE DE-CE. Papiers Wormser, Vol. 38, Note 17 February 1958.

<sup>17</sup> For the full text of the 'Projet Français associant à la Communauté Economique Européenne les autres pays européens au sein d'une Union Européenne de Coopération Economique', see PRO, T 234/375.

<sup>18</sup> Erik Bloemen, 'A Problem to every Solution. The Six and the Free Trade Area', in Thorsten Olesen (ed), *Interdependence versus Integration. Denmark, Scandinavia and Western Europe 1945-1960* (Odense 1995).

<sup>19</sup> Miriam Camps, *Britain and the European Community, 1955-1963* (Princeton and London 1965, 143); and Francesca Fauri, 'Italy and the European Free Trade Area: the Economic Explanations for a Failure' (unpublished paper).

<sup>20</sup> MAE DE-CE 1945-1960, 762. Memo 28 April 1958.

French ministers, he felt, had done little to explain this to public opinion. Whereas they claimed in public that the Treaty of Rome was a balanced concept, unlike the FTA, in private, as Maurice Faure then Secretary of State for foreign affairs told Maudling, the French were satisfied that the Germans had paid a high price for the common market in accepting the terms of association for the French Overseas Territories and for French agricultural exports.<sup>21</sup> One of the dangers of the FTA for France was that it might make West Germany question the high price which it had paid for the common market.

But were the FTA not to be agreed and were discrimination to be re-introduced into European trade, as far as many in OEEC were concerned this would remove the basis for providing automatic credit through the EPU, since such credit was extended on the understanding that there was fully multilateral trade and payments and no discrimination. The Swiss, Norwegians and Swedes considered that if they were discriminated against they might have to bilateralise their arrangements with the Six.<sup>22</sup> From the British government's point of view there was no question of a return to bilateral agreements for sterling. So from Spring 1958 onwards, it began to consider how it could ensure that the EPU was terminated as part of a concerted move to convertibility, on its own terms. This was to ensure that the European Monetary Agreement (EMA)<sup>23</sup> would be brought into force to protect the multilateralisation of trade and payments in Europe.<sup>24</sup>

<sup>21</sup> PRO T 234/373. Memorandum by Paymaster General, 30 January 1958.

<sup>22</sup> OEEC, TRA 364. Minutes of Meeting of Managing Board, 22-24 July 1957.

<sup>23</sup> The EMA was established by the Council of the OEEC on 29 July 1955 to be the successor of the European Payments Union (EPU). It was designed to foster two of the basic aims of the OEEC: the achievement and maintenance of fully multilateral trade and the general convertibility of currencies. It was to provide an institutional framework for continuing monetary cooperation and mutual consultation, which had been established under the European Payments Union.

In the framework of the EMA, the OEEC member states had undertaken to maintain the fluctuations of their currencies within moderate and stable limits and to give an exchange guarantee for official holdings of their currencies, which enabled the exchange markets to operate in a climate of confidence, and they combined to assist each other in the event of overall balance of payments difficulties. The EMA was to have two main fields of operation: the European Fund and the Multilateral System of Settlements.

The European Fund was to provide a source of financial assistance for the member countries to help them withstand temporary difficulties in their overall balance of payments. The principal role of the Multilateral System of Settlements was to guarantee the Central Banks of member countries the possibility of obtaining settlement in dollars, at a pre-determined exchange rate.

<sup>24</sup> OEEC, TRA 364.

The Germans too began thinking about how best to protect the multilateralisation of payments in Europe. Their preferred scheme, which was much closer to British ideas than to Monnet's, was to set up an economic committee within OEEC to handle short-term fluctuations once European currencies became convertible.<sup>25</sup>

## DE GAULLE AND THE FREE TRADE AREA

Taking a decision on the Free Trade Area and on the European Commission's interim proposals was not high on de Gaulle's list of priorities when he moved into the Matignon on 1 June 1958. His response to the worsening financial situation was to appoint as his Minister of Finance Antoine Pinay in the hope that the latter would be as successful as he was judged to have been in solving the 1952 financial crisis. However disregarding any differences between the two periods, Pinay simply adopted the same formula which was based on issuing a loan on very favourable terms to close the domestic budget deficit whilst tightening foreign trade controls. At the same time he offered a tax amnesty to all holders of foreign assets who were prepared to repatriate them. In the short term Pinay's measures were successful. The loan brought in 824,000 million francs and the Bank of France was able to buy more than 170 million dollars in gold. But unlike the situation in 1952 when France's OEEC partners had been sympathetic to the French government's decision to reimpose trade restrictions, in 1958 France was under pressure to agree to the first stage of trade liberalization in both the EEC and the FTA on 1 January 1959.

Not everyone agreed with the limited nature of Pinay's measures. Jacques Rueff, whose financial orthodoxy and association with Vichy had marginalized him from political life under the Fourth Republic, saw an opportunity to exert some influence under the new regime. Even before the details of Pinay's measures had been announced, Rueff visited him at his home to argue the case for much more comprehensive reforms.<sup>27</sup> And when de Gaulle held his first meeting with ministers on 10 June 1958 to discuss international questions, Wormser argued the case for accepting the European Commission's interim

<sup>25</sup> MAE DE-CE 1945-1960, 680, J-P. Brunet to O. Wormser, July 1958.

<sup>26</sup> Jacques Rueff, *Combats pour l'ordre financier* (Paris 1972, 152-3).

<sup>27</sup> *Ibid.*, 153-63.

proposals for liberalizing trade within OEEC to the same degree as within the EEC.<sup>28</sup>

Wormser's view was that France was too weak and vulnerable economically, politically and financially to risk the isolation which a decision to break off the FTA negotiations would bring. But nor in his view did it have to accept exactly what the other five were proposing as a way forward. In addition to the interim proposals of the Commission, the five were suggesting that protection should be removed in the FTA on a sectoral basis, beginning with coal and steel at the same pace as in the ECSC, and that in return for France's insistence on its right to veto progress from the first to the second stage of tariff reductions, France should accept 15 years as a maximum for the transition period.<sup>29</sup>

Wormser's view was that the French should continue to negotiate but should make the generalization of the Carli system a precondition for abandoning their insistence on a three-year delay and for agreeing to a timetable for the third stage of tariff reductions. He also felt that they should accept the Commission's proposals to extend the 10 per cent cut in tariffs among the Six scheduled for 1 January 1959 to all the OEEC, to counter accusations of discrimination. Agriculture was to be excluded during the first phase of tariff reductions in order to give the Six time to work out their own common agricultural policy.<sup>30</sup> The transition to the second stage would then be dependent on the 17 OEEC countries agreeing on a policy for agriculture and avoiding any restrictions on agricultural trade during the first stage. On the question of institutions, although the French National Assembly had called for the institutions of the FTA to be as similar as possible to those of the common market, Wormser now thought that this could lead to a clash of competence and inhibit the community. What he insisted on was that the Six should agree unanimously on the transition from the first to the second stage as well as have a right of veto within OEEC.

De Gaulle's main interest lay not in understanding the isolation and weakness of the French position but rather in analysing Britain's motives for proposing the Free Trade Area in the first place. Having established that the proposal was a response to the common market rather than a prior definition of Britain's preferred policy he agreed to meet Macmillan to have what the latter described as "some frank talking about the FTA".

<sup>28</sup> MAE, Cabinet du Ministre, Couve de Murville, 316. *Compte-rendu de la réunion du 10 juin 1958.*

<sup>29</sup> MAE DE-CE, 762. *Memo 5 June 1958.*

<sup>30</sup> MAE DE-CE, *Papiers Wormser*, vol. 40. *Note from Wormser 28 April 1958.* See also DE-CE, 762.

During the 1950s de Gaulle had made no secret of his opposition to any form of integration which implied a loss of sovereignty. While he was careful not to make any public pronouncements on the Treaties of Rome<sup>31</sup> it could have been expected that he would have found the intergovernmental arrangements of the Free Trade Area more acceptable than the supranational nature of the European Economic Community. Furthermore he was also known to favour a larger geographical area than that confined to Europe of the Six. However, he was quick to grasp the advantages to France of what had been negotiated in the Treaty of Rome.

The view which de Gaulle formed after his meeting with Macmillan was that Britain's anxiety to set up a FTA did not stem from fear of the economic damage which the EEC might cause to Britain and the rest of OEEC but was for domestic political reasons as well as to reinforce British control over the OEEC and over the development of Europe. Thus de Gaulle saw the FTA as primarily political issue for Britain rather than an economic one. The problem for France was that its partners in the EEC did not share this interpretation of Britain's motives and in their support for the FTA tended to isolate and blame France for complicating the negotiations. Since Adenauer refused to meet de Gaulle, by subscribing to the popular view cultivated by the German press, of de Gaulle as an arch-nationalist opposed to the EEC,<sup>32</sup> de Gaulle was conscious that if he wanted to save the EEC he would not do so by antagonizing the other five over the FTA. Thus at his first meeting with French ministers to discuss the new government's approach to the FTA it was agreed that the French should appear more conciliatory in a number of respects. To this end they were prepared to:

- abandon the three-year delay in removing tariffs in the FTA;
- agree a time-limit for the removal of all tariffs (18 or even 15 years) on condition that where serious inequality in conditions of competition persisted or where external tariffs were not harmonized, the recourse to import taxes remained an option;
- abandon their insistence that the Six retain full autonomy as regarded quotas. The rules for enlarging quotas could be drawn up later and in most cases what was agreed for the Six could be extended to the 17, they argued.

Where the French government was not prepared to grant concessions were:

- (a) the right of countries to take action unilaterally without prior approval of the institutions of the FTA;

<sup>31</sup> Cohen 1992.

<sup>32</sup> *Documents Diplomatiques Français*, 1958, n°155. Note.



- (b) that decisions had to be taken in the FTA unanimously, with majority voting only possible after a trial period;
- (c) OEEC would have to study the problems of competition in each sector and the Treaty would have to contain specific rules for each sector taking into account competition with third countries as well as internal competition;
- (d) transition from the first to the second stage would have to be decided unanimously.

Since it was clear that a new treaty could not be drawn up on this basis by 1 January 1959 the French were prepared to accept a provisional arrangement provided that it did not prejudice the final arrangement. The provisional arrangement was to reduce tariffs by 10 per cent on both agricultural and industrial goods to the extent that these tariffs exceeded the level of the Common External Tariff (CET) regardless of whether the other 11 countries in OEEC reciprocated. This 10 per cent reduction could even be applied if it resulted in a tariff level below that of the CET and be extended to all countries to satisfy GATT. To counter any criticism the French could argue that their tariffs were more than 10 per cent above the CET and that in any case they were powerless to prevent the Benelux from making even greater tariff reductions in the first stage of the EEC.<sup>33</sup>

Four days later, at a meeting between French and German officials, the French government's position was greeted with considerable satisfaction. The same was true when all seventeen OEEC countries met on 24 and 25 July 1958. Wormser remarked that for the first time in twelve months the discussion did not degenerate into criticisms of the French. The Maudling Committee accepted almost without debate Foreign Minister Couve de Murville's<sup>34</sup> call for studies to be undertaken into the specific problems which vulnerable industrial sectors might face under a free trade regime, whereas in February the French had been opposed sixteen to one on this issue. The task of studying arrangements for vulnerable sectors was delegated to the Steering Board for Trade of the OEEC which was scheduled to meet on 11 September 1958. In the meantime the Quai d'Orsay agreed that the French would supply the Steering Board with a list of the sectors expected to be hurt by increased competition.<sup>35</sup> The impression

<sup>33</sup> MAE DE-CE, 754. Inter-ministerial meeting, 17 July 1958.

<sup>34</sup> Before becoming de Gaulle's foreign minister, Couve de Murville had been French Ambassador to the Federal Republic of Germany for two years. He was to accompany de Gaulle on all his foreign visits.

<sup>35</sup> Bloemen 1995.

which Britain drew from the meeting was that the French government had finally made a decision to support the FTA<sup>36</sup> – “progress” which Adenauer ascribed to Macmillan’s meeting with de Gaulle.<sup>37</sup>

However, this was far from being the case. At a meeting of French ministers on 2 August 1958 the resistance of the ministries of Industry and Finance to the sectoral studies was clear.<sup>38</sup> Jean-Claude Achille, the *directeur de Cabinet* of Edouard Ramonet, the minister of Industry and Trade, tried to argue that to supply information on specific sectors to the OEEC Steering Board for Trade would be in breach of the agreement to reach a common position among the Six before discussing it with the 17. Wormser thought not, arguing that agreement among the Six would be difficult for some sectors while it would clearly be possible to submit some uncontentious examples to OEEC by 8 September. Although Achille promised to keep to this deadline, three weeks later nothing had been produced.<sup>39</sup>

By 8 September 1958 when the Steering Board met, and there was still no list from the French, the Board decided in exasperation to press on with its own studies into five sectors – textiles, chemicals, non-ferrous metals, machinery, pulp and paper. The fear of the Quai d’Orsay was that this renewed tension would wreck the meeting which Adenauer had finally agreed to hold with de Gaulle. What was important, Wormser advised, was for de Gaulle to stress to Adenauer and his foreign minister, Von Brentano, France’s commitment to the common market and its determination to do the maximum possible, in spite of its economic difficulties, to meet its obligations on 1 January 1959. But it was also necessary, he argued, to stress to the Germans the need for all six governments to act collectively in order to ensure that the Treaty of Rome did not come into effect at a time of economic stagnation in Europe. Furthermore Adenauer had to be told that the proposal for a Free Trade Area continued to arouse almost universal opposition in France, which could well compromise the Treaty of Rome unless certain fundamental precautions were taken. Were the French government to decide to sign a Treaty setting up a FTA, it would do so primarily for political reasons but also on condition that it guaranteed France’s basic economic interests, allowed fair competition and did not undermine the development of the Treaty of Rome. If the German government remained committed to signing a FTA

<sup>36</sup> MAE DE-CE 1945-1960, Papiers Wormser, vol. 40, Note 22 August 1958, PRO BT 205/264, Board of Trade Progress Report. 15 October 1958.

<sup>37</sup> PRO, FO 371/137376, Letter from Adenauer to Macmillan, 4 August 1958.

<sup>38</sup> MAE DE-CE 1945-1960, Papiers Wormser, vol. 40, Wormer to Goetze, 22 August 1958.

<sup>39</sup> PRO, BT 205/264, Trade Negotiations Committee. Board of Trade Progress Report n°15. October 1958.

treaty it would have to support the French position and persuade Britain to make concessions since France had made all the concessions it could.<sup>40</sup>

The meeting with Adenauer which finally took place at Colombey-les-deux-Eglises on 14 September 1958 proved to be a meeting of minds. In wide-ranging talks which covered the globe, both men agreed that France and West Germany would have to cooperate closely with each other in order to make Europe independent of the United States. De Gaulle, insisting that Europe would have to be larger than the six common market countries, failed however to draw Adenauer out on the subject of the FTA. All that Adenauer would say was that Britain, whom he likened to "a rich man who had lost his fortune without yet knowing it" was not, he believed, trying to attack the common market in proposing the FTA.<sup>41</sup> De Gaulle, who was not as convinced that Britain's intentions were so honourable, now needed to find some means of exposing Britain's underlying strategy, but without isolating France from its common market partners in the process.

It was a game of cat-and-mouse, since the British were at the same time desperately trying to work out the French position on the FTA. The day after the meeting between de Gaulle and Adenauer, Sir Paul Gore-Booth from the Foreign Office invited Wormser to his home. During the meeting Gore-Booth asked Wormser directly whether the French government would be in a position to take a decision on the FTA by the date of the next meeting of the Maudling Committee, scheduled for 21-23 October. Without wanting to convey the impression either that the French government was delaying things or that the Six had not reached agreement, Wormser did not give a direct answer. But he thought privately that it was most unlikely that the Six would reach agreement either at Venice or Brussels. The Belgians were known to have written to Erhard demanding that the preliminary work of the Six should be speeded – or, as Wormser thought, botched up.<sup>42</sup> Indeed, Wormser considered that it was not impossible that the Foreign Office did not share Maudling's haste since the continued improvement in the state of British reserves might have awakened the hope of reaching an Anglo-American economic agreement, thereby relegating the

<sup>40</sup> MAE DE-CE 1945-1960, Papiers Wormser, vol. 40. Note 12 September 1958.

<sup>41</sup> MAE, Cabinet du Ministre, Couve de Murville, 316. Meeting between de Gaulle and Adenauer, 14 September 1958.

<sup>42</sup> The concern of the Belgian minister for Foreign Trade, M. Dequae, was that failure to reach agreement of the FTA would be blamed on the EEC Council of Ministers. CM2 1958 n°798, Dequae to Erhard, 30 September 1958. Wigny, the Belgian foreign minister, saw the FTA as necessary to correct Belgian unemployment and economic recession. CM2 1958 n°800, Wigny's address to the European Parliament, 23 October 1958.

need for a FTA.<sup>43</sup> In some respects Wormser hit the mark. The British Chancellor of the Exchequer, Heathcoat Amory, was to tell his American counterpart Robert Anderson at a private meeting in New York on 27 September 1958 that the convertibility of sterling might take place within six months. One week later at the IMF Annual Meeting he told Karl Blessing, the president of the German Bundesbank, the same thing. Blessing encouraged the British to act sooner rather than later, but advised him to speak to the French government in advance.<sup>44</sup>

The key issue for France as for Britain now concerned the timing of the move to convertibility and the necessity to be in a position to determine that timing rather than have it imposed. What was clear was that if France were to veto the FTA it would be held responsible for dividing Western Europe economically. Britain would then be able to implement its one-world policy with impunity by restoring the convertibility of sterling at a time of its choosing. It was increasingly clear that new plans had to be made to stabilize the economy and prepare for the convertibility of the franc. Just two days after the referendum in which he had secured overwhelming support (80 per cent of the vote) for the new constitution and full powers pending the elections in November and December 1958, de Gaulle set up a secret committee of nine to undertake the task. Jacques Rueff, who at the time was serving on the Court of Justice of the European Community, chaired the committee. Other members were bankers, M. de Vitry d'Avancourt the President of Pechiney, and the liberal economist Professor Jean-Marcel Jeanneney. The existence of the committee and its meetings were held entirely in secret.<sup>45</sup>

Calculations made by the Ministry of Finance early in October showed that French reserves were not large enough to cover French obligations in the field of trade liberalization to both the EEC and OEEC.<sup>46</sup> Opinion was divided over which of the two obligations had precedence. But what was clear was that to meet both, France would have to borrow. And in view of the very difficult loan negotiations of the previous winter, any further loans from the United States would tie France's hands politically. Loans from the EPU were unlikely if France did not agree to the FTA.

When the Council of Ministers of the EEC met again on 7-8 October 1958 to discuss the FTA it finally agreed on a document to submit to the other OEEC members on 17 October 1958. Known as the Ockrent report, it included many of

<sup>43</sup> MAE DE-CE 1945-1960, 754. Telegramme from Paris, 5 October 1958.

<sup>44</sup> J. Kaplan and G. Schleiminger, *The European Payments Union* (Oxford 1989, 306-7).

<sup>45</sup> Louis Franck, *697 ministres. Souvenirs d'un directeur général des prix, 1947-1962* (Paris 1990, 146-7).

<sup>46</sup> MAE DE-CE 1945-1960. Papiers Wormser, vol. 40. Note 2 October 1958.

the conditions articulated by the French in their memorandum of February 1958. In essence it advocated that the Free Trade Area, renamed the European Economic Association, should be as similar as possible to the EEC in content but with different institutions. The issues which had proved most controversial were the absence both of a common external tariff and of a common commercial policy. It was suggested that the norm should be the Common External Tariff of the Community and that the limits either side of the norm should be settled by negotiation sector by sector – in the manner of the Carli plan. Compensating charges would be levied, automatically and compulsorily, on products whose tariffs fell outside these limits. If the tariff on the product in question fell within the band but the product was made from a raw material or a semi-manufacture whose tariff fell outside the band the product might also be liable to compensating charges. On the question of the common trade policy towards third countries, the Community, while accepting that a common trade policy was not an objective of the EEA, nonetheless argued that any member which intended to change its policy should inform the EEA. If the result of the change was seen to distort competition for a member state, then that state might have recourse to an escape clause.<sup>47</sup>

The report of the Ockrent Committee, far from reassuring the French, served only to heighten tension in Paris. Alexandre Kojève, a high-ranking official in the Ministry of Finance, called for a change in France's negotiating tactics. A firm opponent of the Free Trade Area, Kojève had been one of those who had hoped that the negotiations would have ended in the failure of the project without any blame being attributed to France. But the reality was that France had ended up isolated in both the EEC and OEEC. Reflecting on why French tactics had failed, Kojève concluded that it was because France had given the impression that it was defending its strictly national economic and maybe even political interests based on protection and a managed economy against, if not the '*communautaire*' interests of the EEC, at least those of the whole 17 countries of OEEC. A second reason was that France seemed to oppose the British conception of the FTA without wanting or being able to offer Britain effective and fair economic or political compensation. French policy of demanding an unconditional surrender from the British was alienating not only Britain's traditional allies but also France's partners in the EEC. It was clear to Kojève that French methods had to be altered radically. The American proposals to GATT that the 17 OEEC countries should extend their tariff cuts of 20 per cent to all 37 countries of GATT in 1960, implying that Europe would no longer have any tariff preferences, gave France an additional reason for opposing the FTA and

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<sup>47</sup> Camps 1965, 156-196.

a new tactical weapon in doing so.<sup>48</sup> According to the new tactics worked out by Kojève France had to demonstrate that it was not defending its own national political and economic interests but European interests – firstly those of the EEC and secondly the common interests of the 17 OEEC countries in some form of European Economic Association. While this would be based on different external tariffs at the outset they would be preferential vis-à-vis other trading areas and could evolve into a common tariff.

Given the state of the negotiations, it was to be supposed that a French demand for European tariffs to be preferential in the FTA and unable to be changed without the consent of a majority, would be enough for the British to break off the negotiations immediately and definitively. But, as Kojève argued, it would be Britain which would take the initiative and bear the responsibility for the rupture. And since Holland was the only other country which was actually opposed to European preferences, France would have the support of most countries.

However, if the new French method of opposing the FTA were to be immediately successful, France would have to offer the British some compensation for their defeat. Henceforth the negotiations were to be solely about these compensations and involve only France and Britain with the agreement of Germany and in contact with the rest of the EEC, Kojève argued. While he expected the negotiations to be long and difficult he felt that they had a good chance of removing once and for all the danger of a FTA and ensuring the continuation of the EEC. Among the concessions which he recommended was a guarantee to maintain British exports to the EEC at their existing proportion of EEC imports, as well as an undertaking that the Six would not take any action to harm the Commonwealth and would share American exports equally between the EEC and the Commonwealth. He also suggested that the Six should promise to have 'prior consultations' with Britain if any action of the EEC threatened to harm British interests or those of the Commonwealth.<sup>49</sup>

Wormser too was beginning to think that a change of tactics was necessary. He felt that when the Maudling Committee met again on 21 October 1958 the French would be almost trapped. Up to until then the French, in playing for time, had been forced to agree a common position with their partners in the EEC. While this policy had worked in terms of postponing the debate with the Eleven it was questionable whether it had worked in terms of committing France's partners to the agreed position. Rather, Wormser feared that at the first

<sup>48</sup> On this American initiative, see Pascaline Winand, *Eisenhower, Kennedy and the United States of Europe* (London 1993, 127).

<sup>49</sup> MAE DE-CE 1945-1960. Papiers Wormser, vol. 40, Kojève to Wormser, 13 October 1958.

opportunity to discuss with the rest of the OEEC the other five would act independently. What he now proposed was that at the British Foreign Office's second invitation to him to discuss the FTA on 14 October he should use the opportunity to raise the new question of whether or not the British regarded the FTA as a preferential area.

As expected, the British were quite unequivocal on the issue. Bretherton from the Board of Trade spelt out to Wormser that Britain did not regard the FTA as a preferential area and that France would not be entitled for example to protection against the United States in the British market. Frank Figgures tried to mediate by saying that since the United Kingdom was a relatively high-tariff country the FTA would create a *de facto* though not a *de jure* preference. But it was made clear that the British could not accept a limitation on their freedom to modify their tariffs, and regarded the Six as having the same liberty. At this point Wormser simply said that this conception was interesting but disturbing and would not be greeted with enthusiasm in Paris.<sup>50</sup>

This was an understatement. With the sectoral studies about to be undertaken seriously by OEEC and given the atmosphere of crisis prevailing there it seemed clear to the Quai d'Orsay that, sooner or later, a Treaty would be signed. That treaty would specify that tariffs and quotas would be removed at the same rate in the FTA as in the common market. The institutions would be intergovernmental, and safeguard clauses could be invoked unilaterally. The rules of origin would be far removed from what France wanted. External tariffs could be changed arbitrarily. The harmonization of social conditions and of legislation remained imperfect. Nothing positive had been achieved for agriculture. Even if France had the right to veto progress from one stage to the next and to have recourse to the use of safeguard clauses unilaterally, the treaty would nonetheless commit France first and foremost to opening its frontiers without getting any of the precise commitments which it had judged indispensable in the Treaty of Rome, in return. The question which the French government faced was whether the Treaty was sufficiently important to the national interest of France for the government to overcome the increasingly strong opposition to it from professional groups. In order to reach such a decision the government had to weigh up the fact that if it broke off the negotiations this would cause a serious crisis among the Six – but it was not necessarily true that the Treaty of Rome would not survive such a crisis. What was important was that France's partners fully understood the implications of the FTA.

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<sup>50</sup> PRO T 234/378. Record of a meeting held in the Paymaster General's Office on Tuesday 14 October 1958.

As far as the Quai d'Orsay was concerned, British objectives had become perfectly clear. The British government wanted to undermine the Treaty of Rome but not to replace it with a larger Europe of 17 but with the one-world system. To achieve this objective the British government had pursued a complicated strategy with, in some cases, the full support of the United States. Considering the IMF and GATT to be superior to any other treaty, aware of the divisions among the Six and with a confidence based on the improvement of the British foreign exchange position and by the decisions taken in New Delhi to restore the convertibility of sterling and the Deutschmark, the British government was trying to weaken those elements in the Treaty of Rome which had made it possible for France to open its borders. These were first and foremost the preferential aspect of the Common Agricultural Policy which the British government was trying to get GATT to condemn; the right of West Germany to retain quantitative restrictions despite the strength of the German balance of payments; the terms of association of the overseas territories with the EEC on the grounds that they discriminated against the interests of underdeveloped countries; and the common external tariff. Wormser considered that British propaganda would completely destroy the compromise reached by the Six in the Treaty of Rome. In the circumstances, it was perhaps wise to risk provoking a crisis with its common market partners. If they were really attached to the treaty they would not want to see it disappear in the FTA. But in taking this risk the French government had to be absolutely committed to respecting the obligations of the Treaty of Rome on 1 January 1959.<sup>51</sup>

Although Wormser had clearly rallied to Kojève's view not everyone in the Quai d'Orsay agreed with such a tough negotiating stance. François Valéry, whilst accepting that procrastination was no longer an option, warned of the dangers of provoking a rift in OEEC. Not only might it undermine the Atlantic Alliance but France would lose the economic and financial benefits which OEEC offered. These were mainly the automatic credit facilities of the EPU and the ability to export to Europe while retaining restrictions on imports. At the very least, he argued, France would have to honour its obligations to OEEC just as much as to the EEC.

When the Maudling Committee met on 27 October 1958 to discuss the Ockrent Report, Wormser tried putting the new French tactics into operation. However in reply to his concern that the freedom of members of the FTA to adjust their external tariffs would complicate the rules of origin, Maudling simply said that the adoption of a code of good conduct and procedures for modifying the rules of origin would be enough to cope with this risk without having to

<sup>51</sup> MAE DE-CE 1945-1960. Papiers Wormser, vol. 40. Note of 20 October 1958.



contemplate a complete standstill on external tariffs. And as far as the coordination of commercial policy was concerned Maudling accepted the sectoral approach written into the Ockrent Report but not that safeguard clauses could be invoked unilaterally.<sup>52</sup>

If the French derived some satisfaction from the fact that their five common market partners recognised that the French had raised a particularly important point in the negotiations it was quickly dispelled by the reaction of the other five. In their view the risks of allowing freedom to adjust tariffs were more theoretical than real. When the German delegate proposed a compromise formula to address these hypothetical risks it was immediately supported by the Benelux and Italy. The formula envisaged a procedure for consultation, backed up by a majority vote in the FTA and the introduction of safeguard clauses with the prior approval of the institutions of the FTA. The French, despite considerable pressure from the other five, refused to endorse this proposal. They were also isolated when the other 16 countries agreed to give the Maudling Committee the power to set up groups of experts to handle sectoral studies. These groups were to meet between 19 November and 10 December in order to reach agreement by 31 December 1958. Couve de Murville now accepted that a defensive or dilatory stance would be dangerous, and called for a clear political statement to be made before the next meeting on the FTA scheduled for 13 November 1958.<sup>53</sup>

The occasion chosen was a meeting between Couve de Murville, Maudling and Selwyn Lloyd on 6 November 1958. In his memoirs Couve de Murville described the meeting as the first time that the French really stated their policy.<sup>54</sup> Asked by Maudling whether the French could take a decision in principle in favour of the FTA, Couve de Murville made it clear that for both economic and political reasons they could not. The exposure to so much competition would be too brutal for the French economy and would lead to the disappearance of the common market, to which France attached political as well as economic importance. Taking the offensive he argued that the objective should be to find a solution which was acceptable to all countries and which guaranteed the survival of the common market. He offered three possibilities. The first, which was the one preferred by French employers, was to negotiate specific problems on a bilateral basis. This procedure, as Couve de Murville recognised, ignored the existence of the common market and contravened the rules of GATT. The second option was to see how an agreement could be reached with the other eleven

<sup>52</sup> DDF 1958. N°304. Couve de Murville to French diplomatic representatives abroad, 31 October 1958.

<sup>53</sup> DDF, N°304. Telegramme from Couve de Murville, 31 October 1958.

<sup>54</sup> Maurice Couve de Murville, *Une politique étrangère, 1958-1969* (Paris 1971, 43).

OEEC countries. But this would have to be different from the common market in the absence of a common external tariff or policy harmonization. The third option, which he acknowledged was not a realistic one, was for the 11 to join the common market. As far as procedure was concerned he felt that negotiations among 17 countries were too unwieldy to produce results and that what was needed were prior discussions between Britain and either France or the European Commission.

Maudling's reaction to these suggestions was one of despair. As he saw it, 18 months had been wasted trying to prevent the common market from being a discriminatory bloc in OEEC. What now seemed clear was that there could not be free trade in Europe. Emphasizing that the United Kingdom did not seek the destruction of the common market, he could not understand why Wormser had raised the important issue of whether the FTA was to be a preferential bloc so late in the negotiations, since the working assumption of OEEC had always been that tariffs and quantitative restrictions on trade would be removed at the same rhythm in both the FTA and the Common Market. Why, in that case, asked Couve de Murville, were they discussing different treatment for different sectors? It was precisely because there was a general agreement that tariffs and quotas would be treated equally in the common market and the FTA that special provision needed to be made for specific sectors, rebutted Maudling.

With Couve de Murville categorically denying that the French were saying anything new and were not reacting, as some of the British press claimed, to the rejection by the British and Americans of de Gaulle's proposals for the reform of NATO, the meeting ended with Lloyd claiming that they had reached the most critical stage in Anglo-French relations since June 1940.<sup>55</sup> De Gaulle confirmed the French position later that afternoon when he met the British ambassador Gladwyn Jebb. Equally anxious to dissociate his position on the FTA from his proposals for the reform of NATO he stressed the economic grounds for French rejection of the FTA.<sup>56</sup>

If the time had come to be forthright with the British, de Gaulle intended to be equally forthright with the Germans. That same day a letter was drafted to Adenauer explaining, "*si désagréable que ce soit de le constater, il faut aujourd'hui reconnaître que les buts que se sont assignés les gouvernements membres de la Communauté Economique Européenne ne pourront être atteints dans l'hypothèse où une zone de libre échange du type de celle préconisée par M. Maudling verrait le jour*". He went on to say that "*le traité de Rome est l'objet d'attaques convergentes non seulement à l'OECE mais dans toutes les*

<sup>55</sup> PRO T234/378. Record of talks with M. Couve de Murville, 6 November 1958.

<sup>56</sup> MAE DE-CE 1945-1960, 754. Note, 6 November 1958.

*organisations internationales*". The moment had come, he claimed, for France and Germany to act together to save the Treaty of Rome.<sup>57</sup>

In effect de Gaulle was asking Adenauer to demonstrate his total commitment to the EEC by rejecting the FTA. His challenge could hardly have come at a worse time for Adenauer. With the impending crisis over Berlin Adenauer was being asked to choose between his two most important West European allies and to take responsibility for the economic division of western Europe.

Not surprisingly Adenauer did not react immediately to the challenge. The Germans did not rally to the French position at an inconclusive OEEC meeting held on 13-14 November. At the end of the meeting Jacques Soustelle, the Minister for Information, finally made public what the French had been saying privately to the British, namely that the FTA was unacceptable to France. In exasperation Maudling immediately announced the suspension of the negotiations, thereby falling straight into the trap laid by the French. That this was no chance blow made by a loose cannon in the French government was confirmed the following day in a letter written by de Gaulle to Macmillan:

"Neither the intentions nor the procedures adopted offered any chance of achieving practical results... The very existence of the Common Market, the obligations it imposes on the member states, the actual state of their economy, in any case the economy of France, would be incompatible with the area as suggested."<sup>58</sup>

It was an increasingly desperate Macmillan who tried to retrieve situation by telling de Gaulle that it was imperative to find a solution in view of the increasing tension in Europe and in the rest of the world. But any resumption of the Maudling Committee was exactly what the French had to avoid if their strategy was to succeed. At the same time the situation had to be handled with the utmost care since, as was pointed out, the slight deterioration in the French payments situation meant that the first casualty of any talk of an economic war in western Europe would be the French franc.<sup>59</sup>

At talks scheduled between de Gaulle and Adenauer on 26 November it was expected that the French would be asked whether they remained committed to the Ockrent Report and if so to resume negotiations within the Maudling Committee. To avoid being placed once again on the defensive Couve de

<sup>57</sup> MAE DE-CE 1945-1960. Papiers Wormser, Vol.40. Projet de lettre du Général de Gaulle au Chancelier Adenauer, 6 November 1958.

<sup>58</sup> PRO T 234/378. De Gaulle to Macmillan, 15 November 1958.

<sup>59</sup> MAE DE-CE 1945-1960. Papiers Wormser, Vol.40. Letter from J.P. Bennett to Wormser, 17 November 1958.

Murville circulated a letter to all French embassies setting out the French position. This was that Maudling had, without consulting any members of OEEC, chosen to break off the negotiations. His action had thereby created a new situation, and it was this new situation which the six common market countries had to discuss. Maudling's action was disingenuously described as a "fit of temper" in response to a declaration made by a French minister "who was not even in charge of the negotiations and who in any case had said nothing new".<sup>60</sup>

At an interministerial meeting on 18 November 1958 chaired by de Gaulle the French ministers discussed their response to the new situation. There was a general agreement that the five common market countries, starting with the Bonn government, must be told of France's commitment to honouring the Treaty of Rome in full on 1 January 1959.<sup>61</sup> This would entail combining the national quotas in the non-liberalized sector given to other members of the Six and increasing the total of these by 20 per cent. There was a further obligation that all such common quotas must be equivalent to at least three per cent of the domestic production of the goods concerned. For France this would mean granting quotas where none existed. The total cost of this was estimated at 140 million dollars. This ruled out, on financial grounds, honouring France's obligations to OEEC and reliberalizing up to 82.3 per cent, which was the figure achieved in June 1957. Indeed France was under an obligation to go beyond this and liberalize up to 90 per cent, which according to British calculations could cost 320 million dollars. All that the French government was prepared to do within OEEC was to reliberalize up to about 40 per cent and to increase quotas for goods previously liberalized by 20 per cent. The total cost of this was estimated at 40 million dollars. It was also prepared to increase by 20 per cent its bilateral quotas to OEEC countries of goods which had never been liberalized, subject to reciprocity, at an estimated cost of 15 million dollars.

On this basis the French and German officials drew up a working paper setting out the future trade relations between the EEC and the rest of OEEC, which it was hoped could be agreed in the first instance by de Gaulle and Adenauer. However subsequent discussions with the Germans revealed two areas of disagreement. The first was that the German government, taking account of its own interests as well as those of the Benelux and Britain, wanted to exclude agriculture. The second was that the German government wanted to extend the obligations written into the Treaty of Rome, namely that members enlarge quotas to the value of three per cent of their national production including goods

<sup>60</sup> DDF 1958. N°344. Telegramme from Couve de Murville to French embassies abroad, 20 November 1958.

<sup>61</sup> DDF 1958. N°343. Note, 18 November 1958.

previously protected, to all members of OEEC. But as far as the French were concerned this would blur the distinctions between the EEC and the rest of OEEC to a politically unacceptable degree. Rather than concede this political point Wormser suggested that they should offer to make concessions in the monetary field.<sup>62</sup> The issue was of fundamental importance to the French, since were the distinctions between the two institutions to become less well-defined, the French risked losing the concessions which they had won in the Treaty of Rome.

When de Gaulle and Adenauer finally met at Bad Kreuznach on 26 November 1958 their discussions were dominated, as they had been in September 1958, by world politics. Sharing a common view that the United States was not committed to Europe, they agreed that Europe at to become independent of America, Russia and later Asia. But whereas Adenauer stressed the importance of the EEC for securing that independence and the importance of close Franco-German relations for the success of the EEC, de Gaulle acknowledged that the appeal of the EEC for him was as a way of shaking up French industry. However, whereas he had qualified his support for the common market in September 1958 by explaining that on account of France's protectionist traditions his government would be obliged to take some precautions, in November 1958 he stated quite unequivocally that the French would implement the trade liberalization provisions of the Treaty of Rome on 1 January 1959 and not apply the safeguard clauses. After much discussion between experts the Germans accepted the French position on the treatment of non-liberalized trade with the rest of OEEC but remained divided over the inclusion of agriculture.<sup>63</sup>

The news that the EEC countries were going to agree a common position before attending any further meetings of the Maudling Committee was seen by the British as a hostile manoeuvre. But when he was told by Gladwyn Jebb of the emotion felt in London, de Gaulle had the satisfaction of reminding him that it had been Britain and the United States which had pushed France into the common market in the first place.<sup>64</sup>

Although de Gaulle had stressed the vulnerability of French industry as the main reason for rejecting the FTA it was increasingly clear that this was not his primary concern. It was for political reasons that de Gaulle wanted to make a distinction between the EEC and the FTA. However, by refusing to liberalize

<sup>62</sup> MAE DE-CE 1945-1960. Papiers Wormser. Note, 26 November 1958.

<sup>63</sup> MAE Cabinet du Ministre, Couve de Murville, 316. Meeting between de Gaulle and Adenauer, 26 November 1958; also DDF 1958, *compte-rendu des entretiens franco-allemands du 26 novembre 1958*; and MAE, Cabinet du Ministre, Couve de Murville, 316. Letter from J.M. Boegner to F. Seydoux, 29 November 1958.

<sup>64</sup> DDF 1959. Note de la Présidence du Conseil, 12 décembre 1958.

beyond 40 per cent with OEEC the French were on weak ground. At a meeting of OEEC on 15 December 1958 to discuss trade relations between the EEC and the rest of OEEC, the news that it was only the French who intended to discriminate between the EEC and OEEC offered a further manoeuvre for the British. Britain, as David Eccles, President of the Board of Trade, suddenly announced to OEEC, would increase the total value of its industrial quotas by 20 per cent for each member country and make an increase of not less than ten per cent on each specific quota if the EEC extended all its quotas (including nil and negligible ones) to all OEEC countries. If the offer was not accepted then the British would feel free to discriminate against those EEC countries which had not fulfilled their obligations to OEEC – which of course meant France.

The British offer exposed the fragility of the agreement reached between de Gaulle and Adenauer at Bad Kreuznach. Erhard, as President of the Council of Ministers of the EEC, was strongly in favour of considering the British proposal whereas Couve de Murville rejected it out of hand on the grounds that it discriminated between common market countries. Once again it was the French who were isolated in Europe.

This time it was Erhard who by prior agreement with the British suggested a compromise to de Gaulle which broke the deadlock over trade liberalization. At a private meeting in the afternoon of 15 December, he told de Gaulle that were France to restore the convertibility of the franc this would avoid any scission in Europe. *"S'il s'agit de faire un pas en avant, de faire un acte de courage et d'aborder des problèmes tels que ceux de la convertibilité, je puis vous affirmer, et je parle au nom du Chancelier de la République Fédérale d'Allemagne, que cette solidarité ne sera pas un vain mot pour nous."*

But this promise was accompanied by the threat that if Britain were to restore the convertibility of sterling Germany would follow. De Gaulle confirmed that the franc would become convertible, but not before the end of the year. He also claimed that Britain should have stated that it saw the common market as an ultimatum in order to create the right psychological climate for the negotiations for the FTA to succeed. This did not happen, he said, because the negotiations were primarily for domestic political reasons.<sup>65</sup>

Implicit in the deal was that France would have to honour its obligations to OEEC as well as making the franc convertible. Although the list published by the French on 18 December indicating which products would be freed from quotas only covered 40 per cent,<sup>66</sup> Pinay was to tell Gladwyn Jebb on 19 December that

<sup>65</sup> MAE DE-CE 1945-1960, 382. Entrevue entre le Général de Gaulle et M. Erhard, 15 décembre 1958

<sup>66</sup> Note: 40 per cent of the 1948 value of private trade.

the decision had been taken to liberalize 90 per cent. Acknowledging that this would result in grave distress for the smaller French industries and even produce a number of bankruptcies he stated firmly that the days of protectionism were coming to an end and that the only hope for these industries was to revise their prices in order to compete.<sup>67</sup>

What accounted for the change in policy? When the Rueff Committee had submitted its report on 8 December 1958, in addition to recommending a number of domestic deflationary measures it had called for the restoration as a minimum of the 1957 degree of trade liberalization within OEEC in order to exert downward pressure on French prices and to make French industry more competitive.<sup>68</sup> The report made no mention of devaluation, so great were the differences of opinion among the members of the Committee. Jean Saltes, deputy Governor of the Bank of France, argued that if France were capable of maintaining a policy of financial rigour no change in the exchange rate would be necessary. If not, and the franc were devaluated, it would be just as difficult to maintain the new parity as the old.<sup>69</sup> However, once the government had accepted the obligation to liberalize trade with OEEC up to 90 per cent, the case for devaluation was strengthened. It was not a decision, though, which de Gaulle was prepared to take until after he had won the presidential elections of 21 December 1958 with a majority of 78.5 per cent of the electoral college.

The response to the decision to implement the Rueff plan, including devaluation and convertibility, was immediate. Foreign currency flowed into France which, together with the upturn in international demand, ensured that the effects of the devaluation and trade liberalization would not plunge the French balance of payments into deficit once again. France had established itself as the defender of the EEC and the ally of West Germany, and had compensated Britain for the defeat of the FTA.

## CONCLUSIONS

De Gaulle's decision to implement the Rueff plan and devalue the franc was the price which had to be paid to secure the future of the EEC and French

<sup>67</sup> Bank of England OV 45/49. Jebb to Gore Booth, 20 January 1959.

<sup>68</sup> P.U. 112. Rapport financier, 8 December 1958

<sup>69</sup> Banque de France, DDPE 1397199403. Note from Saltes, 12/12/1958.

leadership of it. That France had to pay such a price was due to the failure of its tactics in the FTA negotiations.

The FTA proposals had initially divided the French with François Valéry, head of the Economic Cooperation Section of the Quai d'Orsay, in particular arguing in their favour. However, the worsening financial situation aggravated by the war in Algeria was to make Valéry's a minority opinion. The policy adopted from February 1958 onwards and to which de Gaulle subscribed was based on convincing France's EEC partners to oppose the FTA. De Gaulle, who had been no supporter of the EEC, saw the issue as a power struggle between France and Britain over who should control the economic development of Europe. At the heart of the struggle was the need to win the support of the Federal Republic of Germany. Although Adenauer shared de Gaulle's distrust of the United States he did not extend this to the United Kingdom. His basic sympathy for Britain together with Ludwig Erhard's positive endorsement of the FTA was to force de Gaulle to try to turn the EEC into a Franco-German alliance in order to defeat the FTA. But not even the pledge of French troops to defend Berlin against a Soviet attack, nor de Gaulle's full commitment not to employ safeguard clauses and to honour the trade liberalization provisions of the Treaty of Rome on 1 January 1959 were enough. The only terms on which the Germans would accept the economic division of Europe was if it was not also a monetary division. To argue as Gérard Bossuat does that the consensus of the six EEC countries in December 1958 in the face of British threats to discriminate if they were discriminated against depended solely upon the good relations of de Gaulle and Adenauer is to ignore the monetary dimension.<sup>70</sup> Had de Gaulle not agreed to restore the convertibility of the franc and honour France's obligations to both the OEEC and the EEC on 1 January 1959, the consensus among the Six would have evaporated. The Rueff plan had become a political necessity.

The author thanks the Leverhulme Trust for their assistance in funding the research on which this paper is based, and Lise Rye Svartvatn for her help.

<sup>70</sup> Gérard Bossuat, *L'Europe des Français*, (Paris 1996, 395).



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