

PRO 1501371

Record of Conversation

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Fritalux

I had two conversations with M. Grazzi on December 12th and 13th about the Fritalux talks in Paris during the second of which he gave me, for perusal and return, a copy of the Officials' report.

2. This report was now under consideration by the Ministers of the five countries, and it was proposed that they should meet again in Paris on 21st December.

3. M. Grazzi said that the question of Germany was still unresolved. The Dutch had made their agreement dependent on the admission of Germany, whereas the French were unable to agree. M. Grazzi said that Italy would follow the French lead in this matter, though they themselves were in favour of bringing Germany in later after some progress had been made on a five power basis. He did not know what the French Government would do. He thought they might propose some formula which would have the effect of putting off the question of the admission of Germany for a few months.

4. Turning to the document itself M. Grazzi said that the introduction was primarily addressed to the United Kingdom, and the conclusion to the United States. He pointed to the very firm reservation in the introduction by the Dutch Government concerning the admission of Germany. This was that "the Netherlands delegation made it clear that the participation of Western Germany would constitute a condition of their agreement to the plan".

5. The main part of the document was in four chapters

- I. Rules of General Policy
- II. Financial Provisions
- III. Liberalisation of Trade
- IV. Administrative measures.

The general rules were fairly vague, but there were some reservations in the text, particularly as regards movement of persons and labour questions. The French and Italians wanted to bring about progressively freer movement of labour and, eventually to go quite a long way. The Dutch wanted to bring these measures into force immediately but to restrict their scope. The reason for this was that the

/ Dutch

Dutch were frightened of being swamped by German labour. The Italians naturally wanted to go much further on the manpower question than the other four countries were prepared to go. It seems doubtful whether the Italian reservations would be maintained.

6. In the section on discriminatory practices there was a stiff declaration against double pricing.

7. Financial dispositions

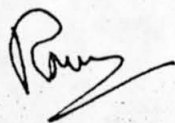
The most important point concerned the rates of exchange. On this there was a division between the advocates of fixed and floating rates. Although M. Grazzi himself seemed to prefer flexible rates, his instructions were to support a fixed system. The reason was that floating rates would involve periods of weakness in the lira and the Italian Government simply could not face the social and economic effects which this would have in Italy. The document was not very clear on the question of exchanges since it seemed to leave to each country an opportunity of adopting floating rates of exchange. It provided specifically that each country might allow its rate of exchange to fluctuate within a limit of five per cent in relation to other currencies for a limited period. If the former rate was not re-established at the end of this period then the currency must be devalued by the amount which it had fallen in the period.

8. On the trade side, I told M. Grazzi that as a result of conversations with M. Alphand we had formed the view that the effect of the Fritalux proposals might be discriminatory. M. Grazzi said that there was no discrimination as far as tariffs were concerned. There might be some discrimination as far as quota restrictions were concerned and indeed it was provided that there could be discrimination in this respect even between the members of the group. M. Grazzi did his best to minimise the effect of these provisions pointing out that there would be no obligation to fill the quotas and that the determining factor in choosing the source of imports would be that of price.

9. There was a difference of view about the removal of quantitative restrictions between France and Italy on the one side and France and Benelux on the other. The French and Italians wished it to be stated that quantitative restrictions would "in principle" be removed in the course of 1951, and that this removal would take place step by step. The Dutch and the Belgians on the other hand wanted complete liberalisation immediately. There was also a difference of view as regards tariffs. The French and Italians wanted a provision against the retention of a high tariff which frustrated removal of quantitative restrictions. The Belgians and Dutch were not prepared to go as far as this.



10. M. Grazzi seemed a little despondent about the whole business. He said that the negotiations had been very difficult and that the proposals in themselves did not go very far. The project was a goal which could only be attained gradually. He was sure that they did not go far enough to satisfy the Americans. Indeed, he understood that they had already put forward new proposals involving full convertibility and nearly full liberalisation by the end of 1950. This would be quite impossible for Italy at the present time. He did not think that the Americans in Paris took account of the different circumstances of the various European countries. He himself had tried to make the point to Mr. Harriman but apparently without success. Italy could only go a little way in liberalisation of trade until her new tariff had come into force. Even thereafter she could not go far until certain other fiscal policies had been altered. M. Grazzi sadly observed that the trouble was that the Americans really believed in the efficacy and rightness of the schemes which they advocated!



Roger Makins

14th December, 1949.