

SUBJECT

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T54/73

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CABWH001/04

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FM THE PRIME MINISTER  
TO THE PRESIDENT.

T O P S E C R E T

DEAR MR. PRESIDENT,

THANK YOU VERY MUCH FOR YOUR MESSAGE ABOUT MY MEETING WITH CHANCELLOR BRANDT AND THE PRESENT CURRENCY CRISIS. I DO NOT OF COURSE KNOW HOW DETAILED AN ACCOUNT THE CHANCELLOR HAS GIVEN YOU OF THESE TALKS, BUT PERHAPS I CAN GIVE YOU SOME ACCOUNT OF OUR THINKING.

CHANCELLOR BRANDT AND I WERE OF COURSE MEETING ON THE EVENING OF A DAY IN WHICH HIS CENTRAL BANK HAD TAKEN IN 2.7 BILLION DOLLARS, AND OTHER EUROPEAN COUNTRIES HAD ALSO TAKEN IN VERY LARGE AMOUNTS. THE TOTAL FOR THE COMMUNITY COUNTRIES WAS ABOUT 3.5 BILLION DOLLARS. I AM INCLINED TO AGREE WITH YOUR VIEW THAT THE RATE STRUCTURE ESTABLISHED AS A RESULT OF THE ACTIONS WHICH YOU AND THE JAPANESE TOOK THREE WEEKS AGO IS ESSENTIALLY SOUND. THERE WERE THEREFORE NO RATIONAL GROUNDS FOR THIS MASSIVE MOVEMENT OF FUNDS EITHER IN THE GERMAN ECONOMIC POSITION OR IN THE LIKELY DEVELOPMENT OF YOUR OWN SITUATION. I DO NOT KNOW WHETHER CHANCELLOR BRANDT MENTIONED THIS TO YOU, BUT THE FIRST COURSE CONSIDERED WAS TO KEEP THE MARKETS OPEN AND ABSORB THE CONTINUING INFLUX OF DOLLARS. HE AND HIS COLLEAGUES REJECTED THIS COURSE, BECAUSE THEY BELIEVED THAT IT MIGHT BE INTERPRETED AS DAMAGING TO THE UNITED STATES. WE COULD NOT EXPECT OR LOOK FOR FURTHER IMMEDIATE MOVES FROM YOU OR THE JAPANESE, SINCE YOU HAD TAKEN DECISIVE ACTION THREE WEEKS AGO. HENCE THE DECISION TO CLOSE THE MARKETS WHILE WE CONSIDERED WHAT SHOULD BE DONE.

WE AGREED THAT IN THESE CIRCUMSTANCES WE SHOULD SEEK TO FIND A SOLUTION TO OUR PROBLEM THAT WOULD MEET THE FOLLOWING REQUIREMENTS:

(1) IT SHOULD PROMOTE GREATER WORLD MONETARY STABILITY, WHILE PROPOSALS FOR INTERNATIONAL MONETARY REFORM WERE WORKED OUT: IN PARTICULAR, IT SHOULD REDUCE THE RISK OF FREQUENT CRISES OF THE KIND WE HAVE NOW EXPERIENCED TWICE IN ONE MONTH.



(2) IT SHOULD NOT SET BACK, AND SHOULD IF POSSIBLE PROMOTE, EUROPEAN INTEGRATION.

(3) IT SHOULD NOT BE OF A KIND WHICH WOULD BE INTERPRETED AS TRYING TO CONFRONT OUR FRIENDS AND ALLIES, AND IN PARTICULAR THE UNITED STATES.

EUROPEAN INTEGRATION OBVIOUSLY CANNOT BE THE SOLE CRITERION. BUT IT IS THE FACT THAT MANY PEOPLE IN EUROPE ARE REGARDING OUR ABILITY TO WORK OUT AND AGREE A JOINT COMMUNITY SOLUTION TO THIS CRISIS AS A CRUCIAL TEST OF THE STRENGTH OF THE ENLARGED COMMUNITY'S PURPOSE. CONSEQUENTLY A SOLUTION IN WHICH SOME OR ALL OF US ACTED INDEPENDENTLY, OR SOME OF US TOOK PART IN A JOINT ARRANGEMENT WHILE OTHERS WERE LEFT OUTSIDE WOULD BE REGARDED AS A SUBSTANTIAL SETBACK TO THE COMMUNITY'S PROGRESS. IN PARTICULAR, IF THE GERMANS ATTEMPTED TO DEAL WITH THIS CRISIS BY FLOATING ON THEIR OWN, THEY WOULD BE FOLLOWED BY THE DUTCH, THE OTHER BENELUX COUNTRIES AND THE DANES, THUS LEAVING THE FRENCH EXPOSED. THIS WOULD THREATEN THE WHOLE FRANCO-GERMAN RELATIONSHIP. IF THE FRENCH WERE THEN FORCED TO FLOAT, IT IS DIFFICULT TO SEE HOW THE COMMUNITY COULD HOPE TO CONTINUE TO FOLLOW INTEGRATED POLICIES IN ANY SPHERE.

THERE HAS BEEN MUCH TALK RECENTLY OF THE POSSIBILITY OF A JOINT COMMUNITY FLOAT. IN MY DISCUSSIONS WITH CHANCELLOR BRANDT THIS WAS THE ONLY JOINT COMMUNITY SOLUTION WE COULD IDENTIFY AS HAVING ANY PROSPECT OF WORKING AND OF MEETING THE REQUIREMENTS I HAVE DESCRIBED. WE DID NOT TAKE ANY DECISIONS: THAT IS FOR THE COMMUNITY AS A WHOLE. IF WE CAN ACHIEVE SUCH AN ARRANGEMENT, IT WILL BE A GREAT STEP FORWARD IN EUROPEAN INTEGRATION: AND CHANCELLOR BRANDT AND I DID NOT THINK, AND I DO NOT BELIEVE, THAT SUCH AN ARRANGEMENT NEED DAMAGE THE UNITED STATES. INDEED, AS HE HAS SAID, WE BELIEVE THAT IN STRENGTHENING THE COHESION OF THE COMMUNITY IT WOULD STRENGTHEN THE COMMUNITY'S CAPACITY TO BE A USEFUL PARTNER IN THE ATLANTIC ALLIANCE. IT WAS FOR THESE REASONS THAT I AGREED TO EXAMINE HOW AND ON WHAT CONDITIONS WE COULD TAKE PART IN SUCH A SOLUTION.

I HAVE ASKED THE CHANCELLOR OF THE EXCHEQUER, IN HIS DISCUSSIONS IN BRUSSELS, TO INSIST ON THE NEED FOR PROPER CONSULTATION WITH OUR FRIENDS AND ALLIES, AND PARTICULAR WITH THE UNITED STATES AND JAPAN. I KNOW THAT HE HAS ALREADY TALKED TO SECRETARY SHULTZ, AND WILL DO SO AGAIN AFTER TODAY'S MEETING. THIS CRISIS HAS ONCE AGAIN DEMONSTRATED THE URGENCY OF AGREEMENT UPON INTERNATIONAL MONETARY REFORM. I KNOW THAT YOU FEEL SOME IMPATIENCE AT THE DELIBERATION WITH WHICH SOME OF YOUR EUROPEAN ALLIES HAVE BEEN ADDRESSING THEMSELVES TO THIS PROBLEM. AS I SAID WHEN WE MET, PROGRESS HAS NOT BEEN MADE ANY EASIER BY THE SUCCESSION OF ELECTIONS IN THIS PART OF THE WORLD. WE SHALL SOON COME TO THE END OF THIS ROUND, AND WE SHOULD THEN BE BETTER ABLE TO CONCENTRATE ON INTERNATIONAL MONETARY REFORM.



MR PRESIDENT, I RECOGNISE, AND HAVE ALWAYS BEEN GRATEFUL FOR,  
YOUR UNDERSTANDING OF THE IMPORTANCE OF EUROPEAN INTEGRATION IN  
THE WIDER WORLD CONTEXT. I ASK YOU TO BELIEVE THAT NEITHER  
CHANCELLOR BRANDT NOR I WISH OR INTEND THAT THE PROGRESS OF  
EUROPEAN INTEGRATION SHOULD DO OTHER THAN SERVE THE INTERESTS OF  
THE ATLANTIC ALLIANCE AND STRENGTHEN EUROPE'S CAPACITY TO  
CONTRIBUTE TO THOSE INTERESTS.

WITH WARMEST PERSONAL REGARDS,

YOURS SINCERELY,

EDWARD HEATH.

NNNN

SENT AT 041615Z



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T O P S E C R E T .

TO F L A S H BONN TELNO 193 OF 4 MARCH AND TO IMMEDIATE UKREP BRUSSELS, WASHINGTON AND PARIS.

1973

CURRENCY CRISIS.

A LETTER WHICH THE FEDERAL CHANCELLOR SENT TO PRESIDENT NIXON AFTER DEPARTURE OF PRIME MINISTER'S PARTY FROM BONN HAS AROUSED FEARS IN WASHINGTON THAT THE COMMUNITY MAY BE MOVING TOWARDS A UNILATERAL SOLUTION WHICH COULD DAMAGE U.S. INTERESTS, AND MAY CONFRONT THE U.S. AND THE JAPANESE WITH A FAIT ACCOMPLI WITHOUT PRIOR CONSULTATION. THE PRESIDENT HAS SENT A PERSONAL MESSAGE TO THE PRIME MINISTER VOICING THESE FEARS.

THE PRIME MINISTER HAS SENT A MESSAGE IN REPLY TO REASSURE THE PRESIDENT THAT WE ARE AWARE OF U.S. INTERESTS, THAT WE AND THE GERMANS INTEND THAT THE PROGRESS OF EUROPEAN INTEGRATION SHOULD STRENGTHEN NOT DAMAGE THE ATLANTIC ALLIANCE, AND THAT WE WILL ENSURE THAT THERE IS PROPER CONSULTATION OF OUR FRIENDS AND ALLIES, IN PARTICULAR THE UNITED STATES AND JAPANM

DOUGLAS-HOME.

[COPY SENT TO NO 10 DOWNING ST]

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