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PRIME MINISTER

I reported to you the conversations which Lord Bridges and I had with Sir Nicholas Henderson and I had with Sir Michael Palliser shortly before we left for Ottawa.

Sir Nicholas Henderson made the point that progress to the second stage of economic and monetary union would be an indispensable element in any end-year package for the Community which was to include acceptable proposals for the Regional Development Fund. He took it as axiomatic that we should not be able to progress to the second stage of economic and monetary union until sterling was back in the snake. He recalled your conversations with Chancellor Brandt at the beginning of March, and said that it was his impression that we had failed to follow this up with the vigour and determination that we might have used and which the Germans probably expected. It was his personal view that there was more to come from the Germans on this, if we could engage the Chancellor's personal political impetus.

Sir Michael Palliser made the same sort of point. It was his impression too that we had been failing to follow these matters up with the Germans with sufficient vigour, and he also thought that a very high level approach to the Germans leading to talks on which both you and the Chancellor were known to be keeping a close eye could be the key to unlock the progress we need to see.

With this in mind I have drafted a message to the Federal Chancellor. I attach the draft herewith. I have at this stage discussed it only with Sir John Hunt, but of course the draft would have to be discussed in London with the Treasury and the Foreign and Commonwealth Office before it went off.

The draft ends with a proposal that two very senior officials,

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one from the Treasury and one senior personal adviser of your own, should go to Bonn for discussions with their counterparts. I have in mind that these might be Mr. Mitchell and Mr. Nairne.

REA

7 August, 1973