

Note for the RecordINTERNATIONAL CURRENCY SITUATION: TALK BETWEEN THE CHANCELLOR AND HERR SCHMIDT

Dr. Schmidt came to see the Chancellor just before this afternoon's meeting of the EEC Council of Finance Ministers. He said that he wanted to confirm his understanding of the position he had reached with the Chancellor in Paris on Friday last.

Dr. Schmidt said that Germany could not possibly accept the conditions we had set on U.K. participation in a joint European float within a 2¼% snake. Germany would make a generous offer of assistance which would, nevertheless, fall well short of our demands. The Chancellor would understand that he had for political reasons to make such a statement, although he knew we should not find it acceptable. While earlier he had not understood our position, he now did so entirely and was convinced that it would not only be harmful to us to join the floating snake but also it would be bad for the other participants. Giscard d'Estaing had told him that both he and Pompidou also fully understood our position.

The outcome, therefore, as Schmidt saw it, was that Germany, Benelux, France and the Danes would decide to float together within a 2¼% snake, possibly being joined by Sweden, Austria and, may be, Norway and Finland. If the non-EEC countries joined a separate agreement would have to be made with them. Britain and Italy would not join until their circumstances permitted them to do so. The Chancellor asked if France really would join a

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community float. Schmidt replied that he had it from Giscard that they would. He also said that if he thought it useful, or necessary to obtain an agreement, he had authority to announce an immediate revaluation of the Deutschemark by a small amount. Before deciding whether to do this he would have to consult the Dutch and the Danes in case such a move might hurt them. In his opinion agreement on the main question must be reached and announced tonight however long we might have to sit.

The Chancellor asked how all this fitted with the Commission proposals which Haferkamp had been pressing on him. Schmidt said that, although we should have to allow these proposals to be tabled and discussed, Haferkamp was not really in the picture. After a plenary session to discuss the Commission's proposals there would be a restricted Ministerial session to get down to real business and to make decisions.

As a footnote to this talk it should be recorded that Dr. Schmidt said that he had asked for it partly because he had become confused by the most recent messages exchanged between the Prime Minister and Chancellor Brandt. Should he understand from the Prime Minister's message that we were still pressing hard for the "imaginative solution"? The Chancellor said that the Prime Minister and he also were still convinced that this would have been a great step forward for the Community but sadly they recognised that it was not negotiable at the present time.

11th March 1973