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From the Principal Private Secretary

26 April 1978

CHANCELLOR SCHMIDT'S PROPOSAL FOR EUROPEAN CURRENCY REFORM

The Prime Minister has considered what further work should be undertaken with regard to Chancellor Schmidt's proposals for linked European currencies with pooled reserves, following the weekend meeting with Chancellor Schmidt.

In view of what we have learned unofficially about the time which is likely to elapse before Chancellor Schmidt is able to produce a substantial and definitive paper on his proposals, the Prime Minister does not think it either necessary or desirable to embark precipitately upon any activity in the United Kingdom. He does not see any need, for example, for a Seminar to discuss these matters at this stage but he would like work to be put in hand contingently as follows:

- (i) The first task should be to consider what would be the implications for the United Kingdom of, and what should be the UK response to, any decision by President Giscard in, say, the next 5 or 6 weeks or nearer the Economic Summit, to rejoin the Snake.
- (ii) It would also be desirable for papers to be prepared which analyse the implications of Chancellor Schmidt's ideas (including the variants of them which have emerged over several discussions) and the cost and opportunities thereof for the United Kingdom.
- (iii) This having been done, it would be desirable to consider how, within the context of the 5-Point Plan, the United Kingdom could develop its own proposals in response to Chancellor Schmidt which would best serve our purposes. From this work we might then develop a tactical plan which would enable us to handle in a coordinated way the development of a 5-Point Plan, Chancellor Schmidt's proposals and the Commission's proposals which will be debated at the Bremen Council.

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I should be grateful if you could arrange for work to be done on these lines. It would obviously be helpful if this work could be done before the meeting of the Preparatory Group for the Bonn Summit which meets again at the end of May but the Prime Minister did not think that it was desirable for us to take any initiative in response to the Schmidt proposals in that context.

The Prime Minister would still wish work on these proposals to be confined to the few people who are at present informed.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Duchy of Lancaster, the Governor of the Bank of England, Sir John Hunt and Sir Douglas Wass.

K. R. STOWE

A.M.W. Battishill, Esq.,
H.M. Treasury.

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