

PRIME MINISTER

Ken Couzens gave me a full account today of the G5 discussion in Paris on Thursday/Friday. This led to the conclusion that when the Finance Council meets in Brussels on Monday and takes up in that forum the subject of European Monetary Reform it would be prudent for the Chancellor to mark out some prerequisites which the U.K. has in response to these ideas. The objective is to avoid being negative, since it is now clear that at least part of the F.R.G. motive is to divert pressure on them for growth to pressure on the U.K. for monetary reform, to which we are expected to be resistant. Hence these conditions which John Hunt and I think are sensible tactically. The Chancellor leaves early on Monday and is available at home if you wish to discuss.

(SIGNED) K.R.S.

URGENT

U.S. This will do. There shall also be a strong reference to the need to reform the C.A.F. which at present distorts our relationship - results in us being 2nd only to Germany in the contribution we make to the Budget. (Tie it up together)

17 June 1978