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PRIME MINISTER

CHANCELLOR SCHMIDT'S PROPOSAL FOR EUROPEAN CURRENCY REFORM

I have, as you directed, asked Ken Couzens to produce the paper setting out the economic objectives and the economic consequences for the United Kingdom of Herr Schulman's scheme. I had already, following our earlier discussion, told Ken Couzens that such a paper would be needed as soon as we had the raw material from Bonn on which to base it and I have now asked him to have it ready in good time for a Seminar in the week of 26 June. This should enable ideas to be clarified and, if need be, further work done on analysis before you meet Schmidt and Giscard at breakfast on Friday 7 July.

We have not hitherto brought Dr. Owen and the FCO in on the consideration of Chancellor Schmidt's proposals - the informed circle comprises only the Chancellor, the Chancellor of the Duchy, the Governor and Kit McMahon, and Couzens, Wass and Hunt, as well as Bernard, Nigel and me in No. 10. I think it would make sense now, particularly since Chancellor Schmidt is all too likely to open the subject up again in the full Council meeting in Bremen, to bring Dr. Owen in on the discussion - in which case we could convene the normal full Seminar attendance, with him and Sir Michael Palliser present. Do you agree?

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[Handwritten signature: J. S. Pearce]

[Handwritten initials: K.R.S.]

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6 June 1978

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10 DOWNING STREET

From the Principal Private Secretary

6 June 1978

CHANCELLOR SCHMIDT'S PROPOSAL FOR EUROPEAN CURRENCY REFORM

Thank you for your letter of 30 May covering your further report on talks with M. Clappier and Herr Schulman.

The Prime Minister has read your note. He is aware that you are now setting in hand the second of the two papers which I commissioned in my letter of 26 April and he has asked specifically for such a paper covering the FRG economic objectives, and their consequences for the United Kingdom, to be prepared in time for a discussion at a Seminar meeting before the Bremen Council. As you may be aware already, the Prime Minister is to have a further breakfast meeting with President Giscard and Chancellor Schmidt at Bremen to discuss this matter and he would like to have had the opportunity of studying the proposals, and our own appraisal of them, as well as hearing the Seminar discussion, before that meeting takes place.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, to the Governor of the Bank of England, Sir John Hunt and Sir Douglas Wass. I will get in touch separately with the Foreign and Commonwealth Secretary's Office.

K. R. STOWE

K.E. Couzens, Esq., CB.,
HM Treasury.