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cc Sir D Wass

PRINCIPAL PRIVATE SECRETARY

Mr Jordan-Moss

Mrs Hedley-Miller

EUROPEAN CURRENCY SCHEME

1. In view of what is said in today's "Times" about Mr Heath's intention to pursue the question of the European currency scheme and the "Times" report of the Treasury's attitude to it, the Chancellor asked that we should let the Prime Minister have a brief.
2. I attach a note which could, if the Chancellor agrees, be sent to No 10.

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K E COUZENS  
12 July 1978

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MR HEATH AND THE EUROPEAN CURRENCY SCHEME

Prime Minister  
A Try note on your  
exchange with Mr  
Heath on Monday.

1. On the substance, Mr Heath made several points to which the Prime Minister replied at the end of questions on the Bremen Statement on 10 July. The Prime Minister said that we did in fact enter the Snake, and take credits on the terms then available in the Snake, in 1972. We had to leave the Snake after 7 weeks and pay \$2 billion from our reserves. PW  
13/7
2. Mr Heath referred to the readiness of Chancellor Schmidt on this occasion to "commit high German reserves in order to get stability in European currencies". The Prime Minister referred to the fact that the Schulman/Clappier scheme spoke of an exchange of 20% of everyone's reserves, not just those of Germany. This part of the scheme was only a transfer of reserves.
3. In fact it is not yet clear that there is to be any "pooling" of reserves. There is to be confirmed short-term credit, available for up to one year. There is to be a swap of 20% of reserves for ECUs, which is basically a means of providing members with European currencies for intervention rather than increasing currency backing and does not put German reserves at the disposal of others. And there is to be the possibility of obtaining a quota, in tranches, of ECUs against national currency, subject to conditionality and presumably (as in the IMF) to repayment in the medium term. This could mean conditional access to German reserves, just as with a drawing from the IMF. But in the proposals as they stand, none of this creates a central fund available for intervention.
4. An actual transfer of German reserves to a European Monetary Fund would probably require legislation, as it would in most countries. An exchange for ECUs would not.
5. On the Times report and the alleged difference between what the Prime Minister has said and the attitude of the Treasury, there is no such difference. In the briefing on technical aspects

given to the press it was made clear that there were both good and less good elements in the brief outline scheme, and also some important gaps from the UK point of view. It was also said that we would now work very hard to get the balance of the scheme right in UK terms, having regard to what the Chancellor had said in Luxembourg on 19 June. There was a chance of something useful in the UK interest here and we would pursue it on that basis.

6. Reports in the Financial Times, Telegraph and Guardian gave a balanced account on this basis. David Blake seemed at the briefing to be sceptical of the whole scheme and the chances of improving it. His account did not adequately reflect the balance in the briefing. He has disclaimed responsibility for the heading: "Treasury points out faults in 'hurried proposals'," and apologised for the attribution.