

Mr Armstrong
Nº 1088

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OTHER DAY/A

BOHN 110103Z

SECRET

TO FLASH FCO TELNO. 337 OF 11 MARCH INFO FLASH TO UKREP BRUSSELS
YOUR TELNO. 201 + PRIME MINISTER'S MESSAGE OF 10 MARCH TO
CHANCELLOR BRANDT

1. STATE SECRETARY POEHL DELIVERED IN PERSON THE CHANCELLOR'S REPLY
CONTAINED IN MIFT. HE THEN STAYED ON TO DISCUSS THE MATTER WITH DAVID
THOMSON AND MYSELF. HE EXPLAINED THAT HE HAD TAKEN THE PRIME
MINISTERS' MESSAGE OUT TO THE COUNTRY TO DISCUSS IT WITH THE
CHANCELLOR. HE RETURNED DIRECT TO THE RESIDENCE BECAUSE HE KNEW
HOW URGENTLY WE REQUIRED THE REPLY.

2. POEHL EXPLAINED THE MEANING OF THE LAST PARAGRAPH. BONN SAW THE
DIFFICULTY FOR THE BRITISH IN JOINING A EUROPEAN SOLUTION. IT WAS
NOT JUST A QUESTION OF THE STERLING BALANCES, BUT OF FINDING
REALISTIC STARTING PARITIES. THE GERMANS THEREFORE THOUGHT THERE
MIGHT BE A SOLUTION INVOLVING THE SEVEN JOINING IN A FLOAT AGAINST
THE DOLLAR. POEHL HINTED THAT GISCARD HAD TOLD SCHMIDT LATE LAST
NIGHT THAT THE FRENCH WOULD BE PREPARED TO GO ALONG WITH THIS. IT
COULD BE SOLD AS A EUROPEAN SOLUTION. FROM BONN'S POINT OF VIEW IT
WAS BETTER THAN FLOATING ALONE. SUCH A SOLUTION COULD BE ACCOMPANIED
BY A DECLARATION THAT BRITAIN AND ITALY WOULD JOIN THE SNAKE WHEN
POSSIBLE, I.E. A JOINT FLOAT OF A SEVEN, WAS WHAT WAS MEANT
BY 'KEEPING THE COMMUNITY INTACT'.

3. SPEAKING EXTREMELY CONFIDENTIALLY POEHL WENT ON TO ASK WHETHER
WE THOUGHT THAT IT WOULD BE EASIER FOR THE U.K. IF THERE WAS TO
BE SOME REVALUATION OF THE DM. HE SAID THAT HE WAS SURPRISED THAT
IN NONE OF THE CONVERSATIONS HE HAD HAD IN BRUSSELS OR PARIS
ANYONE ON THE BRITISH SIDE HAD EVEN HINTED TO HIM THAT THIS WAS
DESIRABLE. HE HIMSELF, THOUGH HE HAD NO RIGHT TO SAY THIS, COULD
NOT AVOID THINKING IT MIGHT HELP. THE GERMAN BALANCE OF PAYMENTS
SITUATION ON THE BASIS OF THE LATEST FIGURES SHOWED A RECORD VISIBLE
EXPORT SURPLUS. ON PURELY ECONOMIC GROUNDS THE EFFECTS OF ANOTHER
REVALUATION COULD BE FAVOURABLE DOMESTICALLY. IF SOME REVALUATION
WOULD MAKE A DIFFERENCE TO THE BRITISH, POEHL SAID
THAT HE COULD DROP A HINT BY SAYING THAT IT MIGHT BE POSSIBLE.

4. IN ANSWER TO QUESTIONS ON THE TEXT OF BRANDT'S REPLY, POEHL MADE

IN ANSWER TO QUESTIONS ON THE TEXT OF BRANDT'S REPLY, POEHL MADE THE FOLLOWING COMMENTS :

A) HIS GOVERNMENTS' INTERPRETATION OF SUPPORT ARRANGEMENTS IS BASED ON AN EXTENSION OF THE PRESENT CREDIT ARRANGEMENTS BETWEEN CENTRAL BANKS, AND DOES NOT ENCOMPASS A TRUE POOLING OF RESERVES INVOLVING MAKING THEM AVAILABLE WITHOUT REPAYMENT. THIS HE SAID WAS A SOLUTION FOR THE RATHER DISTANT FUTURE WHEN THE NEW EUROPEAN FUND HAD EVOLVED ^{WITH} AN EFFECTIVE COMMUNITY CENTRAL BANK. POEHL LIKENED HIS CONCEPT OF SUPPORT TO A BANK DEPOSIT OVER WHICH THE DEPOSITOR RETAINED SOME RIGHTS; AND ADDED THAT THE GERMANS WERE READY TO MAKE SUCH A DEPOSIT OF BETWEEN 2 TO 5 BILLION DOLLARS INTO THE FUND.

B) POEHL ADMITTED THAT HE THOUGHT THERE HAD BEEN SOME MISUNDERSTANDING ABOUT THE PHRASE "POOLING OF RESERVES", HIS INTERPRETATION, AS YOU WILL SEE, BEING MUCH MORE RESTRICTED THAN OURS. HE WENT ON TO SAY THAT A POOLING OF RESERVES WOULD ALSO INVOLVE A POOLING OF LIABILITIES. THE FEDERAL GOVERNMENT HAD ONE HUNDRED BILLION DM OF LIABILITIES BUT READILY AGREED THAT THE STERLING BALANCES WERE IN A SIMILAR CATEGORY.

C) AS TO THE AUGMENTATION AND PROLONGATION OF CREDITS, POEHL SAID ON THE FORMER THAT IF THEY WENT AS FAR AS TRIPLING THE PRESENT ARRANGEMENTS THIS WOULD BE NEARLY AS MUCH AS THE TEN BILLION DOLLAR FIGURE MENTIONED IN THE MONETARY COMMITTEE. ON THE LATTER POINT WHAT THE GERMANS HAD IN MIND WAS THAT FURTHER THREE MONTH RENEWAL PERIODS FOR SETTLEMENT WOULD BE ACCEPTABLE TO THEM; MORE SO THAN A SINGLE LONGER PERIOD BECAUSE OF THE ABILITY TO CONSULT AT EACH RENEWAL AND TO ENSURE THAT THE RENEWALS WERE RELATED TO SHORT TERM SPECULATIVE CAPITAL MOVEMENTS. THE CREDITS OTHERWISE MIGHT BE USED TO FINANCE BALANCE OF PAYMENTS DEFICITS IN AN INFLATIONARY WAY.

D) BY USE OF THE WORD "ALLEVIATION" POEHL EXPLAINED THAT THIS REFERRED TO THE LEVEL OF INTEREST RATES. THE GERMANS WERE FLEXIBLE ABOUT THE PATTERN HERE - THERE COULD BE A REDUCTION IN THE OVERALL RATE FOR A SUPPORT OPERATION OR THE FIRST TRANCHE, FOR EXAMPLE, COULD BE INTEREST FREE.

E) THOMSON QUESTIONED POEHL ABOUT WHAT HE MEANT BY STERLING BALANCES. DID HE JUST HAVE THE ^{OFFICIAL} ~~ALLIED~~ BALANCES IN MIND? AND WHAT FORM OF GUARANTEE? POEHL SAID THAT BASICALLY HE WAS THINKING OF THOSE OFFICIAL BALANCES ^{PRESUMABLY} COVERED BY THE BRITISH DOLLAR GUARANTEE. TO WHICH THE GERMANS WOULD PROPOSE TO ADD A GUARANTEE WHICH COULD BE IN TERMS OF SDRS OR UNITS OF ACCOUNT OR INDIVIDUAL COMMUNITY CURRENCIES.

F) IN DISCUSSING THE ADDITIONAL OFFER OF A MEDIUM TERM BILATERAL LOAN TO BRITAIN HE INDICATED THAT IT MIGHT BE OF THE ORDER OF ONE

IN TERMS OF SDRS OR UNITS OF ACCOUNT OR INDIVIDUAL COUNTRY CURRENCIES.

F) IN DISCUSSING THE ADDITIONAL OFFER OF A MEDIUM TERM BILATERAL LOAN TO BRITAIN HE INDICATED THAT IT MIGHT BE OF THE ORDER OF ONE TO TWO BILLION DOLLARS.

5. POEHL WAS QUITE EMPHATIC THAT DECISIONS WOULD BE REACHED ON SUNDAY NIGHT. THE FEDERAL CABINET WAS MEETING AGAIN AT NOON. THE GERMANS WERE IN NO DOUBT THAT THE GROUP OF TEN MEETING ON THE NINTH HAD BEEN FIXED UP AT GISCARD'S INSTIGATION PURELY FOR ELECTORAL PURPOSES. THEY HAD NEVER EXPECTED ANYTHING TO COME OF IT. NOR WOULD ANYTHING COME OF THE MEETING OF THE GROUP OF TEN NEXT WEEK. HE SAID THAT IF THE LEFT WERE RETURNED IN FRANCE THE WHOLE THING WOULD BE IN THE MELTING POT.

HENDERSON

NNNN

SENT CB BONN AT 11/0205Z RW
RECD FCO AT 11/0205Z EOS

RAT