

PRIME MINISTER'S DISCUSSION ON 8 APRIL WITH CHANCELLOR SCHMIDT
AND PRESIDENT GISCARD

During the return journey from Copenhagen the Prime Minister gave me an account of his discussion at breakfast with Chancellor Schmidt and President Giscard as follows.

2. The Prime Minister said that the following answers emerged to some of the questions contained in my brief prepared overnight:

- i. the proposal was basically for a new European snake;
- ii. the intention was that the European Unit of Account should be used for settlements between central Banks only. It was however intended that the EUA should develop into a new currency in the longer term;
- iii. it was true that the pooled reserve would amount to something like \$10 billion, and those managing it would have, or be able to call up, substantial amounts of the currencies of members as well. Decisions about the use of reserves for intervention would be taken by Joint Managing Directors but it was not clear how far they would be Finance Ministers and how far heads of central Banks;
- iv. it was imperative for political reasons that the Italians should be included in the scheme, though Chancellor Schmidt certainly accepted that the EEC would develop into a two-tier Community following enlargement;
- v. there was a belief that the United States would become more protectionist. They must be informed about the new snake proposal at the right stage, but it was clear to the Prime Minister that the scheme reflected a turning away from the dollar and from U.S. financial policy;
- vi. on credit terms when a country incurred settlement obligations as a result of intervention in support of its currency, there had been references to possible credit terms from Germany of up to 8 years. The Prime Minister had remarked that he couldn't refuse to be interested in credits for as long as 8 years but that short term money was uninteresting.

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3. President Giscard had said that a strong currency was important psychologically and that he did not believe it had any great unfavourable impact on exports. If a decision on this wider proposal could not be reached by mid-year, France would probably wish to enter the existing European snake. France would never become protectionist against Germany. He accepted that the final result of the evolution being discussed would be a Deutschemark zone, just as there had formerly been a sterling area. Chancellor Schmidt for his part accepted that the Deutschemark was bound to become increasingly a reserve currency. He mentioned a figure of 10% of reserves as being in Deutschemarks at present.

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4. The Prime Minister had made it clear that he would have to express scepticism to the press or in the House of Commons if questioned on a proposal for entry to an extended snake of this kind. Asked to follow up, he had resisted a proposal from Chancellor Schmidt that one paper should be prepared by each of the 3 countries for the 3 Heads of Government. Chancellor Schmidt did not like the idea of a single paper only, produced by Germany. The conclusion was that there should be 2 papers: one French and one German, and the Prime Minister would adopt a neutrally critical stance.

5. These papers would be available within one week. It seemed that if anything existed already on paper it was probably a note by Herr Schulman of Chancellor Schmidt's office. The 2 papers would then be considered by 3 people only, being one nominee of each Head of Government. The German nominee was Schulman, the French nominee was Clappier. The Prime Minister wished me to be his nominee and would inform the other 2 Heads of Government accordingly. We would have 6 weeks in which to complete the examination and the 3 Heads of Government might well meet on the evening before the Bremen European Council to discuss the results. The Prime Minister wished me to work direct to him on this, on a strictly confidential basis.

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11 April 1978