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PRIME MINISTER

A programme of work has been put in hand as a matter of urgency on your minute of 12th March. Although this to some extent overtakes the one of 10th March, it may be helpful if, at this stage, I make some preliminary comments on that one.

2. I have reported orally on the several meetings we had in Brussels. With regard to our own proposals, the hard fact is that the Germans did not themselves live up to the expectations they raised when you met Brandt in Bonn, though this was partly because (as they themselves came to realise) it was far more difficult to push forward on a multilateral than on a bilateral plane. I expect that you will have seen the helpful briefing given to their domestic press by, for example, Schmidt and the Belgian Chairman, de Clercq.

3. The formal position is now that the Commission will work on the various ideas for support to back a float in which all the Community countries could join. The

/timetable set



timetable set down for them in the communique issued at the end of the Council Meeting on 11th March is that they should have submitted their report by 30th June. Just how we should seek to influence their work will be the subject of one of the studies put in hand following your minute of 12th March.

4. The first of the points in the minute of 10th March (put by the Belgian Ambassador) concerns freedom to make parity changes. Of course we will look carefully at the possibility of accepting more stringent consultation arrangements. We do, however, have to be very wary of giving up our sovereignty over this vital instrument of economic management before economic and monetary union is reached. Others to whom our bold scheme would apply are certain to take the same view.

5. On the second and third points, Haferkamp's idea of delaying repayment until 1980 or full EMU (whichever is the later) has obvious attractions for us. But the amount of support is crucial. We are thinking again about this, but we have to recognise that the amounts others have had in mind so far would simply not meet the likely need.

/Thus, Haferkamp's



Thus, Haferkamp's own proposal of 10 billion units of account would effectively give the UK less than 5 billion units of account (because of the rules limiting access to the pool by any one member). This figure should be compared with the \$8 billion of IMF and other international support drawn by the previous Administration five years ago and the speculative outflow of \$2.8 billion within one week in June 1972. The recent German experience shows that these flows are getting larger and faster. We would not want protection only against speculative movements between EEC currencies. In a floating snake, at a time when our own position might initially be tolerable, speculative movements in favour of other EEC currencies could drive up our rate against the dollar and force us into a great deal of support in order to keep pace.

6. Fourthly, offers of help with the sterling balances are of course very welcome and we are following them up.

7. Fifth, we are looking at the suggestion of a distinction between short-term deficits and structural changes.

/8. All



8. All these points will be covered in the work I have put in hand with a view not just to responding to proposals which the Commission has been asked to work out but, if we can, to taking the initiative again ourselves as we did following your talks with Brandt a fortnight ago.

AB

19th March 1973