



10 DOWNING STREET

From the Private Secretary

18 July 1978

1. Chancellor
to note
2. Back to AmWB
8/6
7/9/78

Dear Tony,

EUROPEAN MONETARY CO-OPERATION

I have sent you separately today a summary of some points concerning the FRG economy which arose during the Prime Minister's conversation with Chancellor Schmidt in the Chancellor's bungalow in Bonn on 15 July. The Prime Minister and Chancellor Schmidt also discussed European monetary co-operation. Sir John Hunt, who was present, has recorded the following summary of the main points which arose during this part of the discussion, of which no note was taken. In view of Chancellor Schmidt's express wish that the confidentiality of this exchange should be respected, I am sending you Sir John Hunt's summary for the personal information of the Chancellor of the Exchequer only, and I should be grateful if you would ensure that this letter is given no distribution within HM Treasury.

Chancellor Schmidt:

- (a) expressed concern at the briefing which the Treasury had given the press following the Bremen meeting;
- (b) stressed his genuine belief that a scheme of this kind would be of benefit to Britain;
- (c) emphasised that the timing for further consideration of the scheme had deliberately taken into account the possibility of an autumn General Election in Britain;
- (d) said that President Giscard might not be reluctant to proceed without British participation, but that he would greatly regret it;
- (e) said that he would face political and financial opposition in Germany to this scheme but was confident he could carry it;
- (f) agreed strongly that serious action to remedy the abuses of the CAP was necessary in parallel but for German electoral reasons would prefer no action to be taken on this before the end of September;
- (g) said that one of the things which had motivated him in putting forward his scheme had been the German loan to Italy. Such bilateral arrangements affronted national pride and it was far better that support should be arranged on a European basis.

/The Prime Minister

The Prime Minister said that:-

(a) he hoped the Chancellor would note carefully his statement to the House of Commons: it was this that reflected the position of HMG.

(b) there were of course political difficulties for the Government in advance of a General Election but it should not be thought that this was the only or indeed the real problem. We had yet to be convinced that a scheme could be produced which would benefit us and which would not result in increasing the industrial strength of Germany and weakening the countries with regional problems. We would nevertheless continue to consider the matter constructively.

I am sending a copy of this letter to Sir John Hunt, for his personal record.

*Yours sincerely,
Bryan Lawson.*

A.M.W. Battishill, Esq.,
HM Treasury.