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FROM BONN 081950Z  
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COPY NO: .....

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PRIME MINISTER'S  
PERSONAL MESSAGE

'73

TO FLASH FCO TELNO 331 OF 8 MARCH/ INFO FLASH UKREP BRUSSELS, T57/73  
PARIS, IMMEDIATE WASHINGTON.

CHANCELLOR'S REPLY TO PRIME MINISTER'S LETTER.

1. FOLLOWING IS UNOFFICIAL ENGLISH TRANSLATION REFERRED TO IN  
MIPT :

QUOTE :

DEAR PRIME MINISTER,

LET ME BEGIN BY ASSURING YOU ONCE MORE OF THE PLEASURE WHICH  
YOUR VISIT TO BONN AND OUR TALKS GAVE ME. I REGRETTED VERY MUCH  
THAT YOU HAD TO CUT SHORT YOUR VISIT DUE TO THE CURRENCY SITUATION  
AND I TRUST THAT YOU WILL BE ABLE TO RESUME YOUR PLANNED JOURNEY  
TO SOUTH GERMANY ON THE OCCASION OF YOUR NEXT VISIT.

MANY THANKS FOR YOUR DETAILED LETTER OF 6 MARCH IN WHICH YOU  
AGAIN SET OUT YOUR VIEWS ON CURRENCY PROBLEMS.

I AM EXTREMELY GRATEFUL TO YOU AND YOUR COLLEAGUES FOR THE GREAT  
EFFORTS YOU HAVE MADE TO CLARIFY THE PREREQUISITES WHICH WOULD HAVE  
TO BE FULFILLED FOR YOUR GOVERNMENT IN ORDER TO REACH A EUROPEAN  
SOLUTION OF THE CURRENCY DIFFICULTIES.

I ALSO WELCOMED THE GREAT FRANKNESS WITH WHICH WE WERE ABLE TO  
DISCUSS THESE PROBLEMS AND WITH WHICH THE COUNCIL OF THE EUROPEAN  
COMMUNITY WAS ALSO ABLE TO DO SO.

I AM STILL IN COMPLETE AGREEMENT WITH WHAT YOU HAD TO SAY DURING  
DINNER AT SCHLOSS GYMNICH. WE HAVE REACHED A POINT IN  
EUROPEAN HISTORY AT WHICH WE SHALL HAVE TO MAKE UP OUR MINDS  
ABOUT OUR FUTURE COURSE OF ACTION. WE SHALL HAVE TO LOOK FOR  
SOLUTIONS WHICH WILL LAST FOR A LONG TIME.

THE WAY I SEE THE DECISION WE HAVE TO TAKE IS NOT ONE OF CHOOSING  
BETWEEN A STATUS QUO IN THE CURRENCY POLICIES OF INDIVIDUAL  
MEMBER STATES AND EUROPEAN PROGRESS ; THE CHOICE IS RATHER BETWEEN  
A CONVINCING SOLUTION WHICH WILL BE CONDUCTIVE TO FURTHER INTEG-  
RATION AND THE DANGER OF A STEP BACK BY THE COMMUNITY INTO A  
CUSTOMS UNION. I AM STILL UTTERLY DETERMINED TO LOOK FOR A  
COMMUNITY SOLUTION AND ONE IN WHICH WE SHALL BE ABLE TO BASE  
OUR ACTION ON THE PROPOSALS SUBMITTED BY THE COMMISSION.

TURNING TO THE DETAILED QUESTIONS BROACHED IN YOUR LETTER, PERMIT  
ME TO SAY QUITE FRANKLY THAT THE PROPOSAL WHICH THE CHANCELLOR  
OF THE EXCHEQUER, MR BARBER, PUT FORWARD IN BRUSSELS ON SUNDAY  
IS NOT WITHOUT ITS PROBLEMS. I, TOO, AM OF THE OPINION THAT

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/THE EUROPEAN COMMUNITY

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THE EUROPEAN COMMUNITY SHOULD PUT ITS WHOLE WEIGHT BEHIND THE SUPPORT OF THE CURRENCIES WHICH MIGHT EXPERIENCE DIFFICULTIES FOR A CERTAIN PERIOD OF TIME. A STATEMENT TO THIS EFFECT WOULD IN ITSELF PROBABLY SUFFICE TO PRECLUDE IN ADVANCE THE EMERGENCE OF ANY SUCH DIFFICULTIES. HOWEVER, A PROMISE OF SUPPORT WITHOUT LIMITING THE AMOUNT, WITHOUT ANY CONDITIONS AND WITHOUT ANY GUARANTEE OF REPAYMENT MIGHT WELL PROVE TO BE A DANGEROUS FACTOR IN ACCELERATING THE INFLATIONARY PROCESSES - WHICH ARE IN ANY CASE A CAUSE OF CONCERN - WITHIN THE EUROPEAN COMMUNITY.

I AM OF THE OPINION THAT WE OUGHT TO MAKE A DISTINCTION BETWEEN SHORT-TERM DEFICITS IN THE BALANCE OF PAYMENTS ON THE ONE HAND AND STRUCTURAL SHIFTS OF BALANCE OF PAYMENT RESERVES ON THE OTHER. AS FAR AS THE FIRST POINT IS CONCERNED, I DO NOT THINK THAT A JOINT FLOAT COULD LEAD TO AN INCREASE IN THE BALANCE OF PAYMENT DEFICITS IN INDIVIDUAL MEMBER STATES OF THE EUROPEAN COMMUNITY ; THIS WOULD BE ALL THE MORE SO IF SHORT-TERM MOVEMENTS OF CAPITAL WERE RESTRICTED BY THE CONTROLS ENVISAGED. ADMITTEDLY, A LOT WILL DEPEND ON WHETHER THE AGREED PARITIES ARE REALISTIC FROM THE BEGINNING. IN MY VIEW, WE OUGHT TO ADHERE TO FAIRLY STRICT RULES IN REGARD TO SETTLING BALANCES WITHIN THE COMMUNITY IN ORDER TO PRESERVE THE INTERNAL STABILITY OF THE EEC. IN ADDITION, THE GERMAN DELEGATION TO THE MONETARY COMMITTEE HAS ALREADY SUBMITTED PROPOSALS ABOUT A CONSIDERABLE EXPANSION IN THE SHORT-TERM SUPPORT TO BE GIVEN BY THE CENTRAL BANKS. THIS WOULD APPEAR TO ME IN THE FIRST INSTANCE TO BE ADEQUATE FOR NORMAL REQUIREMENTS. MY GOVERNMENT IS, HOWEVER, QUITE PREPARED TO DISCUSS MODIFICATIONS IN THIS REGARD.

A MUCH MORE DIFFICULT PROBLEM IN THE CASE OF THE UNITED KINGDOM WOULD APPEAR IN MY VIEW TO STEM FROM THE FACT THAT THERE MIGHT BE SWITCHINGS OF STERLING BALANCES. ANY UNLIMITED CREDIT WOULD BE LIKELY TO PROMOTE SUCH A DEVELOPMENT RATHER THAN HINDER IT. I THINK THAT WE OUGHT TO ASPIRE TO A SYSTEM WHICH ENABLES US TO PREVENT ANY SUCH SWITCHING OF ASSETS FROM OCCURRING. WITH THIS IN MIND, OUR REPRESENTATIVE IN THE MONETARY COMMITTEE HAS PUT FORWARD FOR DISCUSSION THE POSSIBILITY OF GUARANTEEING THE RATE OF EXCHANGE FOR STERLING BALANCES. THIS MIGHT BE SUPPLEMENTED BY THE PROMISE OF CREDIT ON AN UNSPECIFIED SCALE.

A MODEL ALONG THE LINES WHICH I HAVE SKETCHED ABOVE AND WHICH WOULD OF COURSE HAVE TO BE WORKED OUT IN FULL BY THE EXPERTS WOULD, IN MY VIEW, OFFER A CONVINCING DEFENCE AGAINST THE RISKS WHICH YOU FEAR WOULD ATTACH TO A BRITISH PARTICIPATION IN A JOINT

FLOAT.

SHOULD, HOWEVER, POINT OUT THAT THE IMPLEMENTATION OF SUCH A SOLUTION WOULD NOT DEPEND SOLELY ON THE GOODWILL OF THE FEDERAL REPUBLIC BUT ALSO ON THE APPROVAL AND PARTICIPATION OF OTHER FELLOW MEMBERS OF THE EUROPEAN COMMUNITY. THE PROBLEMS WHICH IN YOUR OPINION WOULD ARISE FROM A PARTICIPATION IN A JOINT FLOAT CANNOT OF COURSE BE SETTLED BILATERALLY BETWEEN OUR TWO COUNTRIES EVEN THOUGH I CAN WELL IMAGINE THAT THERE MIGHT BE SUPPLEMENTARY BILATERAL AGREEMENTS IF A EUROPEAN SOLUTION WERE TO EMERGE. ADMITTEDLY, THEY CANNOT REPLACE A EUROPEAN SOLUTION : THEY MIGHT WELL, HOWEVER, FACILITATE THE ACHIEVEMENT OF ONE. MR BARBER AND HERR SCHMIDT WILL CERTAINLY HAVE AN OPPORTUNITY TO DISCUSS IN DETAIL THE PROBLEMS SET OUT IN OUR CORRESPONDENCE IN THE COURSE OF THE NEXT FEW DAYS.

AS FAR AS I AM CONCERNED, I SHALL DO EVERYTHING IN MY POWER TO PROMOTE THE SUCCESS OF EUROPEAN CO-OPERATION. DESPITE ALL THE ALARMING ASPECTS OF THE CRISIS WITH WHICH WE ARE AT PRESENT FACED, IT ALSO OFFERS THE OPPORTUNITY OF A MAJOR STEP FORWARDS - AN OPPORTUNITY OF WHICH WE OUGHT, IF POSSIBLE, TO AVAIL OURSELVES.

YOUR SINCERELY

UNQUOTE.

HENDERSON

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