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TO IMMEDIATE FCO TELNO 512 OF 28 JUNE 1978

PERSONAL FOR K. STOWE, 10 DOWNING STREET

COPIED TO: PS/CHANCELLOR OF THE EXCHEQUER
 PS/FOREIGN SECRETARY
 PS/CHANCELLOR OF THE DUCHY OF LANCASTER
 GOVERNOR OF THE BANK OF ENGLAND
 SIR JOHN HUNT
 SIR MICHAEL PALLISER
 SIR DOUGLAS WASS
 MR. MCMAHON, BANK OF ENGLAND

NO OTHER COPIES.

FROM COUZENS

EUROPEAN MONETARY REFORM

1. THE FOLLOWING REPORT IS AN INTERIM ONE BASED MAINLY ON A SERIES OF CONVERSATIONS WITH CLAPPIER. IT MAY BE POSSIBLE TO AMPLIFY IT AT TOMORROW'S MEETING.
2. IT SEEMS THAT CHANCELLOR SCHMIDT AND PRESIDENT GISCARD AGREED IN HAMBURG ON THE PROCEDURES FOR CARRYING THE EUROPEAN MONETARY REFORM PROJECT FURTHER, RATHER THAN ON ANYTHING APPROACHING A DETAILED SCHEME. THE ELEMENTS OF THIS PROCEDURAL AGREEMENT WERE FIRST, THAT SCHMIDT WOULD MAKE A PROPOSAL IN BREMEN THAT THE EUROPEAN COUNCIL SHOULD ENDORSE A PLAN TO MAKE IT POSSIBLE TO MOVE TO A EUROPEAN CURRENCY SCHEME EARLY IN 1979; AND THAT GISCARD WOULD SUPPORT HIM. IT MAY FALL TO GISCARD TO PROPOSE A PROCEDURE AND TIMETABLE. THE QUOTE COMPETENT AUTHORITIES OF THE COMMUNITY UNQUOTE (WHICH SEEMS LIKELY TO MEAN THE MONETARY COMMITTEE) WOULD BE REQUIRED TO WORK /OUT

OUT A SCHEME BY 31 OCTOBER AND MAKE IT AVAILABLE TO COMMUNITY GOVERNMENTS. GOVERNMENTS WOULD THEN HAVE ABOUT A MONTH TO CONSIDER THE SCHEME WHICH WOULD GO TO THE EUROPEAN COUNCIL MEETING IN BRUSSELS IN DECEMBER. AT THAT MEETING THERE WOULD BE A DECISION ON THE ACCEPTABILITY OF THE SCHEME AND ON WHO WAS PREPARED TO PARTICIPATE IN IT. THE ASSUMPTION WOULD BE THAT ENTRY TO THE SCHEME WOULD FOLLOW EARLY IN 1979.

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3. ON THE SUBSTANCE, SCHMIDT AND GISCARD HAD BEFORE THEM TWO BRIEF PAPERS FROM CLAPPIER AND SCHULMANN WHICH THE PRIME MINISTER HAS ALREADY SEEN. I GATHER THAT THEY GAVE NO DETAILED ATTENTION TO EITHER PAPER. THEY SIMPLY COMMISSIONED FROM SCHULMANN AND CLAPPIER A FURTHER PAPER OF A VERY BROAD AND GENERAL KIND. - I AM PROMISED A COPY OF THIS PAPER LATER TODAY BUT CLAPPIER TELLS ME THAT IT IS VERY GENERAL, VERY SHORT AND (IN HIS OWN WORDS) VERY BAD.

Handwritten initials
4. WHAT IS NOT CLEAR IS THE STATUS THAT THIS BRIEF DOCUMENT IS EXPECTED TO HAVE IN RELATION TO THE REPORT OF THE MONETARY COMMITTEE WHICH WAS COMMISSIONED BY THE FINANCE COUNCIL IN LUXEMBOURG ON 19 JUNE. IT HAS BEEN ARGUED OUT BETWEEN ALL COMMUNITY MEMBERS AND IS TO BE SUBMITTED TO THE BREMEN MEETING. WITHOUT GOING FAR INTO DETAIL, THAT REPORT IS MUCH MORE SPECIFIC THAN THE CLAPPIER/SCHULMANN DOCUMENT IS LIKELY TO BE. IT IS HARD TO SEE HOW THE SHORTER DOCUMENT COULD PRE-EMPT OR OVERRULE THE MONETARY COMMITTEE REPORT, MORE PARTICULARLY AS THE ELABORATION OF A SCHEME WILL ALMOST CERTAINLY HAVE TO TAKE PLACE IN THE MONETARY COMMITTEE. THE MONETARY COMMITTEE REPORT TAKES ACCOUNT OF WHAT THE CHANCELLOR OF THE EXCHEQUER SAID IN LUXEMBOURG ABOUT UK PRE-CONDITIONS FOR ENTRY TO A SCHEME.

5. CLAPPIER IS TRAVELLING TO ROME TOMORROW, 29 JUNE, TO INFORM THE ITALIAN GOVERNMENT AS A MATTER OF COURTESY OF THE CONCLUSIONS REACHED BY SCHMIDT AND GISCARD BUT CLAPPIER EXPECTS NO SERIOUS REACTION OR DISCUSSION DURING HIS VISIT. I GATHER SCHULMANN MAY BE VISITING THE DANES, AND POSSIBLY THE BELGIANS AND DUTCH, FOR THE SAME PURPOSE.

6. IN THE SUMMIT PREPARATORY GROUP THE AMERICANS QUESTIONED SCHULMANN ON WHETHER SCHMIDT WOULD BRING UP THE PROJECT FOR EUROPEAN MONETARY REFORM AT THE BONN SUMMIT MEETING, OR WOULD BE SEEKING ANY BLESSING FOR IT THERE, EG. BY REFERENCE IN THE COMMUNIQUE. SCHULMANN'S REPLY WAS THAT THE CHANCELLOR INTENDED TO INFORM THE /THREE

THE SUMMIT COUNTRIES NOT REPRESENTED AT BREMEN OF ANY DEVELOPMENTS AT BREMEN WHICH MIGHT AFFECT THEM. HE WOULD BE READY AT BONN TO GIVE INFORMATION ABOUT ANYTHING DECIDED ON EUROPEAN MONETARY REFORM. THE AMERICANS SAID THAT IF SCHMIDT WISHED TO DISCUSS THIS SUBJECT AT BONN THEY WOULD NEED SUFFICIENT NOTICE OF HIS INTENTION. IT SEEMS CLEAR THAT SOLOMON IS NOT ANXIOUS TO HAVE THE SUBJECT DISCUSSED OR TO OFFER ANY AMERICAN COMMENT. THE JAPANESE HAVE MEANWHILE MADE IT CLEAR TO ME THAT THEIR PRIME MINISTER IS ALARMED ABOUT THE INCREASING ISOLATION OF JAPAN IN THE CURRENCY FIELD, HIS FEARS BEING REINFORCED BY WHAT HE HEARS ABOUT EUROPEAN MONETARY REFORM.

COMMENT

7. IT IS NOT CLEAR THAT THE UNDERSTANDING BETWEEN GISCARD AND SCHMIDT IS CONSISTENT WITH THE EARLIER FRENCH LINE THAT THERE OUGHT NOT TO BE A TWO-TIER MONETARY SYSTEM IN THE COMMUNITY. IT LOOKS AS IF THAT POSSIBILITY IS VERY MUCH LEFT OPEN, AT ANY RATE ON A TRANSITIONAL BASIS. AND THERE IS NO COMMITMENT TO THE PROPOSITION WHICH CLAPPIER HAS FAVOURED THAT THERE SHOULD BE STRICT LIMITS ON THE MARGINS PERMITTED FOR FLUCTUATION TO ANY CURRENCY.

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8. IT WOULD SEEM BEST TO DEAL WITH THE QUESTION OF TACTICS TOMORROW WHEN WE HAVE THE CLAPPIER/SCHULMANN DOCUMENT AND ANY OTHER INFORMATION WHICH CAN BE GARNERED DURING THE DAY. HOWEVER, THE FRENCH AND GERMANS SEEM TO ACCEPT THAT THE UK COULD HARDLY ENTER INTO A COMMITMENT, EVEN IN PRINCIPLE, ON A EUROPEAN CURRENCY SCHEME IN JULY, IF THERE IS A SERIOUS POSSIBILITY OF AN EARLY UK ELECTION. MOREOVER, OTHER MEMBERS OF THE COMMUNITY (EG. ITALY) CAN HARDLY BE EXPECTED TO COMMIT THEMSELVES TO A SCHEME THEY HAVE NOT YET SEEN. WE OUGHT, THEREFORE, TO BE UNDER NO SERIOUS PRESSURE TO ENTER INTO ANY COMMITMENT OF SUBSTANCE IN BREMEN. OUR BROAD LINE MIGHT BE TO SUPPORT AND JOIN IN ELABORATION OF A SCHEME BUT TO RESTATE THE CONDITIONS DESCRIBED BY THE CHANCELLOR IN LUXEMBOURG.

BULLARD

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