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SECRET AND PERSONAL

K E Couzens CB
Second Permanent Secretary
Overseas Finance

26 April 1978

K R Stowe Esq CB
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Dear Ken

CHANCELLOR SCHMIDT'S PROPOSALS FOR EUROPEAN CURRENCIES

You may like to have a very brief account of a discussion I have had today with M. Clappier. I am sorry that I cannot easily provide a fuller account since I am about to leave for the Mexico meeting of the IMF Interim Committee with the Chancellor.

2. M. Clappier had had a 2 hour discussion last week with Chancellor Schmidt and also a meeting with Herr Schulman (who is now afflicted with chickenpox). He confirmed however that there was no document in existence about Chancellor Schmidt's proposals, other than the record of what he said at Copenhagen which Chancellor Schmidt handed to the Prime Minister.

3. M. Clappier said he was convinced that the heart of the proposal was fixed exchange rates for European currencies, to which in the end it would be necessary to say yes or no. He confirmed our understanding of President Giscard's support for the plan, which he saw as making for a strong franc and imposing a greater industrial and social discipline on France as well as countering inflation. But it was clear that at all official levels in France there was apprehension about the plan and its practicability.

4. M. Clappier proposed, and I agreed, that we should meet in Paris on 12 May to begin to produce a document for Heads of Government. This was subject to Herr Schulman's agreement and he ought to supply most or all of a first draft. There should be not more than one further meeting to finalise it.

5. I am copying this letter to Sir Douglas Wass and to Sir John Hunt and will show a copy also to the Chancellor of the Exchequer.

Yours etc
Ken

K E COUZENS

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Prime Minister 10
To see.
I have asked for a
contingency plan of
our attitude and response
to a French re-entry
to the Snake.

KRS

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