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An interesting read,  
and some development of ideas  
which is helpful - but a long way  
to go.  
K.S.

Dear Ken

## CHANCELLOR SCHMIDT'S PROPOSALS FOR EUROPEAN CURRENCIES

I attach a record of a discussion which I had with M. Clappier and Herr Schulman in Paris on Friday, 12 May.

We still await a paper in which Chancellor Schmidt's proposals are described, though this is now promised within the next week or so. However on this occasion Herr Schulman did begin to give rather more precision to the German proposals:

- i. the approach to the exchange rate aspects was more precise, flexible and realistic - always within the scope, of course, of a move back towards fixed exchange rates;
- ii. some precision was given to the idea of creating and using European Units of Account. The German suggestion appeared to go beyond using the EUA as a numéraire; and to include an issue of units in exchange for national currencies which would give each member country a certain interest-free access in need to the currencies of other members. For example, the UK, having purchased £Xm units with sterling, would be able to sell them either to the central pool or to another member central bank for a basket of European currencies in which German marks would be the largest single component. But Herr Schulman's remarks on this were the merest outline and included little or nothing about the scale of this EUA operation or the conditions attaching to it;
- iii. it was clearly recognised that the scheme ought not to damage the dollar. The aspects of the plan envisaging more intervention in European currencies and greater dependence on non-dollar reserves could be consistent with that.

However these clarifications still do no more than touch the edge of a large subject, and there was no real movement from the German side on credit outside the EUA issue, or on resource transfer.

SECRET AND PERSONAL

I thought it right at this stage to stake out a UK position on resource transfers within the Community, as well as on such matters as the flexibility of the proposed exchange rate links, the scale of reserves and the terms and length of credit. I also mentioned the link with efforts to achieve higher growth in the Community. It seemed right to deploy the arguments now both on the merits and as a matter of tactics.

In the light of last Friday's discussion with M. Clappier and Herr Schulman, I think it would be better to wait until Herr Schulman's paper is available and we have had an opportunity to discuss it à trois in Washington before preparing the paper described at sub-paragraph ii of your letter of 26 April about the costs and opportunities of Chancellor Schmidt's ideas for the UK. The paper at sub-paragraph i of your letter about the implications for the UK of separate French re-entry to the Snake is however already in draft and I expect to let you have the final version of that within about a week. It may need to be updated as the detail of the German proposals and the French reaction to them become clearer but it seems worthwhile to make a first analysis now.

I am copying this letter and enclosure to the Private Secretaries to the Chancellor of the Exchequer, the Governor of the Bank of England, Sir John Hunt and Sir Douglas Wass.

*Yours ever*

*Ken Couzens*

K E Couzens

CHANCELLOR SCHMIDT'S PROPOSALS FOR EUROPEAN CURRENCIES

NOTE OF A MEETING AT THE BANK OF FRANCE 12 MAY 1978

M. Clappier, Herr Schulman and I discussed the possible lines of a scheme based on Chancellor Schmidt's proposals from 11.30 am to 4 pm at the Bank of France on Friday, 12 May.

2. There was no new piece of paper available to us beyond the record of what Chancellor Schmidt had said at Copenhagen which he left with the Prime Minister at Chequers on 23 April.

3. At my suggestion we organised the discussion under four headings:

1. Exchange rates.
2. Reserves and Credit Arrangements.
3. Currencies of intervention and the relationship with the dollar.
4. Questions outside the scheme itself which might have an important bearing on its acceptability or practicability, including "resource transfers" and European growth.

Exchange Rates

4. Points emerging from this part of the discussion were as follows:

a. Herr Schulman saw a range of possibilities about the margins within which currencies would be permitted to fluctuate. These ran at one extreme from the 1% which applied under Bretton Woods and which Chancellor Schmidt had appeared to favour at Chequers, through the 2 $\frac{1}{4}$ % of the present European Snake to perhaps 5%. If the total margin were as much as 5% that would mean a 2-tier arrangement with the present Snake currencies adhering to their narrower 2 $\frac{1}{4}$ % margin. M. Clappier repeated a view he had already mentioned to me that the extent of the margin made little practical difference to the position one found oneself in when defending a rate. I said that although I sympathised with that argument as a

