

PO-CH/GH/177

PART A

PO-CH/GH/177
part A

FOR LORD HOWE

EUROPEAN MONETARY
SYSTEM

Exchange Rates and
realignments.

1983

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FM UKREP BRUSSELS 240930Z SEP 79

TO FLASH FCO

TELEGRAM NUMBER 4876 OF 24 SEPTEMBER

AND TO VALLETTA (FOR CHANCELLOR OF EXCHEQUER'S PARTY)

INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME LUXEMBOURG

DUBLIN PARIS BONN WASHINGTON (UKTSD)

PERSONAL FOR HEADS OF MISSION.

EMS REALIGNMENT : 23 SEPTEMBER

YOU MAY FIND IT HELPFUL TO HAVE A REPORT OF THE DISCUSSIONS BETWEEN THE IRISH PRESIDENCY AND OURSELVES DURING THE COURSE OF YESTERDAY'S MEETING OF FULL EMS PARTICIPANTS, WHICH LED TO A REALIGNMENT OF EMS PARITIES AT ABOUT 2.00 AM THIS MORNING. IN VIE OF THE DELICACY OF THE SUBJECT, THESE DISCUSSIONS SHOULD BE TREAT AS CONFIDENTIAL.

2. WE UNDERSTAND THAT ON SATURDAY EVENING VAN YPERSELE (BELGIUM), IN HIS CAPACITY AS CHAIRMAN OF THE MONETARY COMMITTEE, TELEPHONED JORDAN-MOSS (TREASURY) WITH THE NEWS THAT A MEETING OF THE 8 EMS PARTICIPANTS AT FINANCE MINISTER/CENTRAL BANK GOVERNOR LEVEL WAS TO TAKE PLACE AT 11.00 AM ON 23 SEPTEMBER TO DISCUSS INTEREST RATE POLICIES, POLICY TOWARDS THE DOLLAR AND OTHER MATTERS; THAT THE INVITATIONS HAD BEEN ISSUED FROM BONN; AND THAT THE UK, AS A NON-PARTICIPANT IN THE EXCHANGE RATE MECHANISMS OF THE EMS, HAD NOT (NOT) BEEN INVITED. JORDAN-MOSS AFTER CONSULTING THOSE CONCERNED IN LONDON, EMPHASIZED THE UK'S INTEREST IN THE WIDE RANGING SUBJECTS UNDER DISCUSSION AND ASKED THAT WE SHOULD BE KEPT FULLY INFORMED.

3. ON SUNDAY MORNING, SOON AFTER THE MEETING BEGAN, DILLON (IRISH PERMANENT REPRESENTATIVE) TOLD MEMBERS OF MY STAFF THAT, AT THE REQUEST OF COLLEY (IRISH PRESIDENT OF THE FINANCE COUNCIL),

REQUEST OF COLLEY (IRISH PRESIDENT OF THE FINANCE COUNCIL), THE MEETING HAD DECIDED TO INVITE THE UK TO BE REPRESENTED. DILLON CONFIRMED THAT, THOUGH THE ORIGINAL INVITATIONS HAD BEEN ISSUED IN THE NAME OF THE PRESIDENT THEY HAD GONE OUT FROM BONN. HE IMPLIED, WITHOUT EXPLICITLY SAYING SO, THAT UNTIL COLLEY ARRIVED AT THE MEETING HE HAD NOT BEEN AWARE THAT NO INVITATION HAD GONE TO THE UK.

4. FOLLOWING TELECONS JORDAN-MOSS/FITCHEW, WE SPOKE AGAIN TO DILLON AT 1.00 PM LOCAL TIME. AFTER INFORMING HIM OF THE ADVANCE WARNING WE HAD HAD FROM VAN YPERSELE (SEE PARAGRAPH 1 ABOVE), WE SAID THAT, FOLLOWING CONSULTATION WITH THE CHANCELLOR, WE HAD DECIDED THAT AT THIS LATE STAGE IT WAS NOT PRACTICAL FOR A TEAM TO COME FROM LONDON FOR THE MEETING AND THAT IT WOULD NOT BE APPROPRIATE FOR MEMBERS OF UKREP TO PARTICIPATE, AS THEY WOULD NOT BE IN A POSITION TO GIVE THE UK'S VIEW. THE CHANCELLOR WAS, HOWEVER, GRATEFUL FOR COLLEY'S INITIATIVE IN RAISING THE QUESTION

5. WE MADE THE FOLLOWING FURTHER POINTS :

(A) WE WOULD WISH TO BE KEPT INFORMED OF THE OUTCOME OF THE DISCUSSION BEFORE ANY DECISIONS WERE MADE PUBLIC. WE WOULD ALSO WISH TO BE CONSULTED IN ACCORDANCE WITH THE RELEVANT COMMUNITY DECISIONS ON ANY PROPOSALS FOR CHANGES IN MCAS OR FOR ANY CHANGE IN THE VALUE OF STERLING WITHIN THE ECU.

(B) WE WOULD WISH THE ARRANGEMENTS FOR ANY FUTURE MEETINGS OF THIS TYPE COULD BE REVIEWED IN THE LIGHT OF WHAT HAD HAPPENED.

(C) WE HOPED THE IRISH PRESIDENCY COULD CONSULT US ON WHAT, IF ANYTHING, SHOULD BE SAID TO THE PRESS ABOUT THE UK'S ABSENCE FROM THE MEETING.

6. DILLON SAW NO DIFFICULTY IN WHAT WE HAD PROPOSED AND UNDERTOOK THAT WE WOULD BE INFORMED OF ANY DECISIONS. IN ACCORDANCE WITH THIS HE CONVEYED THE TEXT OF THE FINAL COMMUNIQUE CONTAINED IN MIFT TO US AT ABOUT 2.00 AM THIS MORNING, BEFORE IT WAS RELEASED TO THE PRESS. WE PASSED ON THE NEWS TO TREASURY AND BANK OF ENGLAND. WE UNDERSTAND THAT AT ABOUT THE SAME TIME VAN YPERSELE TELEPHONED JORDAN-MOSS WITH THE SAME MESSAGE. VAN YPERSELE ALSO TOLD JORDAN-MOSS THAT THE REASONS WHY THE UK WAS UNABLE TO TAKE UP THE INVITATION HAD BEEN WELL UNDERSTOOD AND THAT THERE HAD BEEN SOME CRITICISM OF THE GERMAN ARRANGEMENTS FOR THE MEETING, WHICH MATTHOEFFER (GERMAN FINANCE MINISTER), HAD ACCEPTED.

THE GERMAN ARRANGEMENTS FOR THE MEETING, WHICH MATTHOEFFER
(GERMAN FINANCE MINISTER), HAD ACCEPTED.

7. THE COMMUNIQUE IN WIFT CONTAINS NO REFERENCE TO THE UK'S
ABSENCE. THE MEETING CONSIDERED THAT SUCH A REFERENCE WAS
UNNECESSARY IN VIEW OF THE FACT THAT IMMEDIATE DECISIONS WERE
CONFINED TO CHANGES IN THE BILATERAL CROSS RATES WITHIN THE EMS
MECHANISM.

THE MEETING OF THE FINANCE COUNCIL

1. McGuire ET
2. Dr. Halligan
110

GPS 2 340

UNCLASSIFIED [coll]

FM BONN 241718Z SEP 79

TO PRIORITY FCO

TELEGRAM NUMBER 535 OF 24 SEPTEMBER

INFO SAVING OTHER EEC POSTS UKREP BRUSSELS WASHINGTON UKDEL OEC
TOKYO

TREASURY
26 SEP 1979

FRG: REVALUATION OF THE DM

1. AT A PRESS CONFERENCE TODAY, THE FEDERAL FINANCE MINISTER PRESENTED THE 2% DM REVALUATION AS CONFIRMATION THAT THE EMS WAS WORKING AS PLANNED. MATTHOEFER COMMENTED THAT THE RESULT WAS NOT SATISFACTORY IN ALL RESPECTS (REASONS NOT SPECIFIED) BUT IT WAS AN ACCEPTABLE COMPROMISE, NOT OF AN ORDER TO CAUSE DIFFICULTIES FOR GERMAN EXPORTS AND THE ADJUSTMENT HAD BEEN SILENT, EFFECTIVE AND TIMELY. THE RECENT TENSION ON THE EXCHANGE MARKETS HAD BEEN DUE TO THIRD CURRENCIES. $\approx \&$

Hint!

2. ASKED IF THE FEDERAL GOVERNMENT WOULD CONTINUE TO INTERVENE TO SUPPORT THE DOLLAR MATTHOEFER SAID THAT THE FEDERAL GOVERNMENT HAD AN INTEREST IN A STABLE DOLLAR. GERMANY HAD HELPED SUPPORT IT SINCE LAST NOVEMBER. BUT ONE SHOULD NOT FORGET THAT IT WAS CURRENTLY UNDERVALUED. ASKED IF BRITISH ENTRY INTO EMS WAS EXPECTED AND IF SO WHETHER A NEW REALIGNMENT WOULD BE NECESSARY, HE SAID THERE WAS NO DATE FOR A BRITISH ENTRY AND CURRENCY MATTERS WERE NOT ON THE AGENDA FOR DUBLIN. HE POINTED OUT THAT IN THE LAST FEW MONTHS THE DM HAD DEVALUED IN REAL TERMS AND THE PRESENT REVALUATION WAS A COMPENSATION.

3. IN SEPARATE COMMENT THE MINISTER OF THE ECONOMY SAID THAT THE REVALUATION WAS URGENTLY NECESSARY AS RECENT CURRENCY INFLOWS IMPLIED A DANGER OF UNCONTROLLED MONEY SUPPLY EXPANSION AND THE PROSPECT OF IMPORTED INFLATION. THE MINISTER OF AGRICULTURE SAID THERE WOULD BE NO LOSS TO GERMAN FARMERS AS AGRICULTURAL PRICES FIXED IN DM WOULD NOT CHANGE.

4. AN FDP SPOKESMAN THOUGHT THAT THE CHANGE CAME A FEW DAYS TOO LATE. MANY ECONOMIC ORGANISATIONS, INCLUDING THE DIHT AND THE SAVINGS BANKS, WHILE WELCOMING THE REVALUATION, HAVE MADE THE POINT

Interesting

THAT IT COULD HAVE COME SOONER. THE CONFEDERATION OF GERMAN INDUSTRY (BDI) THOUGHT THAT LONG TERM EXCHANGE RATE STABILITY DEPENDED ON APPROPRIATE US ENERGY AND FISCAL POLICIES, AND BETTER COORDINATION OF ECONOMIC POLICY AMONG EMS MEMBERS. PRICE SENSITIVE EXPORTERS, NOTABLY THE CHEMICALS INDUSTRY, SEE DISADVANTAGE IN HIGHER EXPORT PRICES BUT MACHINE TOOL MANUFACTURERS HAVE SAID THAT THERE WILL BE LITTLE EFFECT.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES.

RIGHT

[REPEATED AS REQUESTED]

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SECRET
7 OCT 1979
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CHANCELLOR OF THE EXCHEQUER

cc Mr Barratt ✓
Mrs Hedley-Miller

You will have seen telegram 4870 from Brussels reporting on the weekend's events; I also attach a report of my own.

2. You may wish to consider whether, by way of immediate follow-up, you might today telephone Mr Colley. We have made it clear that we think that the procedures followed on this occasion were inadequate and doubtfully in accordance with the agreed arrangements for consultation in the EMS, and that we think that these procedures should be reviewed. We are told that our absence was "well understood" by the participants in the meeting, in the light of our reply to Colley's invitation. And we know that there was "some criticism" of the German procedures in the meeting, which Matthöfer accepted (I suspect that the criticism may have come from Colley himself). It may well be that, if the invitations were issued from Bonn in his name (as we are told they were) and that the UK was excluded without his knowledge, he may himself be dissatisfied with the procedures.

3. In these circumstances you might care to telephone to thank him for his invitation, though it come too late to enable us to provide appropriate representation. You might make sure that he understands the reasons why we felt unable to accept. You might go on, however, to repeat (my message to Van Ypersele) that we have a close and direct interest in the exchange rate policy, the dollar policy, and the interest rate policies of the EMS, and that the agreed EMS arrangements specifically provide that

"There will be reciprocal consultation in the Community framework about important decisions concerning exchange rate policy between countries participating and any country not participating in the system".

The procedure used on this occasion could scarcely be said to be adequate for the purpose of this provision. Hence our request that the procedures should be reviewed. But it would be helpful, before we take this further, to have his own comments and views about what could and should be done for the future.

24 September 1979

N. Jordan -Moss

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NOTE FOR THE RECORD

EMS WEEKEND MEETING: SEPTEMBER 22/23

Mr Van Ypersele telephoned me late on Saturday afternoon. He said that the Germans, in consultation with the Presidency, had decided to call a meeting of EEC members participating in the EMS exchange rate mechanism, for 11.00 a.m. the following day, in Brussels. The subject of the meeting was to be the exchange rate situation, intervention policy towards the dollar, interest rate policy, and whether any adjustments were necessary in EMS pivot rates or in imputed rates in the ECU. The meeting was to be at Ministerial and Central Bank Governor level (plus the Commission).

2. Van Ypersele called, as Chairman of the Monetary Committee, because of the terms of the agreed EMS procedures. These provide that

"Adjustments of central rates will be subject to mutual agreement by a common procedure which will comprise all countries participating in the exchange rate mechanism, and the Commission".

But also

"There will be reciprocal consultation in the Community framework about important decisions concerning exchange rate policy between countries participating and any country not participating in the system."

Van Ypersele's call was intended to be in accordance with the second of these provisions, and he invited me to call back with any comments.

3. I immediately asked whether the telephone call meant that the UK was invited to be present. Van Ypersele said that we were not invited; that this was a matter for the Germans and the Presidency; that the provisions of the EMS arrangements nevertheless envisaged that we should be informed and that our comments should be invited.

4. After a series of telephone calls to Treasury and Bank of England officials concerned, I called Mr Van Ypersele on Saturday night to tell him that

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- we were grateful to him for the advance information, though we were not happy about the procedure
- I hoped that he would let me know of the outcome of the discussions the next day before it was made public
- the participant countries should clearly understand that we had an important and legitimate interest and concern in any decision about EMS dollar policy and interest rate policy, and
- (on Bank of England advice) if the participants intended, as a result of the discussions, to impute any new central rate to sterling in the ECU, we suggested that this should be based on the market rate for sterling at the close on Friday (when we were about 1% above the DM and about 3% above the Belgian franc).

Van Ypersele took note.

5. I reported the state of play to Mr Battishill and Mr Balfour (Bank of England) and to Mr Fitchew in Brussels, late on Saturday.

6. On Sunday morning Mr Battishill telephoned to say that he had spoken to No 10 and had arranged that I should report the latest situation: Mr Saunders telephoned from Chequers shortly afterwards and I brought him up-to-date.

7. At 11.15 a.m. Mr Fitchew telephoned from Brussels. He said that when the meeting started, Mr Colley, the Irish President, had noted that there was no UK representative, and had said that he considered that, even now, the UK should be invited to be present. (It appeared that the invitations issued from Bonn in his name had excluded the UK without his knowledge). The Irish Permanent Representative relayed this invitation to the UK Delegation in Brussels, who asked me for a line to take in reply.

8. After consulting the Chancellor, I telephoned Mr Fitchew to take the following line:

- we had understood from Mr Van Ypersele, the previous day, that we were not invited: and indeed had not been hitherto

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- we were nevertheless grateful to the Presidency for now calling attention to our absence, and for Mr Colley's invitation
- the invitation had been received, however, only at 11.30 a.m. after the meeting had already started. This made it impracticable to send anyone from London in time, and we did not consider that it would be appropriate for us to send a member of the UK Delegation in Brussels, since he would not be in a position to give the UK Government's view as the discussion proceeded
- we hoped nevertheless to be informed of the outcome before it was made public, especially about any proposals for change in the value of sterling within the ECU
- we would wish the arrangements for any future meetings of this kind to be reviewed in the light of what had happened on this occasion
- we hoped that the Irish Presidency would consult us on what, if anything, should be said to the Press about the UK's absence from the meeting.

9. In the course of the day, I continued to await news from Brussels, keeping in touch in the meantime with Mr Battishill, Mrs Hedley-Miller, No 10, Mc McMahon and Mr Balfour, and Mr Davies of Treasury Information Division (who also contacted the Irish Presidency Press Officer direct). A further report from Mr Fitchew said that the meeting had realised that ECU changes would have implications for the CAP, and that agricultural experts might be summoned: I asked Mr Fitchew to let MAFF know of this development.

10. Eventually, at 2.15 a.m. today Mr Van Ypersele telephoned, as promised, to let me know that, after 15 hours of discussion, it had been decided that there should be changes, as measured by the cross rates,

- of 5% between the DM on the one hand and the Danish crown on the other, and
- of 2% between the DM and the French franc, the Belgian franc, the Luxembourg franc, the florin,

the Italian lira, and the Irish punt. The cross-rates between these other currencies would remain unchanged. The Press communique would add that these adjustments were designed to make a positive contribution towards a more orderly development of the exchange markets, whilst at the same time helping the stability of currencies not in the system; and that cooperation with the monetary authorities of third countries would be strengthened. The communique would also say that ECU central rates would now be revised in the light of the realignment in bilateral central rates; that the Central Bank Governors were requested to take the appropriate action in consultation with the Commission; and that the Commission had been asked to present proposals for appropriate adjustment to MCA's.

11. Van Ypersele added two points:


- the communique did not mention sterling, since the immediate decisions recorded in it were confined to changes in the bilateral cross-rates within the EMS mechanism. At the end of the meeting Ortoli had suggested that the rate to be imputed to sterling in the ECU might be the market rate at the close on Friday; but there was no discussion on this point, and it was left for subsequent action by Central Banks and the Commission
- the reasons why the UK had decided not to take up the Presidency's belated invitation had been well understood by the meeting; there had in fact been "some criticism" in the meeting of German arrangements (he would not say by whom) and this Matthöfer, the German Finance Minister, had accepted.

I thanked Van Ypersele for keeping his promise.

12. Mr Fitchew telephoned soon after, about 2.30 a.m., to confirm the outcome and to say that he was telegraphing a summary of the weekend's events and the text of the communique, and meanwhile had informed Mr Davies, Mr McMahon, and No 10.

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13. In the course of today Mr Fitchew will try to find out what he can about the course of the 15-hour discussion, and what led to the final pattern of decisions.


N. Jordan-Moss
24 September 1979

PPS

Sir D Wass

Sir K Couzens

Mr Barratt

Mrs Hedley-Miller

Mr Ashford

Mr P Davies

Mr Thomson

Mr Baker

N/2.
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FRAME ECONOMIC/AGRICULTURE
DESKBY 050930Z
FM UKREP BRUSSELS 041915Z OCT 81
TO IMMEDIATE FCO
TELNO 3507 OF 4 OCTOBER
INFO PRIORITY EC POSTS.

EMS REALIGNMENTS

1. A MEETING OF FINANCE MINISTERS AGREED THIS EVENING TO A REALIGNMENT OF CONTROL EXCHANGE RATES WITHIN THE EMS. THE COMMUNIQUE APPROVED BY THE MEETING IS IN MIFT. THE CHANGES IN BILATERAL PARITIES AGREED ARE AS FOLLOWS:-

D.	+ 5.5
N.	+ 5.5
DK.	0
B	0
LUX	0
IRL	0
I	- 3
F	- 3
UK	- 9.9
GR	NOT AVAILABLE

2. THE RESULTING MONETARY COMPENSATORY AMOUNTS, TOGETHER WITH THE EXISTING MCAS, ARE AS FOLLOWS:-

	MCAS	
	BEFORE	AFTER
D	4.2	9.3
N	0	5.3
DK	0	0.1
B	0	0.1
LUX	0	0.1
IRL	0	0.1
I	- 5.2	- 3.7
F	0	- 3.0
UK	2.8	4.1
GR	0	1.4

3. ORTOLI (COMMISSION) ANNOUNCED THAT THE PRE-FIXING OF MCAS DUE ON 5 OCTOBER WOULD BE SUSPENDED UNTIL THE APPROPRIATE AUTHORITIES HAD AGREED ON THE AGRO-MONETARY CONSEQUENCES.

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4. ORTOLI, BACKED BY MATTHOFER (GERMANY) SPOKE OF THE NEED FOR MEMBER STATES TO NOW TAKE APPROPRIATE DOMESTIC MEASURES TO ACCOMPANY THE REALIGNMENTS. NORGAARD (DENMARK) CALLED FOR THE EARLIEST POSSIBLE PHASING OUT OF MCAS. THE CHANCELLOR CONFIRMED THAT THE AGREEMENT ON THE PHASED WITHDRAWAL OF THE ITALIAN IMPORT SCHEME, REACHED AT THE SEPTEMBER ECOFIN, WAS UNAFFECTED BY THE DAY'S DECISIONS.

5. THE MEETING LASTED NEARLY EIGHT HOURS. MOST OF IT WAS CONDUCTED "IN THE CORRIDORS" AND THE PLENARY SESSION WAS CONFINED TO AN INITIAL STATEMENT OF POSITIONS BY DELEGATIONS AND AT THE END RATIFICATION OF THE AGREEMENT HAMMERED OUT BY THE PRESIDENCY. DELEGATIONS SPOKE WARMLY OF THE CHANCELLOR'S SKILL AND IMPARTIALITY IN PRESIDING OVER A DIFFICULT NEGOTIATION.

6. POSTS SHOULD NOTE THAT THIS WAS A MEETING OF FINANCE MINISTERS AND NOT A MEETING OF THE ECO/FIN COUNCIL. THE DISTINCTION MATTERS PARTICULARLY TO THE LUXEMBOURG GOVERNMENT BECAUSE FORMAL COUNCIL MEETINGS IN OCTOBER SHOULD BE HELD IN LUXEMBOURG.

FCO ADVANCE TO:

FCO - BRIDGES, HANNAY, SPRECKLEY, FRY

CAB - FRANKLIN, ELLIOTT, WENTWORTH

MAFF - ANDREWS, HADDON, NASH

TSY - PS/CHANCELLOR, WASS, COUZENS, HANCOCK, HEDLEY-MILLER, FITCHEW

BANK - PS/GOVERNOR, BALFOUR

BUTLER

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
FRAME AGRICULTURE

ECD (I)

COMMITTEE OF GOVERNORS OF CENTRAL BANKS
OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

purp.

THE CHAIRMAN

Basle 9th February 1982

Express - Confidential

The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.
Chancellor of the Exchequer
Great George Street
London SW1

My dear Minister,

I have pleasure in enclosing a copy of the brief report on developments on the foreign exchange markets of the countries whose central banks participate in the concertation procedure during January 1982, which was approved by the Committee of Governors at its meeting on Tuesday, 9th February 1982.

Yours sincerely,

Carlo Ciampi

Carlo Ciampi

Enclosure

EST, FIT, EST, 1/2

Sir A Weiss, Sir K Conzens,
Mr L. A. L. Mr Hedley-Miller,
Mr Lowell, Mr Peretz,
Mr Ridley

BRIEF REPORT ON
DEVELOPMENTS ON THE FOREIGN EXCHANGE MARKETS OF THE COUNTRIES
WHOSE CENTRAL BANKS PARTICIPATE IN THE CONCERTATION PROCEDURE

JANUARY 1982

The present report summarises developments on the exchange markets of the countries whose central banks participate in the concertation procedure* and briefly describes their interventions during the month of January and the first few days of February 1982.

I. DEVELOPMENT OF EXCHANGE RATES

The main characteristic of the exchange markets during January was the firming of the US dollar against all major currencies. The situation in the European Monetary System (EMS) was relaxed, the spread between the strongest and weakest currency never reached its full width and showed a slight decline over the month.

The behaviour of the US dollar on the foreign exchange markets in January was to a large extent determined by interest rate considerations. The considerable day-to-day exchange rate fluctuations reflected the volatility of US interest rates, while the firming of the dollar during the month as a whole was the result of interest rate differentials moving further in its favour. The renewed upward tendency for US interest rates, which had manifested itself in December, continued in January as attention in the market turned away from the stagnating economy and decreasing

* The central banks of the EEC, Norway, Sweden, Switzerland, Japan, Canada and the United States.

inflation rate and focused on the recent sharp rise in US monetary aggregates and the large financing needs of both public and private sectors.

Interest rates elsewhere did not follow the same developments. In Europe several central banks actually initiated a slight decline of rates in their domestic markets. The Deutsche Bundesbank and the Netherlands Bank in particular lowered their official rates in the third week of January, moves which coincided with a reduction by the Bank of England of its money market intervention rates.

On balance the US dollar appreciated in January by 2.9 per cent. against the EMS currencies. The rise vis-à-vis the Japanese yen, Swiss franc and sterling amounted to 4, 2.6 and 1.6 per cent. respectively.

Within the EMS relative calm prevailed during the month under review. The Belgian franc remained at the bottom of the system, but the width of the band was never more than 2 per cent. and showed a slight tendency to decline. These circumstances allowed the National Bank of Belgium to follow the easing of money market rates by reducing, effective 7th January, its discount rate by one and its rate for advances by two percentage points, thus largely offsetting the rises it had decided on during the December exchange rate crisis. Compared to those in the previous month the interventions of the National Bank in January were moderate and virtually confined to sales of US dollars to stabilise the rate of the Belgian franc on certain occasions.

Practically all through the month the Deutsche Mark maintained a position slightly below the centre of the system, notwithstanding the decline in short-term interest rates, which the Deutsche Bundesbank initiated through its money market interventions and later confirmed by lowering the special lombard rate from 10 1/2 to 10 per cent. effective 22nd January. On the other hand the exchange rate received support from spot and forward sales of dollars by the Bundesbank in the third week of January, when it attempted to prevent the dollar rate from moving too erratically and from the publication toward the end of the month of the German trade and current account balances over December, which showed a considerable further improvement.

The French franc remained near or at the top of the EMS throughout January. Despite the decline in French money market rates (the call money rate fell from 15 1/2 to 15 1/8 per cent.) the relatively high level of interest rates remains a factor bolstering the position of the franc in the EMS.

The Dutch guilder joined the French franc at the top of the band where it traded comfortably with the backing of the considerable Dutch current account surplus. The decline in guilder interest rates as the Netherlands Bank followed interest rate movements in Germany by lowering its official rates by one half percentage point effective 22nd January did not affect the position of the guilder.

The Danish krone, which had started the month near the top of the system, declined to the centre of the band in the course of the month, prompting the National Bank of Denmark to sell dollars in support of its currency.

The Irish pound declined from close to the top of the band at the beginning of the month to about 1/4 per cent. below the centre at end-month. Substantial sales of US dollars were made by the Central Bank of Ireland during the month.

The Italian lira effectively traded within the narrow intervention band, the difference with the weakest EMS currency varying between one and two per cent. in its favour. The Bank of Italy supported the lira on several occasions by selling dollars, most of which were sold in the first week of January.

The pound sterling also lost ground vis-à-vis the dollar. Against other major currencies, however, it showed a somewhat stronger tendency, especially toward the end of the month when the threat of industrial action by the miners disappeared and also following publication of a further large current account surplus for December. In the third week of January the Bank of England gradually lowered its money market intervention rate by a total of 1/2 percentage point to 13 7/8 per cent., which enabled the clearing banks to cut their base rates by 1/2 percentage point to 14 per cent.

The Greek drachma depreciated against the dollar by 3.0 per cent., while it declined on average against the EMS currencies by 0.7 per cent.

After the year-end upward pressures on Swiss money market rates had abated, the Swiss franc eased somewhat against the EMS currencies. Later on it recovered again and the depreciation against the dollar of 2.6 per cent. over the month as a whole was in line with that in most other European centres.

The Japanese yen declined in the exchanges, notwithstanding again favourable balance of payments figures for the month of December. This development is attributable to a widening of interest rate differentials vis-à-vis the dollar and may also have had to do with active forward covering by Japanese importers. The yen depreciated 4 per cent. against the dollar. The Bank of Japan frequently intervened in the market by selling each time limited amounts of dollars in order to stabilise the yen rate.

The Norwegian krone lost 1.2 per cent. against the dollar but firmed by 1.7 per cent. on average against EMS currencies.

The Swedish krona, depreciating against the dollar by 2.2 per cent., also firmed, but less, against the joint float. However, as in previous months, the Bank of Sweden sold sizable amounts of dollars to support the krona.

The further narrowing of interest differentials in favour of the Canadian dollar, mainly due to the rise in US interest rates, weighed against the currency. The Canadian dollar depreciated by less than 1 per cent. against the US dollar and strengthened against all other foreign currencies.

II. INTERVENTIONS IN DOLLARS

Net sales of dollars amounted globally to US\$ 2.8 billion for the month of January. Gross sales were US\$ 3.9 billion, while gross purchases totalled only US\$ 1.1 billion. The corresponding gross figures for December were US\$ 3.5 billion and US\$ 2.1 billion respectively, resulting in net sales by way of intervention of US\$ 1.4 billion. The largest net sellers of dollars were again the Deutsche Bundesbank and the Bank of Italy; the latter central bank nevertheless intervened in both directions. The Bank of Japan, the Bank of Sweden, the Bank of Denmark and the Central Bank of Ireland also made sales of dollars for considerable amounts. The Bank of Canada undertook interventions in both

directions, but on a more limited scale, with small net sales. The only noteworthy net buyer of dollars, although on a limited scale, was the Bank of England.

III. INTERVENTIONS IN COMMUNITY CURRENCIES

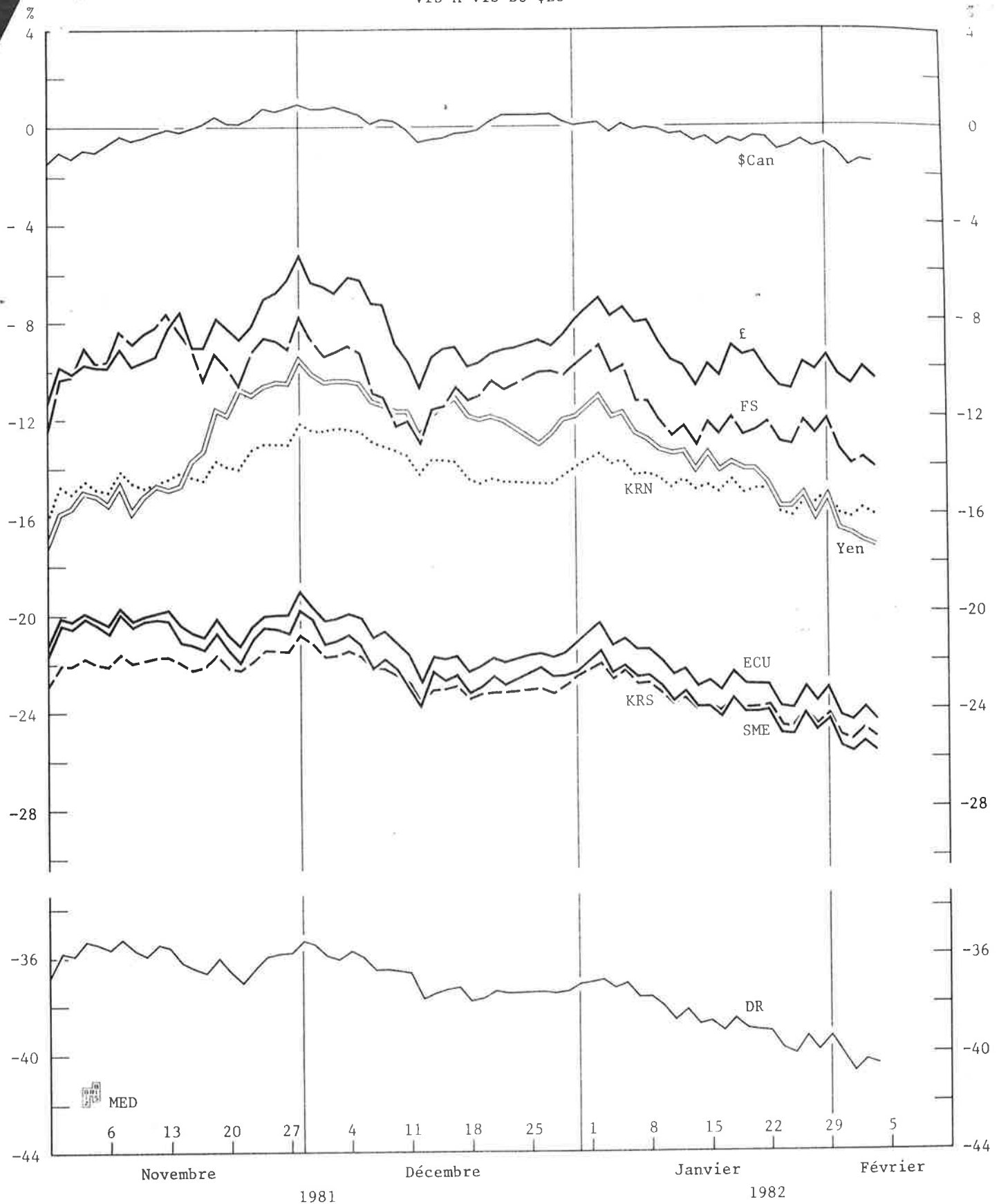
Total interventions in European currencies amounted only to an equivalent of US\$ 0.1 billion. These interventions have not been so limited since May 1980. They mainly consisted of small intramarginal purchases of Deutsche Mark against Dutch guilders and French francs.

* * *

During the first week of February interest rate developments in the United States continued to dominate the scene in the foreign exchange markets. A smaller than expected decline in the United States money supply triggered off a new rise in dollar interest rates in the first days of the week, when most major US banks raised their prime lending rates from 15 3/4 per cent. to 16 1/2 per cent., and caused a further appreciation of the dollar against all other major currencies. Toward the end of the week it gave up part of these gains as dollar interest rates declined somewhat amidst increased market uncertainty with regard to future interest rate developments in the United States. On balance the dollar appreciated by 1.2 per cent. vis-à-vis the EMS currencies and by 1.1 per cent., 1.7 per cent. and 1.9 per cent. against respectively sterling, the Swiss franc and the yen.

Within the EMS the situation remained essentially unchanged, with a relatively narrow spread between the weakest and strongest currency. Mainly toward the end of the week, however, both the National Bank of Belgium and the Bank of Italy provided some intervention support to their currencies. Interventions in dollars amounted to net sales of US\$ 0.5 billion, most of which were undertaken by the Bank of Canada, the National Bank of Belgium and the Bank of Italy. Gross interventions in European currencies amounted to a countervalue of US\$ 0.1 billion.

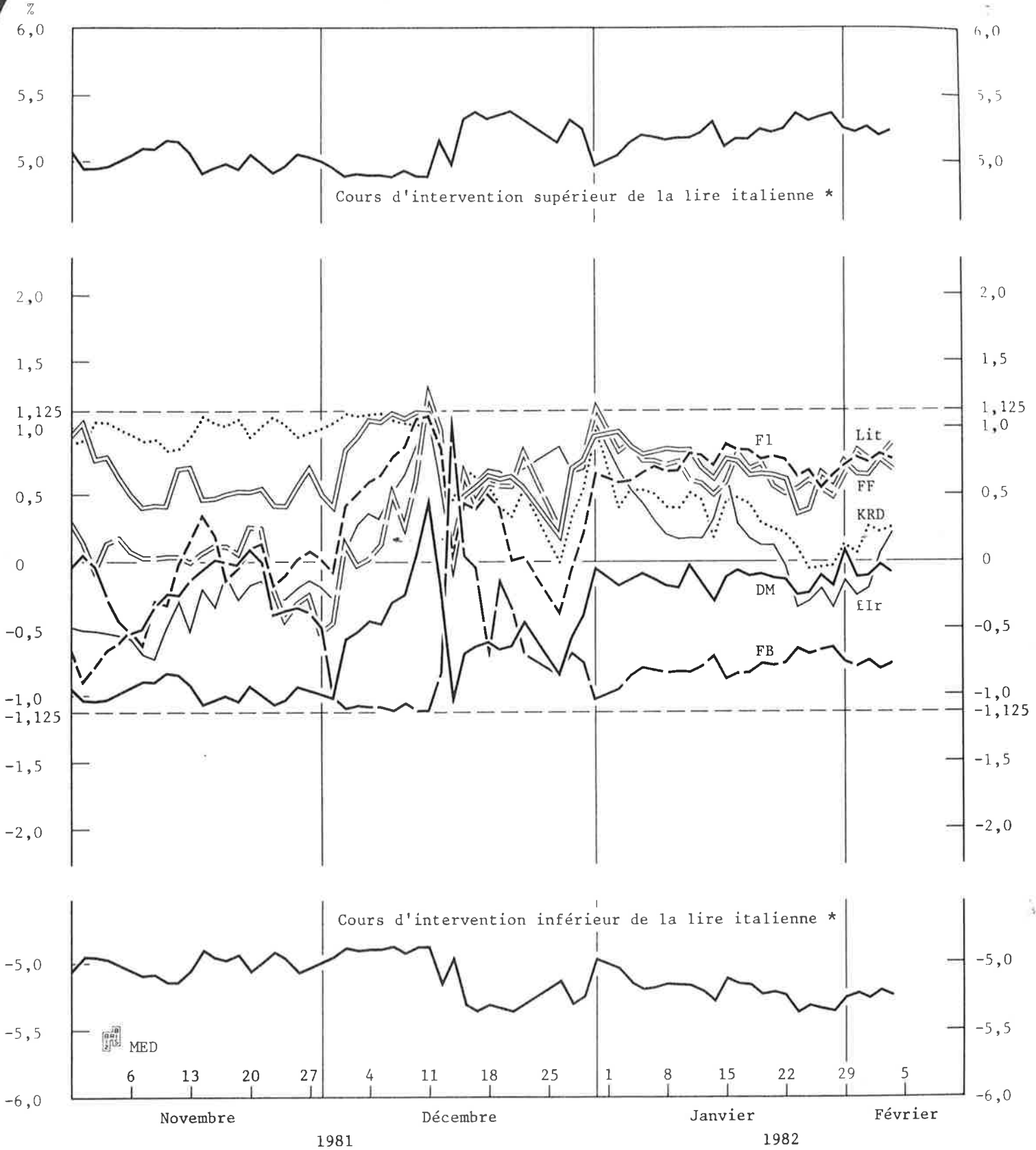
VIS-A-VIS DU \$EU *



* ECU 1,3773; £ 0,48040; \$Can 1,18652; FS 1,6215; Yen 193,30; KRS 4,2850; KRN 4,9910; DR 36,0500; cours médian des monnaies participant au SME 1,3806. Le cours médian des monnaies participant au SME représente la moyenne journalière des cours des deux monnaies à marge de fluctuation de 2,25%, exprimés en dollar EU, qui se sont éloignés le plus de leurs cours pivots bilatéraux actuels.

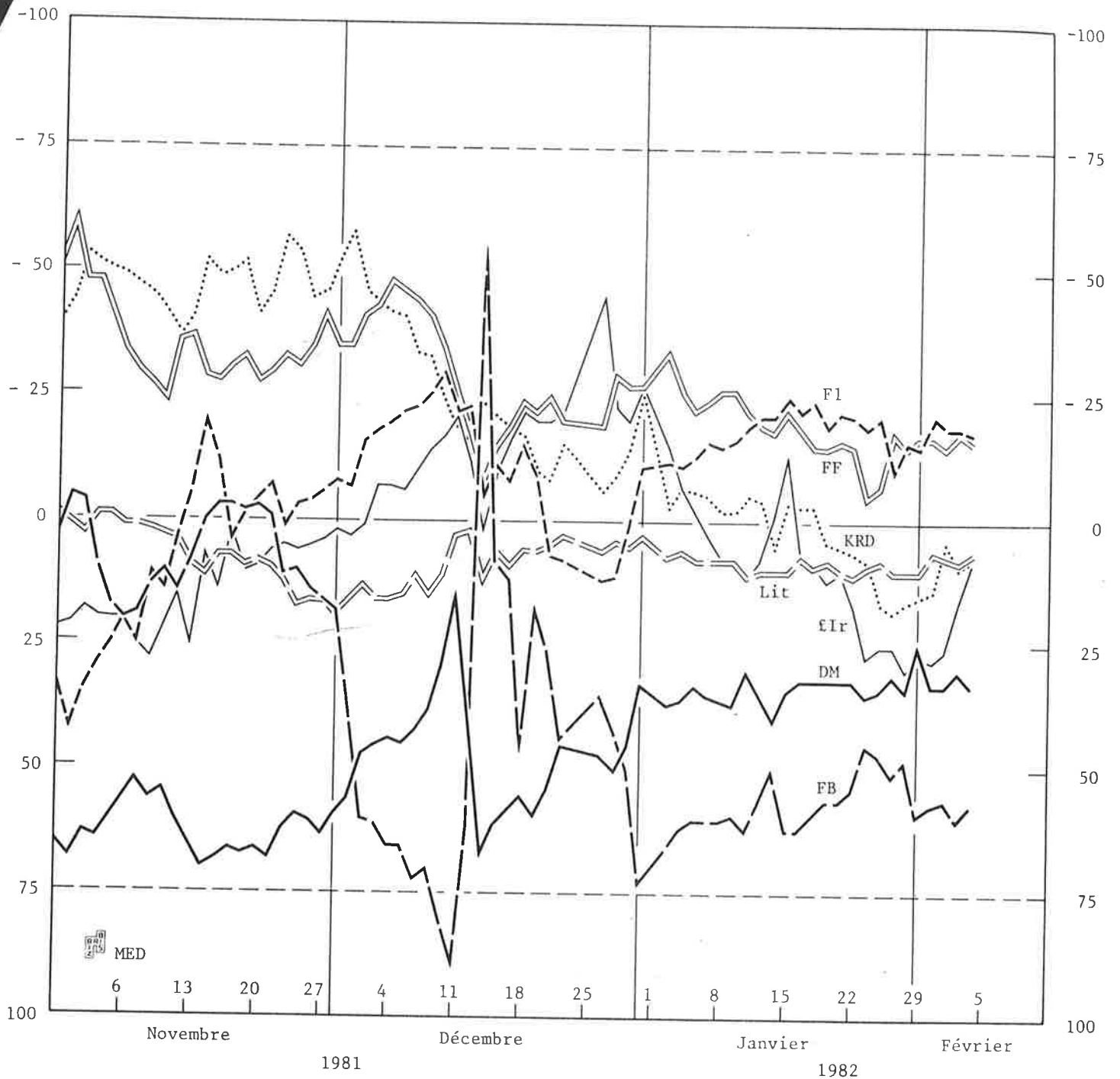
4 février 1982

MOUVEMENTS A L'INTERIEUR DE LA GRILLE DE PARITES DU SME
 CALCULES SUR LA BASE DES COURS OFFICIELS DE L'ECU DANS LES
 DIFFERENTES MONNAIES PARTICIPANTES



* Les cours d'interventions supérieur et inférieur de la lire italienne représentent l'écart maximal théorique par rapport à la monnaie la plus faible respectivement la plus forte dans la bande de fluctuation étroite de $\pm 2,25\%$.

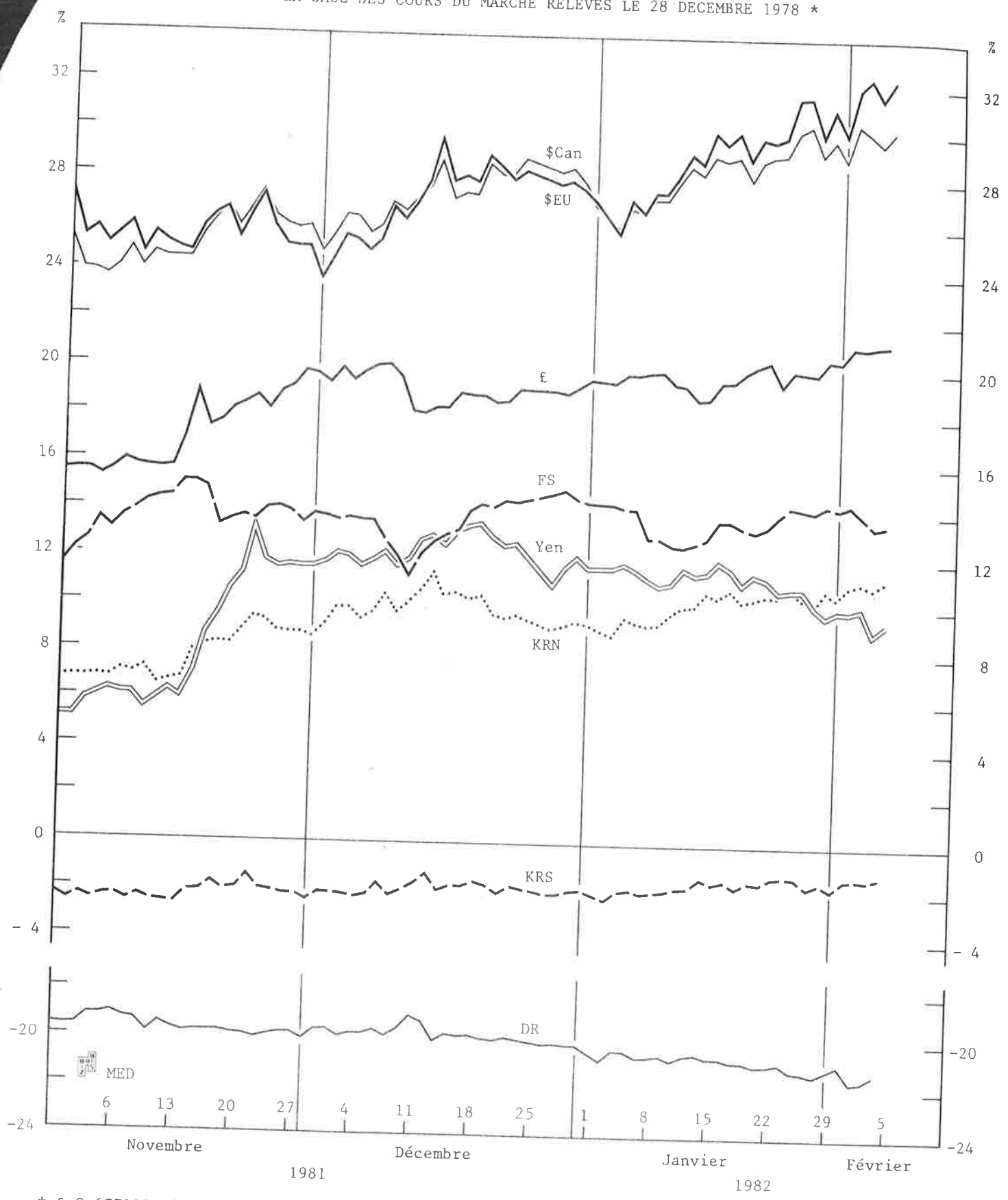
EVOLUTION DE L'INDICATEUR DE DIVERGENCE *



* L'indicateur de divergence a pour but de mesurer, sur une base comparable pour toutes les monnaies participant au mécanisme de change européen, la position d'une monnaie vis-à-vis de son cours-pivot ECU. L'écart maximal de divergence est le pourcentage maximal par lequel le cours de marché de l'ECU dans chaque monnaie peut s'apprécier ou se déprécier par rapport à son cours-pivot ECU; il est exprimé par ± 100 , le seuil de divergence étant ± 75 . Les données qui ont servi de base à l'établissement de ce graphique sont les cours de l'ECU exprimés en termes de diverses monnaies, cours qui sont toutefois corrigés des effets des fluctuations de la lire italienne et de la livre sterling au-delà de la marge de 2,25% vis-à-vis des autres monnaies participant au SME.

4 février 1982

EVOLUTION DE LA LIVRE STERLING ET DES MONNAIES TIERCES DES BANQUES
 CENTRALES PARTICIPANT A LA CONCERTATION PAR RAPPORT A L'ECU
 SUR LA BASE DES COURS DU MARCHÉ RELEVÉS LE 28 DÉCEMBRE 1978 *



* £ 0,677119; \$EU 1,37773; \$Can 1,63377; FS 2,23280; Yen 266,00; KRS 5,88910; KRN 6,88210; DR 49,6672.

RESTRICTED

GPS 300
RESTRICTED

313

FRAME ECONOMIC/AGRICULTURE

BY 050930Z

FM UKREP BRUSSELS 041916Z OCT 81

TO IMMEDIATE FCO

TELNO 3508 OF 4 OCTOBER

INFO PRIORITY EC POSTS.

COMMUNIQUE

ON 4 OCTOBER 1981, THE MINISTERS AND CENTRAL BANK GOVERNORS OF EEC MEMBER COUNTRIES HAVE BY MUTUAL AGREEMENT, IN A COMMON PROCEDURE COMPRISING THE COMMISSION AND AFTER CONSULTATION OF THE MONETARY COMMITTEE, DECIDED ON AN ADJUSTMENT OF CENTRAL RATES WITHIN THE EUROPEAN MONETARY SYSTEM. THIS ADJUSTMENT LEADS TO THE FOLLOWING CHANGES IN THE BILATERAL CENTRAL RATES:

- THE DEUTSCHE MARK AND THE DUTCH GUILDER ARE REVALUED BY 5.5 PERCENT VIS-A-VIS THE DANISH KRONER, THE BELGIAN FRANC, THE LUXEMBOURG FRANC AND THE IRISH POUND;

- THE FRENCH FRANC AND ITALIAN LIRA ARE DEVALUED BY 3.0 PERCENT VIS-A-VIS THE DANISH KRONER, THE BELGIAN FRANCE, THE LUXEMBOURG FRANC AND THE IRISH POUND.

THE BILATERAL CENTRAL RATES BETWEEN THE DANISH KRONER, THE BELGIAN FRANC, THE LUXEMBOURG FRANCE AND THE IRISH POUND REAMIN UNCHANGED.

THE NEW BILATERAL CENTRAL RATES AND THE COMPULSORY INTERVENTION RATES WILL BE COMMUNICATED BY THE CENTRAL BANKS IN TIME FOR THE OPENING OF FOREIGN EXCHANGE MARKETS ON 5 OCTOBER 1981.

THE NEW ECU CENTRAL RATES RESULTING FROM THIS ADJUSTMENT ARE THE FOLLOWING (IN UNITS OF NATIONAL CURRENCY PER ECU).

BFR/LFR	40.7572
DM	2.40989
HFL	2.66382
DKR	7.91117
FF	6.17443
LIT	1300.67
IRL	0.684452

THE MINISTERS HAVE REQUESTED THAT THE AGRO-MONETARY CONSEQUENCES OF THIS ADJUSTMENT BE RAPIDLY EXAMINED BY THE APPROPRIATE AUTHORITIES.

FCO ADVANCE TO:

FCO - BRIDGES, HANNAY, SPRECKLEY, FRY

CAB - FRANKLIN, ELLIOTT, WENTWORTH

MAFF - ANDREWS, HADDON, NASH

TSY - PS/CHANCELLOR, WASS, COUZENS, HANCOCK, HEDLEY-MILLER
FITCHEW

BANK - PS/GOVERNOR, BALFOUR

BUTLER

[ADVANCED AS REQUESTED]

FRAME ECONOMIC
FRAME AGRICULTURE
ECD (I)

RESTRICTED

CONFIDENTIAL
FRAME ECONOMIC
FRAME AGRICULTURAL
DESKBY 221800Z
FM UKREP BRUSSELS 221648Z FEB 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 673 OF 22 FEBRUARY
INFO IMMEDIATE EC POSTS

M. Bentley

EMS REALIGNMENT
FOLLOWING ARE TEXTS OF MINUTES AND COMMUNIQUE OF MEETING OF
FINANCE MINISTERS AND CENTRAL BANK GOVERNORS WHICH TOOK PLACE
IN BRUSSELS ON 21 FEBRUARY, CHAIRED BY THE CHANCELLOR OF THE
EXCHEQUER.

BEGINS
MINUTES

ON 21 FEBRUARY 1982, FINANCE MINISTERS AND CENTRAL BANK
GOVERNORS OF THE EEC MEMBER STATES, WITH THE PARTICIPATION OF
THE COMMISSION, MET IN BRUSSELS TO DECIDE ON AN ADJUSTMENT OF
THE CENTRAL RATES WITHIN THE EUROPEAN MONETARY SYSTEM.

AT THE CONCLUSION OF THIS MEETING, THE COMMUNIQUE SET OUT
IN THE ANNEX WAS APPROVED.

IT WAS AGREED THAT THE FOLLOWING DECLARATIONS SHOULD BE
INCLUDED IN THE MINUTES:

1. WITH REFERENCE TO PARAGRAPH 1 ON PAGE 2 OF THE COMMUNIQUE
("NOTWITHSTANDING ANY PROVISION TO THE CONTRARY.....")

- "IF THE DATE OF 1 APRIL WERE NOT ACHIEVED, THE MEMBER
STATES AFFECTED RESERVE THE FIGHT TO RAISE AGAIN THE
QUESTION. THE OTHER MEMBER STATES AND THE COMMISSION
RESERVE THEIR POSITION ON SUCH A REQUEST."

- "THE MINISTERS DECIDED THAT, FOLLOWING THESE REALIGNMENTS,
AND FOR THE SAME PERIOD AS ENVISAGED FOR THE MCAS, THE
APPLICATION OF THE RULES CONCERNING "FRANCHISES" WOULD
NOT BE PERMITTED TO LEAD TO THE APPLICATION OF MCAS
BEYOND THOSE AT PRESENT IN OPERATION."

2. WITH REFERENCE TO PARAGRAPH 2 ON PAGE 2 OF THE COMMUNIQUE
("THE AGREEMENT REACHED ON THE BELGIAN FRANC.....")

"THE BELGIAN GOVERNMENT WILL EXAMINE THE REQUEST OF THE
LUXEMBOURG GOVERNMENT RELATING TO THE POINTS WHICH THE LATTER
WISHES TO RAISE IN THE FRAMEWORK OF THE MONETARY ASSOCIATION
BETWEEN BELGIUM AND LUXEMBOURG, AND WHICH IT HAS BROUGHT TO
THE ATTENTION OF THE BELGIAN DELEGATION."

ON 21 FEBRUARY 1982 THE MINISTERS AND CENTRAL BANK GOVERNORS OF EEC MEMBER COUNTRIES HAVE BY MUTUAL AGREEMENT, IN A COMMON PROCEDURE COMPRISING THE COMMISSION AND AFTER CONSULTING THE MONETARY COMMITTEE, DECIDED TO ADJUST THE CENTRAL RATES WITHIN THE EUROPEAN MONETARY SYSTEM AS FOLLOWS:

- THE BELGIAN FRANC AND THE LUXEMBOURG FRANC, ON THE ONE HAND, AND THE DANISH KRONER, ON THE OTHER, ARE DEVALUED BY 8 AND A HALF PER CENT AND 3 PER CENT RESPECTIVELY VIS-A-VIS ALL OTHER PARTICIPATING CURRENCIES:
- THE BILATERAL CENTRAL RATES BETWEEN THE OTHER PARTICIPATING CURRENCIES REMAIN UNCHANGED:
- THE NEW ECU CENTRAL RATES (IN UNITS OF NATIONAL CURRENCY PER ECU) ARE:

BFR/LFR	44.6963
DM	2.41815
HFL	2.67296
DKR	8.18382
FF	6.19564
LIT	1305.13
IRL	0.686799

THE NEW BILATERAL CENTRAL RATES AND THE COMPULSORY INTERVENTION RATES WILL BE COMMUNICATED BY THE CENTRAL BANKS IN TIME FOR THE OPENING OF FOREIGN EXCHANGE MARKETS ON 22 FEBRUARY 1982.

NOTWITHSTANDING ANY PROVISION TO THE CONTRARY, THE MEMBER STATES PARTICIPATING IN THE EMS FOR WHICH MONETARY COMPENSATORY AMOUNTS WILL BE CREATED OR AMENDED AS A RESULT OF THESE REALIGNMENTS, WILL NOT ASK FOR, AND THE COMMISSION WILL NOT PROPOSE, ANY CHANGES IN THE COMPENSATORY AMOUNTS SO CREATED BEFORE THE CONCLUSION OF THE PRESENT AGRICULTURAL PRICE-FIXING PROCEDURE, RECALLING THAT SUCH NEGOTIATIONS SHOULD NORMALLY BE COMPLETED BY 1 APRIL.

THE AGREEMENT REACHED ON THE BELGIAN FRANC WAS RECOGNISED AS PART OF THE MEASURES BEING TAKEN BY THE BELGIAN GOVERNMENT TO DEAL WITH THE STRUCTURAL PROBLEMS OF THE BELGIAN ECONOMY. OTHER MEMBER STATES WISHED TO EXPRESS THEIR SOLIDARITY WITH BELGIUM IN THIS EFFORT, THE SUCCESS OF WHICH WOULD CONTRIBUTE TO THE STABILITY OF THE EMS AS WELL AS TO THE STRENGTHENING IN THE COMMUNITY OF THE BELGIAN ECONOMY. DESPITE CONSIDERABLE DIFFERENCES IN THE UNDERLYING ECONOMIC CONDITIONS, THE LUXEMBOURG GOVERNMENT ACCEPTED THE NEED TO FOLLOW THE DEVALUATION OF THE BELGIAN FRANC, IN VIEW OF ITS LONGSTANDING MONETARY ASSOCIATION WITH BELGIUM.

CONFIDENTIAL

MINISTERS CONFIRMED THEIR INTENTION TO RETURN AT THE NEXT MEETING OF THE ECO/FIN COUNCIL ON 15 MARCH TO THOSE MEASURES FOR THE STRENGTHENING OF THE EMS WHICH THEY IDENTIFIED AT THEIR FEBRUARY MEETING OF THE ECO/FIN COUNCIL. THESE WERE GREATER CONVERGENCE THROUGH COORDINATION OF ECONOMIC POLICIES, IMPROVEMENTS IN THE MECHANISMS OF THE SYSTEM AND WIDER USE OF THE CU. THE COUNCIL WILL ALSO CONSIDER THE ROLE OF THE COMMUNITY LOAN FACILITY, AND OF THE NEW COMMUNITY LOAN INSTRUMENT, IN THE ADJUSTMENT PROCESS.

ENDS

FCO ADVANCE TO:

FCO - BRIDGES HANNAY SPRECKLEY FRY

CAB - HANCOCK ELLIOTT WENTWORTH

MAFF- PS/MINISTER SIR B HAYES STAPLETON HADDON

TSY - PS/CHANCELLOR SIR D WASS SIR K COUZENS LITTLER HEDLEY-MILLER
FITCHEW PEET

BANK- PS/GOVERNORS LOEHNIS

BUTLER

FRAME ECONOMIC
FRAME AGRICULTURE
ECD(I)

[ADVANCED AS REQUESTED]

Emp
N/608/01C



M. Bentley

N/211

10 DOWNING STREET

M. LARKE
C/S

From the Private Secretary

25 March 1982

~~L. V. H. C.~~
~~N. P. H. R. 2~~
W. H. J. H. Y.

F. I.
F. S.
S. J. W. A. H.
J. M. C. G. I. W. H.
W. A. T. I. H. R.
W. L. O. U. F. E. I.

Dear John,

Possible EMS Realignment: Green Rate Changes

At the Prime Minister's briefing meeting for the European Council on 24 March, the Chancellor of the Exchequer raised the question of green rate changes following any new EMS realignment.

The Chancellor explained that at the last EMS realignment conference it had been agreed that consequential green rate changes should not be made at once because the annual price fixing was being negotiated. There had been a dispute between those who wanted to postpone the consequential green rate changes until 1 April and those who wanted them postponed until the new prices were agreed, whenever that was. If the French now asked for a new realignment, it was probable that a number of other countries would take advantage of the opportunity to devalue their central rates as well so that they could then secure greater price increases for their farmers. The Community could thus be faced with potential devaluations of green rates by France, Belgium, Denmark, Italy and Ireland. The Chancellor therefore needed agreement on a line to take if the question of the timing of consequential green rate changes was discussed at a new realignment conference (which might be called at very short notice).

In discussion it was pointed out that our policy in the past had always been that a Member State was free to adjust its green rate in line with a change in its central rate if it wished so that, if others wanted to change their green rates immediately after a new realignment, it would be extremely difficult for the United Kingdom to resist on its own. If the green rate change were made at once, our price fixing lever would to some extent be weakened. On the other hand, we would be able to exploit the opportunity to get the others to agree that no Member State should be forced to adjust its green rate if it did not wish to do so.

Summing up the discussion, the Prime Minister said that the Chancellor should try to get agreement that green rate changes should not be made during price fixing negotiations. But we should not stand on this position on our own. If isolated, we

/ should

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27/3

should instead try to secure agreement that no Member State should be forced to adjust its own green rate if it did not want to do so. Outside the price fixing season, our existing policy should be maintained - namely that the United Kingdom should be free to adjust its green rate when it chose.

I am sending copies of this letter to Francis Richards (Foreign and Commonwealth Office), Robert Lawson (Ministry of Agriculture Fisheries and Food) and David Wright (Cabinet Office).

Yours ever

John Kerr

John Kerr, Esq.,
H.M. Treasury.

11/21/82 EMP N/608/01 D

File

FROM: DAVID PERETZ
DATE: 16 June 1982

- 1. SIR K COUZENS
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Economic Secretary
- Sir D Wass
- Mr Burns
- Mr Littler
- Mr Kemp
- Mr Lavelle
- Mrs Hedley-Miller
- Mr Allen
- Mr Garside
- Mr Peet
- Mr Donnelly

CABINET 17 JUNE

I attach a slightly expanded speaking note on the EMS realignment, making rather more - as you asked - of the policy measures undertaken by those involved. (You might also like to have the attached English version of the Communique issued after the meeting; the policy undertakings are described in broad terms in the first three paragraphs on page 2).

2. I have also added a final optional paragraph on the US intervention in the foreign exchange market on Monday - the first for 14 months. The Americans have been saying for some time that they have been ready to intervene when markets are disturbed, but this is the first time they have actually done so. There has been a good deal in the press on this, and some comment might be of interest to colleagues.

DLCP

D L C PERETZ

3. The French recognised that a devaluation on this scale had to be accompanied by a set of policy measures, and certainly the Germans expected that. The French also recognised that they had to give assurances about their budget deficit. Through cuts in administrative expenditure and through higher social security contributions they are reducing both their 1982 and 1983 deficits, but the 1982 deficit will still be higher than originally announced. They have limited their scope for expenditure savings by protecting their recently increased public investment programme. Their hopes for checking inflation rely heavily on incomes policy, as indeed do many of the expenditure cuts. So the French have been forced by events to move their policies close to ours and to give more priority to fighting inflation. But it remains to be seen whether they have done enough to convince the markets for long.

4. The Italians, who devalued by 7% against the mark, gave assurance about the direction of policy, which partly took the form of restating past undertakings and partly of reference to further unspecified "details" to be announced in future.

5. These events demonstrate again that currency stability, inside or outside the EMS, depends not on massive intervention but on pursuing the right policies and retaining the confidence of markets. Those who devalued accepted that changes of policy were required for the purpose.

6. Similarly the Germans and Dutch, who were appreciating, said they hoped that the realignment might facilitate more expansionary policies in their countries. But given the way the foreign exchange markets have reacted since the weekend, with both currencies falling against the dollar, it is perhaps now less likely that this means an early and substantial fall in their interest rates.

[The figures for appreciations and depreciations agreed in the realignment determine the new limits that countries have to defend, but the immediate effects were different. So far the mark has fallen against the dollar and sterling, and the French franc is down only 5 or 6% on the mark as speculative positions built up before the weekend have been unwound.]

7. On Monday in rather unsettled conditions in the immediate wake of the realignment, the Americans intervened in the foreign exchange market for the first time for 14 months - no doubt at German request. They provided token support for the deutschemark and yen. The intervention was much too small to have any direct impact in a market in which major speculative positions were being closed after the realignment, but it does not seem to have had any significant psychological effect either.

UNCLASSIFIED
 FRAME ECONOMIC
 DESKBY 160800Z
 FROM UKREP BRUSSELS 151630Z JUN 82
 TO IMMEDIATE FCO
 TELEGRAM NUMBER 2441 OF 15 JUNE 1982
 INFO ROUTINE BRUSSELS ROME PARIS BONN
 INFO SAVING COPENHAGEN THE HAGUE DUBLIN LUXEMBOURG ATHENS

FOLLOWING IS TEXT OF COMMUNIQUE OF EMS REALIGNMENT MEETING IN
 BRUSSELS ON 12 JUNE

BEGINS

ON 12 JUNE 1982, THE MINISTERS AND CENTRAL BANK GOVERNORS OF EEC
 MEMBERS COUNTRIES HAVE BY MUTUAL AGREEMENT, IN A COMMON PROCEDURE
 COMPRISING THE COMMISSION AND AFTER CONSULTATION OF THE MONETARY
 COMMITTEE, DECIDED ON AN ADJUSTMENT OF CENTRAL RATES WITHIN THE
 EUROPEAN MONETARY SYSTEM.

CHANGES IN BILATERAL CENTRAL RATES

- THE CHANGE IN THE BILATERAL CENTRAL RATES BETWEEN THE FRENCH
 FRANC ON THE ONE HAND AND THE DEUTSCH MARK AND THE DUTCH
 GUILDER ON THE OTHER HAND IS 10 PERCENT;
- THE CHANGE IN THE BILATERAL CENTRAL RATES BETWEEN THE ITALIAN
 LIRA ON THE ONE HAND THE DEUTSCH MARK AND THE DUTCH GUILDER ON THE
 OTHER HAND IS 7 PERCENT;
- THE CROSS RATES BETWEEN THE DANIS CROWN, THE BELGIAN FRANCE, THE
 LUXEMBOURG FRANC AND THE IRISH POUND REMAIN UNCHANGED. HOWEVER
 THEIR BILATERAL CENTRAL RATES VIS A VIS THE DEUTSCH MARK AND
 DUTCH GUILDER ARE CHANGED BY 4,25 PER CENT.

ECU CENTRAL RATES

THE NEW ECU CENTRAL RATES ARE THE FOLLOWING:
 (IN UNITS OF NATIONAL CURRENCY PER ECU)

BFR	44.9704
LUX FR	44.9704
DM	2.33379
HFL	2.57971
DKR	8.2340
FF	6.61387
LIT	1350.27
IRL	8.691011

THE NEW BILATERAL CENTRAL RATES AND THE COMPULSORY INTERVENTION
 RATES WILL BE COMMUNICATED BY THE CENTRAL BANKS IN TIME FOR THE
 OPENING OF FOREIGN EXCHANGE MARKETS ON 14 JUNE 1982.

THE MINISTERS HAVE REQUESTED THAT THE AGRO-MONETARY CONSEQUENCES OF
 THIS ADJUSTMENT BE RAPIDLY EXAMINED BY THE APPROPRIATE BODIES.

/ THE



THE AGREEMENT WHICH HAS BEEN REACHED ON THE CHANGE IN THE CENTRAL RATE OF THE FRENCH FRANC HAS TAKEN INTO CONSIDERATION THE SUBSTANTIAL PROGRAMME WHICH THE FRENCH GOVERNMENT INTENDS TO IMPLEMENT WITH THE NEXT FEW DAYS TO IMPROVE THE SLOWDOWN OF THE RATE OF INFLATION OVER THE NEXT 18 MONTHS BY ESTABLISHING CONTROL OVER THE PUBLIC AND SOCIAL BUDGETS AS WELL AS OVER INCOMES AND PRICES. FRANCE WILL HOWEVER ALSO MAINTAIN MEASURES TO SUPPORT PRODUCTIVE INVESTMENT AND TO CREATE JOBS IN PARTICULAR FOR YOUNG PEOPLE. THE MINISTERS EXPRESSED THEIR SUPPORT FOR THIS PROGRAMME.

WITH REFERENCE TO THE CHANGE IN CENTRAL RATE OF THE ITALIAN LIRA, THE MINISTERS RECOGNISE THAT TO-DAY'S DECISION FITS IN WITH THE PROGRAMMES CONCERNING PUBLIC FINANCE AND THE GENERAL ECONOMIC SITUATION WHICH THE ITALIAN GOVERNMENT PLANS TO IMPLEMENT AND WHICH WILL BE SPECIFIED IN DETAIL WITHIN THE NEXT FEW DAYS.

THE FEDERAL REPUBLIC OF GERMANY AND THE NETHERLANDS NOTE THAT THE ADJUSTMENTS WILL FACILITATE POLICIES IN THEIR COUNTRIES HELPFUL TO AN ECONOMIC UPTURN.

THE MINISTERS OBSERVED WITH SATISFACTION THAT THE PRESENT ACTION IS FURTHER EVIDENCE OF THE ABILITY OF THE EMS TO FACE THE PRESENT DIFFICULTIES STEMING FROM THE INTERNATIONAL ECONOMIC AND MONETARY SITUATION IN A SPIRIT OF SOLIDARITY AND COOPERATION, AND EMERGE STRENGTHENED.

ERDS

FCO ADVANCE TO:-

FCO - FRY

CAB - WENTWORTH

MAFF - ANDREWS

TSY - PS/CHANCELLOR COUZENS LITTLER HEDLEY-MILLER COURT PEET
FITCHEV

BANK - PS/GOVERNOR BALFOUR SANGSTER

FCO PASS SAVING TO COPENHAGEN THE HAGUE DUBLIN LUXEMBOURG ATHENS

BUTLER

[ADVANCED & REPEATED AS REQUESTED]

FRAME ECONOMIC

ECD (I)



UNCLASSIFIED
FRAME ECONOMIC
MOSKEY 107528Z
FROM UKREP BRUSSELS 151633Z JUN 82
TO IMMEDIATE FCO
TELEGRAM NUMBER 2441 OF 15 JUNE 1982
INFO ROUTINE BRUSSELS ROME PARIS BONN
INFO SAVING COPENHAGEN THE HAGUE DUBLIN LUXENBOURG ATHENS

FOLLOWING IS TEXT OF COMMUNIQUE OF EMS REALIGNMENT MEETING IN BRUSSELS ON 12 JUNE

BEGINS

ON 12 JUNE 1982, THE MINISTERS AND CENTRAL BANK GOVERNORS OF EEC MEMBERS COUNTRIES HAVE BY MUTUAL AGREEMENT, IN A COMMON PROCEDURE COMPRISING THE COMMISSION AND AFTER CONSULTATION OF THE MONETARY COMMITTEE, DECIDED ON AN ADJUSTMENT OF CENTRAL RATES WITHIN THE EUROPEAN MONETARY SYSTEM.

CHANGES IN BILATERAL CENTRAL RATES

- THE CHANGE IN THE BILATERAL CENTRAL RATES BETWEEN THE FRENCH FRANC ON THE ONE HAND AND THE DEUTSCH MARK AND THE DUTCH GUILDER ON THE OTHER HAND IS 10 PERCENT;
- THE CHANGE IN THE BILATERAL CENTRAL RATES BETWEEN THE ITALIAN LIRA ON THE ONE HAND THE DEUTSCH MARK AND THE DUTCH GUILDER ON THE OTHER HAND IS 7 PERCENT;
- THE CROSS RATES BETWEEN THE DANIS CROWN, THE BELGIAN FRANC, THE LUXEMBOURG FRANC AND THE IRISH POUND REMAIN UNCHANGED. HOWEVER THEIR BILATERAL CENTRAL RATES VIS A VIS THE DEUTSCH MARK AND DUTCH GUILDER ARE CHANGED BY 4,25 PER CENT.

ECU CENTRAL RATES

THE NEW ECU CENTRAL RATES ARE THE FOLLOWING:
(IN UNITS OF NATIONAL CURRENCY PER ECU)

FF	44.9784
LUX FF	44.9784
D	2.33379
HF	2.57971
DKF	8.2348
FF	6.61387
LIT	1358.27
IRL	8.691811

THE NEW BILATERAL CENTRAL RATES AND THE COMPULSORY INTERVENTION RATES WILL BE COMMUNICATED BY THE CENTRAL BANKS IN TIME FOR THE OPENING OF FOREIGN EXCHANGE MARKETS ON 14 JUNE 1982.

THE MINISTERS HAVE REQUESTED THAT THE AGRO-MONETARY CONSEQUENCES OF THIS ADJUSTMENT BE RAPIDLY EXAMINED BY THE APPROPRIATE BODIES.

/ THE

THE AGREEMENT WHICH HAS BEEN REACHED ON THE CHANGE IN THE CENTRAL RATE OF THE FRENCH FRANC HAS TAKEN INTO CONSIDERATION THE SUBSTANTIAL PROGRAMME WHICH THE FRENCH GOVERNMENT INTENDS TO IMPLEMENT WITH THE NEXT FEW DAYS TO IMPROVE THE SLOWDOWN OF THE RATE OF INFLATION OVER THE NEXT 18 MONTHS BY ESTABLISHING CONTROL OVER THE PUBLIC AND SOCIAL BUDGETS AS WELL AS OVER INCOMES AND PRICES. FRANCE WILL HOWEVER ALSO MAINTAIN MEASURES TO SUPPORT PRODUCTIVE INVESTMENT AND TO CREATE JOBS IN PARTICULAR FOR YOUNG PEOPLE. THE MINISTERS EXPRESSED THEIR SUPPORT FOR THIS PROGRAMME.

WITH REFERENCE TO THE CHANGE IN CENTRAL RATE OF THE ITALIAN LIRA, THE MINISTERS RECOGNISE THAT TO-DAY'S DECISION FITS IN WITH THE PROGRAMMES CONCERNING PUBLIC FINANCE AND THE GENERAL ECONOMIC SITUATION WHICH THE ITALIAN GOVERNMENT PLANS TO IMPLEMENT AND WHICH WILL BE SPECIFIED IN DETAIL WITHIN THE NEXT FEW DAYS.

THE FEDERAL REPUBLIC OF GERMANY AND THE NETHERLANDS NOTE THAT THE ADJUSTMENTS WILL FACILITATE POLICIES IN THEIR COUNTRIES HELPFUL TO AN ECONOMIC UPTURN.

THE MINISTERS OBSERVED WITH SATISFACTION THAT THE PRESENT ACTION IS FURTHER EVIDENCE OF THE ABILITY OF THE EMS TO FACE THE PRESENT DIFFICULTIES STEMING FROM THE INTERNATIONAL ECONOMIC AND MONETARY SITUATION IN A SPIRIT OF SOLIDARITY AND COOPERATION, AND EMERGE STRENGTHENED.

ENDS

FOO ADVANCE TO:-

FOO - FRY

CAE - WESTWORTH

MAFF - ARDPERS

TSY - PS/CHANCELLOR COUZENS LITTLE HEDLEY-MILLER COURT PEET
FITCHEY

BANK - PS/GOVERNOR BALFOUR SANGSTER

FOO PASS SAVING TO COPENHAGEN THE HAGUE DUBLIN LUXEMBOURG ATHENS

BUTLER

[ADVANCED & REPEATED AS REQUESTED]

FRAME ECONOMIC

ECD (I)

THE MINISTERS OBSERVED WITH SATISFACTION THAT THE PRESENT ACTION IS FURTHER EVIDENCE OF THE ABILITY OF THE EMS TO FACE THE PRESENT DIFFICULTIES STEMING FROM THE INTERNATIONAL ECONOMIC AND MONETARY SITUATION IN A SPIRIT OF SOLIDARITY AND COOPERATION, AND EMERGE STRENGTHENED.

THE MINISTERS HAVE REQUESTED THAT THE AGREEMENT BE PROMPTLY EXAMINED BY THE APPROPRIATE BODIES.

S E C R E T

GRS 1100

NAME ECONOMIC]

SECRET

DESKBY 201930Z

FM UKREP BRUSSELS 201800Z MAR 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1206 OF 20 MARCH 1983

INFO PRIORITY BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS
BONN LUXEMBOURG ATHENS

E.M.S. REALIGNMENT CONFERENCE

SUMMARY

1. MINISTERIAL MEETING ADJOURNED THIS AFTERNOON WITHOUT AGREEMENT. WILL RESUME AT 9 AM TOMORROW IN HOPE OF REACHING AGREEMENT BEFORE EUROPEAN COUNCIL IN LIGHT OF OVERNIGHT CONSULTATIONS. CENTRAL BANK GOVERNORS HAVE AGREED THAT WHEN MARKETS OPEN TOMORROW, THE OFFICIAL INTERVENTION RATES WILL BE DECLARED TEMPORARILY SUSPENDED AS ALSO THE OFFICIAL DAILY FIXING IN THOSE COUNTRIES WHERE THAT APPLIES. KEY ISSUE IN DISPUTE IS EXTENT AND DISTRIBUTION OF SPREAD BETWEEN FRENCH FRANC (FF) AND DEUTSCHE MARK (DM).

DETAILED REPORT

2. MONETARY COMMITTEE YESTERDAY MORNING IDENTIFIED FOLLOWING MAIN ISSUES FOR DECISION BY MINISTERS:-

(I) EXTENT OF SPREAD BETWEEN FF AND DM CONSENSUS WAS FOR 7 - 9 PER CENT:

(II) POSITIONS OF INDIVIDUAL COUNTRIES. GERMANS WERE PREPARED TO MOVE UPWARDS MORE THAN HALFWAY BUT FRENCH RESISTED ANY DOWNWARD MOVEMENT OF FF AT ALL. OTHER MEMBERS IN GENERAL PREPARED TO SLOT IN (BELGIUM, LUXEMBOURG AND DENMARK FOLLOWING DM IN PART; ITALY AND IRELAND MOVING TO BOTTOM OF SPREAD; AND DUTCH PROBABLY FOLLOWING DM):

(III) BACK UP MEASURES TO MAKE REALIGNMENT CREDIBLE. NO SPECIFIC PROPOSALS EMERGED BUT FRENCH HINTED AT FURTHER MEASURES TO REDUCE DEMAND:

(IV) WIDENING OF INTERVENTION MARGINS. NOT FAVOURED BUT OFFERED FOR CONSIDERATION AS TEMPORARY MEASURE (SAY, TO 4 PER CENT) TO SECURE LAST DITCH SOLUTION.

3. AT SERIES OF MINISTERIAL MEETINGS YESTERDAY (WITH STOLTENBURG IN CHAIR) FRENCH (DELORS) REFUSED ANY CONCESSION AND THREATENED TO WITHDRAW FROM E.M.S. UNLESS GERMANS WILLING TO BEAR COMPLETE BURDEN OF AT LEAST 8 PER CENT ADJUSTMENT. CORE OF ARGUMENT WAS THAT FOLLOWING JUNE 1982 REALIGNMENT FRANCE HAD TAKEN SERIES OF MEASURES TO RESTORE CONTROL OVER ECONOMY: THESE WOULD TAKE TIME TO WORK AND THERE WOULD STILL BE SUBSTANTIAL GAP BETWEEN FRENCH AND GERMAN INFLATION AT END 1983. FRANCE COULD NOT BE EXPECTED TO MAKE FURTHER SACRIFICES WHICH WOULD JEOPARDISE ATTEMPTS TO

/MASTER

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8. IN VIEW OF MARKET REPERCUSSIONS CENTRAL BANK GOVERNORS (WITH GREAT RELUCTANCE AND APPREHENSION) AGREED THAT FROM OPENING TOMORROW AUTHORITIES WOULD TEMPORARILY SUSPEND THEIR OBLIGATORY BUYING AND SELLING RATES FOR THEIR PARTNERS' CURRENCIES (THOUGH RETAINING THE RIGHT, IF THEY WISHED, TO INTERVENE AT RATES OF THEIR CHOOSING) AND, WHERE APPLICABLE, CANCEL THE OFFICIAL FIXING IN THEIR MARKET. THIS MAY BE WRONGLY DESCRIBED AS 'CLOSING MARKETS', BUT COMMERCIAL TRANSACTION WILL, OF COURSE, CONTINUE.

9. MINISTERS AGREED THAT STOLTENBERG SHOULD INFORM PRESS BRIEFLY, WITHOUT MENTIONING ANY FIGURES, OF ADJOURNMENT OF DISCUSSION. BUT SEVERAL MINISTERS (NOTABLY DELORS) HAVE SPOKEN TO PRESS AND MAIN FIGURES SEEM WELL KNOWN.

COMMENT

10. PROSPECTS FOR EARLY AGREEMENT TOMORROW DIFFICULT TO ASSESS. DELORS PERSONALLY SEEMS TO WANT TO REACH AGREEMENT AND HAS MADE CONCESSIONS FROM OPENING POSITION BUT HAS SO FAR BEEN UNABLE TO GET NECESSARY BACKING TO CLINCH DEAL. REPORTS OF IMPENDING FRENCH GOVERNMENT RESHUFFLE COULD LEAD TO STRENGTHENING OF HIS HAND, BUT TIME IS SHORT IF DEAL TO BE STRUCK WITH GERMANS BEFORE TOMORROW MORNING. IF DELORS UNABLE TO GET BACKING OVERNIGHT, AGREEMENT BY FURTHER NEGOTIATION IN PRESENT MINISTERIAL GROUP TOMORROW MORNING SEEMS UNLIKELY AND BUCK MAY WELL THEREFORE HAVE TO BE PASSED TO EUROPEAN COUNCIL. NEGOTIATIONS HAVE NOT BEEN HELPED BY POOR CHAIRMANSHIP BY STOLTENBERG WHO, DESPITE DIFFICULTIES, COULD IN OUR VIEW HAVE MADE GREATER EFFORTS TO BRIDGE SMALL FINAL GAP.

11. CHANCELLOR WILL REMAIN IN BRUSSELS FOR RESUMED MEETING TOMORROW (BUT WILL HAVE TO LEAVE BY LATE MORNING IN VIEW OF COMMONS BUDGET DEBATE). FINANCIAL SECRETARY WILL, AS PREVIOUSLY PLANNED, ATTEND ECOFIN (WHICH IS DUE TO FOLLOW RESUMED MEETING). UNWIN WILL STAY ON IN BRUSSELS TO BRIEF EUROPEAN COUNCIL DELEGATION.

FCO ADVANCE TO:

FCO - PS/SOS: EVANS: HANNAY

CAB - PS/ARMSTRONG: HANCOCK

MAFF - HAYES: ANDREWS

TSY - LITTLER: HEDLEY-MILLER: MONCK: PERETZ

BANK - PS/GOVERNOR: GILL

NO.10 - DUTY OFFICER (DESKBY 202000Z)

BUTLER

[ADVANCED AS REQUESTED]

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[ECONOMIC]

FROM UKREP BRUSSELS 211724Z MAR

OO PRIORITY FCO

TELEGRAM NUMBER 1220 OF 21 MARCH

INFO PRIORITY PARIS BONN

N/2/11

ENS ALIGNMENT: PRESIDENCY PRESS CONFERENCE

1. FOLLOWING IS SUMMARY OF STOLTENBERG'S PRESS CONFERENCE IN BRUSSELS ON 21 MARCH.

THE NEGOTIATIONS HAD BEEN VERY DIFFICULT BUT IT WAS IMPORTANT TO NOTE THAT THEY WERE MULTILATERAL NOT BILATERAL BETWEEN JUST GERMANY AND FRANCE. THE FINAL AGREEMENT INVOLVED AN 8 PERCENT MOVEMENT BETWEEN THE MARK AND THE FRANC. THE CONSEQUENCES FOR AGRICULTURE WOULD BE CONSIDERED "BY THE APPROPRIATE BODIES" ACTION WOULD ALSO BE NEEDED TO ENSURE THAT THE STEEL PRODUCERS PRICES TALLIED WITH THE COMMISSION'S GUIDE PRICES WHICH WERE EXPRESSED IN ECU. THIS WAS PARTICULARLY IMPORTANT FOR COUNTRIES REVALUING.

2. ALL GOVERNMENTS HAD HAD TO MOVE FROM THEIR STARTING POSITIONS AND THE OTHERS HAD MADE COMPROMISES TO HELP GERMANY AND FRANCE. SOME COUNTRIES WERE PREPARING TO TAKE ACTION IN THE NEAR FUTURE TO REDUCE THEIR TRADE DEFICITS AND MEASURES WERE TO BE ANNOUNCED SHORTLY IN CAPITALS OR EVEN DURING THE SUMMIT. SIR GEOFFREY HOWE HAD PLAYED A VERY VALUABLE ROLE.

3. POHL ADDED THAT, IN SPITE OF THE LACK OF OFFICIAL INTERVENTION THIS MORNING, THERE HAD BEEN NO CHAOS IN THE EXCHANGE MARKETS AND THE MOVEMENT IN CURRENCIES GENERALLY REFLECTED WHAT WAS AGREED. THIS SUGGESTED THAT WHAT WAS AGREED WAS CREDIBLE.

4. M. DELORS, THE FRENCH FINANCE MINISTER WHO HIGHJACKED THE PRESS CONFERENCE HALFWAY THROUGH, SEEMED TO BE SPEAKING MOSTLY FOR DOMESTIC CONSUMPTION. HE EMPHASISED THAT THERE COULD NOT BE A DIVORCE BETWEEN MONETARY COOPERATION AND OTHER ELEMENTS OF EUROPEAN POLICY. EUROPE MUST BE FIRM IN ITS DEALINGS WITH OTHER LARGE COUNTRIES. IT MUST ALSO REVIVE INVESTMENT IN HIGH TECHNOLOGY INDUSTRY. THE THIRD INDUSTRIAL REVOLUTION WAS MOVING LESS RAPIDLY IN EUROPE THAN ELSEWHERE. FRANCO/GERMAN FRIENDSHIP HAD BEEN THE VITAL FACTOR IN SORTING OUT THE DIFFICULT NEGOTIATION. THE FACT THAT THEY WERE FRIENDS MEANT THEY COULD TALK FRANKLY TOGETHER. THE LESS SAID IN PUBLIC THE BETTER

FCO COPY TO:

FCO - CROWE APPELYARD ROBERTS (NEWS DEPT)

CAD - DURIE

TSY - MARTIN HALL HEDLEY-MILLER

NO 10- CHRISTOPHERSON (PRESS OFFICE) WALTERS SCHOLAR

THIS TELEGRAM
WAS NOT
ADVANCED

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FRANK ECONOMIC
EC(D)(E)

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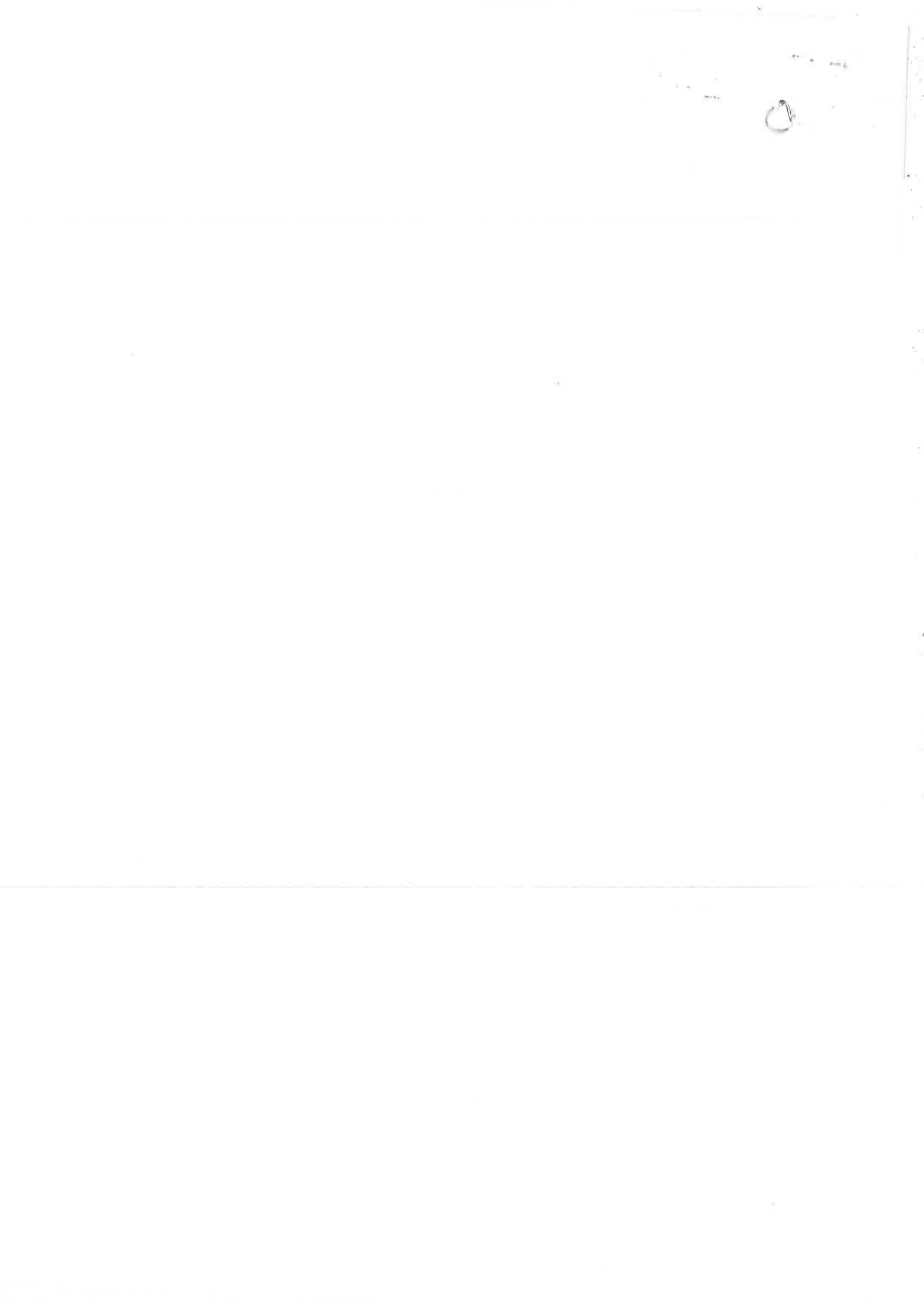
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FM UKREP BRUSSELS 211735Z MAR
TO IMMEDIATE FCO
TELEGRAM NUMBER 1221 OF 21 MAR
INFO PRIORITY ALL EC POSTS, WASHINGTON TOKYO

EMS REALIGNMENT

1. MY IFT CONTAINS TEXT OF COMMUNIQUE ISSUED SHORTLY AFTER 1 PM RECORDING AGREEMENT REACHED IN FURTHER BILATERAL AND PLENARY DISCUSSIONS BETWEEN FINANCE MINISTER THIS MORNING.
2. FOLLOWING OVERNIGHT CONSULTATION IN PARIS, DELORS REHEARSED AGAIN PROBLEMS FACING FRENCH ECONOMY AND OPPOSITION TO EMS IN FRANCE. HE ABANDONED PROPOSAL FOR ENLARGED INTERVENTION MARGINS BUT INSISTED ON MINIMUM SPREAD OF 8 PER CENT BETWEEN FF AND DM, MAKING IT CLEAR THAT HE PREFERRED SPLIT OF DM PLUS 6 PER CENT AND FF MINUS 2 PER CENT AS OPPOSED TO STOLTENBERG'S DM PLUS 5 PER CENT AND FF MINUS 3 PER CENT. BOTH HE AND STOLTENBERG, HOWEVER, INSISTED THAT ISSUE MUST BE SETTLED BY FINANCE MINISTERS AND NOT LEFT OVER FOR EUROPEAN COUNCIL.
3. FOLLOWING FURTHER SERIES OF BILATERALS, IN WHICH CHANCELLOR OF EXCHEQUER AND ORTOLI (COMMISSION) PLAYED MAJOR INTERMEDIARY ROLE, AGREEMENT WAS FINALLY REACHED AROUND 12.30PM ON ADJUSTMENTS SET OUT IN COMMUNIQUE. THIS WAS, HOWEVER, SUBJECT TO:-
 - (I) RECOMMENDATION ON EARLY ADJUSTMENT OF STEEL PRICES IN ACCORDANCE WITH STEEL PRICE GUIDELINE SYSTEM:
 - (II) STATEMENT IN COMMUNIQUE THAT MEMBER STATES PARTICIPATING IN THE EXCHANGE RATE MECHANISM WOULD NOT UNRAVEL NEW MCA'S CREATED BY THE REALIGNMENT BY ADJUSTING GREEN RATES PRIOR TO AGRICULTURAL PRICE FIXING.
4. NEITHER OF ABOVE TWO POINTS WERE DISCUSSED AT ANY LENGTH OR DETAIL IN PLENARY MINISTERIAL SESSION (TEXT WAS NOT SUBMITTED FOR AGREEMENT) AND THERE MAY WELL BE LOOSE ENDS TO FOLLOW UP. FOR EXAMPLE, WE SUBSEQUENTLY LEARNED FROM IRISH DELEGATION THAT THEIR MINISTER MAY SEEK TO REOPEN AGRI-MONETARY ARRANGEMENTS.
5. THERE WAS NO REPEAT NO FURTHER REFERENCE IN TODAY'S DISCUSSIONS TO POSSIBILITY OF FRENCH BORROWING UNDER COMMUNITY LOAN MECHANISM, BUT THIS CANNOT BE EXCLUDED.
6. PRIME MINISTER WAS BRIEFED BY CHANCELLOR PRIOR TO LUNCH FOR HEADS OF GOVERNMENT ATTENDING EUROPEAN COUNCIL.

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CHANCELLOR OF THE EXCHEQUER

FROM: B UNWIN
25 April 1983

cc Chief Secretary
Financial Secretary
Mr Middleton
Mr Littler
Mr Byatt
Mrs Hedley-Miller
Mr Fitchew
Mr Edwards
Mr Peretz,
Mr Gray
Mr Hall
Mr Ingham

STERLING: THE ECU AND AGRICULTURAL MONETARY ISSUES

Mrs Hedley-Miller's minute of 22 April warned you of a proposal to realign sterling's central role in the ecu in order to facilitate agreement in this week's resumed Agriculture Council.

2. We have now received a formal proposal from the Chairman of the Monetary Committee, following a request from the German Government, as in the telex at Annex A immediately below. This seeks a reply by telephone by this evening, but we have told the Monetary Committee that they must wait until tomorrow.

3. The proposal was considered at a meeting I took with MAFF, FCO, Bank and Cabinet Office this afternoon. The outcome of this is set out in the agreed note at Annex B which sets out the pros and cons and concludes that the balance of advantage for the UK lies in going along with the proposal provided it secures a satisfactory outcome to the price fixing. This note will be submitted to Mr Walker by MAFF officials this evening.

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4. Despite the messy nature of this piece of casuistry I am sure that in the circumstances it is the right decision. The clinching argument is at paragraph 6(1) of the note - if we refuse to accept the proposal we could end up with a significantly more costly price fixing and our wider position in the budget, particularly with the French and Germans, would be more difficult to sustain.

5. At the same time I do not think we should concede by return - we should make our partners work harder for it. Hence our proposal that a holding reply should be sent tomorrow (as in the draft below Annex B), and that Mr Walker should be authorised to concede the proposal during the Agriculture Council on Wednesday/Thursday provided he can be satisfied that it will form part of an otherwise acceptable package deal.

6. I therefore seek your agreement to despatching the note to the Monetary Committee tomorrow as in the draft below and to the line in the interdepartmental note. I understand, however, that Mr Coles at No 10 is anxious that the Prime Minister should also be consulted. Subject, therefore, to your views overnight, Mr Kerr ought to consult No 10 as quickly as possible in the morning - we will supply an appropriate draft.

7. I should add that Mr Pym has been consulted by his officials at the Foreign Affairs Council and supports the above line.

A handwritten signature in dark ink, appearing to be 'B Unwin'.

B UNWIN

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ON OF THE MONETARY COMMITTEE AND PREPARATION
DECISION OF MINISTERS AND GOVERNORS

THE CHAIRMAN OF THE MONETARY COMMITTEE, FOLLOWING A REQUEST FROM THE GERMAN GOVERNMENT, IS INITIATING THE CONSULTATION PROCEDURE WHICH PRECEDES A REALIGNMENT OF PARITIES WITHIN THE E.M.S.

2. THE GERMAN GOVERNMENT'S PROPOSAL WOULD, ON THE ONE HAND, MAINTAIN UNCHANGED THE BILATERAL CENTRAL RATES BETWEEN CURRENCIES PARTICIPATING IN THE EXCHANGE RATE MECHANISM OF THE E.M.S., AND, ON THE OTHER, INCORPORATE THE POUND STERLING IN THE SYSTEM OF ECU CENTRAL RATES ON THE BASIS OF THE MARKET EXCHANGE RATE OF 22 APRIL 1983.

3. GROUNDS FOR THE DECISION

THERE FOLLOWS AN EXTRACT FROM THE GERMAN TELEX :

THE APPRECIATION OF ECU/CENTRAL RATES DUE TO THE DEPRECIATION OF THE THEORETICAL ECU/CENTRAL RATE OF THE POUND HAS CREATED SEVERE PROBLEMS IN THE AGRICULTURAL AREA AND IN PARTICULAR FOR THE SUCCESSFUL CONCLUSION OF THE AGRICULTURAL PRICE NEGOTIATIONS. BECAUSE THE MARKET RATE OF THE POUND-STERLING HAS APPRECIATED CONSIDERABLY IN THE MEANWHILE, THERE HAVE BEEN SOME DISCUSSION ABOUT THE POSSIBILITY OF INCLUDING THE POUND-STERLING INTO THE ECU AT A MORE CURRENT EXCHANGE RATE. THIS PROCEDURE WOULD ALLEVIATE THE PROBLEMS IN THE AGRICULTURAL AREA.

✓ Mr Unwin
Mr Fitchew
Mr Ingham

25/4

THEREFORE THE GERMAN MINISTER OF FINANCE WOULD LIKE TO PROPOSE THAT THE POUND-STERLING BE INCLUDED INTO THE ECU ON MONDAY, APRIL 25TH, WITH ITS EXCHANGE RATE OF APRIL 22, 1983 ACCORDING TO THE RECOMMENDATION BY THE MONETARY COMMITTEE OF APRIL 2, 1980 WHICH WAS ADOPTED BY THE ECOFIN-COUNCIL ON APRIL 21, 1980."

4. THE OPINION OF THE MONETARY COMMITTEE WILL BE ASCERTAINED IN A TELEPHONE PROCEDURE WHICH WILL BE COMPLETED BY 25 APRIL 1983 AT 19.00 HRS. COMMISSION STAFF RESPONSIBLE FOR THE CALCULATION OF ECU CENTRAL RATES ARE IN CONTACT WITH THE APPROPRIATE DEPARTMENTS IN THE MEMBER STATES IN ORDER TO ENSURE THAT THE RE-INCORPORATION OF THE POUND-STERLING DOES NOT CHANGE THE BILATERAL CENTRAL RATES OF THE CURRENCIES PARTICIPATING IN THE E.M.S. AT THE SAME TIME THE MEMBERS OF THE MONETARY COMMITTEE ARE REQUESTED TO OBTAIN THE VIEW OF THEIR MINISTERS AND GOVERNORS ON THE FOLLOWING TEXT :

ON 25 APRIL 1983, THE MINISTERS AND CENTRAL BANK GOVERNORS OF EEC MEMBERS COUNTRIES HAVE BY MUTUAL AGREEMENT, IN A COMMON PROCEDURE COMPRISING THE COMMISSION AND AFTER CONSULTATION OF THE MONETARY COMMITTEE, DECIDED TO ATTRIBUTE TO THE POUND-STERLING A NOTIONAL ECU CENTRAL RATE BASED ON THE MARKET EXCHANGE RATES OF FRIDAY, 22 APRIL 1983. THE BILATERAL CENTRAL RATES BETWEEN THE CURRENCIES PARTICIPATING IN THE EMS EXCHANGE RATE MECHANISM REMAIN UNCHANGED. THE NEW ECU CENTRAL RATES WILL BE PUBLISHED LATER.

A. KEES COMEU B

NNNN

Note by the Treasury, MAFF and FCO

STERLING: THE ECU AND AGRI MONETARY ISSUES

The Proposal

As foreshadowed at the end of last week, the German Presidency have now proposed a realignment of the central rate for sterling in the ecu with the intention of making it easier for the Agriculture Council on Wednesday this week to settle outstanding differences about Germany's green D Mark rate and positive MCAs.

2. The proposal, which is set out in the attached telex to members of the Monetary Committee, is that there should be a realignment within the EMS in which sterling would be included in the ECU at its market rate of 22 April (ie. 7.3% higher than the central rate agreed at the last realignment). Other currencies would remain at their same bilateral parities with each other, although **their** central rates with the ECU would change. The effect of this proposal is to:

- increase the value of the ECU by just over 1%;
- reduce the Germans' MCA by 1%;
- increase the negative MCAs of France by 1%

3. The purpose of this manouevre is to make it easier for France to accept the Commission's present price proposals by the (wholly cosmetic) reduction in the German MCA, which would, presumably, substitute for part of the 3% German green Mark revaluation proposed by the Commission. We understand that the Monetary Committee telex is the outcome of consultation between France, Germany and the Commission and is likely to have the support of other Member States.

4. The pros and cons of this proposal, which were discussed at a meeting of Departments under Treasury Chairmanship this afternoon, are set out below. The telex to members of the Monetary Committee asks for the UK's agreement to the proposal by 7 pm this evening. With the agreement of the other Departments the Treasury has informed the Monetary Committee Secretariat that it cannot give a response until UK Ministers have been consulted and that the deadline therefore cannot be met.

5. Departments see four disadvantages in the new proposal:

(a) the proposed "phantom realignment" is a wholly opportunistic device, which is not consistent with the agreed system for adjusting the £ sterling rate in the ECU. The only reason for choosing the sterling ECU rate of 22 April is that this suits the German and French Agriculture Ministers. Ad hoc adjustments of this nature are not consistent with an orderly system which aims to promote a wider role of the ECU;

(b) the increase in the value of the ECU means that the agricultural common price level expressed in ECUs will be higher. This increase can be realised if the Member States with higher negative MCAs (see paragraph ² above) choose or are allowed to devalue their green rates correspondingly;

(c) because of the operation of the MCA "franchise system", the proposed adjustment will lead to competitive distortions to the UK's disadvantage. Specifically, Danish and Irish exporters of meat products, including pigmeat and poultry, will have an uncovenanted advantage in competing in the UK market. This will be particularly unwelcome to our hard-pressed intensive livestock sector;

(d) the proposal would set an unwelcome precedent, which could be exploited on subsequent occasions whenever the Agriculture Council sees advantage in doing so. Over a period this would have an upwards ratchet effect on common prices.

6. On the other hand, Departments also agree that if the UK resists this proposal, there could be the following unwelcome consequences:

(i) the UK could be wholly isolated in the CAP price negotiations. If the Germans persisted in their refusal to revalue the green D-Mark by the amounts proposed, other Member States could seek to resolve the problem by agreeing on higher price proposals; and the Commission, notwithstanding

its earlier refusal, might go along with this, blaming the UK. The cost of an extra 1% price increase would be of the order of 150-200m ECU in a full year. Higher price increases would be both unwelcome politically (after the favourable outcome of last week's Agriculture Council) and would be inconsistent with our aim of keeping down the costs of agriculture in the 1984 budget;

(ii) the Commission could also react by putting forward proposals to the disadvantage of UK farmers in the price fixing, eg. an attack on our variable beef premium or a revaluation of the green pound;

(iii) our relations with France and, more important, Germany would be worsened at a time when we will be relying on their support for a satisfactory solution of our budget problem.

Recommendations

7. Departments are agreed that the proposed device is an unwelcome one, which has specific disadvantages for the UK. But on balance it is nevertheless clearly preferable to the possible alternative of the Commission deciding to propose further increases in common prices (although it is not clear how likely it is that they would do that or at what stage). The Treasury and FCO also draw particular attention to the risk that a refusal to help the Germans in the way proposed could be harmful to the prospects of our success in the negotiations on our budget refunds, in which we will need to rely heavily on their help.

8. Departments accordingly recommend that the UK should not stand out against the German proposal if all other Member States see this as the only way out of the impasse on the price fixing. They also agree, however, that it would be premature to give our agreement in response to the present Monetary Committee telex. If we do so, we would have conceded what the French and Germans want without any firm assurance that the CAP price negotiations will be concluded on terms which we can regard as satisfactory.

9. Departments accordingly recommend that we should send a holding reply to the Monetary Committee, which makes it clear that we would not be prepared to consider the present proposal until after Wednesday's Agriculture Council. At the Council we would then seek to obtain the following objectives;

(a) an understanding that the Commission's present price proposals would be adopted, if the proposed change in the sterling ecu rate is then made;

(b) a similar understanding that the new negative MCAs created by the monetary adjustment would not be removed until the end of the 1983-84 marketing year;

(c) some further improvement of the present CAP price package for UK farmers, MAFF are considering various possibilities for removing disadvantageous proposals in the sheepmeat and livestock sectors.

In addition, the draft reply makes it clear that the Monetary Committee must urgently agree on an orderly system for adjusting the rate of sterling in the ecu for the future.

10. A draft reply to the Monetary Committee telex is attached at Annex B. Ministers are invited to agree to a reply being sent in these terms and to the strategy outlined in paragraph 9 above.

DRAFT MESSAGE FROM THE UK MEMBERS TO THE CHAIRMAN OF THE
MONETARY COMMITTEE

With reference to your telex of 25 April, the United Kingdom members are somewhat surprised at the procedure proposed. They can find nothing in the Monetary Committee's Opinion of 2 April 1980 which prescribes any method for the proposal and adoption of a new imputed central rate for sterling except in the context of a realignment of currencies participating in the exchange rate mechanism.

2. They are, further, concerned that the suggested procedure, being an expedient, and related to no agreed principles, will be publicly judged as such; and will not reflect well on the standing of the exchange rate mechanism of the European Monetary System. It does not conform with the view, which the UK members thought was implicit in the Interim Opinion of 1 February 1982, that there should be systematic rules governing the imputed central rate for sterling. As that Opinion noted, the approved method had on the occasion of the realignment of 22 March 1981 "facilitated decisions in the agricultural field". But it went on to say that "the opposite/^{case}is however possible". We had assumed it to be agreed that procedures should be orderly and symmetrical.

3. The United Kingdom members note that the present proposal has been made because of "severe problems" in the agricultural

area, and that it is suggested that what is proposed would "alleviate" the problems on the agricultural side. In view of the monetary issues referred to above the UK consider it essential to establish in the Agriculture Council that, with this ingredient, the Agriculture Ministers could in fact reach agreement on all the outstanding issues being discussed in this round of price fixing negotiations. In this event the UK would be ready to join in a further consultation of the proposal by telephone among the members of the Monetary Committee. They would however consider it preferable that any change in sterling's imputed central rate should be initiated by the UK and that, preferably, it would relate to the nearest appropriate date.

4. In case this untidy situation should recur, the United Kingdom members stress that, in their view, an examination should be undertaken not later than the Monetary Committee meeting on 4 May 1983 of methods to be used in future for imputing a central rate for sterling, whether at the time of, or in between, realignments of other currencies.



M. Barber

CST N/2/1
FST
Mr Middleton
Mr Litter
Mr Byatt
Mrs Hedley-Miller
Mr Fitchew
Mr Edwards
Mr Penet
Mr Gray
Mr Hall
Mr Ingham

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

A J Coles, Esq
Private Secretary
No 10 Downing Street
LONDON SW1

26 April 1983

Dear John,

STERLING: THE ECU AND AGRICULTURAL MONETARY ISSUE

A problem concerning sterling's central rate in the ecu has arisen in relation to current proposals by the Commission to the Agriculture Council for the removal of MCAs as part of their package of proposals for the present price fixing. Although others are affected, the main issue affects France and Germany.

In essence the problem is that the Germans are currently resisting Commission proposals for a differential revaluation of the green DM by 2%-3%, to reduce their MCAs, since this would wholly or partly vitiate, for German farmers, the effect in DM of new price increases suggested by the Commission. If the Germans refuse to revalue the green DM as proposed the French are likely to reject the Commission's price increases in view of the resultant disparity in prices (in national currencies) that would result as between French and German farmers, and the competitive advantage the latter would have both in France and in third markets. The French would therefore be likely to press for higher price proposals. Equally, Germany would only be likely to accept the Commission's proposals for removing MCAs if they were also accompanied by an increase in the present price proposals.

The German Finance Minister has therefore proposed, through the Monetary Committee, that this deadlock should be broken by our agreeing to a realignment of the central rate for sterling in the ecu. The arrangements are complex, but in essence the arrangement is as follows. In accordance with the normal rules sterling was taken into the ecu at its 21 March level after last month's EMS realignment. Since this level was very low, the effect was to weaken the ecu overall, thus increasing positive MCAs for Germany. The

/present proposal

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present proposal is that sterling should in effect be realigned again within the EMS by being included at its market rate of 22 April (ie 7.3 per cent higher than the rate on 21 March). Other countries would remain at their same bilateral parities with each other, although their central rates with the ecu would change. The effect of this proposal would be to increase the value of the ecu by just over 1 per cent; reduce German MCAs by 1 per cent; and increase French negative MCAs by 1 per cent.

Our soundings indicate that if we agree to this device there is a very good chance that agreement will be reached at the Agriculture Council on the basis of the Commission's present price proposals. Her Tietmeyer, the State Secretary of the German Finance Ministry, has assured us that this will be their intention and that they would propose to follow this up by making firm proposals for bringing the agricultural spending regimes under control, building on the discussion between the Chancellor and Herr Stoltenberg on this subject on 22 April.

... The pros and cons of the proposal are discussed in the attached note by the Treasury, MAFF and FCO, which was agreed following a meeting at the Treasury yesterday afternoon. The conclusion of this note, which the Chancellor endorses, is that, subject to certain conditions, we should accept the German Government's proposal.

As far as the sterling exchange rate is concerned, the proposal has no practical consequences. The disadvantage on the EMS side is that it is an arbitrary variation of the agreed procedures. More important, on the agriculture side, the increase in the value of the ecu would mean that the agricultural common price level expressed in ecus will be higher, and which would have practical effect if member States with higher negative MCAs were allowed to devalue their green rates correspondingly.

As against these disadvantages, we believe that there is a serious risk that the problem could otherwise only be resolved by higher price proposals. These would be likely to cost at least 150 million ecu in a full year and we could find ourselves isolated (and in particular at odds with Germany), in a manner inconsistent with our general posture on agricultural spending and the budget in refusing to accept what others would represent as a technical change.

... In the circumstances, the Chancellor considers that, subject to the conditions set out in paragraph 9 of the attached note, we should be prepared to agree to the German Government's proposal. We should not, however, do so immediately; there should be further discussion in the Agriculture Council tomorrow so that we can be satisfied that our objectives can be attained before we assent to the proposal.

/I understand that



I understand that both Mr Walker and Mr Pym support this proposal. I should be grateful if you would put it to the Prime Minister.

I am copying this letter to Roger Bone at the FCO, Robert Lawson at MAFF and to Sir Robert Armstrong.

Yours,

André Limpon

11 J O KERR
Principal Private Secretary

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STERLING: THE ECU AND AGRI MONETARY ISSUES

The Proposal

As foreshadowed at the end of last week, the German Presidency have now proposed a realignment of the central rate for sterling in the ecu with the intention of making it easier for the Agriculture Council on Wednesday this week to settle outstanding differences about Germany's green D Mark rate and positive MCAs.

2. The proposal, which is set out in the attached telex to members of the Monetary Committee, is that there should be a realignment within the EMS in which sterling would be included in the ECU at its market rate of 22 April (ie. 7.3% higher than the central rate agreed at the last realignment). Other currencies would remain at their same bilateral parities with each other, although their central rates with the ECU would change. The effect of this proposal is to:

- increase the value of the ECU by just over 1%;
- reduce the Germans' MCA by 1 %;
- increase the negative MCAs of France by 1%

3. The purpose of this manoeuvre is to make it easier for France to accept the Commission's present price proposals by the (wholly cosmetic) reduction in the German MCA, which would, presumably, substitute for part of the 3% German green Mark revaluation proposed by the Commission. We understand that the Monetary Committee telex is the outcome of consultation between France, Germany and the Commission and is likely to have the support of other Member States.

4. The pros and cons of this proposal, which were discussed at a meeting of Departments under Treasury Chairmanship this afternoon, are set out below. The telex to members of the Monetary Committee asks for the UK's agreement to the proposal by 7 pm this evening. With the agreement of the other Departments the Treasury has informed the Monetary Committee Secretariat that it cannot give a response until UK Ministers have been consulted and that the deadline therefore cannot be met.

Pros and Cons

5. Departments see four disadvantages in the new proposal:

(a) the proposed "phantom realignment" is a wholly opportunistic device, which is not consistent with the agreed system for adjusting the £ sterling rate in the ECU. The only reason for choosing the sterling ECU rate of 22 April is that this suits the German and French Agriculture Ministers. Ad hoc adjustments of this nature are not consistent with an orderly system which aims to promote a wider role of the ECU;

(b) the increase in the value of the ECU means that the agricultural common price level expressed in ECUs will be higher. This increase can be realised if the Member States with higher negative MCAs (see paragraph 2 above) choose or are allowed to devalue their green rates correspondingly;

(c) because of the operation of the MCA "franchise system", the proposed adjustment will lead to competitive distortions to the UK's disadvantage. Specifically, Danish and Irish exporters of meat products, including pigmeat and poultry, will have an uncovenanted advantage in competing in the UK market. This will be particularly unwelcome to our hard-pressed intensive livestock sector;

(d) the proposal would set an unwelcome precedent, which could be exploited on subsequent occasions whenever the Agriculture Council sees advantage in doing so. Over a period this would have an upwards ratchet effect on common prices.

6. On the other hand, Departments also agree that if the UK resists this proposal, there could be the following unwelcome consequences:

(i) the UK could be wholly isolated in the CAP price negotiations. If the Germans persisted in their refusal to revalue the green D-Mark by the amounts proposed, other Member States could seek to resolve the problem by agreeing on higher price proposals; and the Commission, notwithstanding

its earlier refusal, might go along with this, blaming the UK. The cost of an extra 1% price increase would be of the order of 150-200m ECU in a full year. Higher price increases would be both unwelcome politically (after the favourable outcome of last week's Agriculture Council) and would be inconsistent with our aim of keeping down the costs of agriculture in the 1984 budget;

(ii) the Commission could also react by putting forward proposals to the disadvantage of UK farmers in the price fixing, eg. an attack on our variable beef premium or a revaluation of the green pound;

(iii) our relations with France and, more important, Germany would be worsened at a time when we will be relying on their support for a satisfactory solution of our budget problem.

Recommendations

7. Departments are agreed that the proposed device is an unwelcome one, which has specific disadvantages for the UK. But on balance it is nevertheless clearly preferable to the possible alternative of the Commission deciding to propose further increases in common prices (although it is not clear how likely it is that they would do that or at what stage). The Treasury and FCO also draw particular attention to the risk that a refusal to help the Germans in the way proposed could be harmful to the prospects of our success in the negotiations on our budget refunds, in which we will need to rely heavily on their help.

8. Departments accordingly recommend that the UK should not stand out against the German proposal if all other Member States see this as the only way out of the impasse on the price fixing. They also agree, however, that it would be premature to give our agreement in response to the present Monetary Committee telex. If we do so, we would have conceded what the French and Germans want without any firm assurance that the CAP price negotiations will be concluded on terms which we can regard as satisfactory.

9. Departments accordingly recommend that we should send a holding reply to the Monetary Committee, which makes it clear that we would not be prepared to consider the present proposal until after Wednesday's Agriculture Council. At the Council we would then seek to obtain the following objectives;

(a) an understanding that the Commission's present price proposals would be adopted, if the proposed change in the sterling ecu rate is then made;

(b) a similar understanding that the new negative MCAs created by the monetary adjustment would not be removed until the end of the 1983-84 marketing year;

(c) some further improvement of the present CAP price package for UK farmers, MAFF are considering various possibilities for removing disadvantageous proposals in the sheepmeat and livestock sectors.

In addition, the draft reply makes it clear that the Monetary Committee must urgently agree on an orderly system for adjusting the rate of sterling in the ecu for the future.

10. A draft reply to the Monetary Committee telex is attached at Annex B. Ministers are invited to agree to a reply being sent in these terms and to the strategy outlined in paragraph 9 above.

DRAFT MESSAGE FROM THE UK MEMBERS TO THE CHAIRMAN OF THE
MONETARY COMMITTEE

With reference to your telex of 25 April, the United Kingdom members are somewhat surprised at the procedure proposed. They can find nothing in the Monetary Committee's Opinion of 2 April 1980 which prescribes any method for the proposal and adoption of a new imputed central rate for sterling except in the context of a realignment of currencies participating in the exchange rate mechanism.

2. They are, further, concerned that the suggested procedure, being an expedient, and related to no agreed principles, will be publicly judged as such; and will not reflect well on the standing of the exchange rate mechanism of the European Monetary System. It does not conform with the view, which the UK members thought was implicit in the Interim Opinion of 1 February 1982, that there should be systematic rules governing the imputed central rate for sterling. As that Opinion noted, the approved method had on the occasion of the realignment of 22 March 1981 "facilitated decisions in the agricultural field". But it went on to say that "the opposite/^{case}is however possible". We had assumed it to be agreed that procedures should be orderly and symmetrical.

3. The United Kingdom members note that the present proposal has been made because of "severe problems" in the agricultural

area, and that it is suggested that what is proposed would "alleviate" the problems on the agricultural side. In view of the monetary issues referred to above the UK consider it essential to establish in the Agriculture Council that, with this ingredient, the Agriculture Ministers could in fact reach agreement on all the outstanding issues being discussed in this round of price fixing negotiations. In this event the UK would be ready to join in a further consultation of the proposal by telephone among the members of the Monetary Committee. They would however consider it preferable that any change in sterling's imputed central rate should be initiated by the UK and that, preferably, it would relate to the nearest appropriate date.

4. In case this untidy situation should recur, the United Kingdom members stress that, in their view, an examination should be undertaken not later than the Monetary Committee meeting on 4 May 1983 of methods to be used in future for imputing a central rate for sterling, whether at the time of, or in between, realignments of other currencies.

