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MR. LANKESTER*Prime Minister**Agreed 25.**Ant*EXPECTED COMMISSION PROPOSAL FOR A DEVALUATION OF  
THE GREEN POUND

The Minister of Agriculture's minute sent today to the Foreign and Commonwealth Secretary seeks the agreement of his colleagues that he should accept a 1.1 per cent devaluation of the Green Pound if as expected the Commission propose it at tomorrow's meeting of EEC Agriculture Ministers in Dublin.

This is part of the fall-out from last weekend's realignment of EMS central rates. As the D-Mark has a heavy weight in the European Currency Units (ECU) "basket", and the Danish krone a light one, the net effect of the realignment is to raise the value of the ECU. If nothing were done to compensate for this, the Monetary Compensatory Amounts (MCAs) payable in the positive MCA countries (except Germany) would fall and those payable in the negative MCA countries, including the UK, would increase. The Commission are proposing green rate devaluations so as to prevent any changes in negative MCAs. This is consistent with the general desire to prevent the EMS leading to a further growth of MCAs.

The effect of a 1.1 per cent Green Pound devaluation would be to raise by that amount the support prices payable to farmers; raise similarly the levies paid on our imports of food from third countries and the prices of our imports from the Community. As the Minister points out, the effect on the Retail Price Index is negligible. The public expenditure effect of the Green Pound devaluation alone is slight and possibly (like the devaluation of the Italian lira) favourable. For Denmark, Ireland and France, however, the Commission's proposals are liable to raise Community expenditure and hence, overall, our contribution to the Community Budget; but the amounts are relatively small.

In its Manifesto the Government pledged that it would devalue the Green Pound within the lifetime of a normal Parliament to a point which would enable our producers to compete on level terms

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with those in the rest of the Community. Acceptance of the 1% adjustment would be consistent with this. The recent fall in sterling has meant that our MCA, which operates as a subsidy on imports and a levy on exports, has begun to grow again (from 3 per cent) to 9 per cent. Without this adjustment, it would go above 10 per cent.

*MJV.*

M. J. Vile

25 September 1979

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