

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(D)(79)12

COPY NO. 1

21 November 1979

EUROPEAN COUNCIL, DUBLIN

29/30 November 1979

THE EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

OBJECTIVE

1. If asked, to explain the UK's attitudes to the EMS exchange rate arrangements while avoiding committing us to a specific date for joining them.

POINTS TO MAKE

2. /If appropriate/
 - (i) In principle committed to joining the EMS exchange rate arrangements when conditions are right;
 - (ii) we cannot say when this might be. First, we need to see more of the fruits of our economic policies before deciding, including the effect of the abolition of exchange controls;

CONFIDENTIAL

CONFIDENTIAL

- (iii) second, there are particular uncertainties posed by sterling's position as a petrocurrency, when the course of the dollar is erratic.

BACKGROUND

3. The EMS is not on the agenda. It is possible that some Member States may look for a statement by the Prime Minister on our intention to join the exchange rate arrangements as evidence of "good will" in return for a concession on our net contribution to the Community budget.

4. But each of these two things has to be decided on its own merits. The points to make follow what the Prime Minister has said in her bilateral talks with other EEC heads of government. This will not therefore come as a surprise. But the Prime Minister might be asked for some form of words in the European Council conclusions about the Government's intention to join the system at some stage.

5. This would be a pity. It would put the EMS issue back into the area of debate in this country. Nevertheless, the Prime Minister might judge it worthwhile to permit a formula on the lines of the first "Point to Make" to be used if it is asked for (or even to volunteer it), if it appeared that it would buy anything worthwhile.

6. But she would in all circumstances wish to avoid any reference to a time-table within which we might become members

CONFIDENTIAL

of the exchange rate mechanism. This would be particularly unwise given the uncertainties over the coming months in respect of

- (i) the rate of inflation;
- (ii) growth of the money supply;
- (iii) the effects of removing exchange controls after more than 40 years, consistent with our Treaty obligations;
- (iv) the outlook for oil prices and supply, with the consequent effects on sterling.

Second Stage of the EMS

7. When the EMS was set up in December 1978, it was agreed that within two years the system should be consolidated and further developed by the establishment of a European Monetary Fund. At the Foreign Ministers' Council on 20 November, it was suggested that progress on this might be raised at the European Council.

8. Community discussions at official level (in which the UK has been fully involved) on this "second stage" of the EMS have been in progress for some months. But it is clear that neither the Germans nor the French want to pursue the subject urgently, probably for domestic political/electoral reasons.

CONFIDENTIAL

9. If the subject is raised, the Prime Minister need not take the lead in speaking to it. She could say that the UK will continue to play a full part in these discussions, and on the timetable we are content to go along with any majority view that emerges. The Prime Minister could go along with any proposal that the European Council should ask the Finance Council to expedite the discussions, if there is majority support for such a proposal.

HM Treasury

21 November 1979

CONFIDENTIAL