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EUROPEAN COUNCIL, VENICE

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EMS/EMF (CONTINGENCY BRIEF)

Brief by HM Treasury

OBJECTIVE

1. To avoid a commitment on sterling's participation in the EMS exchange rate arrangements, but to be ready (if necessary) to explain our position in a positive way.
2. To avoid a substantive debate on the EMF while the options are imprecise.

POINTS TO MAKE

3. If she comes under pressure on sterling's participation in the EMS exchange rate arrangements, the Prime Minister should draw on the draft statement at Annex A.
4. The Community bodies have not had time to further their work on the EMF since the last European Council. Better to wait for this before discussing the question further.

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BACKGROUND

5. Neither subject is scheduled for discussion.
  
6. The Prime Minister will be aware of the difficulties for monetary policy that could be posed by early participation in the EMS exchange rate mechanism. The draft statement at Annex A is designed to present these in as favourable a light as possible.
  
7. The Luxembourg European Council had before it three reports on progress towards the establishment of the European Monetary Fund. Heads of Government took note of these, and invited the relevant Community bodies to press ahead with work in order to move on to the institutional stage of the EMS which would include the creation of the European Monetary Fund. There has been no time for further work since the Luxembourg European Council.
  
8. No mention was made in the European Council conclusions of the target date for the establishment of the EMF, which is March 1981. It is now almost certainly too late to keep to this. This suits the French and Germans, who find the date uncomfortably close to their domestic elections, but may displease some of the smaller member states. It is not an important matter for us. Any discussion of a new target date would be better deferred until the scope of the problems involved in setting up the EMF has been more fully assessed.

## STATEMENT ON EMS

The United Kingdom Government fully supports closer monetary co-operation in the Community in the interests of the fight against inflation; and fully supports also the European Monetary System both as a major step forward for monetary co-operation in the Community and as a Community instrument for resisting inflation.

The United Kingdom is participating fully in the discussions on the setting up of the European Monetary Fund and intends to bring sterling into the exchange rate mechanism of the EMS when conditions permit. The Government wish to do this in circumstances and at a time which are best for the Community and for the System, as well as right for our own economy.

We are giving first priority to gaining control of our own monetary conditions, achieving our monetary targets and bringing our rate of inflation nearer to that in most other Community countries. In those conditions we would have more room to reconcile monetary and exchange rate objectives, and the stability of our exchange rate would be reinforced to the advantage of the System. We shall also have to continue to have regard to the differential impact which oil developments can have on sterling and on other Community currencies. All these complex issues are relevant to a decision on joining the exchange rate mechanism and we are very willing to discuss them in the appropriate Community fora.

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The March Budget represents an important stage in reasserting control of the United Kingdom money supply, public borrowing and inflation - objectives which the Government believes have the support of their Community partners. The Government look forward to the time when the success of these efforts will enable the United Kingdom to join the exchange rate mechanism of the EMS.

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