

**CONFIDENTIAL**

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

EHG(L2)(80)8  
18 November 1980

COPY NO **1**

EUROPEAN COUNCIL, LUXEMBOURG  
1/2 DECEMBER 1980

---

EUROPEAN MONETARY SYSTEM

Brief by HM Treasury

---

OBJECTIVE

1. To agree a cosmetic package suggesting progress towards the second stage of the EMS.
2. /If necessary/. To explain and defend the UK's position.

POINTS TO MAKE

3. Right to recognise that Community not ready for a major step forward. Agree that Council should make token moves to demonstrate continuing wish to develop EMS.
4. /If necessary/. UK has participated fully in all studies on second stage. No technical reason why sterling's absence from exchange rate mechanism should affect progress to second stage. Other important considerations have led to the unanimous view that it is not realistic for the second stage to begin next March.
5. /If raised/. Would like to join exchange rate mechanism in right circumstances, in particular when we have gained control of our own monetary situation. However, if market is trying to push sterling strongly up or down relative to other EMS currencies, membership could be bad for UK and for the system.

**CONFIDENTIAL**

BACKGROUND

References Draft Commission conclusions (not yet circulated).

The EMS

6. The European Council's EMS Resolution of December 1978 set a two year deadline for moving to the second stage of the system with a European Monetary Fund (EMF) and "full utilisation" of the ECU as a reserve asset and a means of settlement. This is the last European Council meeting before the deadline expires in March 1981.
  
7. No desire on part of any member state (except occasionally Luxembourg) to progress rapidly to second stage: no obvious national advantage would result. Definitive transfer of gold to EMF also poses political problems for France, which are unlikely to be eased before the presidential election (April/May 1981). Technical studies continuing.
  
8. Package likely to be proposed in Commission conclusions to give appearance of progress on second stage. This could involve:-

(i) Renewal of the existing arrangement for providing ECU's by swap operations (due to expire in March 1981).

(ii) Agreement to review the Community's Medium-Term Financial Assistance (medium-term credit for member states), which expires in December 1980.

**CONFIDENTIAL**

(iii) /Possibly/. Indefinite commitment to develop ECU in International Monetary System; reaffirmation of Community's commitment to eventual economic and monetary union.

9. We should not accept either a specific date for economic and monetary union or a commitment to developing the ECU regardless of market conditions.

UK Membership of Exchange Rate Arrangements

10. Sterling has continued to move very differently from other EMS currencies, partly because of petro-currency influences. Intervention to hold sterling down to the level of other EMS currencies would tend to expand the money supply. Intervention to hold sterling up could attract political criticism in UK from exporters. In either case pressure on sterling could cause strains in EMS (which has functioned smoothly so far, with only one major realignment).

HM TREASURY  
18 November 1980