



Foreign and Commonwealth Office

London SW1A 2AH

1 March, 1984

John Lubbers

Visit of the Netherlands Prime Minister: European Monetary
System (EMS)

/ I enclose a copy of The Hague telegram number 72 which reports that Mr Lubbers wishes to raise with the Prime Minister the longer term possibility of full British adherence to the EMS. Mr Lubbers regards this as psychologically important to the future development of the Community.

/ I enclose a brief, cleared with Treasury, for the Prime Minister's use.

Sir G Howe has not been able to see these papers this evening. I shall be showing him copies in tonight's box.

John Bone

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Private Secretary

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FM THE HAGUE 291230Z FEB 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 072 OF 29 FEBRUARY

INFO SAVING PARIS BONN ROME AND UKREP BRUSSELS

MY TELNO 56: VISIT OF MR LUBBERS: AGENDA

1. IN VIEW OF THE LATEST DEVELOPMENTS ON INF DEPLOYMENT IN THE NETHERLANDS (MY TELS NOS 65 AND 71) LUBBERS WOULD LIKE TO DISCUSS THIS SUBJECT EITHER A DEUX OR, IF THE ^{PRIME} MI NISTER ^{PRE} FERS, NOT AT ALL. THERE IS NO DOUBT THAT THE MINISTRY OF FOREIGN AFFAIRS AND, I BELIEVE, VAN DEN BROEK HOPE THAT THE PRIME MINISTER WILL EMPHASISE TO LUBBERS HOW IMPORTANT A POSITIVE DUTCH DECISION WILL BE FOR THE ALLIANCE.

2. LUBBERS ALSO WANTS TO RAISE THE LONGER TERM POSSIBILITY OF FULL BRITISH ADHERENCE TO EMS. HE REGARDS THIS AS PSYCHOLOGICALLY IMPORTANT FOR THE FUTURE DEVELOPMENT OF THE COMMUNITY.

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MANSFIELD
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VISIT OF THE DUTCH PRIME MINISTER, MR LUBBERS: 2 MARCH
EUROPEAN COMMUNITY
EUROPEAN MONETARY SYSTEM (EMS)

POINTS TO MAKE

1. UK is of course a member of the EMS. We have played an important role at realignment meetings (eg, Sir Geoffrey Howe chaired two when he was Chancellor).

2. UK recognises the importance which other Member States attach to our joining the Exchange Rate Mechanism. We have made clear that we would be prepared to join when the time is right. In saying this, we are not just paying lip-service to the idea: the issue is kept actively under review. Considerations we particularly have in mind are as follows:

(a) Sterling tends to rise and fall with oil prices, whereas other continental currencies do the opposite.

(b) Like the Deutschmark, Sterling is widely used in international financing transactions and both currencies could therefore be vulnerable to large speculative flows between them. A reversal of the recent strength of the Dollar may now be under way. Were this to happen, the DM might well strengthen against Sterling, since it could be the major refuge for funds coming out of the Dollar. If the UK were to join the ERM while Dollar movements were imposing strains on the system, this might aggravate these strains considerably.

These two arguments together make up a powerful case for caution.

3. There should be no question about our commitment to the future development of the Community (viz à our agreement to ESPRIT and our participation in the A320). Would not wish to jeopardise this by taking a premature step of joining the ERM which could give rise to more problems than it solves.