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Ref. A0428

PRIME MINISTER

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*I also attach a brief note  
about the question of a reference to  
EMS in your Luxembourg speech.*

EMS

The paper which you are to discuss with the Chancellor, the Foreign and Commonwealth Secretary, the Secretaries of State for Industry and Trade and the Governor tomorrow was prepared by the Treasury and, as you had agreed, discussed at a meeting of Permanent Secretaries under my chairmanship. I think it sets out the various considerations clearly. No-one at my meeting argued that we should go in at the then prevailing rate of sterling but the point was made that, generally speaking, industry attaches more importance to stability than to a lower exchange rate. There was also some unease that once again we might be failing to catch a European train.

2. Since the paper was prepared there has been a realignment. Our own exclusion from the discussion of that is now generally admitted to have been a mistake. As to the realignment itself, it can be argued that this demonstrates the flexibility of the system and that agreement was reached without too much difficulty. On the other hand, compromises had to be made and no-one is sure that the outcome will be particularly durable. No firm conclusions can be drawn from this experience.

3. You will want to ask the Chancellor of the Exchequer to give his views first. He seems to have been rather more anxious to keep his options open than Treasury officials. The key to his position is in paragraph 35 of the paper. The Governor is probably in favour of joining before very long but he does not think we can do so until exchange controls have been dismantled. The Chancellor's minute to you on this subject is therefore highly relevant. The Foreign and Commonwealth Secretary, if he follows the advice of FCO officials and the views of the Lord Privy Seal, may argue that the economic case for and against is sufficiently evenly balanced for the decision to be taken on political grounds. There is growing evidence that Chancellor Schmidt and several of our other Community partners would consider a decision to join as an important indicator of



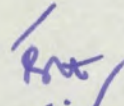
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the Government's attitude to Europe. Sir Donald Maitland reports that our partners will almost certainly be looking for a more definite statement from us on EMS before, or at the time of, the Dublin European Council. Clearly the more positive this can be (even if short of being a firm commitment about when), the more helpful this will be in the context of our fight over our contribution to the budget.

4. Paragraph 52 of the paper sets out two options. There may be intermediate solutions e.g. telling Schmidt privately that we intend to join soon or announcing publicly at the Dublin meeting (if we get our way on the budget) that "Her Majesty's Government has decided to join and will discuss the timing with its partners".

5. You have already agreed (Mr. Lankester's letter to Mr. Hall of 26th September) that following this meeting the Chancellor should circulate the paper to OD under cover of a note of his own. We have provisionally scheduled this for 24th October when OD will be taking another look at the Community budget question. Whatever the immediate decision on EMS you will want to consider carefully the tactics in relation to our objectives on the budget and it would therefore make a lot of sense to take the EMS paper at the same time. This means circulation to OD by the evening of Friday, 19th October.

  
JOHN HUNT

16th October, 1979