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The EMS jigsaw

European Community

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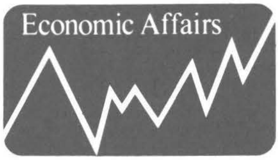

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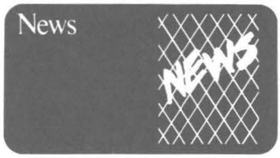

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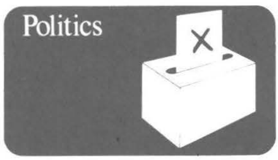

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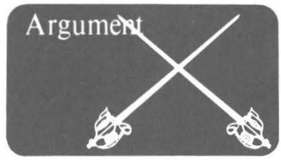

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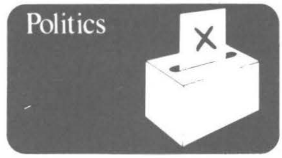

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Economic Affairs

EMS to begin with eight

What the European Council decided

On December 5, 1978, the Heads of Government of the nine Community countries agreed on the details of the new European Monetary System. The United Kingdom declared that it would not take part in the mechanism for linking exchange rates when the system began, but after initial hesitation Italy and Ireland decided to join. EMS is delayed by disagreement about the phasing out of Monetary Compensatory Amounts; but the European Council's decisions form a Community basis for the new EMS, subject to the Community's policy-making process, and open to the accession of all member States:

☐ within two years of the introduction of the system, mechanisms and procedures will be established for a definitive system which will lead to the creation of a *European Monetary Fund;*

☐ the central element of the EMS will be the *European Currency Unit* (ECU). This will be valued at the same value as the European unit of account.

☐ the margin of fluctuation of participating currencies will be 2.25 per cent, but with provision for a 6 per cent fluctuation margin for countries which currently have floating rates;

☐ actual changes in exchange rates will be decided through a Community procedure by the countries participating in the exchange rate mechanism and the European Commission. Non-participants in the exchange rate mechanism will be involved in any important decisions on exchange rate policy;

☐ the credit available will amount to 14,000m ECU for short-term support and 11,000m ECU for medium-term credit — about £16,000m in total.

We print below the full text of the European Council's Resolution establishing the EMS, followed by the explanatory Notes contained in the British Government's White Paper on the subject (Cmnd. 7410).

A. The European Monetary System

1. Introduction

1.1 In Bremen we discussed a 'scheme for the creation of closer monetary cooperation leading to a zone of monetary stability in Europe'. We regarded such a zone 'as a highly desirable objective' and envisaged 'a durable and effective scheme'.

1.2 Today, after careful examination of the preparatory work done by the Council and other Community bodies, we are agreed as follows:

A European Monetary System (EMS) will be set up on January 1, 1979. (Now delayed: see above)

1.3 We are firmly resolved to ensure the lasting success of the EMS by policies conducive to greater stability at home and abroad for both deficit and surplus countries.

1.4 The following chapters deal primarily with the initial phase of the EMS.

We remain firmly resolved to consolidate, not later than two years after the start of the scheme, into a final system the provisions and procedures thus created. This system will entail the creation of the European Monetary Fund as announced in the conclusions of the European Council meeting at Bremen on July 6/7, 1978, as well as the full utilization of the ECU[1] as a reserve asset and a means of settlement. It will be based on adequate legislation at the Community as well as the national level.

2. The ECU and its functions

2.1 A European Currency Unit (ECU) will be at the centre of the EMS. The value and the composition of the ECU will be identical with the value of the EUA at the outset of the system.

2.2 The ECU will be used

(a) as the denominator (numéraire) for the exchange rate mechanism

(b) as the basis for a divergence indicator

(c) as the denominator for operations in both the intervention and the credit mechanism

(d) as a means of settlement between monetary authorities of the EC.

2.3 The weights of currencies in the ECU will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25 per cent.

Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria.

3 The exchange rate and the intervention mechanism

3.1 Each currency will have an ECU-related central rate. These central rates will be used to establish a grid of bilateral exchange rates.

Around these exchange rates fluctuation margins of ± 2.25 per cent will be established. EC countries with presently floating currencies may opt for wider margins up to ± 6 per cent at the outset of EMS; these margins should be gradually reduced as soon as economic conditions permit to do so.

A member State which does not participate in the exchange rate mechanism at the outset may participate at a later date.

3.2 Adjustments of central rates will be subject to mutual agreement by a common procedure which will comprise all countries participating in the exchange rate mechanism and the Commission. There will be reciprocal consultation in the Community framework about important decisions concerning exchange rate policy between countries participating and any country not participating in the system.

3.3 In principle, interventions will be made in participating currencies.

3.4 Intervention in participating currencies is compulsory when the intervention points defined by the fluctuation margins are reached.

3.5 An ECU basket formula will be used as an indicator to detect divergences between Community currencies. A 'threshold of divergence' will be fixed at 75 per cent of the maximum spread of divergence for each currency. It will be calculated in such a way as to eliminate the influence of weight on the probability to reach the threshold.

3.6 When a currency crosses its 'threshold of divergence', this results in a presumption that the authorities concerned will correct this situation by adequate measures, namely:—

(a) Diversified intervention;

(b) Measures of domestic monetary policy;

(c) Changes in central rates;

(d) Other measures of economic policy.

In case such measures, on account of special circumstances, are not taken, the reasons for this shall[2] be given to the other authorities, especially in the 'concertation between Central Banks'.

Consultations will, if necessary, then take place in the appropriate Community bodies, including the Council of Ministers.

After six months these provisions shall[2] be reviewed in the light of experience. At that date the questions regarding imbalances accumulated by divergent creditor or debtor countries will be studied as well.

3.7 A Very Short Term Facility of an unlimited amount will be established. Settlements will be made 45 days after the end of the month of intervention with the possibility of prolongation for another 3 months for amounts limited to the size of debtor quotas in the Short Term Monetary Support.

3.8 To serve as a means of settlement, an initial supply of ECU will be provided by FECOM against the deposit of 20 per cent of gold and 20 per cent of dollar reserves currently held by Central Banks.

This operation will take the form of specified, revolving swap arrangements. By periodical review and by an appropriate procedure it will be ensured that each Central Bank will maintain a deposit of at least 20 per cent of these reserves with FECOM. A member State not participating in the exchange rate mechanism may participate in this initial operation on the basis described above.

4. The credit mechanisms

4.1 The existing credit mechanisms with their present rules of application will be maintained for the initial phase of the EMS. They will be consolidated into a single fund in the final phase of the EMS.

4.2 The credit mechanisms will be extended to an amount of 25 billion ECU of effectively available credit. The distribution of this amount will be as follows:

Short Term Monetary Support =
= 14 bn ECU

Medium Term Financial Assistance
= 11 bn ECU

4.3 The duration of the Short Term Monetary Support will be extended for another 3 months on the same conditions as the first extension.

4.4 The increase of the Medium Term Financial Assistance will be completed by June 30, 1979. In the meantime, countries which will need national legislation are expected to make their extended medium-term quotas available by an interim financing agreement of the Central Banks concerned.

5. Third countries and international organisations

5.1 The durability of EMS and its international implications require coordination of exchange rate policies vis-à-vis third countries and, as far as possible, a concertation with the monetary authorities of those countries.

5.2 European countries with particularly close economic and financial ties with the European Community may participate in the exchange rate and intervention mechanism.

Participation will be based upon agreements between Central Banks; these agreements will be communicated to the Council and the Commission of the EC.

5.3 EMS is and will remain fully compatible with the relevant articles of the IMF agreement.

6. Further procedure

6.1 To implement the decisions taken under A, the European Council requests the Council to consider and to take a decision on December 18, 1978 on the following proposals of the Commission:

(a) Council Regulation modifying the unit of account used by the European Fund of Monetary Cooperation, which introduces the ECU in the operations of the EMCF and defines its composition;

(b) Council Regulation permitting the EMCF to receive monetary reserves and to issue ECU's to the monetary authorities of the member States which may use them as a means of settlement;

(c) Council Regulation on the impact of the European Monetary System on the common agricultural policy. The European Council considers that the introduction of the EMS should not of itself result in any change in the situation obtaining prior to January 1, 1979 regarding the expression in national currencies of agricultural prices, monetary compensatory amounts and all other amounts fixed for the purpose of the common agricultural policy.

The European Council stresses the importance of henceforth avoiding the creation of permanent MCAs and progressively reducing present MCAs in order to re-establish the unit of prices of the Common Agricultural Policy, giving also due consideration to price policy.

B. Measures designed to strengthen the economies of the less prosperous member States of the European Monetary System

1 We stress that, within the context of a broadly-based strategy aimed at improving the prospects of economic development and based on symmetrical rights and obligations of all participants, the most important concern should be to enhance the convergence of economic policies towards greater stability. We request the Council (Economics and Finance Ministers) to strengthen its procedures for coordination in order to improve that convergence.

2 We are aware that the convergence of economic policies and of economic performance will not be easy to achieve. Therefore, steps must be taken to strengthen the economic potential of the less prosperous countries of the Community. This is primarily the responsibility of the member States concerned. Community measures

can and should serve a supporting role.

3 The European Council agrees that in the context of the European Monetary System, the following measures in favour of the less prosperous member States effectively and fully participating in the Exchange Rate and Intervention Mechanisms will be taken.

3.1 The European Council requests the Community Institutions by the utilization of the new financial instrument and the European Investment Bank to make available for a period of 5 years loans of up to 1,000 million EUA per year to these countries on special conditions.

3.2 The European Council requests the Commission to submit a proposal to provide interest rate subsidies of 3 per cent for these loans, with the following elements:

The total cost of this measure, divided into annual tranches of 200 million EUA each over a period of 5 years shall not exceed 1,000 million EUA.

3.3 Any less prosperous member country which subsequently effectively and fully participates in the mechanisms would have the right of access to this facility within the financial limits mentioned above. Member States not participating effectively and fully in the mechanisms will not contribute to the financing of the scheme.

3.4 The funds thus provided are to be concentrated on the financing of selected infrastructure projects and programmes, with the understanding that any direct or indirect distortion of the competitive position of specific industries within member States will have to be avoided.

3.5 The European Council requests the Council (Economics and Finance Ministers) to take a decision on the above-mentioned proposals in time so that the relevant measures can become effective on April 1, 1979 at the latest. There should be a review at the end of the initial phase of the EMS.

4 The European Council requests the Commission to study the relationship between greater convergence in economic performance of the member States and the utilization of Community instruments, in particular the funds which aim at reducing structural imbalances. The results of these studies will be discussed at the next European Council.

Notes

The Resolution of the European Council of December 5, 1978 published in this White Paper is an agreement between Heads of State and Government of the member States of the Community. The first part of the Resolution (A) deals with the monetary system proper. The second part (B) is about measures designed to strengthen the economies of the less prosperous member States of the European Monetary System. The following reference are to the paragraphs of these two sections.

A2.1 The statement that the value and composition of the ECU will be identical with the value of the EUA at the outset of the system means that sterling will be included with other Community currencies in the ECU.

A3.1—A3.6 The UK is not participating in the exchange rate mechanism. Subject to the following, these paragraphs will not therefore apply to sterling.

3.1 contains a provision which would permit the UK to participate

at a later date if it wished. 3.2 provides for reciprocal consultation

3.1 contains a provision which would permit the UK to participate at a later date if it wished. 3.2 provides for reciprocal consultation about important decisions concerning exchange rate policy between countries inside and outside the exchange rate mechanism. At the end of 3.6 there is provision for a review of certain aspects of the exchange rate mechanism which would be a matter for the appropriate Community bodies, including the Council of Finance Ministers. The UK would therefore participate in that review.

A3.8 contains in its final sentence a provision which enables the UK to choose whether or not to deposit 20 per cent of gold and dollar reserves with the European Monetary Co-operation Fund against issue to us of a corresponding value of ECU's.

A6.1 refers to the Council Regulations which, with appropriate explanatory notes, are now before Parliament. Approval of these Regulations at the Community level is a matter for the Council of Finance Ministers. The European Council Resolution requests the Finance Council to consider these Regulations on December 18, 1978.

B3.1 and 3.2 describe a scheme of loans at subsidised interest rates which, within specific limits, would be made available to less prosperous member States of the Community participating fully in the EMS exchange rate mechanism. The loans would be those made by the European Investment Bank or as part of the so-called Ortoli facility. This facility will consist of loans raised in the market by the Community itself, but managed as regards appraisal of projects, administration, etc. by the European Investment Bank. The total of loans made available at subsidized rates would be up to 1,000 million EUA (about £670 million) a year for each of 5 years, with an interest rate subsidy of 3 per cent. The interest rate subsidy would however be limited to a maximum of 200 million EUA (about £135 million) a year for 5 years. These loans would be concentrated on infrastructure projects and programmes and should not involve any distortion, direct or indirect, of the competitive position of specific industries.

B3.3 provides that a less prosperous member country which joins the exchange rate mechanism later can then have access to these subsidised loans. It also provides that a state not participating in the exchange rate mechanism will not contribute to the financing of the scheme. In the case of the UK the effect would be that it would neither qualify for loans with an interest subsidy, nor contribute towards interest subsidies for others, so long as it was not participating in the exchange rate mechanism. □

[1] In the French language version this will appear as 'Ecu' in the singular and 'Ecus' in the plural.
[2] In the French text 'doivent'.
In the German text 'soll'.

Quotation of the month

'The pro-European strategy does not guarantee success, though it may be said that the anti-European position does not guarantee failure.'
New Statesman, December 1, 1978.

The month in Europe

NZ butter

Under Community rules, the UK can import 120,000 tonnes of New Zealand butter in 1979. If this is more than a quarter of total UK direct consumption, the surplus is supposed to be sold for processing by the food industry. However, as the Commission has just pointed out in answer to a European Parliamentary Question, this might simply raise difficulties for Community butter at present sold to the food industry, so the extra New Zealand butter continues to be sold through normal channels in the shops.

The Community's Council of Ministers has also agreed to reduce the levy on 17,000 tonnes of NZ butter and to pay the UK an additional 6p per lb subsidy on 51,000 tonnes of Community butter.

£215m for UK

The European investment Bank has just signed with the National Water Council a framework agreement to give favourable consideration to loans up to £210m, while at the same time granting a loan to £5m to the Grampian Regional Council.

UK's EEC exports up

Britain's exports to the rest of the Community rose by 5½ per cent in the three months ending October 1978, as compared with a 3 per cent increase in her imports from the rest of the Nine.

Jenkins in US

Commission President Roy Jenkins visited the US from December 1-17. In Washington he saw President Carter, Secretary of State Cyrus Vance, and other members of the Administration and the Congress.

Ecosoc in Glasgow

On November 21-23, a 25-man delegation from the Economic and Social Committee visited Glasgow, in particular to look at shipping and ship-building problems.

Flowers to Holland

The UK has developed an export trade in bulbs and flowers from small beginnings in the 1970s to £4.25m in the first nine months of 1978, according to Dr Keith Dexter, Director-General of the Agricultural Advisory and Development Service. One half of the bulbs and almost two-thirds of the flowers are exported to . . . the Netherlands.

NZ investment

Capital flows from the European Community to New Zealand have grown rapidly in recent years, according to the December 1978 issue of *New Zealand Quarterly,* from the NZ High Commission in London. Direct investment rose from $19.3m in 1967-8 to $105.1m in 1976-7; and total flows, public and private, over the ten-year period totalled $1,788.3m.

Europe and its money

Roy Jenkins on EMS

1979 will be the 10th anniversary of the decision taken by the Heads of State and Government of the Community to work towards an economic and monetary union. The progress which has been made since then has been disappointing, but the objective remains intact. We are now making our second major effort to move towards it through the establishment of a zone of monetary stability in Europe to be achieved through the creation of a European Monetary System. If we succeed we shall give our Community the most creative impulse since the first achievements after the signature of the Treaty of Rome; if we fail we shall risk not just a minor setback but the frustration of one of our fundamental purposes with all the political and economic consequences.

Florence

Just over a year ago I tried to set out in a speech at Florence the reasons for re-examining the case for economic and monetary union. I drew attention to the need for a more efficient and rationalized development of industry and commerce in Europe. I spoke of the so far unexercised ability of the Europeans to create a currency of their own, based on a spread of wealth and power comparable with those of the United States: in doing so I said that although I thought floating exchange rates were here to stay, they should be between continents rather than between the countries of Western Europe, all of which are intermingled in a thickly populated half continent, and nine of which are united in a common market and pledged to political and economic integration. I said that control of a single European currency by a single European monetary authority could achieve a measure of anti-inflationary discipline beyond the reach of most individual member States. I argued that policies which would favour stability and expansion, strengthen the demand on a broad geographical basis, and avoid exchange rate crises, would give a much needed new impulse on an historic scale to the European economy with the effect of reducing unemployment and creating new wealth throughout the system. I referred to the need for redistribution and transfer of resources within the system so that public finance could be channelled to poorer areas and the imbalances which continue to disfigure Community Europe could be counteracted. I called for decentralization in some fields to balance the centralization which would be necessary in a limited number of others. Finally I spoke of economic and monetary union as a means towards political integration and the ultimate European union to which the member States of the Community are committed.

Since then things have moved further and faster than I — or I think anyone else — thought possible. Perhaps I should single out two main reasons for this change of climate. The first is that people became better aware that the differential movement of European currencies against each other was making nonsense of the notion of a common market, and still more that of a Community, and indeed affecting the ability of national governments to run their own economies alone or with other members of the Community. Those countries in surplus, most strongly export oriented, found that decline in demand from countries in deficit held back their ability to stimulate their economies; while those in deficit were frustrated in their efforts to achieve higher growth by a succession of exchange rate crises. Hence in part the relatively poor productivity of Europe, and relatively poor rate of growth and the relatively high rate of unemployment, all of which stood in marked contrast with what had been achieved in Europe in earlier decades of relative monetary stability. The United States and Japan, subject to inter-continental but not to internal monetary upheavals, performed better.

Dollar weakness

The second major factor was the continuing weakness of the US dollar and the increasing precariousness of the international monetary system of which the dollar remains in practice, although not in theory (as under the Bretton Woods arrangement), the essential pivot. To keep some sort of system going and discharge their responsibilities in the common interest, the Europeans took in more dollars than they could conceivably want or need. This in turn had drastic effects on the ability of European governments to control their own money supply. In circumstances in which the world system was manifestly failing the Europeans not unnaturally felt that they should try to achieve some stability among themselves both for its own sake and in order to make a contribution to a new and better balanced international system in the future.

Essentials

The essentials of the scheme on which all agreed to work can be stated as the creation of an ECU (or European Currency Unit) at the centre of the system and as a means of settlement between Community monetary authorities; the depositing of reserves for use among Community central banks; the coordination of exchange rate policies with regard to third countries; and the eventual creation of a European Monetary Fund.

Some of the arguments which have taken place in and out of the Community institutions and between governments necessarily have a highly technical character. At the same time most cover points of underlying importance. First there has been the discussion about the choice of a *numéraire* for the new system. Second there has been discussion about the width of margins to each side of the *numéraire*, and the possibility of adjustment. The question of adjustment is more important. Any participant in the system must be able to change its central rate if its costs and prices move out of line with those of its competitors or if it has undergone a structural change in its balance of payments. It would obviously be contrary to the spirit of the whole enterprise if certain countries, in particular those with relatively high rates of inflation, availed themselves too often and too easily of the possibility of change and made no sustained effort to bring their inflation rates down to the level of their partners. Nevertheless some flexibility must be built into the system, and some of the fears which have been expressed about its absence seem to me ill-founded.

Reserves

Next there has been substantial discussion about the extent of the reserves on which members of the system can draw, and the conditions on which they could do so. Obviously the larger the credit facilities, the less they are likely to be called upon. The more you have the less you need. There is no economy more self-defeating and short sighted than to fail to provide adequate reserves.

The issues underlying the so-called technical points are obviously of great importance. But they must be seen in the wider context of our continuing and now more determined and successful efforts to bring about greater convergence in the economic policies of the member States of the Community. Any arrangement for the future which was exclusively monetary would be bound to fail. The economies of the Community are now moving along more parallel paths than was the case a few years ago. Their trade with each other is immense. But the differences between them are still substantial. Inflation rates vary considerably. Resources are not evenly distributed. Growth rates are different. Budgetary and fiscal policies are different as well, with each government naturally doing what it finds best for its country's particular circumstances and with only some regard for the interests of the Community as a whole. Clearly if the new European Monetary System is to be, in the words of Bremen, durable and effective, it must take account of the economic as well as monetary circumstances of each member State, and be matched by a still greater effort for coordination on the part of member governments than any have been willing to attempt in the past. The Commission has made a series of proposals for such coordination, and has emphasised — as I do again today — the need for such coordination to be seen in the framework of an eventual economic and monetary union.

Strengthening

The specific argument which has since arisen is over the phrase then accepted which said that there would be 'concurrent studies of the action needed to strengthen the economies of the less prosperous member countries', all put clearly in the context of the European Monetary System. This is obviously of crucial importance to those countries which are less prosperous, and I betray no secret if I place in this category Ireland, Italy and the United Kingdom. What action should be taken to strengthen the economies of these countries is still under lively discussion. Some have talked of the need to produce a more rational transfer of resources inside the Community than arises out of such existing Community mechanisms as the Community budget and the Common Agricultural Policy. Others have spoken of the need for extension and reinforcement of such Community instruments as the Regional Fund and the Social Fund. Yet others have spoken of special loans at favourable rates of interest arranged through the European Investment Bank or other mechanisms. None of these questions is settled. The debate about them has opened up some pretty fundamental questions about the functioning of the Community and the equity of its present mechanisms. This is all to the good. But I think we all recognise that the problems of this magnitude cannot be fully settled very quickly with a speed sufficient to meet the stringest timetable — desirably stringent — for the setting up of a European Monetary System. But settled they must be if we are to have a Community which genuinely represents the common interests of member States.

The interests of our member States are not in all cases the same. There is, for example, an obvious temptation for the existing members of the snake to conceive of a European Monetary System which would in many of its essentials be no more than the old snake writ large. There is another temptation to which my own country of Britain is subject: to see the system as yet another continental entanglement conceived in the interests of countries whose economic performance and problems are different from their own. My answer to those who would like the system simply to be a super snake is that it would simply be unworkable if it included, as it should, all or nearly all members of the Community. My answer to those who see it as a new entanglement in the interest of others is that first they should be less defensively suspicious (such suspicion has not served them well in the past); and second that if it should prove an entanglement it would mean that the system did not properly reflect the common interest and was for whatever reason badly designed.

International

The European Monetary System is in no way directed against the international system nor against the US dollar. The health of the dollar is essential to the health of the international system, and we greatly welcome the measures recently taken by President Carter to strengthen the dollar. At the same time we must face the fact that the Bretton Woods system as we knew it after the war has broken down, and that we must gradually seek some new arrangements to take its place. No-one has suggested that the European Currency Unit should take the place of the dollar for which a leading role in the international monetary system remains necessary and unquestioned. But it is possible to envisage a system in which responsibility is more widely shared and in which both the European Currency Unit and of course the Japanese yen would play a more important part. This is to look further ahead than is perhaps now easy to do. Today I want simply to emphasise that we live in one interdependent world and that what we plan for Europe must from the beginning be seen as something which does not conflict with but assists the interests of the world as a whole.* □

*A shortened version of an address to the Basle Society of Statistics and Political Economy.

Argument

The Community budget

Does Britain pay too much?

There have been various estimates of the scale of the United Kingdom's contributions to the EEC budget and the way in which the budget is spent. In fact:

☐ the total Community budget is less than 3 per cent of combined national budgets of the Nine;

☐ Britain's gross share of the budget broadly reflects the UK's share of Community GDP and amounts to about 2.6 per cent of UK governments expenditure;

☐ the subsidies on UK food imports (mcas) cost about £500m in 1977. If they were included on the UK account, Britain would be in credit for 1977;

☐ agricultural support would have to be financed in the UK if it were not funded by the Community budget. It could cost £1,000m annually;

☐ the latest calculations are based only on the 1977 budget and are therefore theoretical extrapolations;

☐ the European Commission is pressing for the budget to be better balanced to give more help to the less prosperous industrial regions of the Community;

☐ the cost per person in Britain for the gross contribution is about £12 a year. The cost of central government expenditure is about £800 per person.

UK contribution

Britain's gross contribution to the budget in 1978 is reckoned to be about £1,120m out of a total budget of £8,000m — a proportion of about 14 per cent. This roughly reflects the UK share of Community GNP. After taking into account receipts from Community funds, HM Treasury estimates that the net contribution will be about £660m. This amounts to less than one per cent of Britain's GDP and to about 2.6 per cent of central government expenditure.

It is not surprising that Britain's share of the budget is rising. It was agreed in the Treaty of Accession that the UK would gradually move to a full share by 1980.

The introduction of the basket European unit of account (EUA) instead of the gold-linked unit of account (ua) has also led to some increase, because it applies up-to-date exchange rates rather than a 1968 rate to budget contributions.

Balance

The Community's budget must be seen in the context of Community policies as a whole. It provides funds only for sectors where the Community has agreed to the principle of some central financing:

agriculture, regional development, training, aid to developing countries and research, for instance.

About 70 per cent of the 1978 budget was spent on agriculture. In this sector, virtually all national expenditure on farm support has been taken over by the Community budget, including the expenditure which would otherwise have been incurred in the United Kingdom for agricultural support.

Measures are now in train to reduce the cost of some aspects of the common agricultural policy.

Estimates

Some recently quoted figures for the UK's net contributions are hypothetical calculations taking the pattern of the 1977 budget with the allocation of funds in that year and projecting the figures forward to 1980, when the system of own resources will be operating in full. The calculations do not take account of certain factors which will affect the actual out-turn of the budget in 1980.

□Policy development

The Commission is pressing for changes in the balance of Community expenditure which will cut certain elements of the agricultural budget and increase spending in other sectors such as the regional and social funds.

□MCAs

Monetary compensatory amounts (MCAs) are paid to exporters in other Community countries selling foodstuffs on the British market. They are a benefit to British consumers and to the British balance of payments, since they make food available at lower prices than apply elsewhere in the Community. Because they are now paid to the exporter, they are channelled through the budgets of the exporting country and do not therefore reduce Britain's budget contribution.

For the purposes of the financial regulation (see below) these MCAs are to be taken into account in calculating the net contribution of member States. This was the principle accepted by all nine member governments for the purpose of calculations under the financial mechanism. If the MCAs payable in 1977 are set against Britain's budget contribution, that year's £416m net payment by the UK becomes an £84m net benefit. If the same figures are projected through to 1980, the net contribution of the UK would be less than half Germany's net contribution; with the UK at £306m and Germany at £686m.

□Financial mechanism

The 'financial mechanism' was published in the EEC Official Journal in May 1976 and is designed to protect member States whose gross contributions, according to various criteria, are becoming excessive. If Britain's contribution to the budget in 1980 triggered this mechanism, it could significantly reduce such deficit as might exist.

□Resources after 1982

The present sources of finance for Community policies will probably no longer be adequate after 1982 as expenditure rises and the real value of customs duties declines. The Commission has therefore sent a green paper to the Council of Ministers suggesting that a progressive system of budget financing should be studied, which would avoid aggravating existing economic disparities. □

Politics

EMS and the dollar

Christopher Tugendhat describes the background

One of the main reasons why the member States wish to stabilize the relationship between their currencies is that their nine national economies are now very closely linked to each other by ties of investment and trade. The USA provides the member States with their largest non-Community export market. But the Community itself is now a full Customs Union and for each of the member States much the most important export market of all is that provided by its partners. The United Kingdom now sends 36 per cent of her total exports to the rest of the Community, Germany 46 per cent, and France 51 per cent. For the smaller member States the figures are even higher.

In these circumstances of very high mutual dependence, the severe fluctuations of recent years in the relative value of the member States' currencies have combined with external pressures to cause major strains in their national economies, distorting monetary and fiscal policy and inhibiting investment.

EMS could, I believe, provide the Community's internal trade with similar, though obviously less complete, protection from the consequences of monetary turbulence; and in so doing would greatly assist the Community countries in their efforts to achieve sustained and inflation free growth.

It is of course very much in the United States' interest that we succeed in reviving growth in the Community because it will help the US to overcome her own balance of payments problems.

The EMS should also help to restore stability at global level, to the obvious advantage of all the world's trading nations. At the moment one of the main causes of instability in the world's currency markets is that speculators wishing to move out of dollars know that they can swiftly push up the value of the stronger European currencies, particularly the Deutschmark. However, speculators are less likely to be able to push up all the parities of an EMS together, and the incentive to sell dollars for quick profit would therefore be correspondingly diminished.

Recognising that an effective and sensible EMS is not only in the European but also the general interest, the American Government has publicly voiced its strong support for the Community's efforts to solve the technical and political problems that must be overcome. I would like, as a member of the European Commission, to express our appreciation of the Administration's constructive response. ☐