PO-CH/GH/0155
PART. A

SECRET

THE EUROPEAN
MONETARY
SYSTEM.

13-07-82
24-02-82

DD's 25JB N[illegible] 7/3/27

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REGISTRY SYSTEM

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13th July 1979

Dear Philip,

I enclose a submission from Sir Geoffrey Howe in his capacity as Master of the Royal Mint, seeking The Queen's agreement to the appointment of three new members of the Royal Mint Advisory Committee.

Yours ever,

M.A.H.

(M.A. HALL)
Private Secretary

The Rt. Hon. Sir Philip Moore, KCVO, CB, CMG.

Royal Household
Whole Document

The Master of Your Majesty's Mint, with his humble duty to Your Majesty, begs leave to suggest that Sir Peter Scott, CBE., DSC., Miss Elizabeth Frink, CBE., RA. and Professor Lionel Hale, FBA, be appointed members of the Royal Mint Advisory Committee, of which His Royal Highness, The Duke of Edinburgh, is President, and whose function is to give advice on the designs of Coins, Medals and Seals.

Geoffrey Howe

GEOFFREY HOWE

12 July, 1979

C – [illegible] [illegible] [illegible] [illegible]
70, 49, 56 Y.O [illegible] [illegible] [illegible] ?
MM 11/7.

MR HALL

ROYAL MINT ADVISORY COMMITTEE

Appointments to this Committee arise somewhat infrequently as there is no fixed period of membership. The established procedure is for the Deputy Master to make the necessary enquiries, including ascertaining that the persons selected would be willing to serve, and then advise the Chancellor accordingly.

2. Subject to the Chancellor's agreement the matter is then put before Her Majesty by the Chancellor in his capacity as Master of the Mint. The procedure seems to be for a submission to Her Majesty in the form of the draft attached to Dr Gerhard's minute to be sent under cover of a letter to the Queen's Private Secretary from the Principal Private Secretary.

3. There is no evidence that No. 10 is consulted on these occasions. Incidentally there had apparently been a feeling for some time that there should be a woman on this Committee and the present list of appointees includes one. We are content for the advice on these appointments to be left to the Royal Mint.

No doubt correct.

4. I should be grateful for copies of the formal correspondence in due course for our files.

C. Ward

C WARD
11 July 1979

PS/Master of the Mint

ROYAL MINT ADVISORY COMMITTEE

It is necessary to appoint three new members to the Royal Mint Advisory Committee to replace members who have recently retired. Attached is a note on the Committee.

I have consulted Prince Philip as President of the Committee, who agrees that it would be desirable to appoint an expert on natural history and two representatives of informed public taste including, if possible, a woman. The following new members would be acceptable to Prince Philip and I recommend that they be appointed:-

Sir Peter Scott
Miss Elisabeth Frink, CBE RA
John Rigby Hale, Professor of Italian.
University College, London

I attach notes on each.

Members of the Committee are appointed by The Queen on the advice of the Master of the Mint. If the Master of the Mint agrees with the foregoing nominations, he is advised to make submission to The Queen in the terms of the attached draft.

J G

Deputy Master, Royal Mint
6 July 1979

Royal Household

ROYAL MINT ADVISORY COMMITTEE

The Royal Mint Advisory Committee is a standing committee which advises the Royal Mint on the design of coins, medals, seals and decorations.

Members are appointed by the Sovereign on the recommendation of the Chancellor of the Exchequer in his capacity as Master of the Mint. They are intended to act as representatives of informed public taste as well as in some cases providing specialised knowledge in, for example, heraldry.

There is no fixed term of office nor any fixed number of members, the present membership being:-

HRH Prince Philip, Duke of Edinburgh (President - who normally presides at meetings)
Dr D J Gerhard, Deputy Master (Chairman)
Sir John Betjeman
Mr Milner Gray
Sir Robin Mackworth Young
Mr John Porteous
Dr C H V Sutherland
Sir Anthony Wagner
Sir Hugh Casson
Mr Will Carter

The Committee was set up in 1922 with the approval of King George V. At that time there was concern about the poor quality of numismatic art and it was felt that the Deputy Master ought to be supported by the advice and assistance of an independent committee.

The Committee's role is strictly advisory in relation to the UK coinage and new UK designs are submitted by the Master of the Mint to the Queen for approval. The Committee also considers overseas coin designs when invited to do so by the Royal Mint.

Members of the Committee are unpaid but expenses may be reimbursed although normally no claims are made.

The Committee generally meets once or twice a year but when a new design is being considered for the UK coinage meetings would be more frequent.

The National Archives

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HMHF 019/01

Royal Mint

7 Grosvenor Gardens, London SW1W 0BH Telex 886

R W GRAVENOR
Commercial Director

25t

TREASURY
30
HF

M A Hall Esq
Private Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Mr Hall

ROYAL MINT ADVISORY COMMITTEE

In the Deputy Master's absence on leave, I thank you for your letter of 13th July and the subsequent copies of The Queen's approval of the nominations.

We shall of course take due note of The Chancellor's comments in selecting persons for future nominations.

Yours sincerely

R W Gravenor

R W Gravenor
Commercial Director

THE QUEEN'S AWARD
FOR EXPORT ACHIEVEMENT
1977

ROYAL MINT

90/19/01

1. PS/Minister of State (Mr. Rees)
2. PS/Master of the Mint

Royal Mint : Non-Executive Directors

At his meeting on 6th May the Master of the Mint agreed that we should work out detailed proposals for the appointment of non-executive directors to the Royal Mint Management Board.

Reorganisation of the Board's Business

2. At the present time the Board meets every four weeks to consider a wide range of monitoring data, to settle policy issues and to deal with a variety of housekeeping matters (e.g. security). The Board is comprised of the Deputy Master, Commercial Director, Production Director, Finance Director and Sales Director - all full-time executives.

3. To accommodate the appointment of non-executive directors the main performance reviews and principal policy issues would have to be separated from the more mundane business. This could be done by reorganising the Management Board around five meetings each year, supported by an Executive Board which would meet every four weeks. The reconstituted Management Board would consider:

- Quarterly trading results.
- Major Policy issues.
- The corporate plan.
- The annual report and accounts.
- Any management letters from auditors.

4. The non-executive directors would have a general right of access to the Royal Mint and its affairs, and would be available for consultations.

Terms of Appointment

5. Non-executive directors would be appointed by the Master of the Mint for a period of 3 years. A fee would be available, subject to the approval of the CSD, and agreed expenses would be paid by the Royal Mint.

6. The letter of appointment would make it clear that the non-executive directors would have the right of direct access to the Master of the Mint should they consider that the Management Board, or the Deputy Master personally, were unreasonably ignoring

Cont..

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CLASSIFIED APPOINTMENTS IN CONFIDENCE

ROYAL MINT

9

TREASURY
HFS SPA
25 NOV 1980
H.F.C.S.

Mr. R. I. Tolkien
PS/Master of the Mint

cc Mr. W. S. Ryrie) Treasury
Mr. C. Ward)
Mr. R. W. Gravenor-Royal Mint

Non-Executive Directors

It is something of a compliment to the Royal Mint that the two preferred candidates as non-executive directors, Dr. Berry and Mr. Davies, have indicated that if invited they would accept enthusiastically. The way is, therefore, open to extend a formal invitation and I attach a draft. The key points to be made are:

(a) The appointment would be for three years in the first instance.

(b) The appointment to take effect from 1st January next.

(c) Five meetings a year would be involved.

(d) The non-executive directors would have right of access to the Master of the Mint - but I think this might be balanced by a reference to the Royal Mint having proposed their appointment in the first place.

I can settle such matters as the fee and expenses in subsequent correspondence. On the former Dr. Berry and Mr. Davies are very willing to accept the meagre fee of £1000 p.a. sanctioned by the Civil Service Department.

DG

D. J. Gerhard
Deputy Master
10th November, 1980.

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N F C S D/A

Mr. R. I. Tolkien
PS/Master of the Mint

cc Mr. Ryrie)
Mr. ~~Ward~~) Treasury
Mr. Gravenor - Royal Mint

Non-Executive Directors

You will see from the attached copies that both Dr. Berry and Mr. Davies have formally accepted the invitation to serve as non-executive directors on the Royal Mint Management Board. I will initiate the necessary follow up action.

It occurs to me that the Master of the Mint might like to meet Dr. Berry and Mr. Davies over lunch here at Grosvenor Gardens. If so we will attempt to agree a date early next year. Perhaps Mr. Ryrie would like to join us?

DG

D. J. Gerhard
Deputy Master
24th November, 1980.

ROYAL WORCESTER SPODE

From the Chairman's Office

Please Reply to
Royal Worcester Spode Ltd
Tonyrefail
Porth
Mid Glamorgan CF39 8YW
Telephone 0443 670666
Telex 498534

21st November 1980.

The Rt. Hon. Sir Geoffrey Howe, QC., MP.,
Master of the Mint,
Royal Mint,
7 Grosvenor Gardens,
LONDON. SW1W OBH

Dear Sir Geoffrey.

It is with a great deal of pleasure that I acknowledge your very kind invitation of 14th November 1980 to join the Royal Mint Management Board as a non-executive director. Without hesitation and with a sense of privilege I accept.

I am looking forward very much to making a real contribution to the management style and discipline of the Royal Mint, and accept in total the responsibilities of a non-executive director under the Chairmanship of Dr. Gerhard.

Yours sincerely.

The National Archives

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cc Mr Ryrie
Mr ~~Ward~~
Mr Gravenor - Royal Mint
Miss Birnie

Dr GERHARD - ROYAL MINT

HFCSPA

NON-EXECUTIVE DIRECTORS

The Chancellor would indeed like to meet Dr Berry and Mr Davies over lunch at Grosvenor Gardens some time in the New Year. Mr Ryrie would like to accompany him. Miss Birnie will be getting in touch about suitable dates.

2. The Chancellor has asked me to take this opportunity to thank you for sending him a copy of your 1980 Annual Report and to congratulate you on your results for that year.

R.I.T.

R I TOLKIEN
27 November 1980

PA - copy to Miss [illegible]

Reference Royal Mint Advisory Committee.

Hansard 28 11 80

WA 284

Royal Mint

Mr. Wheeler asked the Chancellor of the Exchequer who are the present members of the Royal Mint advisory committee; when this committee last met and what items were under discussion; how often the committee has met in the last five years; what is the attendance record of members; and what is the annual cost of the committee both in the current year and during the previous five years.

Sir Geoffrey Howe: The members of the Royal Mint advisory committee are at present:

His Royal Highness the Duke of Edinburgh (*President*)
Dr. D. Gerhard, Deputy Master and Comptroller (*Chairman*)
Sir John Betjeman, CBE, C Litt
Will Carter Esq.
Sir Hugh Casson, MR, PRA, RDI, FRIBA, FSIA.
Miss E. Frink, CBE, RA
Milner Gray Esq, CBE, RDI, PPSIA, AGI
Professor J. R. Hale, FBA
Sir Robin Mackworth-Young, KCVO
J. Porteous Esq.
Sir Peter Scott, CBE, DFC
Dr. C. H. V. Sunderland, CBE, D Litt, MA, FBA
Sir Anthony R. Wagner, KCB, KCVO, D Litt, MA, FSA

The Committee last met on 12 June 1980. Matters under discussion at meetings are considered to be of a confidential nature and it is not appropriate to publish details. The committee has met nine times during the past five years but some work is conducted by post. Members of the committee give their time voluntarily, and it is not therefore, in these circumstances, considered appropriate to reveal details of attendance records. The costs of the committee, both in the current year and in the previous five years, were negligible.

CODE 18-78

Reference..

Royal Mint Advisory Committee.

Hansard. 5·12·80. WA - 356.

Mr. Wheeler asked the Chancellor of the Exchequer, pursuant to his reply to the hon. Member for Paddington on 27 November on the Royal Mint Advisory Committee, what is the role and function of the committee.

Sir Geoffrey Howe: The Royal Mint Advisory Committee was set up in 1922 as a standing committee, with the approval of His Majesty King George V, by administrative Act of the then Chancellor of the Exchequer in his role as Master of the Mint. It advises the Royal Mint on the design of coins, medals, seals and decorations.

There were two reasons for establishing a standing committee:

1. the then poor quality of numismatic art;
2. it was felt that the deputy master, as a permanent civil servant, ought to be supported by the advice and assistance of an independent committee.

Members are appointed by the Sovereign on the recommendation of the Chancellor of the Exchequer in his capacity as Master of the Mint.

CODE 18-78

S E C R E T

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister 2.
You said that this should go to OD, but you first wanted to discuss with the Chancellor, the Governor and the Foreign Secretary. Shall I -
i) send copies to the Governor and Lord Carrington
ii) arrange a meeting for as soon as the Chancellor returns from Belgrade?
(Perhaps I could do this and then return the paper to you for w/end reading).
TL 25/9

PRIME MINISTER

Yes please

EMS

The letter of 12th July from your Private Secretary to mine set out the procedure you wished us to follow for considering further our position on the EMS.

2. I now attach a paper which has been prepared after meetings at which the Cabinet Office, FCO, Departments of Trade and Industry and the Bank of England were represented under Treasury chairmanship. As you proposed, it has also been discussed in a meeting of Permanent Secretaries under Sir John Hunt and some changes have been made in the light of that.

1 copy to MOD/BA

3. You will wish to consider when we should discuss this paper. I would then like to circulate it under cover of a short note of my own. Our experience with the Belgians last week shows that the question of our position on the EMS is likely to come up with increasing frequency in the weeks ahead; perhaps the next really important stage will be at your bilateral meeting with Chancellor Schmidt at the end of October.

4. I am copying this letter at this stage only to Sir John Hunt.

(G.H.)

24 September 1979

S E C R E T

THE UK AND THE EMS

Form of Paper

1. The first part of this paper (paragraphs 2-10) is a brief history of the EMS and description of the present UK relationship to it. The second part (paragraphs 11-43) identifies and discusses three main issues which Ministers will wish to consider in deciding whether to put sterling fully into the EMS. They are first, the international monetary environment and its bearing on managing sterling in the EMS; second, the relationship of EMS obligations to domestic economic policy, especially to the money supply and thirdly, the Community factor - the significance of the EMS for our relations with the Commun ity. A final part of the paper (paragraphs 44-52) deals with certain specific questions which require a Government view, or would require a decision if Ministers decided to join the EMS: the relationship to the budget problem, the present low-key review of parts of the EMS, the question of "travelling alongside" and the possible use of a 6% margin. The conclusions list the options which we think are effectively open to the Government and also lists again the main considerations bearing on the choice.

HISTORY OF EMS AND PRESENT UK POSITION

2. The European currency system which became known as the "snake" began to operate on 24 April 1972. For the then six members of the EEC it linked currencies with 2¼% margins and was seen as part of the movement towards European Monetary Union. Britain joined the "snake" in May 1972 but left again after 6 weeks. France left in 1974 and again, after a second period of membership, in 1976. Italy, Sweden and Norway also had periods of membership or association, but felt obliged to leave in periods of balance of payments difficulty. By 1977/78 the "snake" consisted of Germany and the smaller countries economically closely linked to her - Benelux and Denmark.

3. In 1978 several economic and political factors combined to give rise to proposals for a European Monetary System. The Germans were concerned about the upward pressure on the German mark produced by a weak dollar; and felt that it could be mitigated if the mark formed part of a larger block less readily moved by dollar weakness. That would protect German competitiveness and make for more currency stability in Europe, which accounted for more than half of German trade. President Giscard was a believer in fixed rates and their value as a counter inflationary discipline to the French economy. Other factors were some general disenchantment with floating exchange rates, a distrust of the future of the dollar and a desire to restore momentum to European integration.

4. The discussion between April and December 1978 for the formation of the EMS, on the basis of an outline agreed between Chancellor Schmidt and President Giscard, repeated elements of earlier arguments in the IMF about the operation of fixed exchange rate systems. The potential new members (France, the UK and Italy) argued that the system should be constructed so as to place on the strong members (ie Germany) an obligation to play a full part in keeping exchange rates together through domestic policy measures and intervention; and that if all the

obligation fell on weaker members, the effect would be deflationary. The Germans resisted what they regarded as inflationary proposals. The UK, Italy and Ireland also argued for better treatment of the weaker member countries through the Community Budget. They said this was necessary to the "convergence" of EEC economies without which such an exchange rate system would not succeed.

5. As agreed in December 1978 the EMS included the following elements

i. a parity grid of exchange rates with $2\frac{1}{4}\%$ margins as in the snake, but with a 6% option for new members (France, Italy, UK, Ireland);

ii. within the parity grid, a "divergence indicator" which could lead to policy measures when a currency was diverging significantl from its partners. Divergence is measured against a basket of Community currencies (the ECU);

iii. enlarged short term and medium term credits to assist intervention and balance of payments adjustment;

iv. a revolving swap of reserves against ECUs, which would then be the unit for accounting between EMS central banks.

There was provision for creating a European Monetary Fund after 2 years with a full transfer of reserves, further development of the ECU and absorption of existing credit arrangements.

6. The "divergence indicator" was the main concession in the working of the exchange rate mechanism to the arguments of the "candidate members" described in paragraph 5. Its working has been reviewed this autumn. Such imperfections as the review has revealed have not been considered sufficient to justify any changes in its mechanisms, at least on the basis of experience so far. It is not clear that the indicator has so far had any notable extra effect in triggering policy reviews.

7. Italy and Ireland reserved judgement at the December 1978 European Council but agreed to join the EMS shortly afterwards when given certain assurances about resource transfers. Italy alone used the 6% margin. France delayed the start of the EMS from January 1979 until 13 March 1979 by seeking assurances about "green rate" changes in countries whose currencies appreciated within the EMS ie Germany. A specific assurance was not obtained. The then UK Government decided not to participate in the EMS exchange rate arrangements on the ground (as Mr Callaghan said to the House of Commons) that they were too "close to the original snake" and that "it would be imprudent to join the exchange rate mechanism" when the EEC economies had in recent years not converged.

Present UK Position

8. The UK already has links with the EMS:-

i. sterling is included in the European Currency Unit (ECU);

ii. we participated in the EMS expansion of the Community medium term credit;

iii. we are entitled to join the exchange rate arrangements at any time under the conclusions of the December 1978 European Council;

iv. there is provision for mutual consultation on changes of exchange rate policy between ourselves and full EMS members;

v. at the Strasbourg European Council in June 1979 the Prime Minister announced that we would participate in the "swap" of reserves for ECUs. She made it clear that this was without prejudice to our decision on the EMS exchange rate mechanism, but reflected our interested in the development of the ECU and the European Monetary Fund;

vi. we participate in Community discussions about the closer co-ordination of economic and financial policies which is intende to provide the underlying conditions for the successful operation of the EMS.

9. On 26 June the Prime Minister said in answer to a Supplementary Question in the House that we should not make a final decision on whether to join the EMS for some time. She made a reference to the review of the EMS "divergence indicator" after 6 months working which was scheduled to begin in September, saying that "we would be in a position to make some preliminary observations when this matter was dealt with again in September".

10. On 16 July the EEC Finance Council agreed that the review should be conducted by the Monetary Committee and Committee of Central Bank Governors in an "undramatic way" and should be limited in scope. The review has now been terminated by the Finance Council on September 17. This was primarily at the instance of the Germans. They argued that, since the specialist committees in Basle and Brussels had reported that, on the basis of experience so far, there was no need to change the mechanisms of the system, and since the markets appeared to be nervous in expectation of some change, it would be advisable to express satisfaction at the Committee's reports and to declare the review completed. Although the UK expressed doubts, the participants all decided to approve the German proposal. The conclusion of the review (though it was only of "certain aspects" of the EMS) could be said to remove one answer to those who might press for an early decision on whether or not the UK will join. But the mere conclusion by the participants that, on experience to date, the mechanisms do not at present need to be changed does not in itself greatly affect the more fundamental considerations underlying the UK's choice.

THE MAIN ISSUES

11. The main considerations raised for the Government by the decis
whether or not to join the EMS exchange rate mechanism are:

i. first, whether an attempt to hold sterling to a fixed but adjustable rate (within a 2¼% or even a 6% margin) is like to succeed in the present international monetary environment. This includes the special problems of sterling as a "petro-currency". ("The International Monetary Environment");

ii. second, how far there is a conflict between giving priorit to an exchange rate target and the present economic policy of the Government, with the priority it gives to control of the monetary aggregates. ("Relationship to Domestic Economic Policy");

iii. thirdly, the relationship between our decision on the EMS and the whole complex of our relations with our partners in th EEC. This includes the clarity of our political commitment to the Community and any impact on the argument about our net budgetary contribution. ("The Community Factor").

The following paragraphs examine these in more detail.

THE INTERNATIONAL MONETARY ENVIRONMENT

12. This section discusses the situation and prospects of the dollar, the EMS group of currencies and sterling as the main factors bearing on our ability to manage sterling in an EMS fixed but adjustable system, and on the likely costs of doing so.

13. There have been two important policy moves towards greater exchange rate stability in the past 12 months. The first was the change of policy by the US on 1 November 1978 towards a much more deliberate effort to maintain the value of the dollar, enlisting at the time German, Japanese and Swiss help. The second was the establishment of the EMS, which has now functioned for 6 months witho[ut] major crisis or realignment.

14. Nevertheless, because the world economic situation, including oil supply and price, is uncertain, the foreign exchange and gold markets remain uneasy and volatile. The dollar, as the principal reserve and trading currency, reflects these uncertainties as well as the uncertainties of US domestic policy. Movements of the dollar affect both sterling and the present EMS.

15. The key dollar-deutschemark rate moved from 1.73 (marks to the dollar) in October 1978 to nearly 2.00 (+ 16%) in November 1978. After 1.81 in January 1979 and 1.92 in May it was again at 1.81 (10% below the peak of 2.00)on 7 September. The scale of exchange market intervention remains large. Central bank purchases of dollars were \$33 billion in 1977 and \$36 billion in 1978. In the first 5 months of 1979 the 7 most important countries sold \$19 billion net and in June and July they bought about \$11 billion. It is the scale of intervention involved in limiting currency movement which makes it important for money supply and credit conditions in the countries whose currencies are involved in it.

16. There will be factors operating in both directions on the dollar in the next 12 months. The US economy may move into recession; interest rates could be held tight or tightened; the real oil price might fall a little; the US current account deficit may be reduced. These factors could produce some dollar recovery. On the other hand inflation remains high; an election in 1980 may inhibit tough policies and create uncertainty; there could be more trouble over oil supply and prices, or disturbance in the Middle East; and Saudi Arabia could decide to sell its surplus dollars for other currencies instead of investing them in dollars. The most one can say is that change is at least as likely as stability.

17. The EMS has been influenced by the fortunes of the dollar and German reactions to them. In March, April and May when the dollar was firm the Germans sold dollars in order to hold up the mark and reduce domestic money supply, offsetting 1977/8 dollar purchases. By holding up the mark this policy put strain on the weaker EMS currencies.

when the dollar weakened in June the Germans began to buy dollars, but they also put up domestic interest rates, enforcing similar interest rate increases in Denmark, Holland, Belgium and France.

18. The Danish krone and Belgian franc have come under pressure on several occasions and there have been rumours about realignment, but this has so far been resisted by intervention and domestic policy measures. France has not wished to see any early realignment, no doubt partly because any change might raise questions about the French franc. All 3 countries have complained that the Germans have paid too much attention in their dollar intervention and interest rate policies to countering domestic inflation and not enough to obligations to other EMS members.

19. We cannot be sure how smoothly the EMS will operate later this year and in 1980. It is likely that after 9 months or a year market expectations of a realignment will grow stronger, if only because of the inflation differentials between partners. That could lead to speculative pressures. But the performance of the dollar is likely to be important. If it moves sharply in either direction there are risks to the EMS because the impact on EMS member currencies is likely to differ. Again, the German reaction to such movements, and German monetary policy generally, could be critical.

20. Despite the recent dip in the market, sterling retains most of the strength that has been manifest since March as a result of international oil developments and of the Government's monetary and fiscal policies. There might have been some check to this rise if we had been EMS members from 13 March 1979. But even with such a check, it is likely that we should have reached either a 2¼% or a 6% limit within a few weeks. We would have had to intervene to hold the exchange rate and accept the risks to the monetary targets and to inflation; or there would have had to be an early realignment of rates, which our partners would have regarded as unwelcome so early in the scheme. They would also have criticised us if we had made an interest rate increase like that announced in the Budget. Indeed, it is very possible that we should have had to take a congé, or temporary period of leave, from the EMS.

21. Sterling tends to be a more exposed currency than any in the EMS other than the deutschemark because it is still widely used in trade, because of London's importance as a financial market and because as a currency it is easily accessible. It has been a relatively volatile currency recently. For example, in 1978 the sterling-deutschemark rate fell from 4.10 in January to 3.70 in October (-10%); by July 1979 it rose to 4.13 (+12%). In the next few months sterling will be exposed to a number of special uncertainies. They include the oil situation; the impact on the economy of the new monetary and fiscal policies of the Government, which will take time to show their effects; and also, very importantly, the effects after 40 years of control of the exchange control relaxations already announced or in prospect. In addition, the markets will watch closely the development of pay increases during the winter.

22. Taking the international monetary environment as a whole, it is difficult to be confident that the next 12 months will be a period of relative stability for the dollar, for the EMS or for sterling. There are sets of circumstances which could make that 12 months more stable than the last - a quieter period on oil prices, some dollar recovery, smaller balance of payments differences between major countries. But plenty of other scenes are possible.

RELATIONSHIP TO DOMESTIC ECONOMIC POLICY

The essence of the EMS exchange rate mechanism is that it requires certain exchange rate objectives to be maintained at least until the members of the system agree that they should be changed. This implies a high priority for exchange rate policy, and some subordination of other policy objectives to it.

Benefits of the EMS

24. The possible benefits of such a policy can perhaps best be seen through the eyes of present members of the EMS. There is first a general benefit of greater stability which is seen as helpful to business confidence, especially for small firms. Much of industry in the UK would also see benefits in greater stability. It means greater predictability of returns and greater stability of profits if significant exchange rate changes happen only every year or two years. A more stable profit level may make credit easier to obtain. These are helpful factors, even if long term investment decisions still have to cope with the likelihood of relative exchange rate changes.

25. However the costs and benefits of exchange rate stability are different for Germany and for most of her EMS partners. For Germany the trading and industrial benefits of stability in the EMS are reinforced by benefits to competitiveness, and her objective is naturally to get these benefits with least damage to her inflation rate. Her currency is held down, those of her partners are held up, and the system requires the partners to join through intervention and domestic policy in achieving this result. Germany gets greater exchange rate stability in her most important trading area. But there is an inflation cost through a lower mark rate, more intervention, the giving of more credit and pressure to relax domestic policies.

26. For most other partners the benefits lie in countering inflation. This is how Holland, Denmark, Belgium and France see it. For them there is a price in lost price competitiveness in keeping their exchange rates higher than would otherwise be the case. But all these see the system as a counter-inflationary discipline imposing restraint on other policies and for several of them indexation of pay and benefits much reduces the competitive gains from devaluation.

27. On entering the EMS the UK could look for the benefits of stability for industry described in paragraph 24. In addition, at different times the UK might see advantage in holding its rate down for competitiveness or holding it up to counter inflation. If this were so, it could try to do this unilaterally and remain free to change policy at any time; or it could enter the EMS in order to carry more conviction because that would make the commitment more permanent and because we could seek help from our partners in holding our rate. We could not expect to gain much "advantage" in either direction on first joining the EMS because our starting rate would be agreed with our partners, but the system could act as a drag on our rate in either direction over a period. The first question this raises is however whether a fixed exchange rate can be held, with periodic agreed adjustments, in the volatile world described in the preceding section, and with a currency as volatile as sterling has recently been. The second question, discussed in the next section, is how far there is a potential conflict with present economic policy.

The Exchange Rate and Money Supply Targets

28. Joining the EMS could produce a conflict with the Government's approach to combating inflation through strict adherence to money supply targets and a progressive reduction in monetary growth.

29. Small self-balancing exchange market interventions are not likely to create serious problems for money supply targets, but they presuppose a rate which is naturally stable, perhaps in a rather stable world environment. That is not the situation of sterling. Large scale net intervention in either direction (like any unpredictable capital flows) makes it difficult to stick to a pre-stated monetary target. The scale of its effects on the money supply is uncertain and it is rarely possible to bring about adjustments in domestic monetary conditions to compensate in such a way that the target is met. The effect of gaining greater exchange rate stability in these circumstances is to push the instability back into the money supply. The possibility of meeting a target rather than overshooting or undershooting it is correspondingly reduced.

30. Substantial intervention to hold sterling down so as to keep within an EMS margin would almost certainly inflate our money supply.

The essence of this case is that we are creating (ie printing) sterling in order to sell it and thus making it cheaper by making it more plentiful. The effect is much the same as an increase in the PSBR: the intervention is in fact financed by borrowing from the National Loans Fund. After a while the extra sterling so created tends to find its way into the UK credit base. The previous Government changed its intervention policies in the autumn of 1977, and again to a lesser extent in the spring of 1979, because they considered that intervention was making it difficult to meet monetary objectives.

31. This has also been the experience of Germany and Switzerland. It was the classic German complaint in the three or four years before the dollar was floated in 1973 that the obligation on Germany to buy dollars at a fixed over-valued rate forced her to import inflation. More recently Germany has had a rate of monetary growth in the 11% to 12% range (much in excess of target) during the period of heavy intervention from mid 1977 to end 1978. Switzerland was obliged to abandon her monetary target altogether when she decided in 1978 to intervene massively to hold down the Swiss franc.

32. The other possibility is that we might need to intervene heavily to hold sterling up in order to keep within EMS margins. The direct effect of that would be to reduce the growth of the money supply. We would be using our foreign currency reserves to buy back sterling (and repay the National Loans Fund).

33. However the monetary consequences of intervention to defend a rate against heavy attack may differ from those where intervention holds up a rate which is not under severe pressure. The Germans sold large amounts of dollars in the spring of 1979 to hold up their rate and reduce their money supply. But they were not at their EMS margin. Intervention when downward pressure is heavy becomes unpredictable (it is not part of policy to undershoot a monetary target any more than to overshoot it). And if the market concludes that a devaluation is inevitable, holding a fixed rate can encourage speculators by offering them a one-way option. If then people borrow sterling in order to

eculate against it, that borrowing inflates the money supply. The reserves are used to buy back sterling created by our own banking system. Companies can lead and lag, and back this by extra resort to bank credit. This happened to the UK in 1976, and can become an important offset to the monetary contraction normally associated with selling reserves.

34. It may be argued that the conflict between money supply policy and a fixed exchange rate can be greatly mitigated by taking full advantage of the ability to change central rates which is an integral part of the EMS. But the EMS does not provide for, and could not work with, unilateral changes of rates. Frequent realignments are expressly not welcome because they undermine the stable currency zone and diminish exchange rate discipline on domestic policy. Rates tend to move together after countries concerned have put up a fight to defend their rate, and with due regard to the effect on competitiveness. Appreciation may be somewhat easier than depreciation in the system but the inhibitions on the frequency and timing of movement still apply. We cannot expect special terms on this point. The Italians wanted a "crawling peg" system. The answer to them was a 6% margin and we would no doubt get the same answer.

35. So long as strict adherence to monetary targets is an important part of Government policy, the risk of conflict with an EMS fixed rate obligation remains. However, this need not mean that the UK must remain indefinitely in a state of isolation from the exchange rate arrangements in the system, if, for example, there were a period of greater natural exchange rate stability and as it becomes clearer that the Government is succeeding in its monetary objectives.

The Exchange Rate and Community Economic Integration

36. There is an important argument that EMS membership obliges Community partners to align their domestic economic policies over a period and thus contributes to the closer economic integration of the Community.

37. It is certainly part of present Government policy to aim to match German rates of inflation and ability to compete, and generally to

enable the performance of our economy at least to match the Community average. The question is whether, given our starting point, entering an exchange rate system like the EMS in the near future would help us t do so. The Government have taken the view that the right way to make progress, given our inflation rate and the weakness of the supply side of our economy, is through strict control of the money supply and the restoration of market disciplines. There has been much acceptance of this economic approach by our Community partners, especially Germany. But under these policies the exchange rate responds to the money supply objective and is an instrument of it, whereas in a system like the EMS money supply control tends to be an instrument for supporting an exchange rate objective. We are back to the potential conflict of objectives discussed in earlier paragraphs.

38. It may be asked: why cannot we now accept the EMS if our 8 partners can, most of whom give a high priority to countering inflation? From an economic standpoint, the answer is probably that their situations differ. Germany can afford to pay some inflationary price for a major trading and political benefit. The circumstances of the smaller countries (some of whom are now in difficulty) are not comparable with ours. France is the most comparable case to the UK, though with a stronger industrial economy and a less exposed currency. It is too early to say how she will fare in the EMS : she left the "snake" twice.

39. As to the UK, it can certainly be argued that the implication of the Government's present economic policy is that we should apply the present policy strictly, especially in this first stage, in order to make progress on "the fundamentals". If this argument is right we would make better progress towards economic integration with Europe by reducing the inflation differential first than by an early linking of exchange rates.

THE COMMUNITY FACTOR: RELATIONS WITH THE EEC

40. Joining the EMS in full would obviously be seen as a significant step in reaffirming our commitment to the EEC. Our joining would be welcomed politically, especially by Germany, Italy, Benelux and Denmark, and might help some of these countries to justify in domestic political terms their share of the cost of resolving our budget problem. Conversely, our standing aside is often represented as casting doubt on our commitment to the EEC, and this doubt would clearly be intensified if we were to go so far as to declare an intention not to join (as distinct from saying "not now, but later").

41. This does not mean that we are not free to choose the moment when to join or that we are under special pressure to do so immediately. Present indications are that a number of countries would prefer us to wait for a moment to join when there was less risk that we would disrupt the system. They are very conscious of the existing pressures on it and of the strength and volatility of sterling.

42. This situation could change if the dollar stabilised and the pressure on oil prices abated; and if sterling also looked stable. However, when assessing the stability of sterling, some of our partners will look not only at the international oil and monetary situation, but at the industrial and pay situation in the UK during the coming winter. So there may be uncertainty until the end of the year or beyond.

43. It is clear, at all events, that unless or until circumstances change radically we should be careful as a minimum not to rule out eventual full membership for the UK, and should keep the question open. And we should also be careful to continue to make it clear that we wish the system well.

SOME SPECIFIC QUESTIONS

Relationship to our EEC Budget Problem

44. Given their present cautious attitude to our early membership of the EMS, it seems unlikely that the majority of our partners would want to link the solution of our budget problem with our full participation in the EMS. Attempts might be made in various ways to use the question as a debating point or delaying tactic, or perhaps even as an excuse for not making concessions which those concerned were determined to refuse anyway. But if there were such manoeuvres it ought to be possible to deal with them.

45. If nevertheless, on a balance of all the considerations, the Government decided to join by about the end of the year, we would obviously want to get all the leverage we could out of this decision in the budget context. Joining would not negative any of the particular arguments which our partners are likely to use against us on the budget and would not change the real interests in the debate. Its real bargaining value is therefore likely to be limited. Its contribution would be to the general atmosphere, mainly perhaps in the Benelux countries and Denmark: one or two of them might see our entry as an opportunity for an EMS realignment which they see as desirable or inevitable.

46. Joining would also enable us to argue for interest rate subsidies like those extended to Ireland and Italy. This would be unlikely to make more than a modest contribution to our budget problem however and we shall need to go on arguing that the loans themselves do not score at all for that purpose.

47. If the Government decided against early adherence, it would be important to state our position in terms most helpful, or least damaging, to our budget case. The line could be that we were for the moment exposed not only to the uncertainties of a "petro-currency",

but also to the exchange rate effects of the Government's radically new structural approach to the UK economy. That included the relaxation (perhaps abolition) of exchange controls in accordance with our Community obligations, after 40 years of tight control. We hoped that the new policies would bring us before long to the point where we could join the EMS with advantage to ourselves and our partners, but we had first to let sterling settle down to a level which reflected the new situation and where we could reasonably look forward to greater stability. It seems likely that in present circumstances this line would be accepted by our partners, especially if explained to them (notably to Chancellor Schmidt) in advance of the Dublin European Council.

48. Our partners might become more interested in early sterling membership of the EMS if the currency situation became more stable. One would have to look at all the circumstances at the time to assess the implications of that. At present however it seems best to assume that going beyond the formula in paragraph and announcing early adherence to the EMS would not have a really important bargaining value on the budgetary issue.

Travelling alongside

49. One possibility mentioned at Strasbourg is that we might behave for an experimental period as if we were in the EMS exchange rate mechanism (either at 2¼% or 6%) without actually joining. It is not a possibility that need be ruled out in all circumstances But it is best seen as a short prelude to joining, subject perhaps to extension if things go wrong in the trial period. As an arrangement for an indefinite period it offers few advantages. At worst it would involve us in policy constraints and intervention obligations without the benefits of full membership. At best, if it involved us in no greater constraints than we shall in any case face outside the mechanism, our partners would be less impressed by our gesture of co-operation than by our refusal to commit ourselves.

A 6% Margin

50. If Ministers decided to join, they could choose between a 2¼% and a 6% margin. Given the circumstances in which Italy argued for a wider margin (desire for a "crawling peg") it was widely feared that a 6% margin might be regarded as a sign of weakness and invite speculation. In fact the lira has been strong and in present circumstances no such suspicion would attach to sterling. In view of volatility of sterling it might be wise to opt for the 6% margin. This might require close thought if we were joining at a time of sterling weakness however.

51. The wider margin gives some extra time and room for manoeuvre if the rate comes under pressure in either direction. However once the margin is reached, the position is the same with a 6% as with a 2¼% margin and all the earlier arguments about speculation and intervention apply.

CONCLUSIONS

52. The options which we think are effectively open to the Government on the EMS this autumn are:-

i. to announce a firm intention to join the EMS at an early date. An "early date" for this purpose might be anywhere between the date of the Dublin Council (29-30 November 1979) and say, the date of the Spring Budget (probably April 1980). There would be a choice, which could be left open until the date of adherence, between a 2¼% and a 6% margin;

ii. to say that while we expect in due course to join the EMS, we think it is/in everybody's interest that we should first let the structural changes affecting sterling under the new Government work themselves out: the adjustment to oil self-sufficiency, the new monetary and fiscal policies and, as a very immediate and important point, exchange control relaxation. Meanwhile we would play a full part in work on the evolution of the system and of the European Monetary Fund.

53. The main considerations bearing on the Government's choice are:-

i. the risk that we might run into serious difficulty in holding a "fixed but adjustable" exchange rate obligation in the EMS, if it is undertaken in an uncertain international monetary environment, as with the snake in 1972;

ii. the benefits for industry of an exchange rate which fluctuates less, if we can achieve that in the EMS;

iii. the risk of conflict between the Government's policy for the monetary aggregates and an EMS exchange rate obligation;

iv. the bearing of the choice made on the clarity of our commitment to the EEC, on our relations with our Community partners in general and on the budgetary question in particular.

54. On procedure, the questions are:

i. whether any further statement, either for or against early entry, should be reserved for the Dublin Council; or made earlier;

ii. whether Chancellor Schmidt and President Giscard should be given advance warning of our position;

iii. what should be said to the House of Commons.

These questions can perhaps best be considered separately in the light of the main decision.

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22 APR 1980
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CHIEF EXCHEQUER
REC. 18 OCT 1979
ACTION: { MR. HANCOCK / MRS. HEDLEY-MILLER
COPIES TO: PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
SIR. D. WASS
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SIR. L. AIREY
SIR. A. RAWLINSON
MR. JORDAN-MOSS
MR. BARRATT
MR. LITTLER
MR. BRIDGEMAN
MR. MIDDLETON.

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10 DOWNING STREET

From the Private Secretary

17 October 1979

Copy No. 1A of 16 Copies

Dear Tom,

The Prime Minister held a meeting at 0945 hours this morning to discuss the EMS and the Chancellor of the Exchequer's proposals for further dismantling exchange controls. The following were present: the Chancellor, the Foreign and Commonwealth Secretary, the Secretaries of State for Industry and Trade, the Governor of the Bank of England, Sir John Hunt and Sir Robert Armstrong. They had before them the paper on EMS circulated under cover of the Chancellor's minute of 24 September and the Chancellor's minute of 11 October on exchange control.

EMS

The Chancellor said that he was opposed to full membership of the EMS for the present. There was considerable uncertainty about the future path of the exchange rate, and this could make it difficult to reconcile strict adherence to monetary targets with the fixed rate obligations of EMS. One of the uncertainties on the exchange rate front related to his proposals for further dismantling exchange controls: if these were accepted, it would be necessary to wait several months at least before joining the EMS so as to allow time to see the consequences of future liberalisation for the exchange rate. He did not believe that a decision to join would make any significant difference to the UK's bargaining position in relation to the Community budget. On the other hand, it was a fact that the UK's continued exclusion from full EMS membership tended to isolate UK Ministers in their discussions in Europe; and he felt that full membership should remain an objective for the medium term. The Governor said that he supported the Chancellor's position, though he would like to feel that the UK was moving in the direction of full EMS membership.

The Secretary of State for Trade said that, while he acknowledged the political case in favour of joining, the economic arguments against early membership were strong. In any case, the dismantling of exchange controls must come first. The Secretary of State for Industry said that he too was opposed. The Foreign and Commonwealth Secretary pointed out that if the Government could be sure that sterling would be under pressure in a downward direction, there would be advantage in the UK joining. In that situation, there would be no conflict with the policy of holding the money supply, and the UK would benefit from the network of support under the EMS arrangements. However, he agreed that it would not be right to join for the time being.

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/ Summing up

Summing up this part of the discussion, the Prime Minister said that she agreed that the time was not yet ripe to join the exchange rate regime. She was particularly concerned about the potential conflict between the Government's monetary targets and the EMS intervention requirements. Adherence to the monetary targets was absolutely crucial if inflation was to be brought down, and the Government's monetary objectives must remain paramount. She herself was not optimistic that sufficient stability in the exchange rate would be achieved to make joining possible even over the next year. She did not intend to mention EMS in her Luxembourg lecture the following day, nor did she intend to offer any kind of commitment to the UK's joining EMS as a full member at the Dublin Council.

Exchange Controls

The Chancellor said that he had considered long and hard the final dismantling of controls, and had come to the conclusion that action next week would probably provide the last opportunity for some time. If the decision were postponed beyond next week, it would have to wait for at least two months until after the sale of the BP shares. By the New Year, it could well be more difficult, and it would probably be hard to present the abolition of controls at the time of the next Budget since the background to the Budget was likely to be difficult. He believed it was inherently right to dismantle the remaining controls. Failure to do so would be represented as a failure of confidence by the Government in its own policies; and there was a strong economic case for using part of the benefits of North Sea oil to purchase overseas assets which would yield foreign exchange earnings when North Sea oil began to run out. There were admittedly risks for the exchange rate and possibly for monetary policy; but on balance he was sure that it was right to go ahead.

The Secretary of State for Trade said that he strongly supported the Chancellor. In addition to the points which the Chancellor had made, he added that the Government were rightly trying to create a new climate of greater freedom, and it would be illogical to refrain from the final dismantling of exchange controls: to do so now could well unsettle the markets. A decision in favour would enable the Prime Minister to say something positive at the Dublin Council; it should also help the Government's position vis-a-vis the trade unions, by showing that the Government were determined that investors should be allowed to put their money where they can earn the best return. The Governor said that he, too, was strongly in favour of the Chancellor's proposals.

The Prime Minister said that, while she accepted the advantages of further dismantling of the controls (and, in particular, she favoured overseas investment in general), she was worried about the risks of moving at this time. The Chancellor's minute had suggested that the outlook for the money supply in the next few months was favourable; and that therefore the risk of an adverse impact on the money supply should be accepted. However, she understood that the October money supply figures were likely to be a good deal worse than the figures for September - and, moreover, worse than the Treasury had been forecasting.

/ Commenting on

Commenting on this point, the Governor said that the latest estimates for the Central Government Borrowing Requirement suggested that the October figure was going to be perhaps £1 billion higher than had earlier been forecast; this was indeed likely to make for worse money supply figures for October. The reasons for the high Central Government Borrowing Requirement for October were not yet entirely clear but it appeared that delays in VAT payments were a substantial contributing factor, and also possibly repayment of debt by nationalised industries. Both of these factors were likely to be temporary. On the other hand, the September figures for lending to the private sector were well down on earlier months' figures, and there was still a reasonable prospect that - notwithstanding the high Central Government Borrowing Requirement - the money supply figures for October would be within the Government's target range. It was important not to concentrate simply on one month's figures: looked at on a three-monthly basis, M3 was moving in the right direction. Against this background, the Governor did not think it would be right to hold up the decision on exchange controls because of worries about the money supply.

Asked by the Prime Minister about the exchange rate risks, the Governor replied that these too were not sufficient to postpone a decision. The relaxation of controls in the summer had not resulted in a weakening of sterling. There was no indication that the institutions were likely to take precipitate action in moving funds out of sterling into currencies on which the controls still operated; for Wall Street in particular was not immediately attractive. Moreover, if there were to be a loss of confidence in sterling, this would result in movement into other currencies in any case: the Chancellor's proposals would not add very much overall to the scope for sterling outflows in the short term.

The Foreign and Commonwealth Secretary pointed out that exchange controls in relation to Rhodesia could not be lifted separately from sanctions generally. It would have been better from his point of view if the decision could have been held over until after a decision on sanctions had been taken in November; but in view of the difficulties which this would pose for the Chancellor, he would not press for any delay. There would remain a presentational problem which would have to be resolved.

Summing up, the Prime Minister said that - despite the risks involved - she agreed with the Chancellor's proposals.

As a postscript to the discussion on EMS, I should add that the Prime Minister has decided that she does not wish there to be a further discussion of this issue in OD Committee, and that the Chancellor's paper should not after all be circulated to OD.

I am sending copies of this letter to George Walden (FCO), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry), John Beverly (Bank of England) and Martin Vile (Cabinet Office). It goes without saying that the decisions recorded in this letter are highly sensitive, and therefore it should be circulated on a strictly "need to know" basis only.

Yours ever,

Tim Lankester

A. M. W. Battishill, Esq.,
H.M. Treasury.

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10 DOWNING STREET

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Mr Lavelle
CST, FST, EST, MST(L)
Sir D. Wass, Sir K. Couzens
Mr Burns, Mr Ryrie
Mr Middleton, Mr Littler.

From the Private Secretary

Mr. Battishill

26 January 1982

26/1.

Dear John,

THE EUROPEAN MONETARY SYSTEM

The Prime Minister held a discussion about British membership of the European Monetary System (EMS) on Friday 22 January with the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Governor of the Bank of England, Sir Robert Armstrong, Sir Douglas Wass, Sir Kenneth Couzens, Mr. Burns, Mr. Middleton, Mr. George and Mr. Walters.

The Chancellor said that our stance had been that we were prepared to join the EMS when the conditions were right. Our reasons for not joining, however, were often such as not to be affected by changing events. The petro-currency status of sterling, which militated against full UK membership, would be with us for a long time; on the other hand, the pressures on the exchange rate vis-à-vis the other European currencies which arose from this source were variable and this did not seem in itself to be a decisive consideration. It was always possible to argue that the re-alignment mechanism in the EMS could deal with this factor. The most powerful argument, in his view, against joining was the potential conflict with monetary policy. This too was a permanent feature of the scene, and it might be argued that it had not seemed a decisive consideration to the Germans against membership of the EMS. He saw attraction in the possibility of anchoring counter-inflation policy to an exchange rate target within the EMS. Public opinion might respond more easily to an external exchange rate target than to a set of complex and often conflicting signals from the monetary variables. He saw dangers, however, in putting too much faith in a disciplinary mechanism which bore a European label: it would probably have precisely the wrong impact on anti-EEC opinion, whose opposition to necessary corrective measures would gain public support from the accusation that the measures were imposed upon us by our EEC partners. Industrialists were not attracted to our joining at the sterling/DM parity now prevailing. He himself was clear that, for this reason alone, we were not in a position to join now, even if, on general grounds, we thought it right in principle to do so.

The Governor said that he was in principle in favour of our joining. He believed that it would be necessary to give much attention to the exchange rate in the coming years. Although

/ forecasts

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forecasts of the exchange rate were particularly hazardous, he believed, on balance, that sterling might be rather vulnerable over the next few years. A world recovery and further upward pressure on the oil price would strengthen sterling, but, against this, our own economic recovery might well put pressure on the current account balance of payments, and there might be sizeable outflows as the election drew nearer. Although the present sterling/DM parity was too high, he would not otherwise like to see in present circumstances either a significant depreciation or appreciation from the present broad position of sterling. The evolution of monetary policy pointed towards a clearer policy on the exchange rate. Membership of the EMS would provide a framework within which to pursue such a policy. The EMS provided a web of rights and obligations in which we would have the help of others to hold our exchange rate where we wanted it. It would be very difficult to operate an explicit exchange-rate policy, with a published band, outside the EMS and, so to speak, in mid-Atlantic, in view of our position in the EEC and all that we had said about our possible EMS membership.

The Foreign and Commonwealth Secretary said that there was a good case for our joining the EMS at some stage, and he hoped that we would not rule it out now; we should keep the matter under review. He did not, however, believe that a decision now to join the EMS would have a particularly favourable impact on the attitude of our European partners in regard, for example, to our objectives in respect of the Budget.

In discussion it was argued that there were powerful reasons against joining. A sudden change in the fortunes of sterling or of one of the other currencies in the system would lead to heavy outflows from, or inflows into, the reserves over which the Government would have little control; on some occasions these flows would take place purely to assist other currencies which were in difficulty. There would be a loss of freedom of manoeuvre. Membership of the EMS had not helped Belgium or Italy to manage their economies successfully: it had not prevented the Belgians from running a huge deficit, with very high interest rates, nor the Italians from a continuing and high level of inflation. Sound economic management depended upon sound domestic fiscal and monetary policies; EMS membership offered no escape from these imperatives. It had been hoped that the EMS would lead to a convergence between the economies of its members. In fact, as the Bundesbank October Bulletin said, there had been a divergence. The discussions of realignments were highly politicised and could import into discussion of exchange rates wholly irrelevant and distracting bargaining factors which were at issue in other fora between the member countries.

Against this, it was argued that membership of EMS would provide a more predictable and stable world in the short run for our traders. A large and constantly increasing proportion of our trade was with other EMS members and it would undoubtedly be helpful for business if there were a more stable relationship between all the currencies concerned. The record of the EMS in this respect had been one of reasonable success. Membership of the system would not involve us in an unlimited obligation to use our

/ reserves.

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reserves. It was arguable that the less successful economies within the EMS would have been in even greater difficulty outside the system.

The Prime Minister said that she was not convinced that there would be solid advantage in joining the EMS. She did not believe that in practice it would provide an effective discipline on our economic management. She was worried by the extent to which it removed our freedom of manoeuvre. She accepted, however, that when our inflation and interest rates were much closer to those of the Germans the case for joining what was essentially a DM-dominated system would be more powerful. We should, therefore, for the time being maintain our existing position on the issue.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), Tim Allen (Governor of the Bank of England's Office) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
H.M. Treasury.

Reference D5 + X 11

EXTRACT FROM HANSARD DATED 18.12.81
VOL 15 NO 33.
COL WA 220.

European Community Finance Council

Mr. Garel-Jones asked the Chancellor of the Exchequer if he will make a statement about the meeting of the European Community Finance Council in Brussels on 14 December.

Sir Geoffrey Howe: This was the last Finance Council to be held during the United Kingdom Presidency. I took the chair.

Following the European Council's decision to review the progress and prospects for further development of the European monetary system at its next meeting in March, the Finance Council heard reports from the monetary committee and the committee of central bank governors on the technical studies that they have undertaken in this field. It was agreed that the Commission would, as a next step, prepare some further reflections on the subject in consultation with the monetary committtee and the commitee of central bank governors. The Finance Council will discuss the matter again at its next meeting in February.

The Council adopted its annual report on the economic situation in the Community and approved guidelines for 1982.

Useful progress was made in the Council's continuing consideration of the non-life insurance directive. The committee of permanent representatives will now continue work on outstanding problems and report progress to the Council by April 1982.

The Council agreed, by a qualified majority, to the inclusion in the 1981 amending budget of 62 million ECUs for social measures to help the Community's steel industry. A draft decision was adopted which will allow 80 million ECUs of loans to be provided to Greece for the reconstruction of areas affected by earthquakes in February and March this year. The loans will attract an interest rate subsidy of 3 per cent. and will be provided from either the new Community instrument or the European Investment Bank's own resources. Finally, the Council agreed the draft "interim reports" directive which establishes minimum content requirements for reports by companies listed on a stock exchange on their activities during the first half of their financial year.

CODE 18-77

UNCLASSIFIED

Mint Visit

FROM: D M THOMPSON

DATE: 4 APRIL 1982

1. MR C ~~WARD~~
2. CHANCELLOR

cc Economic Secretary
Mr Ryrie
Mr Monck
Deputy Master

CHANCELLOR'S VISIT TO THE ROYAL MINT

This submission sets out some current questions concerning the Royal Mint of which the Chancellor may wish to be reminded. Full background briefing does not seem required on this occasion.

2. VAT on gold coins We have discussed the impact on sales with the Director of Finance and the Sales Director. The market in gold coins is highly competitive, and the 25% seignorage we already take, plus 15% VAT, will make it hard for the Mint to make a profit. It is also likely that in present market conditions the extra 15% will discourage purchases in general. On the other hand, since all suppliers are subject to VAT the relative position of the Mint is not impaired. We have asked the Mint to supply us with detailed figures on sales and profit margins for the categories affected, and will consider these when the market has settled down. Some adjustment of the seignorage may be advisable, to help the Mint to maintain its position in this difficult but lucrative market.

3. Defective 20p coins A small quantity - about 1% - of 20p coins delivered to the banks were found to be defective, having been struck from an incorrect alloy. These have now been recovered, and steps taken to rectify procedures. Cost of recovery of the coins was about £10,000. The defect was not readily perceptible, and would not have been detected at the Trial of the Pyx. The Economic Secretary has been kept in touch during the incident.

4. 1983-87 Corporate Plan This has been received and is under study. The Economic Secretary will shortly be discussing it with the Deputy Master and officials. A first look shows sales projections rather lower than in last year's plan, but profit margins higher. An increase in dividend to £8 million is forecast this year, though not maintained in later years.

D M THOMPSON

Royal Mint

7 Grosvenor Gardens London SW1W 0BH Telex 267321 Telephone 01 828 8724-8

Dr D J GERHARD
Deputy Master and Comptroller

Miss T. Pollock,
APS/Economic Secretary,
H.M. Treasury,
Treasury Chambers,
Parliament Street,
London, S.W.1.

1st November, 1982.

Dear Miss Pollock,

I am writing to confirm the 29th November as the date agreed upon in the summer for the Economic Secretary to lunch at Grosvenor Gardens (12.30 for 1 p.m.) with the non-executive directors, Dr. Berry and Mr. Davies, and Mr. Gravenor and the Deputy Master.

Yours sincerely,

Jenny Williams

Jenny Williams
Secretary to Dr. Gerhard

CONFIDENTIAL

PLCC L/542/1307/01

Chancellors consult

Despite the urgency - on my desk as usual! - I shd like a view from EST & 1.S

FROM: C J BAILEY

DATE: 27 May 1982

For information :

Chief Secretary
Economic Secretary
Sir Douglas Wass
Mr Littler
Mr Peretz
Mr C Ward
Mr Ridley

MR LAVELLE M 27/5

CHANCELLOR OF THE EXCHEQUER

MINTING HALF SOVEREIGNS

You will recall that you accepted in principle the recommendation in Sir K Couzens' submission of 20 April that an order be placed with the Royal Mint for 2½ million half sovereigns, and that you had a preliminary preference for creating a "scarce" issue of 1982 coins by minting only ¼ million for that date. This submission invites you to take decisions on the dates for all 2½ million coins and on the channels through which they will be marketed. These decisions are closely related.

2. Since presenting the previous submission we have had further discussions with the Bank and the Mint, particularly with regard to marketing and the likely financial return. In the light of these discussions the balance of the argument now seems to be tipped against marketing through the Mint and in favour of a more cautious and traditional operation. But there remains powerful arguments in favour of an operation through the Mint, not least because it is a possibly unique opportunity to launch such an experiment. You will wish to consider these arguments, for it would be wrong to pretend that the decision is clear cut.

The marketing options

3. The two alternative strategies, of marketing a scarce issue through the Mint and the balance by the Bank, or marketing the entire issue through the Bank, have been carefully explored and we are satisfied that both are feasible.

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4. The Mint would propose to market the coins by promoting them widely through mailing lists and repeated newspaper advertisements in Britain and the US. They would also circularise coin dealers at home and abroad offering to supply batches of coins. The Mint would in their advertisements fix a premium above the bullion price at which they would sell the coins. They suggest a 25% premium for individual coins sold by post, and a 12½-15% premium for bulk deliveries to dealers. On this basis the Mint propose paying the EEA a 10% premium on each coin sold irrespective of the method.

5. Although the Mint would only be prepared to market a ¼ million "scarce" issue of 1982 coins at first, if the experiment were successful they would be interested in a continuing marketing role. Decisions on this could be taken later this summer when we saw how the 1982 issue fared.

6. The various technical and accounting problems arising from this route (and referred to in Mr Peretz' minute to Miss Rutter of 23 April) have been resolved through the device of agreeing that the accounting and settlement between the Mint and the EEA would be in gold.

7. By contrast, the Bank would market the coins to the City gold dealing institutions in the same way that they have marketed bullion sovereigns. This places the ultimate advertising and distribution burden on those institutions. Because it would be dealing with bulk deliveries to the wholesale market the Bank would not want to handle an issue as small as ¼ million coins. It would wish that all 2½ million coins be dated 1982 and thus there would be no "scarce" issue. Having taken informal soundings in the market, the Bank would propose to offer the coins initially at a 20% premium. Unlike the Mint, the Bank could vary the premium on offered coins from day to day in the light of changing market conditions. As the Bank's marketing costs would be negligible almost all the achieved premium would be passed on to the EEA.

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Publicity

8. Whichever marketing route is taken, we should need to make a formal announcement of the new issue, by way of a PQ and supporting press release. The publicity would stress the coin's novelty - it is the first issue since 1915 - and its experimental nature (if the "scarce" issue route were chosen). We would explain that there is substantial demand for smaller gold coins and the issue would give investors, at home and abroad, the chance to buy a British manufactured coin of this size. We would also stress its suitability as a Christening gift but we could not make an explicit link with the Royal birth. The Palace is trying to remain above the inevitable commercialisation of the event, and would probably not make an exception of our own enterprise. Although it would seem appropriate for you to present a coin to the Prince and Princess of Wales we would not recommend publicising the fact.

9. If the Mint markets the coin much of the publicity would be left in their hands. But if the Bank were to market the coin it might be advantageous to attract additional press coverage if you were to visit the Mint to see the coins in production.

Balance of financial advantage

10. In that the Mint offers a 10% return to the EEA, while the Bank offers 20%, on the face of it the decision looks simple. But it is necessary to qualify both figures and this, unfortunately, complicates the judgment.

11. The Mint doubt that in practice the Bank would achieve a premium as high as 20% on a 2¼ million coin issue. They argue that the coin would compete with one-tenth ounce Krugerrand on which the premium is currently only 9%. However, we feel that even if the Bank are over-optimistic the premium would have to be cut a long way before its sales yielded on average only the 10% offered by the Mint so there still seems to be a financial advantage in using the Bank.

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12. The Bank has a further advantage over the Mint in that it can be much more flexible in pricing the coins; the Bank can alter its price from day to day while the Mint is committed to the premium quoted in its advertising. Thus were the Mint to understate the market price they would be selling the coins at less than the maximum available premium, but if they were to overstate the price they would be left with unsold coins. The Bank should be able to avoid these dangers; even if the market became quickly saturated with the coins the Bank could simply hold back its sales for a few months, but it would be harder for the Mint to re-advertise an issue which had been seen to be unsuccessful.

13. There is another dimension to the Bank's flexibility. As it would possess a stock of 2½ million coins it could meet a high demand for the coins in 1982 more easily than could the Mint which would only handle a ¼ million "scarce" issue.

14. However, in the Mint's favour is the argument that its marketing techniques would bring the coin to the attention of a wider circle of investors than have previously purchased bullion coins, and so in the long-term it could lead to larger sales than the Bank might achieve. However, this is not an unambiguous benefit, for the marketing of bullion coins through similar channels to that employed by the Mint to market proof coins may lead to some substitution of demand away from the latter. This seems possible given our suspicion that some small investors who buy proof coins may be unaware of the existence of bullion coins, or not know how to purchase them. When they realise that bullion coins can carry a much lower premium, so that the investor gets more gold for his money, they may correspondingly switch their demand from proof coins. Of course, any such substitution would be disadvantageous for both the Mint and the Treasury as we would stand to forego the higher premium on proof coin sales. The Mint can not forecast how large this substitution effect might be. Selling half sovereigns via the Bank would help maintain the segregation between the proof and bullion coin markets and thus reduce the risk of substitution,

but it would not eliminate that risk; the publicity given to the new coins will inevitably bring it to the attention of some investors who might otherwise purchase proofs.

15. After paying regard to the above qualifications it is difficult to escape from the conclusion that marketing the entire issue through the Bank would give a higher financial return than marketing a "scarce" issue through the Mint. The fundamental advantage that the Bank enjoys in that the wholesale market has a comperative advantage over the Mint in marketing and distributing the coins. As a result the marketing costs via the Bank would be negligible, whereas for the Mint they would represent a significant proportion of the achieved premium. Moreover, the wholesale market would take some of the marketing risks from our shoulders, for if they overestimate the market the unsold coins would remain on their books, not ours. Finally, the Bank has the advantage of greater flexibility in modifying the price and the quantity sold.

Other factors

16. Against this financial analysis should be set two other factors whose affects are less easy to quantify :

(a) Whereas the Mint route would provide a marketing channel to a wider circle of small investors, the Bank route would not necessarily do so. Therefore we would need to ensure that publicity surrounding the issue of the coins made it clear from where they could be obtained, but would need to do so in a way which did not appear to give advantage to one side of the market over another. We could well be faced with many public enquiries on this point.

(b) Using the Mint on this occasion would give a possibly unique opportunity to experiment with a different marketing technique, and if successful for half sovereigns this could later be extended to the bullion sovereign programme.

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Conclusion and Recommendation

17. The issues to be weighed in deciding on the marketing route are complex and inter-related. A fundamental problem is that it is very difficult to assess how the market will respond to the re-issue of the half sovereign after a 65 year lapse, and so it is difficult to assess which of the Bank or the Mint's judgement of the market is the more sound. However, after thoroughly reviewing the arguments, Sir K Couzens, Mr Lavelle, Mr Peretz and myself have unanimously agreed that we should recommend that all 2½ million coins should be marketed through the Bank. We do so with some reluctance, as it does seem a pity to give up the opportunity of experimenting with a "scarce" issue marketed by the Mint. But both the financial analysis and the need for caution point strongly in favour of the Bank. The Mint would be disappointed with such a decision as they have given considerable thought and effort to putting forward their marketing proposals. But they will have the consolation of being given the business of minting 2½ million coins.

18. The Mint are pressing for an urgent decision; they need to know by about 1 June whether they will be asked to market any coins in order to make the necessary preparations.

C J BAILEY

FROM: C D HARRISON
1 June 1982

PS/CHANCELLOR (MISS RUTTER)

cc PS/Chief Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr Littler
Mr Lavelle
Mr Peretz
Mr C Ward
Mr Bailey
Mr Ridley

MINTING HALF SOVEREIGNS

This is to record that, as I told you earlier today, the Economic Secretary's reaction to Mr Bailey's submission of 27 May was that the Mint would be a preferable vehicle for marketing the half sovereigns than the Bank.

2. If the Chancellor so desires, the Economic Secretary would be happy to discuss this question with officials when he returns to the office tomorrow (Wednesday).

CDH

C D HARRISON
Private Secretary

C./EST seems to have been persuaded to back the Bank route by a mtg with officials plus Ian Stewart. Are you prepared to go along too.
JKR
7/6

FROM: C D HARRISON
7 June 1982

CHANCELLOR

cc PS/Chief Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr Littler
Mr Lavelle
Mr Peretz
Mr C Ward
Mr C Bailey
Mr Ridley

MINTING HALF SOVEREIGNS

Further to the meeting with officials which the Economic Secretary held on Wednesday 2 June to discuss the proposed minting of half sovereigns, the Economic Secretary has discussed this with Mr Ian Stewart MP.

2. In the light of that discussion he recommends that the Chancellor should agree with officials' advice that the Bank rather than the Mint should market the half sovereigns.

CDH

C D HARRISON
Private Secretary

1 Mr Thompson - to see
2 PA Mr Coggle

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FROM: JILL RUTTER
8 June 1982

MR BAILEY

cc PS/CST
PS/EST
Sir D Wass
Sir K Couzens
Mr Littler
Mr Lavelle
Mr Peretz
Mr C ~~Ward~~
Mr Ridley

MINTING HALF SOVEREIGNS

The Chancellor has seen your submission of 27 May and the Economic Secretary's comments recorded in his Private Secretary's minute of 7 June.

2. The Chancellor agrees that the Bank should be the marketing route for these half sovereigns.

JKR

JILL RUTTER

4542/1301/01

FROM: [illegible]
DATE: 15 July 1982

CHANCELLOR

cc Economic Secretary
PS/Chief Secretary
Sir Douglas Wass
Sir K Couzens
Mr Littler
Mr Lavelle
Mr C Ward
Mr Hall
Miss Sinclair
Mr Page
Mr Donnelly
Mr Ridley

P/A

BULLION HALF SOVEREIGNS

We are now ready to launch the bullion half-sovereign, and as suggested in Mr Bailey's submission of 27 May propose that this should be done by way of an inspired PQ and supporting press release.

2. We have been considering with IDT how to arrange matters to give the best chance of some reasonable publicity. As you know, we are hoping to get a second round of publicity with the presentation to Commonwealth Finance Ministers. But we need to make the formal announcement of the coin before then and that means making it to the House before the summer recess.

3. We have concluded there would be advantage in tabling a PQ so that the Answer can be released on a Friday morning. A morning rather than afternoon announcement is, I gather, better for the media. And a Friday announcement will be timed nicely for the weekend press. So we have provisionally marked down Friday 23 July for the announcement.

4. On this timetable, if you are content, we should also propose authorising IDT to contact the BBC and ITV tomorrow (16 July), on a confidential basis, to see about arranging TV interviews which Mr Lotherington of the Royal Mint has kindly agreed to give. The

(I hope very slight) risk of a leak seems worth running. IDT's advice is that without a prior approach they would be most unlikely to be able to arrange successful TV interviews on 23 July.

5. I will be submitting a draft PQ and Answer for approval early next week, together with a draft press release and briefing for IDT - but you might like to glance at the attached preliminary drafts prepared by Mr Donnelly to see the kind of material we have in mind.

6. We can consider how best to organise a second round of publicity in connection with the Commonwealth Finance Ministers later on, and in the light of the initial reception. But I should perhaps take this opportunity to say that it will be difficult to provide the Ministers with glossy sales material on the lines suggested in paragraph 3 of Miss Rutter's minute of 30 June. The nature of the bullion half sovereign business is that the Bank only act as wholesalers, and leave it to the private sector bullion and coin dealers to arrange their own sales material. But we could certainly provide a few typed pages about the history and design of the coin; and a further possibility might be an accompanying letter to each Minister, perhaps making the point that each presentation bullion half sovereign is one of the first minted in the UK since 1915.

DLCP

D L C PERETZ

DRAFT

To ask the Chancellor of the Exchequer if he will make a statement about the production of bullion half sovereigns.

DRAFT REPLY

I have authorised the Royal Mint and Bank of England to recommence production and distribution of bullion half sovereigns for an experimental period. This will be the first such production in the UK since 1915. The coins will be supplied by the Bank of England to the London bullion market in the same way as bullion sovereigns, and will be available for delivery to the market from [28 July]. They will represent a British alternative to foreign gold coins of a similar size for purchasers at home and overseas.

DRAFT

RESTRICTED

Half Sovereigns

Notes for Editors

It has been decided to recommence production of bullion half sovereigns for an experimental period to provide a British alternative to foreign gold coins of a similar size for domestic and overseas markets. The pricing and distribution system for half sovereigns will be identical to that for sovereigns.

Production and marketing

A small number of half sovereigns have been struck by the Mint as part of their sets of proof gold coins. The Government's decision today means that bullion half sovereigns will again be produced in quantity in the U.K. for the first time since 1915.

Under the Coinage Act 1971, as amended by the Government Trading Funds Act 1973, the Treasury must give the authority for gold coins to be issued. In view of the close historical connection between coinage and public finance the Chancellor of th e Exchequer is also ex officio Master of the Royal Mint. The Mint's commercial affairs are managing by the Deputy Master, who is the Chief Executive.

Under the Exchange Equalisation Account Act 1979 the Treasury are responsible for overall control of the Exchange Equalisation Account holding Britain's gold and foreign exchange reserves. Some of this gold is used to produce gold sovereigns. As sovereigns are sold the same amount of gold is bought for the reserves. Thus the sovereigns operation has no direct effect on the level of the UK's gold holding. Because gold sovereigns and half sovereigns command a premium over the gold price the operation provides a means of making some profit on the UK's gold holdings, which otherwise would not earn any interest. The level of the premium varies over time according to market conditions: currently the premium on sovereigns is about [7%].

The Bank of England are responsible for the management of the EEA and for Britain's gold reserves. They store the minted bullion sovereigns and half-sovereigns and sell them wholesale to members of the London gold market, who then pass the coins on to retail coin dealers. The retail price depends both on the prevailing gold price and the level of the premium, so it is likely to fluctuate from day to day.

The Royal Mint undertake the actual production of sovereigns and half sovereigns at their modern plant opened at Llantrisant in mid-Glamorgan, Wales in [1968].

History of the Half Sovereign

Various ten shilling gold coins existed from the reign of Edward IV under different names (ryal, rose-noble, angel, double crown, half-sovereign) until the introduction of a guinea-based coinage under Charles II (the guinea was originally worth £1, receiving its name from the use of Guinea Coast gold in its manufacture; but the rise in the price of gold soon caused it to have a value of around 21/-).

The gold half-sovereign was reintroduced in 1817, following a recommendation by a committee of the Privy Council the previous year that a gold £1 unit should be substituted for the tiresome guinea as the standard unit for all transactions. The committee's recommendation led to a general recoinage which resulted in the withdrawal of all existing coinage, including many worn pieces from the previous century, and its replacement by a simpler series of gold, silver and copper coins. The public quickly christened the new major unit the 'sovereign' (a term originally used for a twenty shilling coin of Henry VIII). The reverse design of the new half-sovereign was initially a shield, the elements of which changed when the reigning monarch changed, but since 1893 all half-sovereigns have borne the Pistrucci design of St. George and the dragon.

The story of the half-sovereign cannot sensibly be divorced from that of the sovereign, save that none in non-proof form has hitherto been struck for the current reign. It was coined in almost every year at Tower Hill from 1817 to 1915 inclusive. Small mintings were also authorised at the Branch Mints: Melbourne (in 16 of the years between 1874 and 1915), Sydney (most years between 1855 and 1916), Perth (8 years between 1900 and 1920) and Pretoria (1925 and 1926 only). Branch Mint coins are distinguishable from London mintings by a small mint-mark letter which appears on the reverse of the coin at the base. Any of these half-sovereigns, bearing a date after 1837, remains legal tender in the United Kingdom, whether or not struck abroad.

The greater part of all gold currency produced by the Mint was used - as it had been in centuries past - for the settlement of international trade and it is estimated that only one-third of production remained as part of the domestic circulating currency.

In 1914, when Treasury notes of £1 and 10/- were introduced, payable at the Bank of England in gold coin, Lloyd George said in the House of Commons that "anyone who for selfish motives of greed or excessive caution ... goes out of his way ... to withdraw sums of gold ... is assisting the enemies of this country". The Royal Mint's Annual Report for 1958 comments that "this devastating appeal was (so) successful ... (that) sovereigns ceased in 1917 to form part of the regular coinage work of the Royal Mint". The requirement for the samller denomination also died.

When consideration was being given to the production of new bullion quality sovereigns in 1956, the half-sovereign was not seriously considered because it was the full sovereign which was used in international settlements and which was being forged because of the high premium it commanded over its intrinsic value.

Design

In design the half sovereign is identical to the sovereign.

The obverse bears the Machin portrait of Her Majesty Queen Elizabeth II that has appeared on almost all UK coins since 1968.

The reverse is a portrayal of St George and the Dragon by the Italian engraver Benedetto Pistrucci. Pistrucci travelled to England under the patronage of the Prince Regent and was commissioned to produce the design, originally for sovereigns bearing the head of the Prince's father, George III. It has been used on all UK gold coins minted since 1893.

The beauty of the design, and the more convenient size of the half sovereign, have led to continued domestic demand for the coin from the jewellery trade.

Availability

Neither the Bank of England nor the Royal Mint sell bullion half-sovereigns directly to the public, though the Mint continue to retail individual proof sovereigns and half-sovereigns. Further details of the distribution, marketing and likely price of the bullion half sovereign may be obtained from the members of the London Gold Market: [Bank of England to supply relevant names].

RESTRICTED

FROM: JILL RUTTER
19 July 1982

MR PERETZ

cc Economic Secretary
PS/Chief Secretary
Sir Douglas Wass
Sir K Couzens
Mr Littler
Mr Lavelle
Mr C Ward
Mr Hall
Miss Sinclair
Mr Page
Mr Donnelly
Mr Ridley

BULLION HALF SOVEREIGNS

The Chancellor has seen your submission of 15 July. He is content with the proposals you make for publicising the bullion half-sovereign.

JKR
JILL RUTTER

RESTRICTED

RESTRICTED

FROM: M E DONNELLY

DATE: 20 July 1982

1. MR PERETZ
2. CHANCELLOR

cc Economic Secretary
PS/Chief Secretary
Sir D Wass
Sir K Couzens
Mr Littler
Mr C Ward
Mr Hall
Mr Page
Mr Bailey
Mr Stubbington - Parly Sec.
Mr Ridley

LAUNCH OF BULLION HALF SOVEREIGNS: FRIDAY 23 JULY

Miss Rutter's note of 19 July confirmed that you were content with the arrangements outlined in Mr Peretz' minute of 15 July for an inspired PQ and supporting press release to launch the bullion half sovereign this Friday.

2. We have now prepared a final version of the PQ and press material, incorporating comments from the Bank of England and the Royal Mint, and this is attached. In addition IDT expect to have sufficient copies of a photograph of the half-sovereign by Friday for distribution to the press when the PQ is released.

3. It would be helpful to receive final clearance of the draft PQ and other material sometime tomorrow, in order to leave sufficient time for copies of the press release to be made.

M E Donnelly
M E DONNELLY

8/2077

FOR WRITTEN ANSWER
23 July

To ask the Chancellor of the Exchequer if he will make a statement about the production of bullion half sovereigns.

DRAFT REPLY

I have authorised the Royal Mint and Bank of England to recommence production and distribution of bullion half sovereigns. This will be the first such production in the UK since 1915. The coins will be supplied by the Bank of England to the London bullion market in the same way as bullion sovereigns, and will be available for delivery to the market from 28 July. They will represent a British alternative to foreign gold coins of a similar size for purchasers at home and overseas.

BACKGROUND NOTE

You agreed in April to restart production of bullion half sovereigns. [NOT FOR USE: 2½ million coins dated 1982 are to be produced over the new few months before the Royal Mint's present sovereign production unit at Llantrisant closes for about 3 years while being moved into more secure premises. The Bank hope for an initial premium of 20% on sales of half sovereigns. But depending on demand for the coin this may have to be adjusted downwards subsequently .]

The half sovereign should provide a British alternative to the 1/10 gold Krugerrand, which is approximately the same size, for purchasers in the domestic markets and overseas.

The marketing system for half sovereigns is the same as for sovereigns. The Bank of England sells the coins wholesale to dealers on the London Gold Market who then distribute them to retail suppliers. The price of the half-sovereign will therefore vary with the bullion gold price, the level of premium charged by the Bank, and the retail mark up. With gold currently around $350 an ounce the half-sovereign is likely to cost in the order of £30 initially.

HALF SOVEREIGNS

Q and A Briefing

1. **Why is half-sovereign production being restarted now**

   Production is being restarted to meet market demand and provide a British alternative to foreign gold coins of a similar size to be sold here and abroad.

2. **What sort of demand is expected**

   There is likely to be demand from coin collectors, small investors and the jewellery trade. The half sovereign will also provide a cheaper alternative to the sovereign as a suitable gift for christenings, birthdays and other such occasions.

3. **Where can people buy half-sovereigns**

   The coins should be available from the same outlets in which bullion sovereigns can be bought or ordered at the moment: most bullion and coin dealers, and banks.

4. **How much will they cost**

   This depends on the price of gold and the level of the premium, both of which depend on market conditions. At the expected levels of the gold bullion price and a premium somewhat higher than on the sovereign, the price of the half sovereign is likely to be of the order of £30.

5. What profit does the Government make

The Government's profit corresponds to the average premium over the gold price charged in the bullion market less the (relatively small) cost of manufacture. This profit is added to the UK's official reserves.

6. Government encouraging people to invest in gold

People may invest their money as they please. In so far as they wish to purchase UK gold coins the Government is happy to meet that demand - as it has done for many years by producing bullion sovereigns. The decision to produce half sovereigns means that people here and abroad now have the opportunity to buy a British gold coin in this lower price range.

7. How many will be produced

In the long run this depends on how many coins are sold. We expect the current minting to assure adequate supplies for several years.

8. When was the half-sovereign last produced

The last bulk minting of the half sovereign was at London in 1915, though small numbers were struck at some colonial mints abroad until 1926.

9. Will VAT by payable on half sovereigns

VAT at the standard rate of 15% will be payable on the price of the half sovereign on the same basis as for the sovereign and other legal tender gold coins.

HALF SOVEREIGNS

Notes for Editors

It has been decided to recommence production of bullion half sovereigns to provide a British alternative to foreign gold coins of a similar size for domestic and overseas markets. The pricing mechanism and distribution system for half sovereigns will be identical to that currently used for bullion sovereigns.

Production and marketing

A small number of half sovereigns have been struck in recent years by the Mint as part of their sets of proof gold coins. The Government's decision today means that bullion half sovereigns will again be produced in quantity in the UK for the first time since 1915.

Under the Coinage Act 1971, as amended by the Government Trading Funds Act 1973, the Treasury must give the authority for gold coins to be issued. In view of the close historical connection between coinage and public finance the Chancellor of the Exchequer is also ex officio Master of the Royal Mint. The Mint's commercial affairs are managed by the Deputy Master, who is the Chief Executive.

Under the Exchange Equalisation Account Act 1979 the Treasury are responsible for overall control of the Exchange Equalisation Account holding Britain's gold and foreign exchange reserves. Some of this gold is used to produce gold sovereigns, and now half sovereigns. As the coins are sold the same amount of gold is bought for the reserves. Thus these operations have no direct effect on the level of the UK's gold holding. Because gold sovereigns and half sovereigns command a premium over the gold price they provide a means of making a profit on gold holdings in the UK's reserves. The level of the premium charged varies over time according to market conditions: currently the premium on sovereigns is about 6%.

The Bank of England are responsible for the management of the EEA, including Britain's gold reserves. They store the minted bullion coins and sell them wholesale to members of the London Gold Market for US dollars. The Market on - sell the coins to overseas investors and retail coin dealers in this country. The retail price depends both on the prevailing gold price and the level of the premium including retail mark up, and so is likely to fluctuate from day to day.

The Royal Mint undertake the actual production of sovereigns and half sovereigns at their modern plant opened at Llantrisant in Mid-Glamorgan, Wales in 1968. The first bullion sovereigns were struck there in 1974.

History of the Half Sovereign

Various ten shilling gold coins existed from the reign of Edward IV under different names (ryal, rose-noble, angel, double crown, half-sovereign) until the introduction of a guinea-based coinage under Charles II (the guinea was originally worth £1, receiving its name from the use of Guinea Coast gold in its manufacture; but the rise in the price of gold soon caused it to have a value of around 21/-).

The gold half-sovereign was reintroduced in 1817, following a recommendation by a committee of the Privy Council the previous year that a gold £1 unit should be substituted for the tiresome guinea as the standard unit for all transactions. The committee's recommendation led to a general recoinage which resulted in the withdrawal of all existing coinage, including many worn pieces from the previous century, and its replacement by a simpler series of gold, silver and copper coins. The public quickly christened the new major unit the 'sovereign' (a term originally used for a twenty shilling coin of Henry VIII). The reverse design of the new half-sovereign was initially a shield, the elements of which changed when the reigning monarch changed, but since 1893 all half-sovereigns have borne the Pistrucci design of St George and the dragon.

The story of the half-sovereign cannot sensibly be divorced from that of the sovereign, save that none in non-proof form has hitherto been struck for the current reign. It was coined in almost every year at Tower Hill from 1817 to 1915 inclusive. Small mintings were also authorised at the Branch Mints: Melbourne (in 16 of the years between 1874 and 1915), Sydney (most years between 1855 and 1916), Perth (8 years between 1900 and 1920) and Pretoria (1925 and 1926 only.) Branch Mint coins are distinguishable from London mintings by a small mint-mark letter which appears on the reverse of the coin at the base. Any of these half-sovereigns, bearing a date after 1837, remains legal tender in the United Kingdom, whether or not struck abroad.

The greater part of all gold currency produced by the Mint was used - as it had been in centuries past - for the settlement of international trade and it is estimated that only one-third of production remained as part of the domestic circulating currency.

In 1914, when Treasury notes of £1 and 10/- were introduced, payable at the Bank of England in gold coin, Lloyd George said in the House of Commons that "anyone who for selfish motives of greed or excessive caution ... goes out of his way ... to withdraw sums of gold ... is assisting the enemies of this country". The Royal Mint's Annual Report for 1958 comments that "this devastating appeal was (so) successful ... (that) sovereigns ceased in 1917 to form part of the regular coinage work of the Royal Mint". The requirement for the smaller denomination also died.

When consideration was being given to the production of new bullion quality sovereigns in 1956, the half-sovereign was not seriously considered because it was the full sovereign which was used in international settlements and which was being forged because of the high premium it commanded over its intrinsic value.

Design

In design the half sovereign is identical to the sovereign.

The obverse bears the Machin portrait of Her Majesty Queen Elizabeth II that has appeared on almost all UK coins since 1968, and on sovereigns since 1974.

The reverse is a portrayal of St George and the Dragon by the Italian engraver Benedetto Pistrucci. Pistrucci travelled to England under the patronage of the Prince Regent and was commissioned to produce the design, originally for sovereigns bearing the head of the Prince's father, George III. It has been used on all UK gold coins minted since 1893.

The beauty of the design, and the more convenient size of the half sovereign, have led to continued domestic demand for the coin from the jewellery trade.

Availability

Neither the Bank of England nor the Royal Mint sell bullion half-sovereigns directly to the public, though the Mint continue to retail individual proof sovereigns and half-sovereigns. Half sovereigns should be available to the public from the same retail outlets from which sovereigns can currently be bought: most coin and bullion dealers, and banks. Further details of the distribution, marketing and likely retail price of the bullion half sovereign may be obtained from the members of the London Gold Market. Names and addresses of the five members are attached.

MEMBERS OF THE LONDON GOLD MARKET

Johnson Matthey Bankers Limited
5 Lloyds Avenue,
London, EC3N 3DB
Telephone: 01-481 3181
Telex: 884491

Mocatta & Goldsmid Limited
Park House,
16 Finsbury Circus,
London, EC2M 7DA
Telephone: 01-638 3636
Telex: 889232

Samuel Montagu & Co. Limited
114 Old Broad Street,
London, EC2P 2HY
Telephone: 01-588 6464
Telex: 887216/886635

N. M. Rothschild & Sons Limited
New Court,
St. Swithin's Lane
London, EC4P 4DU
Telephone: 01-626 4356
Telex: 8812101

Sharps, Pixley Limited
10 Rood Lane,
London, EC3M 8BB
Telephone: 01-623 8000
Telex: 887017

4/542/1301/01

FROM: JILL RUTTER
21 July 1982

cc: Economic Secretary
PS/Chief Secretary
Sir Douglas Wass
Sir Kenneth Couzens
Mr. Littler
Mr. C Ward
Mr. Peretz
Mr. Hall
Mr. Page
Mr. Bailey
Mr. Stubbington (Parly.Sec.
Mr. Ridley

MR. DONNELLY

LAUNCH OF BULLION HALF SOVEREIGNS : FRIDAY 23 JULY

The Chancellor has seen your submission of 20 July. He is content with the arrangements you have outlined, and is happy with the draft PQ and supporting material.

JCR

JILL RUTTER

Reference..

EXTRACT FROM HANSARD DATED 23 July 1982.

Gold Half Sovereigns

Mr. Madel asked the Chancellor of the Exchequer if he will make a statement about the production of bullion half sovereigns.

Sir Geoffrey Howe: I have authorised the Royal Mint and Bank of England to recommence production and distribution of bullion half sovereigns. This will be the first such production in the United Kingdom since 1915. The coins will be supplied by the Bank of England to the London bullion market in the same way as bullion sovereigns, and will be available for delivery to the market from 28 July. They will represent a British alternative to foreign gold coins of a similar size for purchasers at home and overseas.

CODE 18-78

Reference..

EXTRACT FROM THE EVENING STANDARD DATED

23 7 82

Mr Ward o/R

The half sovereign is back

GOLD half sovereigns are being minted again after a break of 67 years, and go on sale next week.

Chancellor Sir Geoffrey Howe told Parliament today that he had authorised the Royal Mint and Bank of England to start production

The coins will be supplied by the Bank of England to the London Bullion Market in the same way as sovereigns

At the current gold price, the half sovereign is expected to cost £30-£35.

CODE 18-78

Reference

EXTRACT FROM THE DAILY TELEGRAPH DATED.

24.7.82.

Mr. Ward o/R.

HALF SOVEREIGN RETURNS

Daily Telegraph Reporter

GOLD bullion half sovereigns are being minted again in Britain for the first time in 67 years, Sir Geoffrey Howe, Chancellor of the Exchequer, announced yesterday.

At the current gold price the new coin, which at 19·30mm in diameter, is slightly smaller than the 1p piece, is expected to cost between £30 and £35 and will be available from next Wednesday.

Its design is identical to the sovereign, with the familiar Machin portrait of the Queen on the obverse and St George and the Dragon on the reverse.

The gold half sovereign was coined almost every year at the Royal Mint in Tower Hill from 1817 to 1915. The coin lost popularity after 1914 when the Treasury introduced £1 and 10 shilling notes.

The coins are being made at the mint in Llantrisant, Mid-Glamorgan.

Under the Exchange Equalisation Act of 1979 the sale of the coins will have no affect on Britain's gold holdings. As the coins are sold the same amount of gold is bought for the reserves.

CODE 18-78

Reference ....

EXTRACT FROM THE ECONOMIC PROGRESS REPORT DATED 11 AUGUST 1982

The new half-sovereign

It was announced by the Chancellor of the Exchequer last month that gold bullion half-sovereigns were being minted once again, after a break of 67 years. They are now on sale. They were described by the Chancellor as providing a British alternative to foreign gold coins of a similar size for domestic and overseas markets. The public may buy these coins from most coin and bullion dealers and banks, in the same way as bullion sovereigns. At the current price of gold, each new bullion half-sovereign is likely to cost around £35.

Production and marketing

A small number of half-sovereigns has been struck in recent years by the Royal Mint as part of their sets of proof gold coins. (Proof coins are produced to especially high standards, mainly for collectors.) Bullion half-sovereigns are now being produced in quantity by the Mint for the first time since 1915.

Under the Exchange Equalisation Account Act 1979 the Treasury are responsible for overall control of the Exchange Equalisation Account (EEA) holding Britain's gold and foreign exchange reserves. Some of this gold is used to produce gold sovereigns, and now half-sovereigns. As the coins are sold, the same amount of gold is bought for the reserves. Therefore, these operations have no direct effect on the level of Britain's gold holdings. Because gold sovereigns and half-sovereigns command a premium over the gold price they provide a means of making a profit on gold holdings in the reserves. The level of the premium charged varies over time according to market conditions: currently the premium on sovereigns is about 6 per cent.

The Bank of England are responsible for the management of the EEA, including Britain's gold reserves. They store the minted bullion coins and sell them wholesale to members of the London gold market for US dollars. While the Mint retail individual proof sovereigns and half-sovereigns direct to the public, no bullion coins are sold direct to the public by either the Mint or the Bank.

From Edward IV to Lloyd George

Various ten-shilling gold coins existed from the reign of Edward IV under different names (royal, rose-noble, angel, double crown, half-sovereign) until the introduction of a guinea-based coinage under Charles II. The guinea coin was originally worth £1, receiving its name from the use of Guinea Coast gold, but the rise in the price of gold soon caused it to have a value of around 21s.

The gold half-sovereign was reintroduced in 1817, following a recommendation by a committee of the Privy Council the previous year that a gold £1 unit should be substituted for the tiresome guinea as the standard unit for all transactions.

The public quickly christened the new major unit the 'sovereign' (a term originally used for a twenty shilling coin of Henry VIII). The reverse design of the new half-sovereign was at first a shield, the elements of which changed when the reigning monarch changed, but since 1893 all half-sovereigns have borne the Pistrucci design of St George and the Dragon. The same design is now used for both the sovereign and half-sovereign.

In 1914, when Treasury notes of £1 and 10s were introduced, payable at the Bank of England in gold coin, Lloyd George said in the House of Commons that 'anyone who for selfish motives of greed or excessive caution . . . goes out of his way . . . to withdraw sums of gold . . . is assisting the enemies of this country.' The Royal Mint's annual report for 1958 comments that 'this devastating appeal was (so) successful . . . (that) sovereigns ceased in 1917 to form part of the regular coinage work of the Royal Mint.' The requirement for the smaller denomination also died. •

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MR WARD [illegible] 17/7

HF 90/19/07.

Royal Mint Appointments

BUCKINGHAM PALACE

Dear Mr. Hall,

I write in reply to your letter of 13th July to Sir Philip Moore with which you enclosed a submission from Sir Geoffrey Howe concerning the appointment of three new members of the Royal Mint Advisory Committee.

This has been laid before The Queen, who has been pleased to approve the appointments of Sir Peter Scott, Miss Elizabeth Frink and Professor Lionel Hale as members of the Royal Mint Advisory Committee.

Yours sincerely

Robert Fellowes

M.A. Hall, Esq.