

## 'The status of the pound' from Le Monde (21 May 1971)

**Caption:** On 21 May 1971, in its coverage of the negotiations on the accession of the United Kingdom to the European Economic Community (EEC), French daily newspaper Le Monde analyses the international role of the pound sterling.

**Source:** Le Monde. dir. de publ. FAUVET, Jacques. 21.05.1971, n° 8 196; 28e année. Paris: Le Monde. "Le statut de la livre", auteur:Simonnet, Philippe , p. 1; 3.

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## The status of the pound

**Among the economic issues still outstanding between Great Britain and the Six, three are particularly noteworthy: the United Kingdom's contribution to the Community budget, sterling's status as a reserve currency and the fate of the 'sterling balances' (the last two questions are, of course, linked).**

At the last meeting between negotiators from the Six and from Great Britain, a compromise was reached on Britain's contribution to Community coffers. The terms were: 'The Community accepts the possibility of corrections after the transitional period, but can only take a position on this at a later stage in the negotiations, it being understood that such corrections would be made only to the extent necessary to avoid a sharp increase in contribution between the final year of the transitional period and the first year of full implementation of own resources.' (*Le Monde*, 14 May.)

This is a step back from the previous French proposal on the issue that allowed for corrective measures during the transitional period but not thereafter. France's five EEC partners, on the other hand, have been pressing for a less demanding solution, one that would reduce the burden on the British treasury should the normal financial adjustment mechanism lead to an excessively high British contribution in 1978 or 1979. It was this point of view that prevailed.

France was careful not to quote any figure for the British contribution during the transitional period, although this was, in the words of Mr Valéry Giscard d'Estaing himself, 'the crucial issue in the negotiations' (*Le Monde*, 12 May). Great Britain, for its part, held that, in the first year of the transitional period, its contribution to the Community budget should be only 3 % of the total. This starting point is probably too low to ensure that, when the finishing line is reached (i.e. at the end of the transitional period), Britain is contributing normally to Community finances, which would mean about a quarter of the total budget.

### The subject of 'discreet talks'

The status of sterling is outside the ambit of the negotiations on UK membership of the Common Market. But it has, since March, on France's prompting, been discussed by the Six. In April, a committee of experts was tasked with examining the issue and London finally agreed to address the matter with the Six in a 'discreet way and within a limited framework.'

Mr Giscard d'Estaing set out France's position in Brussels (*Le Monde*, 1 August 1970). He reminded his audience that sterling's status as a reserve currency and the existence of substantial 'sterling balances' (foreign claims on Great Britain) limit the United Kingdom's freedom of manoeuvre in economic and monetary matters. How would London be able to submit to the discipline that economic and monetary union can be expected to impose? The French Minister of Economy and Finance reiterated this position, stating that 'it would, in the future, be regarded as incompatible for a country to be an EEC Member State and, at the same time, have a currency that operates as a reserve currency.'

The Six do not agree on how to go about overcoming this difficulty. Among France's partners, there are those who want to distinguish between problems linked with the negotiations (freeing the movement of capital, and conditions for provision of assistance to Member States in difficulty) and purely international problems (reserve currency status and 'sterling balances'). France sees this as an artificial distinction given the objective being pursued: that of attenuating or eliminating the possible negative impact of sterling's international role on economic and monetary union.

What we know about Britain's position is based entirely on rumour. London would apparently be prepared to accept the idea of some reduction in the volume of 'sterling balances' on the twin conditions that this operation does not penalise in any way the holders of claims denominated in sterling and that appropriate solutions are found to ensure that the reduced volume of 'sterling balances' does not lead to a decrease in international liquidity (*Le Monde*, 30 April). To avoid such a decrease, Great Britain is understood to be considering an exceptional issue of Special Drawing Rights. But with the worsening American balance-of-

payments deficit, that idea, if it were to be defended by Mr Heath in Paris, is likely to be given a hostile reception by French leaders, who only very reluctantly agreed to the creation of 'paper-gold' two years ago.

### **The Basle Facility and its future prospects**

Far from falling, sterling balances have continued to grow since 1968. An agreement was signed in Basle in September 1968 that allowed the United Kingdom to draw, on the Bank for International Settlements (BIS), the currencies it might need to meet its commitments should the 'sterling balances' fall too low. For this purpose, the BIS was allocated certain resources whose cost was ultimately met by 12 countries (the United States, Canada, West Germany, Switzerland, Austria, Belgium, the Netherlands, Italy, Sweden, Denmark, Norway and Japan). France was not party to the agreement.

With this backing, Great Britain proceeded to negotiate separately with each country in the sterling zone an offer to guarantee the dollar exchange value of 90 % of their sterling reserves on condition that they agreed to maintain a proportion of their reserves in sterling. The Basle Facility is to be renewed in September.

The governors of the central banks who signed the Agreement in 1968 have informed the Bank of England unofficially that they are prepared to extend the agreement for another two years (*Le Monde*, 16 April). France will not be party to this extension because, as Mr Giscard d'Estaing points out, not entirely without irony, no one has asked it to. But France is understood to be ready at the appropriate moment, *following UK accession*, to join an international agreement of this type if it enjoyed the support of all the countries in an enlarged Community.

In the event of the United Kingdom joining the Common Market, the burden of consolidating the 'sterling balances' should not, in France's view, be borne by the Six alone, but by international mechanisms similar to the Basle Facility. This means that financing the reduction of those balances, which implies replacing those claims by other assets in the books of the central banks concerned, should not fall to the Community alone.

This year, London could well have problems over this with the countries of the sterling zone. Malaysia has just taken the lead by asking London for a guarantee in gold for its 'sterling balance', the dollar guarantee being no longer sufficient in their eyes. They are also asking for the minimum sterling holding to be reduced. Other countries could well follow suit. In such a case, the 'sterling balances' would automatically fall.

If the discussions on the role of sterling have tended to avoid specifics, it is probably because the plans for monetary union are themselves rather 'futuristic'. And the currency crisis has demonstrated just how fragile those plans are. In such a fluctuating situation, it is difficult to ask the British to be more forthright than the 'Continental'.

Nor should it be forgotten, finally, that the pound today accounts for barely 7 % of worldwide reserves, half the 1955 figure of 14 %. Far more serious is the problem caused by the 'dollar balances'. It would be far more important for the Six and Great Britain to adopt a common position with regard to the dollar. That, it would seem, is a long way off.

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