

PERSONAL AND CONFIDENTIAL

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Prime Minister  
I have a copy  
of this to take  
to Luxembourg.

PRIME MINISTER

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EUROPEAN COUNCIL: AMENDMENT TO MONETARY PROVISIONS  
OF THE TREATY OF ROME

Your Summit discussions with Chancellor Kohl yesterday confirmed that the Germans, like us, are totally opposed to any amendment to the monetary provisions of the Treaty of Rome.

So are others. When this was discussed at ECOFIN on 18 November the Danish and Irish Ministers spoke out against amendment. The Dutch saw no positive need for amendment, still less that this would be a necessary ingredient in any package.

We cannot rule out that the position might deteriorate. When we spoke yesterday, you thought it would be helpful in that situation to have some possible forms of words up your sleeve. I have considered this further with officials.

As I see it, if we had to go along this road at all, it would clearly be essential that the language used should:

- contain no obligation on us to join the ERM;



- make it clear that exchange rate policy is the responsibility of national authorities;
- minimise any extension of Community competence;
- avoid any Treaty reference to EMU.

#### Options

I attach at Annexes 1-3 some possible forms of words which would meet these criteria. The first would form part of a Declaration to be annexed to, but not part of, the new Treaty and included in the Final Act of the negotiating conference. The others would represent amendments to the Treaty itself.

A Declaration attached to the Treaty would not be legally binding and would go no further than commitments we have entered into in the past. It is a possible way through. The text at Annex 1 shows what a Declaration might look like. I would recommend, however, against getting into any detailed discussion of texts at the European Council.

As regards Treaty references, the choice, I think, lies broadly between the texts in Annexes 2 and 3 below.

The text in Annex 2 adds to Article 105 a modest reference to the ecu. This would not involve any increase in the competence of the Commission, and would cause us no problems at all. The Germans might well find it unattractive (in which case, of course, their remedy is to stick firmly to no amendment at all).



However, it would certainly be of some interest to the French.

If a reference to the ecu alone were not enough, and the pressure for a reference to the EMS were so great that you thought it sensible to agree, Annex 3 contains language which, though understandable, ought to be relatively harmless.

Tactics

Your position at the European Council will be to resist any monetary amendments with support from Chancellor Kohl. He may crumble, as he has in the past. In those circumstances the Annex 1 approach could only be successful if there was an evident impasse. You might judge it right to play it that way, and offer, at the final stages to consider the possibility of a reference to EMU and EMS in a formal Declaration to the Treaty.

If it is clear, that nothing short of a reference in the body of the Treaty itself will do, your line might be:-

- there should be no reference in the Treaty to EMU, since this - which implies progress towards a common currency and a common Central Bank - would be no more credible to outside opinion than the commitments entered into in 1971 and 1972 and in any case is politically unacceptable in the UK;



- there could however be a case for a reference to the development of the ecu;
- you would only be prepared to consider a reference in Article 107 to the EMS, if there were a balancing reference to Member States' independence in exchange rate matters; and subject to satisfactory assurances that no obligation to join the ERM would result and, more generally, that the current EMS arrangements would be left wholly unchanged.

You should also, as a quid pro quo, press for a commitment to more rapid phasing out of exchange controls in other Member States.

It would be best, as I have said, to avoid getting into discussion of detailed texts at the European Council. Instead, if an agreement in principle is reached either on the basis of a formal Declaration to the Treaty or a minimal amendment to Article 105 or 107, the ECOFIN Council and Monetary Committee should be invited to consider possible texts, also meeting the conditions described in the last paragraph.

#### Conclusion

Having reviewed the options I am bound to say that the better course by far looks to be not to get caught up in this whole exercise.

28 November 1985

ANNEX 1DECLARATION

The Heads of State and Government,

Noting with approval the increasing contribution made by the European Monetary System, established by their Resolution of 5 December 1978, to the stability of exchange rates within the Community,

Recalling their Declaration on European Union of June 1983,

Declared their intention to work for the strengthening of the System and in particular for the creation at the appropriate moment of a European Monetary Fund and for the further development of the ecu, as key elements in the progress towards the goal of an Economic and Monetary Union.

ANNEX 2Possible Treaty Reference to the ECURevised Article 105(1)

In order to facilitate attainment of the objectives set out in Article 104, Member States shall coordinate their economic policies. They shall for this purpose provide for cooperation between their appropriate administrative departments and between their central banks, and encourage the further development of the ecu.

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ANNEX 3Possible Treaty Reference to the EMSRevised Article 107(1)

Each Member State has independent responsibility for its policy with regard to rates of exchange. Consistently with that responsibility, it shall co-operate in its conduct of that policy with other Member States. The EMS provides a framework for such co-operation. [Member States recognise the need to accelerate the abolition of restrictions on capital movements in accordance with Article 67 and the importance of early removal of restrictions at present authorised under Article 108].