

PRIME MINISTER

## ECONOMIC AND MONETARY UNION

You have had sporadic accounts from the Chancellor about the work of the so-called Delors group discussing economic and monetary union and the European Central Bank. Poehl has put in quite a sensible paper drawing a distinction between "hard" and "soft" economic and monetary union and recommending the latter, which would fall well short of anything like a European Central Bank. Delors himself is pressing much more far-reaching ideas which would involve transferring substantial powers over economic policy from member states to the Community and the establishment of new institutions. Work has started on the first draft of a report to be considered at the meeting in December.

I understand that our input is very limited. Given that the United Kingdom is not a full member of the ERM, which already sets us slightly apart from the majority of others in the Group, our passivity could imply that we are standing aside from the exercise and can therefore be disregarded. The risk is that we shall end up in unproductive isolation with the rest being dragooned by Delors into support for proposals which we do not like. One way to avoid this would be to come forward with further practical proposals of our own. The City should be able to produce ideas; and I understand that the Treasury are now compiling some.

I think it would be useful if you were to have a discussion with the Chancellor, the Governor and perhaps the Foreign Secretary (although beware of it looking like an in EMS discussion) in December. Agree that I should arrange this?

C.D.P.

Yes not

(C. D. POWELL)

28 October 1988