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*From the Private Secretary*

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14 December 1988

Dear Alex,

## DELORS COMMITTEE: ECONOMIC AND MONETARY UNION

The Prime Minister had a meeting this evening with the Chancellor, the Foreign Secretary and the Governor of the Bank of England to discuss progress in the Delors Committee since it began its work last September and objectives for the next stage.

The Governor reported on the most recent meeting of the Committee on 13 December. This had begun consideration of a draft report to Heads of Government. There was general agreement that the report should be in three parts. The first part would describe the present situation in the EMS. It had not yet been drafted but was not expected to give rise to major problems. The second part would be a definition of the meaning of Economic and Monetary Union (EMU). This had been the main aspect discussed on 13 December. The intention was to describe what EMU would mean in terms of institutional change, were it to be implemented. To a considerable degree, this would simply repeat the conclusions of the Werner Report of 1970, although there would be some differences. This part of the report would not tell Heads of Government what needed to be done, but simply spell out the practical implications of EMU. The third section would examine the case for early institutional change as the basis for progressive steps towards Economic and Monetary Union. The Committee had not yet tackled this aspect seriously.

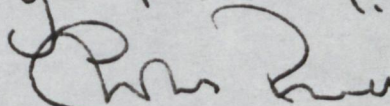
A number of points were made in discussion:

- the report should make clear that Economic and Monetary Union was not essential for completion of the Single Market. This was probably the view of a majority of the Committee;
- it would be particularly important to ensure that the report spelled out the full implications of EMU in terms of the substantial transfer of power and authority from national institutions. There should be no ambiguity about the scale of the change which would be involved. It would then be much harder for Ministers subsequently to argue in the Council for the adoption of general objectives on EMU, without regard to the very substantial implications for national governments and parliaments;

- it should be our objective to secure the widest possible opposition within the Committee to Treaty amendment. The prospects for this appeared to be quite reasonable. It was particularly useful that Herr Poehl appeared firmly opposed to it. It would be important to bind him to this position;
- even though we might take the above points as read, it was vital that they should be clearly stated and spelled out in the report, so that others could not evade them.
- we should also do everything possible to forge tactical alliances in the Committee. The highest priority must go to holding Poehl to his present views. We could probably look to the Dutch, Belgian and Danish representatives for support. That should be the nucleus of a majority and thus the key to securing the right report;
- at some stage, we might want to put forward proposals of our own on practical steps which could be taken towards closer economic and monetary co-operation, without involving Treaty amendment or major institutional change. But it would be important not to put forward ideas which would alienate Poehl. It was inherently likely that something on these lines would feature in the report: some ideas had already been tabled by the Belgian representative.

Summing up the discussion, the Prime Minister said the Governor should try to ensure that the Committee's report was descriptive and not prescriptive. We wanted to see it spell out clearly the full implications of EMU in terms of loss of national sovereignty. It should also make clear that EMU was not necessary for completion of the Single Market in 1992, and should reject Treaty amendment. Our tactics should be to forge a firm alliance with Poehl, enlarging that to include as many like-minded members of the group as possible. Meanwhile work should be put in hand on a paper setting out a number of practical steps which we could support and which might be put forward in liaison with Poehl. But no decision had yet been taken actually to table such proposals: in any case it was unlikely to be feasible to do so before the February meeting. The Treasury/Bank working group should produce a draft for Ministers to consider.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office) and John Footman (Office of the Governor of the Bank of England).

*yes on cash.*  
  
(C.D. POWELL)

Alex Allan, Esq.,  
HM Treasury.