



The Governor

CONFIDENTIAL

Bank of England
London EC2R 8AH

13 April 1989

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
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EDP 14/4

Dear Prime Minister,

ECONOMIC AND MONETARY UNION

As you will have heard, the members of the Delors Committee reached unanimous agreement on their report late yesterday afternoon. Our agreement, and the fact that it was unanimous, was immediately announced to the waiting journalists. The previously scheduled final meeting of the Committee on 19 April will now not take place.

The President will deliver copies of the report in sealed envelopes to Ambassadors to the Community on Friday morning, 14 April, and will then hold a press conference and publish the report during the morning of Monday, 17 April.

While not perfect in every respect, the report that I have signed represents a very substantial improvement on previous drafts,

reflecting the insistence of Pöhl, Hoffmeyer and myself that it should properly reflect our positions, and not just those of Delors, Larosiere and the Latins. The document is now reasonably balanced, and it generally avoids the prescriptive, almost hectoring tone of earlier texts.

At the start of this final two-day meeting in Basle, the following main issues remained unresolved:

(a) Treaty change

My case was that there was no necessity for treaty change until the time came for the transition from stage 1 to stage 2, and that negotiation need not begin until all the proposals for stage 1 were in effect and stage 2 was clearly in prospect. The logic of this was accepted by the Committee, but a majority of the members felt that stage 1 required a political signal of commitment to the concept of EMU, and that immediate treaty change would provide this.

My own position was supported by Pöhl, Hoffmeyer and Jaans (Luxembourg), with Doyle (Ireland) equivocal. We reached deadlock: but in the end Pöhl felt that we could accept a compromise, consisting largely of paragraphs submitted by Hoffmeyer and myself, but including the additional phrase "preparatory work for the negotiations on the new treaty would start immediately." Pöhl argued that this language did not imply treaty negotiation, but only the disposal of preliminary procedural work against the day when negotiation might begin. Larosiere reluctantly accepted this as a compromise, and I found myself isolated. I finally took the view that given the context in which the sentence appears I should allow this addition to my paragraph.

(b) One or more treaty changes

The arguments in favour of one, or alternatively a series of individual treaty changes between each stage are set out without the Committee expressing a view on which is preferable. That was the outcome I was seeking.

(c) Full and partial participation by member countries

The report concludes that it is an essential part of the completion of stage 1 that all member countries should be full members of the ERM - but, as noted below, the report sets no date for the completion of stage 1.

(d) Calendar

No time deadlines are set. It is accepted that the conditions for moving from stage to stage cannot be set in advance, and that it is not possible to foresee today when these conditions will be realised. The Committee has focussed its attention on the technical questions of how to achieve EMU, and states that the question of when it is desirable is a matter of political decision.

In line with the stance of myself and Pöhl, the report also emphasises the fundamental change in individual national positions which either full EMU, or any of the various stages towards it, would involve. It makes clear that the process of achieving monetary union is only conceivable when a high degree of economic convergence has been attained. We have removed references to the harmonisation of taxation and to "social partners"; but there are still a number of remarks about regional policy that will need to be watched.

I am sending copies of this letter to the Chancellor and to the Foreign Secretary.

Yours ever,
Robin