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From the Private Secretary

14 April 1989

SUBJECT: *MTJ2*  
cc MASTER ( )  
*file aBI*  
*PC*  
*CCPA*

*Note by Delors*

DELORS COMMITTEE REPORT

The Prime Minister had a meeting this evening with the Chancellor of the Exchequer and the Foreign Secretary to settle the line which the Government should take in response to the publication of the Delors Committee report on economic and monetary union. The discussion was based on the enclosed question and answer brief prepared by officials.

The Prime Minister said that there were very major objections to the report, in particular to paragraphs 39 and 66 which stated that the decision to enter upon the first stage of creation of an economic and monetary union should be a decision to embark on the entire process; and that preparatory work for a new Treaty should start immediately.

The line suggested by officials for use over the weekend was agreed.

The suggested line to take on publication of the report on 17 April was amended to read:-

"The report is a valuable piece of analysis, which brings out very clearly the fundamental nature of economic and monetary union and the transfer of national sovereignty which it would involve. The report also makes clear that economic and monetary union are not possible within the existing Treaty. There is no question of the United Kingdom agreeing to further Treaty amendment, particularly when the Treaty has so recently been amended to conform with the Single European Act. The priority should be to concentrate on the successful completion of the single market. We have ourselves proposed a number of practical steps which could be taken in the field of monetary co-operation: indeed the United Kingdom is already doing more than others in this respect."

A number of amendments were also agreed to the supplementary questions and answers in the note by Officials. The answer to Question 4 should point out that Treaty

amendment would require unanimity. The answer to Question 5 should start by pointing out that Treaty amendment is not a practical proposition. In answering Question 7, we should not refer to the Hamover Communique but rather make clear that the United Kingdom is not prepared to surrender the degree of sovereignty and control over economic and monetary matters which would be involved in implementing the proposals in the Delors Committee Report.

It was agreed that a copy of the report should be placed in the Library of the House following its publication. The Government's first response would be given by the Chancellor at his press conference following the meeting of ECOFIN in Luxembourg. It would also be appropriate for the Chancellor to make a Statement on ECOFIN by Written Answer which would also cover the Government's first reaction to the report. The report would also need to be sent to the Lords and Commons Scrutiny Committees.

I am copying this letter and enclosure to Richard Gozney (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry), Stephen Catling (Lord President's Office) and Roger Lavelle (Cabinet Office).

Charles Powell

Alex Allan Esq  
HM Treasury.

Suggested line to take over weekend

UK Government's views well known: clearly set out in the Chancellor's speech at Chatham House in January. The report will be published on Monday. We shall study it carefully and will comment on it in the appropriate European fora in the usual way.

Suggested line to take on publication of report on Monday

Report shows clearly EMU would involve fundamental economic and political changes for Member States. These raise very deep political questions which will have to be discussed in months ahead but no sign that any government ready for such a massive shift of economic and political sovereignty in the foreseeable future. Report does not alter UK's position but, as Chancellor made clear in Chatham House speech in January, we support number of practical steps which Community can start to implement now (see below).

Suggested answers to specific questions

Q1. Report advocates UK should join ERM?

A1. Government's position well known. UK will join when time is right.

Q2. Is UK Government committed to report by fact that Governor has signed it?

A2. All members sat on Delors Committee in personal capacity. No government is committed by contents of report (see below).

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Q3. Did Governor consult UK Government on contents of report?

A3. As report makes clear, "The ideas expressed and the proposals contained in the Report are put forward by the members of the Committee in their personal capacity".

[IF PRESSED: Not in business of disclosing contents of discussion between Bank and Government.]

Q4. Is Treaty amendment required?

A4. Institutional changes would require Treaty amendment, as report makes clear and as Prime Minister has stressed on many occasions. But number of practical steps can be taken now without any change to Treaty. *by unanimity.*

Q5. Government's attitude to Treaty amendment?

A5. Talk of amending Treaty simply diverts attention from what we should be doing - completing single market. (NB Many steps can be taken now without Treaty amendment.) *Not a marked prop.*

Q6. Report advocates immediate preparatory work on Treaty amendment?

A6. Report makes clear that early institutional change not required, so no need for immediate preparatory work. But clearly a point ECOFIN and then heads of government will want to discuss.

3Q7. Is UK committed to economic and monetary union?

A7. "... in adopting the Single Act, the Member States confirmed the objective of progressive realisation of Economic and

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Monetary Union" (Hanover Communique, June 1988). But no timetable has ever been set for that and as report itself points out "The conditions for moving from stage to stage cannot be defined precisely in advance; nor is it possible to foresee today when these conditions will be realised. The setting of explicit deadlines is therefore not advisable".

Q8. So no scope for any action?

A8. No. Plenty of practical steps which can be taken, as Prime Minister has indicated in House and as Chancellor set out in Chatham House speech. UK leads way in many of these areas.

[Practical steps:

Prime Minister in statement to House on Hanover, 30 June 1988:

"We have freedom of capital movement; most of them do not. We have no exchange control; most of them have. We have a variety of currencies in our Bank reserves; most of them have not. We also deal in the ecu; most of them do not. So they have a long way before they go nearly as far as we have gone on these matters."

Prime Minister in Bruges, 20 September 1988:

"The immediate and practical requirements are:

- to implement the Community's commitment to free movement of capital - in Britain we have it;
  
- and to the abolition throughout the Community of the exchange controls - in Britain we abolished them in 1979;

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- to establish a genuinely free market in financial services, in banking, insurance, investment;
- to make greater use of the ecu. Britain is this autumn issuing ecu-denominated Treasury bills, and hopes to see other Community governments increasingly do the same."

Chancellor at Chatham House, 25 January 1989:

"Since [1979], the UK has consistently promoted practical steps to increase monetary co-operation further - both within the Community and more widely in the G7.

We have, for example, been a strong advocate of greater use of the ecu [Ecu Treasury Bill programme]... And we have been urging others to join us in making greater use of the ecu in foreign exchange reserves, and in intervention.

We also see a wider role for cross-holdings of individual Community currencies....

And... the UK took the lead... in pressing for the adoption of the directive on the freedom on capital movements.]

Q9. UK's "practical steps" are inconsequential?

A9. Far from it. We stand ready to implement them (and are doing/have done so already in several cases). But should be surprised if even steps we have identified are acceptable to

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all other Member States. This demonstrates how far Member States are from agreeing the much more fundamental changes that EMU would involve.

Q10. Risk of two-tier Europe developing?

A10. Cannot believe it is in interests of any Member State or Community as whole that two-tier Europe should develop.

Q11. Next steps

A11. Report will need to be discussed by ECOFIN before heads of government meet in Madrid. Far too soon to predict outcome.

Q12. Will UK Government find itself isolated?

A12. No reason to suppose so.

Q13. X has said.....; what does UK think?

A13. We have no intention of responding to comments by others reported by the press. (See also A14.)

Q14. What do you think of paragraph Y in report?

A14. Report is for discussion by ECOFIN and then by heads of government at Madrid. No point in commenting in detail at this stage.