

27 April 1989

THE DELORS REPORT AND THE EMS

One effect which the Delors Report is having is to raise again the issue of UK membership of the ERM.

This is evident from the press articles by Sam Brittan and especially Sarah Hogg, but also from individual conversations with officials.

The case being made goes something as follows:

- we all know that Delors' proposal for a common currency and fiscal policy coordinated by Brussels is highly unrealistic,
- but life on the fringe of the EMS is simply untenable,
- not only have we no proper basis for monetary policy,
- but membership of a second-tier Europe will mean much less influence within the Community on the future of EMU,
- and in any case, if we are serious about tackling inflation, there is no medium-term alternative to joining the ERM, so that,
- the Governor signing the Delors Report therefore was a victory for pragmatism,
- all of which is confirmation that the time is ripe!
- moreover, by joining the ERM, EMU will be kicked into touch.

This thesis is bristling with problems.

### A Common European Currency or a European Bretton Woods?

It is impossible to say at this stage whether our 11 partners in the EEC will be prepared to create a common currency. Money - along with language, culture and monarchy - is an important symbol of a nation. Even if the 11 were prepared to create a common currency at some future date, there is little immediate prospect of such a step. It is no accident that the Delors Report omits any timetable.

If the Delors Report does not result in a common currency, then it is argued, the next best arrangement would be a system of irrevocably fixed exchange rates - some variant of a goldexchange standard. But we know it is impossible to have a system of irrevocably fixed exchange rates, if at the same time, individual countries are all to retain any degree of freedom over their currencies. If they print too much money, an internal devaluation will have to be matched by an external devaluation.

This suggests that the most likely prospect for the implementation of the Delors Report will be the establishment of a European version of the Bretton Woods system; a system of fixed exchange rates, which are adjusted rarely and which allegedly provide a basic antiinflationary discipline on countries. Sarah Hogg is explicit on this point: "But the EMS itself - or specifically the mark - offers an end in itself: the nearest modern equivalent to a gold standard, and the return to a counterinflationary discipline of the Bretton Woods system that prevailed for a quarter century after the war."

This interpretation needs to be questioned for at least three reasons:

- a) Bretton Woods was set up in 1947: but it did not really operate properly as the DM was not fully convertible until 1958 - and even throughout the 1960s most countries still retained extensive exchange and capital controls. Despite these controls, the system was creaking by the mid-1960s and collapsed in the late-1960s.
- b) The Bretton Woods system was under constant criticism for three reasons; liquidity, confidence and adjustment: the failure to provide appropriate liquidity, the asymmetry of exchange rate changes between the dollar and other currencies, and the crisis of confidence brought on by the prospect of devaluation or revaluation.
- c) The major reason for low inflation in the 1950s was the vivid memory of hyper-inflation in many European countries in the inter-war years - and a determination to keep prices stable.

### Conclusion

The Bretton Woods system was fraught with difficulties - which is why floating rates proved far preferable. It would be a step backward to return a mini-version of this in Europe.

### Monetary Targets are of Little Value

A common theme of recent years is that monetary targets are of little value because of the rapid change in the structure of financial institutions. Three points need to be made:

- it is certainly true that monetary data has been much more difficult to interpret over the past decade;

- we do know, however, that over recent years narrow money in the UK has been well outside its official target and a good predictor of current inflation;
- if the EMS becomes a fixed exchange rate DM area or if we have a common currency, this problem will not go away - it will simply be transferred from the UK to the interpretation of German data or the EEC as a whole in the interpretation of the private demand for ECUs.

After everything we have endured in the last three years, as we have made the exchange the priority of monetary policy and neglected the monetary aggregates, it is inconceivable that the Treasury could use this argument again.

### Life on the Fringe of the EMS is Simply Untenable

This is sheer Euro-propaganda.

Ever since taking office in 1979, you have developed a workable and successful approach to monetary policy, which is a valid and workable alternative to both EMS and Delors. It consists of the following:

- 1 A medium-term financial strategy (MTFS) designed to tackle inflation and revive the supply side of the economy,
- 2 Narrow money remains a useful target as we know to our cost,
- 3 Some intervention in the exchange market may be justified to prevent overshooting - though it should be within firm quantitative limits,
- 4 De-regulation of markets in financial services,

## 5 Abolition of capital and exchange controls.

More than this, two other important points need to be made.

First, for the foreseeable future the EMS will be a D-Mark area. This is considered desirable because post-war German policy makers have sought a low rate of inflation and growth has been high. It must be open to question whether a future German social democratic government would give such priority to controlling inflation or whether the supply side of the economy will not be ever more impaired by a dose of socialism. Even now Germany is keen to impose its supply side constraints (eg worker participation etc) on others in the Community.

Second, exchange rates play an important role in helping countries adjust their balance of payments deficits or surpluses. If such changes are ruled out in an EMS area, then according to Delors, governments will have to devote far more resources to regional policy. But this is a recipe for more Development Agencies, Regional Grants, Subsidies to re-locate etc: precisely the kind of 1960s thinking which you have abolished in this country.

Being on the fringe of the EMS in such a world as this might be positively helpful.

### Membership of a Second-Tier Europe Would Mean Much Less Influence

The key question is - over what?

- in terms of the creation of a Single Market, the UK has played a prominent part: it is difficult to imagine our ability to press for the total abolition of controls being affected by our view on the Delors Report;
- negotiations over the first stage of implementing Delors would

not require a Treaty change and would therefore be about:

- a) procedures for strengthening economic and fiscal policy co-ordination;
- b) the development of a comprehensive framework for assessing the consequences and consistencies of member states' policies;
- c) removing barriers to the private use of the ECU;
- d) co-ordination of monetary and exchange rate policy involving the establishment of three sub-committees which have a greater research and advisory role and permanent staff;
- e) the possible establishment of a European Reserve Fund;

The issue is whether we would lose out by not being involved in these detailed discussions.

If we wish to become members of a European Bretton Woods and devise elaborate rules etc, then we certainly will lose out by not being in the ERM. In my judgement, the benefits of joining such a system are highly questionable - indeed are almost certainly negative. Many respectable outside economists are taking a similar view.

Officials, however, will almost certainly wish to argue in favour of being involved in the first stage as it creates an enormous number of new committees which they would not wish to be left out of - for reasons which are fully understandable.

### Conclusion

- 1 The essentials of the case for being outside the ERM are as strong as ever:

- full membership would reduce UK flexibility of response, with greater volatility of interest rates;
- cost pressures would result in higher unemployment, without the exchange rate taking the strain;
- British entry into EMS could well change its character because of the nature of sterling as a world currency;
- we transfer to Germany determination of key elements of our economic policy.

2 It is virtually certain that your response to Delors, especially in terms of joining the ERM will be raised by colleagues in the near future.

*Brian Griffiths*

BRIAN GRIFFITHS

Thursday 27 Apr

38 Mr Nicholas Soames (Crawley): To ask the Prime Minister, what is Her Majesty's Government's response to the Delors Report.

HMT

27/4



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HMT

27/4

*Approved by Chancellor*

HMT Ref: 3-0568

FOR ANSWER ON 27 April 1989

TREASURY

C - Crawley

38 Mr Nicholas Soames

To ask the Prime Minister, what is Her Majesty's Government's response to the Delors Report.

DRAFT REPLY:

I refer my hon Friend to the reply given to the member for Brighton Kempton (Mr Gerald Bowden) on 21 April (OR [REDACTED] Col 327) and to the exchange between the Leader of the House (Mr John Wakeham) and the member for Warrington South (Mr Christopher Butler) on 18 April (OR [REDACTED] Col 181).

*B Nelson*

B NELSON  
MG1  
X5558

*MOM*

MISS O'MARA  
MG1  
X4699

MR NICHOLAS SOAMES

**BACKGROUND NOTE**

The answer refers to an earlier PQ on the outcome of the European Community's Economic and Finance (ECOFIN) meeting in Luxembourg on 17 April and to the exchange at Prime Minister's Question Time on 18 April. Copies of that answer and the exchange on the Delors Report are attached.

2. The Delors Report on Economic and Monetary Union (EMU) was published on 17 April following its presentation by M Delors to ECOFIN on that day. The Report identifies three stages in achieving EMU but acknowledges the dangers of attempting to set any kind of time-table. The report also makes it clear that economic and monetary union is not possible within the existing Treaty of Rome.

3. At the press conference following the ECOFIN meeting the Chancellor of the Exchequer said: "[The Report] is an extremely valuable and thorough piece of analysis. It brings out a number of things very clearly ..... the fundamental nature of EMU and ..... that this would be a quantum leap compared to anything that we have agreed to so far. It makes it clear that this would not be possible within the terms of the existing Treaty ..... We cannot accept the transfer of sovereignty which is implied by the Delors report. EMU as spelled out in the report would in effect require political union, a United States of Europe. That is simply not on the agenda now or for the foreseeable future ..... there can be no question of further Treaty amendment along the lines of the Delors report" (telegram recording the Chancellor's press conference is attached).

4. A copy of Mr Soames most recent intervention on this subject is attached.

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FROM UKREP BRUSSELS

FRAME ECONOMIC

DELORS COMMITTEE REPORT ON EMU: CHANCELLOR'S PRESS CONFERENCE, 17  
APRIL 1989

1. AT HIS PRESS CONFERENCE THIS AFTERNOON, WHICH FOLLOWED  
DELORS', THE CHANCELLOR MADE THE FOLLOWING OPENING STATEMENT:

'AT LUNCH, WE HAD A VERY LUCID PRESENTATION BY THE CHAIRMAN OF THE  
COMMITTEE ON ECONOMIC AND MONETARY UNION, MR DELORS. WE AGREED THAT  
WE WOULD DISCUSS THIS IN DEPTH AT THE INFORMAL ECOFIN NEXT MONTH. IN  
MY OPINION, THE REPORT IS AN EXTREMELY VALUABLE AND THOROUGH PIECE  
OF ANALYSIS. IT BRINGS OUT A NUMBER OF THINGS VERY CLEARLY. FIRST,  
THE FUNDAMENTAL NATURE OF EMU, AND THE FACT, AS THE REPORT SAYS,  
THAT THIS WOULD BE A QUANTUM LEAP COMPARED TO ANYTHING THAT WE HAVE  
AGREED TO SO FAR. SECOND, IT MAKES IT CLEAR THAT THIS WOULD NOT BE  
POSSIBLE WITHIN THE TERMS OF THE EXISTING TREATY SO TREATY AMENDMENT  
WOULD BE NEEDED. IT ALSO MAKES IT CLEAR THAT THERE WOULD BE A  
TRANSFER OF SOVEREIGNTY FROM MEMBER STATES TO NEW CENTRAL MONETARY  
AND ECONOMIC INSTITUTIONS. IT WOULD BE EASY TO SAY THAT THIS WAS  
GOING TO BE A LONG PROCESS WHICH WE COULD EMBARK ON WITHOUT ANY  
INTENTION OF GOING RIGHT TO THE END. BUT THAT WOULD NOT BE HONEST  
AND WOULD NOT DO JUSTICE TO THIS VERY IMPORTANT REPORT. WE HAVE TO  
ASK WHETHER WE WANT TO REACH THE END STAGE, HOWEVER LONG THAT MIGHT  
TAKE. I MADE HMG'S VIEWS VERY CLEAR IN MY CHATHAM HOUSE SPEECH OF 25  
FEBRUARY. OUR VIEW OF THE COMMUNITY IS ONE OF INDEPENDENT SOVEREIGN  
NATION STATES WORKING EVERMORE CLOSELY TOGETHER. WE CANNOT ACCEPT  
THE TRANSFER OF SOVEREIGNTY WHICH IS IMPLIED BY THE DELORS REPORT.  
EMU AS SPELLED OUT IN THE REPORT WOULD IN EFFECT REQUIRE POLITICAL  
UNION, A UNITED STATES OF EUROPE. THAT IS SIMPLY NOT ON THE AGENDA  
NOW OR FOR THE FORESEEABLE FUTURE.

AS REGARDS TREATY AMENDMENT, WE ONLY RECENTLY AMENDED THE TREATY  
AND THAT CAME INTO EFFECT AS RECENTLY AS 18 MONTHS AGO. THAT WAS

PAGE 1  
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FROM SEC'S OFFICE	
ACTION	
COPIES	Mr Peretz
	Miss O'Mara

NECESSARY TO IMPLEMENT THE SINGLE ACT AND SINGLE MARKET. THE COMPLETION OF THE SINGLE MARKET BY 1992 IS THE MAJOR TASK OF THE COMMUNITY, TO WHICH THE UK IS TOTALLY COMMITTED. BUT THERE CAN BE NO QUESTION OF FURTHER TREATY AMENDMENT ALONG THE LINES OF THE DELORS REPORT. HAVING SAID THAT, THERE ARE A NUMBER OF THINGS WE CAN DO WITHIN THE EXISTING TREATY TO IMPROVE ECONOMIC AND MONETARY COOPERATION. SOME OF THESE ARE MENTIONED IN THE REPORT. WE WOULD BE VERY KEEN TO PRESS FORWARD WITH THESE. BUT NOT TREATY AMENDMENT OR EMU AS ENVISAGED IN THE REPORT.''

## 2. QUESTIONS AND ANSWERS

Q. YOU WOULD NOT HAVE SIGNED THE REPORT? THE PM WILL VETO ANY MOVE TO AN IGC?

A. A HYPOTHETICAL QUESTION. THE MEMBERS OF THE COMMITTEE WERE THERE IN THEIR PERSONAL CAPACITY. I HAVE GIVEN HMG'S VIEWS AND THAT INCLUDES THE PM'S. THIS REPORT WILL GO IN DUE COURSE TO THE EUROPEAN COUNCIL IN MADRID. THERE IS NO PROPOSAL YET ON AN IGC.

Q. WHY DO YOU NOT OPPOSE MEMBERSHIP OF ERM WHICH YOU HAVE SAID IN THE PAST YOU FAVOUR, WHEN THAT ALSO IMPLIES A TRANSFER OF SOVEREIGNTY? ANYTHING IN THE REPORT WHICH REINFORCES THE ARGUMENTS ON ERM?

A. OUR POSITION ON THE ERM OF THE EMS, WHICH IS WELL WITHIN THE EXISTING TREATY, IS CLEAR. WE WILL JOIN. THE QUESTION IS WHEN. THAT HAS ALWAYS BEEN THE CASE. THERE IS A WORLD OF DIFFERENCE BETWEEN THE EMS WHICH DOES NOT INVOLVE ANY LOSS OF NATIONAL SOVEREIGNTY AND EMU WHICH, AMONG OTHER THINGS, WOULD INVOLVE A COMMON SINGLE COMMUNITY CURRENCY AND THE ABANDONMENT OF INDIVIDUAL NATIONAL CURRENCIES. NO ONE SHOULD CONFUSE THE TWO.

Q. DO YOU AGREE WITH THE REPORTS'S ASSERTION THAT EMU IS A SINGLE PROCESS WHICH YOU HAVE TO SIGN UP TO FROM THE START?

A. TO DO THEM JUSTICE, I DO NOT THINK THE AUTHORS ARE SAYING THAT. WHAT THEY ARE REQUIRING IS A POLITICAL COMMITMENT TO THE ENTIRE PROCESS WHEN ANYONE EMBARKS ON THE FIRST STEP. THE EVENTUAL DESTINATION REPRESENTS A CONCEPT OF THE EC WHICH WE DO NOT SHARE. I BELIEVE THERE ARE A NUMBER OF OTHER COUNTRIES WHO HAVE RESERVATIONS ABOUT THE ULTIMATE OBJECTIVE ALTHOUGH WHETHER THEY MAKE THAT CLEAR AT THIS STAGE, AS I HAVE, IS ANOTHER MATTER.

Q. UK WILL BE DRAGGED INTO PROCESS, AS IT WAS ON IGC FOLLOWING

MILAN?

A. THERE IS NO QUESTION OF THAT. WE WERE NOT DRAGGED INTO THE SEA WHICH IMPLEMENTS THE SINGLE MARKET. QUITE THE CONTRARY: THE UK WAS FOREMOST IN ESPOUSING THE CASE FOR THE SINGLE MARKET. WHEN I SAY WE HAVE RESERVATIONS ABOUT EMU, WE ARE IN FAVOUR OF CLOSER COOPERATION. FOR EXAMPLE THE UK LIBERALISED CAPITAL MOVEMENTS TEN YEARS BEFORE THE COMMUNITY DECISION. WE HAVE PIONEERED THE ISSUING OF TREASURY ECU BILLS AND HAVE DEVELOPED THE ECU MARKET MORE THAN ANY OTHER COUNTRY. WE HOLD ECU'S IN OUR RESERVES, AS WELL AS OTHER COUNTRIES CURRENCIES. NOT ALL MEMBER STATES DO THAT. WE WELCOME CLOSE COOPERATION WITHIN THE COMMUNITY.

Q. POSITION OF THE GOVERNOR OF THE BANK OF ENGLAND?

A. ON THE COMMITTEE IN HIS PERSONAL CAPACITY. I UNDERSTAND HE GAVE A PRESS BRIEFING TODAY.

Q. PARA 44 OF THE REPORT IMPLIES THAT OTHER MEMBER STATES CAN GO AHEAD WITHOUT THE UK?

A. NO ONE WANTS TO SEE THE EC NEEDLESSLY DIVIDED. I AM CERTAIN THAT IS NOT DELORS' POSITION, NOR IS IT MINE. THIS IS A SUBSTANTIAL PIECE OF WORK ON A SERIOUS SUBJECT WHICH RAISES A NUMBER OF IMPORTANT ISSUES. IT IS NOW FOR THE VARIOUS COUNTRIES TO INDICATE WHERE THEY STAND ON THEM. ANY ATTEMPT TO FRAGMENT THE COMMUNITY WOULD DAMAGE IT. I THEREFORE HOPE THAT WILL NOT HAPPEN.

Q. THE OTHER MEMBER STATES WILL GO AHEAD ON A BASIS WHICH PERMITS THEM TO DO SO WITHOUT THE UK? CAN THE UK PREVENT THE COMMUNITY GOING AHEAD WITH THIS BLUEPRINT?

A. WE HAVE GOT TO SEE HOW OTHER MEMBER STATES REACT TO THE VERY FUNDAMENTAL PROPOSALS IN THIS REPORT WHICH HAS ONLY BEEN PUBLISHED TODAY. I AM NOT PREPARED TO SPECULATE AT THIS VERY EARLY STAGE ON WHAT OTHER COUNTRIES MIGHT DO. I HAVE STATED VERY CLEARLY HMG'S POSITION AND OUR RESERVATIONS ABOUT THE FINAL OBJECTIVE OF THE PROCESS OUTLINED IN THE DELORS REPORT. THE PROCESS REQUIRES TREATY AMENDMENT. THIS WOULD BE VERY PREMATURE SUCH A SHORT TIME AFTER THE MAJOR AMENDMENT INVOLVED IN THE SEA.

CAMPBELL

**Mr. Michael Forsyth:** I understand that the hon. Member is referring to paragraph 2.7 of Scottish working paper 5 "Capital Charging", rather than to the White Paper Cm. 555. As indicated in paragraph 4.1 of that working paper, health boards are expected to record their capital assets and to value them on a provisional basis during 1989-90 and to refine these values during 1990-91. There are no plans to publish details of individual landholdings and site values of health board properties.

## NATIONAL FINANCE

### EC Economic and Finance Council

**Mr. Gerald Bowden:** To ask the Chancellor of the Exchequer if he will make a statement on the outcome of the latest meeting of the European Community's Economic and Finance Council.

**Mr. Lawson:** The ECOFIN Council met in Luxembourg on 17 April. I represented the United Kingdom.

The council reached agreement with a delegation of the European Parliament, under the conciliation procedure, on the regulations required to implement the new own resources decision of June 1989 which include measures to tighten controls against fraud.

The council had a further discussion of the Commission's proposals on taxation of savings, of direct tax measures to encourage cross-border co-operation between enterprises, and of the proposed 18th VAT directive.

The council discussed indirect tax approximation, stressing the need to consider alternative approaches for the abolition of fiscal frontiers.

The council heard a presentation from the Commission on the revised proposal for a second banking co-ordination directive.

The council adopted a common position on the proposed directive on own funds of credit institutions.

The President of the Commission outlined the main features of the report of the Committee on Economic and Monetary Union which is to be discussed further by the council. I made it clear that, while supporting practical steps within the framework of the existing treaty designed to improve economic and monetary co-operation, the United Kingdom cannot accept the transfer of sovereignty implied by the proposals for full economic and monetary union contained in the Delors report.

### Internal Market

**Mr. Sillars:** To ask the Chancellor of the Exchequer what assessment he has made of the total value at the latest available full year of public sector contracts in each of the European Community countries other than the United Kingdom of a character which will make them open to Community-wide bidding as part of the creation of the internal market.

**Mr. Brooke:** None. The cost would not be justified. Information is available from European Commission studies on the size of the procurement market in various industrial sectors in other member states but the value of the contracts to be opened to Community-wide bidding will depend on the coverage of the proposed directives and

the threshold above which they will apply. The Commission is investigating the effect of setting the threshold at various levels.

### EC (Payments)

**Mr. Ralph Howell:** To ask the Chancellor of the Exchequer, pursuant to his answer to the hon. Member for Southend, East (Mr. Taylor) *Official Report*, 8 November 1988, column 112, what was the net payment made to the European Community by the United Kingdom for each year since 1979; and what was in each case the net payment to European Economic Community institutions as a percentage of gross domestic product.

**Mr. Brooke:** The information requested is set out in the table.

Total net payments to European Community institutions<sup>1</sup>

	£ million	Percentage of money GDP
1979-80	841	0.4
1980-81	168	0.1
1981-82	117	0.1
1982-83	589	0.2
1983-84	836	0.3
1984-85	974	0.3
1985-86	822	0.2
1986-87	1,079	0.3
1987-88	1,664	0.4
1988-89	950	0.2

<sup>1</sup> Excluding overseas aid: for domestic public expenditure planning purposes, part of the United Kingdom's contribution to the Community budget is attributed to the overseas aid programme.

### Treasury Stock

**Mr. Andrew Bowden:** To ask the Chancellor of the Exchequer if he will estimate the number of persons holding 2½ per cent. Treasury stock 1975 issued in 1946-47; and what is the size of the average holding.

**Mr. Lilley:** There are approximately 12,300 registered holders of 2½ per cent. Treasury stock 1975 or after with an average size holding of £38,700. It is impossible without undue cost to distinguish between personal and corporate holdings.

**Mr. Andrew Bowden:** To ask the Chancellor of the Exchequer what would be the cost of redemption of 2½ per cent Treasury stock 1975.

**Mr. Lilley:** The cost of redemption of 2½ per cent Treasury stock 1975 or after would be £475 million.

**Mr. Andrew Bowden:** To ask the Chancellor of the Exchequer what plans he has to redeem 2½ per cent Treasury stock 1975.

**Mr. Lilley:** None.

### Personal Imports

**Mr. Butler:** To ask the Chancellor of the Exchequer whether he has any plans to increase the duty free limit on personal imports of gifts into the United Kingdom; and if he will make a statement.

**Mr. Lilley:** The travellers' allowances for goods purchased duty free for importation as personal gifts are

## Elections (Publicity)

**Mr. Allen:** To ask the Prime Minister what is the total amount of money being spent by Her Majesty's Government Departments on publicising the individual's right to vote in the forthcoming (a) county council and (b) European elections.

**The Prime Minister:** Every person registered to vote at these elections will receive a poll card specifying the election, and when and where polling will take place: the cost to the Treasury at the forthcoming European parliamentary elections is expected to be in excess of £3 million; a corresponding figure for the county council elections is not readily available. The cost of delivering candidates' election addresses at the European parliamentary elections, expected to be in excess of £4 million, will also be met by the Treasury. An annual campaign undertaken by the Home Office at a cost of around £0.5 million publicises the need to be included in the electoral register in order to secure the right to vote at all elections in the forthcoming year.

## Engagements

**Mr. Harry Greenway:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Barry Field:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Rathbone:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Baldry:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Stern:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Andrew F. Bennett:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Pike:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Wakeham:** I have been asked to reply. This morning my right hon. Friend the Prime Minister addressed the conference on security and co-operation in Europe forum at the Queen Elizabeth II conference centre. This afternoon my right hon. Friend will attend the 150th anniversary of independence celebrations in Luxembourg.

HCS	Grade	DS	Number		Percentage	
			Aid Wing (at 1 April 1989)	Diplomatic Wing (at 31 December 1988)	Aid Wing (at 1 April 1989) Per cent.	Diplomatic Wing (at 31 December 1988) Per cent.
			0	4	0	2.6
1-3	Senior grade		0	—	0	—
4	No DS equivalent		4	10	10	3.5
5	DS4		3	—	4.6	—
6	No DS equivalent		19	35	11	9.8
7	DS5		663	759	43.8	24.3
All grades	DS <sup>1</sup> mainstream					

<sup>1</sup> Information concerning all Home Civil Service equivalent grades in the FCO at 31 December 1988 is not yet available.

There are no members of ethnic minority groups at DS5 and above in the diplomatic wing. The total number of

staff in the diplomatic wing who have identified themselves as coming from ethnic minorities is 97, representing 1.8 per cent. of respondents.

## EC (Monetary Union)

**Sir Peter Hordern:** To ask the Prime Minister if she will place in the Library a copy of the Delors committee's report on economic and monetary union in the European Community.

**The Prime Minister:** I have done so today.

## Football Violence

**Mr. Denis Howell:** To ask the Prime Minister what steps have been taken to enforce the convention on spectator violence at sports events signed on 19 August 1985 by Ministers of 10 nations, including the United Kingdom; what specific results have been achieved in the implementation of each of the 17 articles of this convention, and if she has any plans to assure the European Union of Football Associations that the convention will be fully implemented so that English football clubs can be re-admitted to European football competitions.

**The Prime Minister:** Fifteen countries have signed and ratified the European convention which was initiated and drafted by the United Kingdom following the Heysel stadium tragedy in 1985. The United Kingdom was the first signatory to the convention and chairs the standing committee which monitors its operation. Considerable progress has been made by the Government, the police and the football authorities to give effect to the measures contained in the convention. The Football Spectators Bill will provide further measures to counter hooliganism at football matches in this country and abroad. We will continue to keep UEFA informed of progress on these matters.

## FOREIGN AND COMMONWEALTH AFFAIRS

### Equal Opportunities

**Mr. Janner:** To ask the Secretary of State for Foreign and Commonwealth Affairs how many and what percentage of officers in grades 1, 2, 3, 4, 5, 6 and 7, respectively, and overall in his Department are (a) women and (b) members of ethnic minorities.

**Mr. Eggar:** The most recent information available as regards women officers in the aid wing of the Foreign and Commonwealth Office and in the equivalent diplomatic service grades is as follows:

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**Mr. Hattersley:** Having had 24 hours in which to appreciate the mood of the House and the country, are the Government now willing at least formally to suspend consideration of part 1 of the Football Spectators Bill until the Taylor inquiry has reported on the whole subject of safety at football grounds without the inhibition or pressure of concurrent parliamentary legislation?

**Mr. Wakeham:** The Third reading of the Football Spectators Bill in the House of Lords was fixed for 24 April. That has been postponed, and no new date has yet been arranged. The Bill is an enabling framework. The Government have already given a full commitment not to implement the membership scheme within that framework until satisfactory arrangements have been worked out. That commitment still stands and, obviously, now embraces the lessons to be learnt from this tragic event.

**Mr. Hattersley:** That answer is, I think, word for word, what the Home Secretary said yesterday and is equally lacking in meaning. May I put a wider point to the Leader of the House. Will the Government understand the advantages to the whole country of proceeding on this subject by co-operation rather than confrontation? Will the Leader of the House make it clear to the Prime Minister that, given goodwill on both sides, such co-operation is possible? It is absurd that this should become a party political matter. We do not want that to happen, and I do not think that the country wants it to happen.

**Mr. Wakeham:** Neither do the Government want it to happen, but if there is to be goodwill on both sides the hon. Gentleman had better listen to the replies that are given. I was not repeating what the Home Secretary had said yesterday.

**Q2. Mr. Butler:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April.

**Mr. Wakeham:** I have been asked to reply. I refer my hon. Friend to the reply that I gave some moments ago.

**Mr. Butler:** Will my right hon. Friend give a firm and clear commitment to retain the pound sterling, and not to trade it for some kind of European funny money?

**Mr. Wakeham:** My right hon. Friend the Chancellor of the Exchequer made clear yesterday the fundamental and far-reaching nature of the proposals in the Delors report. I can assure my hon. Friend that the proposals for a united states of Europe are simply not on the agenda. There can be no question of future treaty amendments along the lines of the Delors report. We cannot accept the transfer of sovereignty that that implies. What we should be doing is pressing ahead with completion of the single market by 1992—a major task, to which the United Kingdom is totally committed.

**Mr. McAllion:** I know that the Leader of the House will wish to join me in sending the sympathy of the entire House to the family and friends of the young Dundee girl who was killed by two Rottweiler dogs last Friday. The House cannot turn away from its clear responsibility to control and restrict the availability of licences for these and other powerful and potentially lethal dogs. Will the Leader of the House therefore consult his right hon. Friend the Home Secretary with a view to the initiation of an immediate review of the no-licence situation and the

early introduction of legislation to ensure that these killer dogs are removed from, and safety restored to the streets of this country?

**Mr. Wakeham:** I shall certainly consult the Home Secretary. I have read about the recent tragic incident in Scotland. There has long been legislation to control dangerous dogs, and remedies are available once it is clear that a particular dog is dangerous. The breeding of dogs for sale commercially is already controlled by legislation. We do not think it sensible to try to extend these controls to private individuals who wish to sell the offspring of pets. We are therefore not contemplating legislation to control a particular breed or type of dog. However, I shall refer the matter to my right hon. Friend.

**Q3. Mr. Burns:** To ask the Prime Minister if she will list her official engagements for Tuesday 18 April 1989.

**Mr. Wakeham:** I have been asked to reply. I refer my hon. Friend to the reply that I gave some moments ago.

**Mr. Burns:** Will my right hon. Friend join me in congratulating Chelmsford borough council on its "operation eyesore" this week for cleaning up litter blackspots in the area? If my Control of Litter (Fines) Bill is unsuccessful, owing to the absence of parliamentary time, will the Government be prepared to bring in legislation to give all local authorities the power to impose on-the-spot litter fines? Could shops, fast-food outlets and banks be compelled to keep the pavements outside their premises litter-free?

**Mr. Wakeham:** I certainly congratulate the Chelmsford borough council on the steps that it is taking to combat litter. I hope to be in Chelmsford on Friday to have a look at it. Litter is everybody's problem, and we are all involved in finding solutions. Local authorities, in particular, have a valuable job to do. The Government are considering a variety of measures to back up litter abatement activities, including those provided for in my hon. Friend's Bill.

**Mr. Ashdown:** Can the right hon. Gentleman deny that 7.5 million people in Britain now drink water with excessive levels of lead, and 5 million people drink water with nitrate levels which exceed the European standards? Can he deny that Britain is liable to be brought before the European Court for those infringements? What action do the Government intend to take to ensure that we are not prosecuted for failing to provide safe water for the people of Britain?

**Mr. Wakeham:** I cannot confirm or deny the hon. Gentleman's figures, but I am glad to hear that he is supporting the steps that the Government are taking to improve the quality of water through the National Rivers Authority.

**Mr. Rowe:** Will my right hon. Friend pass on to his right hon. Friend the Prime Minister an invitation for her to visit Mid-Kent and other parts of Kent so that, with her considerable interest in the problems of the environment, she can see for herself the immense pressures to which that county is now subjected as a direct consequence of the success of her own policies?

**Mr. Wakeham:** My right hon. Friend the Prime Minister will enjoy a visit to Kent when she can make it, and I shall pass on the invitation.

next six months will be under the presidency of Greece, a country whose priorities may be a little different. Would my right hon. and learned Friend care to comment on that?

**Sir Geoffrey Howe:** I certainly endorse my hon. Friend's comment that the national personalities and priorities of the member states vary from half year to half year. I expect that the six months that we spend under Greek presidency will be different from the six months that we have had under the German presidency.

My hon. Friend is also right to emphasise the large number of measures towards the single market taken in the past six months. Indeed, since June 1985 about 200 measures have been taken. For the next six months, it is important to emphasise that the Hanover European Council, with full Greek participation and endorsement, agreed four priorities for the coming months: opening up of public contracts; liberalisation of banking and other financial services; mutual recognition of standards; and progress on so-called intellectual property—trade marks and patents.

**Mr. Dykes:** With this harmonious and positive summit, and the fact that since the internal market campaign was launched by the Government the Commission office in London has been inundated with many more inquiries and expressions of interest by a public who are increasingly enthusiastic about the development of the Community, does my right hon. and learned Friend agree that, as the member states get used to working more reciprocally in these legitimate areas with majority rule, this country would derive more benefit from that system of democratic majority rule than by insisting on a rearguard action to preserve outdated and anomalous traditions?

**Sir Geoffrey Howe:** I must confess that I was exhilarated by the enthusiasm of my hon. Friend's question for about its first 85 per cent., but I was dismayed that a member of the Conservative party should dismiss traditions quite as brusquely as he did. We are able to achieve the proper balance between those matters. In the provisions of the Single European Act we have retained and stressed unanimity in cases where it is appropriate, but, under the British presidency, as a talisman of our willingness to make headway, more decisions were taken by majority decision than in any preceding presidency.

**Mr. Rees:** Were there any formal discussions about Northern Ireland between the Taoiseach and the Prime Minister in Hanover?

**Sir Geoffrey Howe:** The Prime Minister and the Taoiseach had a meeting at Hanover at the conclusion of the European Council meeting and a short press statement was issued thereafter.

**Mr. Tom Clarke:** At its last meeting, did the Council consider the view expressed by the Iranians that, at the monthly meeting with European ambassadors, the only empty chair is that of Great Britain? Would it not be in the interests of dialogue that that chair be filled, and is not dialogue now important?

**Sir Geoffrey Howe:** The hon. Gentleman will find that the seat that would be occupied by the British ambassador in Tehran is occupied by the Swedish ambassador, who looks after our interests there.

However, on the wider question, we discussed in the House last week the obvious desirability of being able to establish normal relations with a country as important historically and prospectively as Iran, but I went on to make very clear the need for Iran to recognise the number of steps that it should take—suspending the sponsorship of terrorism, according proper guaranteed rights to diplomats, treating prisoners in Iran in accordance with consular rules, and abiding by the provisions of resolution 598. Those are the steps that need to be taken if the revolutionary regime in Iran is to come to terms with the way in which it should live in company with other nations.

**Mr. Corbett:** What recent discussions have taken place at the European Council to secure the territorial integrity and independence of Cyprus and the removal of Turkish troops? Will the Foreign Secretary undertake to raise that matter with President Evren when he visits London later this month?

**Sir Geoffrey Howe:** We have certainly discussed the Cyprus question on a number of occasions, most recently in the context of the association council proposed with Turkey on 25 April, which did not in fact then take place. Certainly we attach importance to progress in Cyprus in response to the initiative of the United Nations Secretary General. Whenever either I or the Prime Minister meet the Head of Government or the Foreign Minister of Greece or Turkey, we raise the question on that basis, and I have no doubt that it will be discussed in the course of President Evren's visit next week.

**Mr. Soames:** Will my right hon. and learned Friend confirm that the British Government are wholeheartedly committed to examining the possibility of the creation of a European central bank?

**Sir Geoffrey Howe:** I confirm that the Government wholeheartedly accept the commitment, in the study established at the European Council, for the consideration of concrete steps towards the objective, reaffirmed in the Single European Act, of progressive realisation of economic and monetary union. Those words have been endorsed by the House and by successive Governments for many years. How far and how fast that requires us to go towards the establishment of a central bank is one of the questions for consideration by that committee.

**Mr. Robertson:** Has the Foreign Secretary noticed that the excellent Greek Government, on assuming the presidency of the Community, declared that one of their main priorities would be to press for social policies such as job creation, health and safety, retraining and sexual equality up to the completion of the internal market by 1992? Since those commendable policies were comprehensively rubbished by the Prime Minister at the Hanover summit, something which brought strong criticism from the German press, will the Government and the Foreign Secretary be supporting the Greek presidency in its objective, or will the Government yet again stand alone in ensuring that big Europe will be only for big business?

**Sir Geoffrey Howe:** The hon. Gentleman retains one qualification—the ability to coin the odd phrase. The trouble is that the phrases that he coins have nothing to do with the real world. The European Council agreed on a programme of measures to be given priority in the months ahead. I have already identified them. They are measures

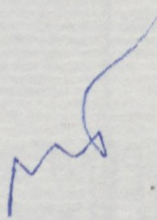
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BILATERAL WITH BRIAN GRIFFITHS: 28 APRIL

Brian would like to use his bilateral meeting with you tomorrow to discuss the follow up to the Delors Report. You are already aware of the talk in the press and elsewhere of the implications for the UK's position on the ERM. Brian's note below reports further on that, and sets out his analysis of the position.



*Ball.*

PAUL GRAY

27 April 1989

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TALK WITH ALAN WALTERS ON MONDAY

We are arranging for Alan to collect a copy of the Delors Report and the Chancellor's ECOFIN comments when he arrives on Monday morning. When you spoke to Charles this afternoon about Monday's lunch I think it was envisaged that just Alan, Brian and Charles would be attending.

mt  
DT  
Brian  
Alan  
Charles  
Andrew  
Paul

Andrew and I had a word about attendance this evening and wonder if you would mind if both of us also came. The major issues involved, rather uniquely, are ones that fall almost equally between subjects that Andrew, Charles and I would normally handle in Private Office terms.

You may of course feel that three of us is far too many. If so perhaps you could let the Duty Clerk or Charles know over the weekend.

Perfectly all right by me  
but please warn The Hayes  
at the time that there will  
be ~~three~~<sup>two</sup> extra for lunch - i.e. 7 of  
us  
altogether

AGG.

(PAUL GRAY)  
28 April 1989

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

"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."

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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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

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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 means*

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.) *Treaty amendment is not a practical proposition* *Not a practical*

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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*The UK is not prepared to surrender the degree of sovereignty & control over economic & monetary matters*

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".

*which would be involved in implementing the Delors Committee proposal.*

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.

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*Ball.*

PAUL GRAY

27 April 1989

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