



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

12 May 1989

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File EL3DNK
cc A.W.

Dear Subian

Thank you for your letter of 4 May on the Delors Report and our response to it, and for sending me the note of your talk with Delors. I know that both Alan Walters and Charles Powell have also talked to you about this.

Our approach to proposals for Economic and Monetary Union is part of our wider campaign to see the Community develop along the lines of Britain's relatively free trade, open competition system, rather than the corporatist, cartellised and regulated system typical of much of continental Europe. This applies to monetary arrangements just as much as to trade, industrial policy, labour regulations and trade union law.

Our reluctance to join the ERM by some specific date - as proposed in Stage One of the Delors Report - is based on the special conditions of Britain as an open capital market with competitive financial services, and on our determination to manage our own monetary policy and control the rate of inflation. The latter has to take priority over trying to maintain a particular exchange rate. According to your note of the Delors meeting, he said that "we had shadowed the Dmark so closely [in 1987/8] that he saw no insuperable problems" with British membership of the ERM. I take the view that our experience shows the opposite.

As for Stage Two, I do not accept the analogy which you draw between the sterling area of the 1930s-50s and the European

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Community of the 1990s. The sterling area was created as an inwardlooking, preferential trade and currency bloc within a world of non-convertible currencies, complex exchange controls and crippling trade restrictions. Now we are working for open markets in currency, capital and trade with all the world. And sterling's role is relatively modest compared with the 1930s when sterling was used very widely in international transactions.

As for Stage Three, paragraph 39 of the Delors report seeks a prior commitment to a monetary union of Europe and all that such an arrangement implies as the condition for embarking on closer monetary and economic cooperation. It's all very well for Delors to say that we could, as you put it, get off the train at any time, but it is simply not consistent with his report. We are not prepared to subscribe to full Economic and Monetary Union for the reasons which Nigel Lawson and I have both set out: it would require a massive transfer of sovereignty and the creation of a federal Europe, which is simply not on the agenda.

The commitment to completing the Single Market in 1992 must be the first priority. We also need to do much to ensure that there is genuine fair competition throughout Europe, by tackling the very considerable subsidies which countries such as Italy and Germany in particular still give to their industry. There will be opportunities in parallel to take practical steps to improve monetary cooperation, but generally speaking we are well ahead of the others in this respect. I do not accept that such practical cooperation should be made hostage to a totally impracticable goal of full Economic and Monetary Union - and I think others can be brought on reflection to realise this, and to follow the more pragmatic approach which I set out in the Bruges speech.

Yours ever
Nigel Lawson

Yes mem

Charles,

attached letter sent to
Julian Amery at his
home address, as draft
instructed. However, it
wasn't clear whether
Sir Alan Walters should
also get a copy of
the PMS reply - do you
wish me to send him
one?

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12/5



FROM: THE RT. HON. JULIAN AMERY, M.P.

*Cf dont want
Cf have earlier
letter!*

112, EATON SQUARE,

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TEL: 01-235 1543
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Personal

FOR THE PRIME MINISTER ONLY

4 May, 1989

Rie Nutter *mt*

My dear Margaret,

*A follow-up to his
letter on EMS/EMU, in
red box. CD 5/5*

I enclose with this a letter to you (copied to Nigel Lawson, Geoffrey Howe and George Younger, also to Alan Walters) and a note of a talk earlier this week with M. Delors.

What I say, here in this letter, is for your eyes alone i.e. not copied to the others.

You happen to have the strongest position of any Western leader, in terms of intellectual (ideological) success and a home base. But in your relations with Presidents Bush or Gorbachov, you have too limited a power base. As the leader of Britain you can have a decisive influence in the next two years. But looking to the next decade you need to make yourself Mistress of Europe. It is within your grasp and would make you the arbiter of international affairs. This isn't just a dream; it is a crown for you to seize and it is there for you to take.

I lived through all this with Churchill from 1946 - I was with him, Sandys, Boothby and my father, when he decided to launch the European Movement [autumn 1946] - I saw him seize and then lose the chance. The ball is now back in your court.

I hope you will let me come and have a word about this. It is probably the last shot in my political locker. I will ask Mark for audience.

Yours,

Julian

Julian Amery

The Rt. Hon. Mrs. Margaret Thatcher, M.P.



FROM: THE RT. HON. JULIAN AMERY, M.P.

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24/5

112, EATON SQUARE,
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TEL: 01-235 1543
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Rt. Minister

4 May, 1989

Confidential

Perhaps
a written

Man will doubt I warned you
reply that he has that he had some rather
seen Tubbien. I can certain ideas on EMS. Would
Then I can say you refer to discuss with
man for with him rather than
after he has had a written reply?

As one of the few surviving veterans of old European battles in the 1950s I have been rather concerned by the Government's seemingly abrupt rejection of the Delors Report.

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I believed then and still do that we made a serious mistake in refusing to take part in the Schumann (coal and steel) Plan conference and a disastrous mistake in refusing to join as a full partner in the Messina negotiations leading up to the Treaty of Rome. The ostensible reason for refusing both invitations was the advance commitment required to a supranational authority. Needless to say no such authority materialised, as de Gaulle was to make clear.

Another reason was the mistaken advice of the Foreign Office that the six could not go ahead without us and that the Treaty of Rome would be stillborn.

On hearing Nigel Lawson's dismissal of Delors I had a grim feeling of "We have been here before". But before venturing to put my views on the subject to you I thought it would be wise to have a talk with Delors and try to probe his thinking. I accordingly saw him on the afternoon of Tuesday, 2nd May and attach a note of our conversation.

What he said to me was perfectly predictable but shows a considerable degree of flexibility. His report is a compromise between different schools of thought. No dates are fixed. Progress from one stage to another is for political decision.

The Rt. Hon. Mrs. Margaret Thatcher, M.P.

Stage One - joining the EMS as early as 1990 - presents some difficulties; but these should be temporary. If we can't put our own house in order here, there is not much point in joining anything anyway. Monetary convergence ~~or conversion~~ won't make us more competitive.

When it comes to Delors Stage Two, we should be the experts. Our experience of creating Sterling as a reserve currency and the Bank of England as a Reserve Bank (not a Central Bank) is unique. It should make the City the natural location for a European model.

As to Stage Three of Delors, I prefer to rest on the words of the hymn: "I do not care to see the distant scene. One step enough for me". But, while quoting hymns, a reference to Cecil Spring Rice's "I vow to thee my country" may be relevant. Verse one is a total commitment to the interests of the U.K. Need it conflict with verse two which lies some way ahead?

I am copying this letter to Nigel Lawson, Geoffrey Howe and George Younger.

Also to Alan Walters whom I am seeing next week.

To Mrs Thatcher,
Julian Amery

Julian Amery

The Rt. Hon. Mrs. Margaret Thatcher, M.P.

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I called on M. Delors at 4.00 o'clock on Tuesday 2nd May, 1989 at his office in Brussels. One of his officials, Mr. Dixon, who specialises in monetary matters was present. The meeting was at my initiative.

I began the talk by asking M. Delors whether the Commission really wanted the British to take a full part in the process of European monetary convergence and co-ordination. In the 1950s the Demo-Christian leaders - Schumann, Adenauer and de Gaspari - had kept Britain at arms length over the Schumann Plan Conference and the Messina Conference. They had done so by demanding a prior commitment to a supranational authority. Though, of course, in neither case had this actually developed. General de Gaulle's veto a decade later had only confirmed our exclusion.

M. Delors would realise that Paragraph 39 of the Report, seeking to commit those joining in the discussion to agree in advance to the long-term aim of a single European currency and a European Central Bank had stirred up many old British prejudices and had led even committed Europeans like myself to ask: do the Commission really want us in?

I had rather expected that M. Delors would reply he wanted us in, but that the Community could get on quite well without us if necessary. He did not say this. Instead he argued cogently that British participation must strengthen the European monetary process and that our absence would only weaken it. He went on to explain that in drafting the report he had had to reconcile the aspirations of the enthusiasts with the pragmatism of others. He had done so by holding out the ideal as the goal but leaving the timetable completely open and for political decision.

I then asked whether the prior commitment requested in Paragraph 39, was a condition or an indication. He asked me what I meant by that. I said that, if I took a train from Paris to Marseilles but found the journey uncomfortable or changed my mind about the destination, was I free to get out at Lyon or some other station en route. He said yes, of course, Britain or any other Party, under his proposals, could get out at any moment they thought the system was not working as they had hoped. He would of course like us to board the train with a view to going to the terminal point but would quite understand if we thought it unacceptable to continue the full journey. A decision on the terminal point - Stage Three of his proposals - might not be taken for many years.

but will it be later?

Stage One of the three Delors proposals recommends that we should join the EMS in 1990. I said that some of us saw three difficulties here:-

1. We had an 8% inflation. I hoped we could bring it down to somewhere around 4% by 1990. But could not be sure. It would be difficult to join until we had done so. He accepted that and is I think more concerned with a declaration of intent - beyond what we have already given - than with actual achievement.

2. I said that we were not clear what would be the consequences in France, Italy and the Iberian countries of abandoning exchange control. He was optimistic on this score since the corporate sector had already been virtually freed of exchange control; but there did remain the personal sector and he seemed to understand that we might want a year or so to see how it worked out in practice.

3. I said that sterling was still a very widely used currency, was he sure that it could be accommodated in the EMS? It was weaker than the Deutschmark but possibly more widely used. He said that we had shadowed the Deutschmark so closely that he saw no insuperable problems. *- only 8% inflation*

1.1 I then passed to Stage Two of the Report and referred to the history of sterling after we went off gold in 1931. We had created a paper currency not tied to gold or anything. It had not been a single currency though it had been based on the pound sterling, nor had there been a ^{Central} ~~single~~ sterling Bank. The Bank of England had acted as a Reserve Bank where the *sterling* other Central Banks had lodged their reserves. They had tried, as in the EMS, to keep their parities more or less in line with Britain's but had retained independent control of issuing money and managing interest rates. He thought this accorded very closely with his concept of Stage 2. of his proposals. I said that sterling had served as a reserve currency for some thirty years. He hoped that Europe could go on to a single currency and a single bank sooner than that but only time would tell.

Finally, I said that there was a political issue which, as a British Member of Parliament, I felt I must mention. Some of us in London couldn't help feeling that the EMS and any development of it would be dominated by the Bundesbank and so by Germany. He agreed that the EMS, as at present constituted, was based on the Deutschmark. As a former French Minister he was very conscious of this. He had, however, to concede that it was the primacy of the Deutschmark alone which had brought the other Continental currencies out of the inflationary cycle. France had learned a hard lesson but it had been worth learning. German influence was now dominant and would remain strong even if Britain joined the EMS. But the more Britain was involved the more that influence would be diluted. It was another reason why, as a Frenchman, he hoped we would come in as full partners.
