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Charles Powell Esq
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Dear Charles

MEETING WITH SIR MICHAEL BUTLER AND SIR JEREMY MORSE

Sir Michael Butler, in his capacity as Chairman of the European Committee of the British Invisible Exports Committee, together with Sir Jeremy Morse, called on the Chancellor this morning to discuss the follow up to the Madrid Council's discussion of the Delors Report. Sir Terence Burns was also present.

Sir Michael said that the European Committee was concerned that the UK should place itself at the centre of follow up work to the Council. We should also seek to ensure that the Bank played a major role in any arrangements which might emerge from the process.

The Chancellor said we would be seeking to participate fully in the discussions. These should be thorough, and not rushed. We were developing a critique of Delors' Stages 2 and 3, and we hoped to put forward positive alternatives to Delors' proposals. There would be a preliminary discussion at next week's Ecofin, and a further discussion at the informal Ecofin in Antibes in September. We did not favour the creation of any central European banking institution and hence the question of where it might be located did not arise. Instead, we supported closer co-operation between existing central banks. Sir Jeremy Morse said that the Bank should seek to develop a role as a sort of 'Federal Reserve Bank of New York-plus' in the context of the various European Central Banks. The Chancellor confirmed that we would seek the strongest possible position for the Bank, and the City.

Sir Michael suggested that a flaw in Delors' proposals was that any European central bank would in fact conflict with the constitutions of the individual member states. The Chancellor said that any such bank would be founded on new Treaty provisions



and hence would presumably override national law. But it was certainly the case that other member states had not thought through the implications of the Delors proposals for their own constitutions.

Sir Michael suggested that, if the UK was to get anywhere with its arguments we would need to have a clear idea of what we meant by EMU. He did not think this could be less than a system of locked currencies with no margins. The Chancellor doubted that such an inflexible system was workable.

Sir Michael suggested that it would be worthwhile to set in hand an economic study of the damage to the growth prospects of eg Spain and Portugal if the 'social Europe' proposals were implemented. The Chancellor agreed.

I am copying this letter to Richard Gozney (FCO), Ben Slocock (DTI), Paul Tucker (Bank) and Trevor Woolley (Cabinet Office).

Yours sincerely

J M G TAYLOR
Private Secretary