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From
Sir Trevor Holdsworth
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The Rt Hon Nigel Lawson MP
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9 June 1989

Dear Nigel

European Economic and Monetary Union

I thought it would be helpful to write, prior to the June Summit of European Community leaders in Madrid, to give the CBI's preliminary reaction to the proposals of the recent report of the Committee for the Study of Economic and Monetary Union set up by the European Council last June.

This is a complex and far-reaching subject and the issues it raises are being examined in detail by a special working group of the CBI's Economic and Financial Policy Committee, chaired by David Lees, Chairman of the Committee and of GKN plc. However, we have already had the opportunity to discuss this subject within the Economic and Financial Policy Committee and my President's Committee. From these discussions, there are a number of issues on which business opinion is already clear and we hope the UK Government will take these into account in presenting the British position in Madrid.

Firstly, exchange rate instability is a great handicap to business, and with 1992 drawing closer, stability against European currencies is particularly crucial. The CBI has for some years now supported UK entry into the Exchange Rate Mechanism of the EMS. The implicit link, established in the Report, between this move and a fundamental commitment to economic and monetary union appears to place a further obstacle in the way of UK entry. We do not believe this linkage is necessary and believe that it should still be possible for the UK to join the ERM, without any further strings attached.

Indeed, the discussions surrounding the Delors Committee report have, in our view, strengthened the case for the UK joining the Exchange Rate Mechanism of the EMS as soon as possible. It is likely that the terms and conditions attached to membership will change, as a part of any further steps that are taken towards monetary union; and while we are seen as part-time members of the European Monetary System, our ability to influence such a change is weakened. The terms on which we can join the zone of exchange rate stability within Europe, which the ERM has created, may therefore become less favourable as time passes.

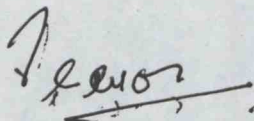
Secondly, we are in sympathy with the stage-by-stage approach set out in the report and believe that a genuinely evolutionary approach is desirable. The decision to embark on the more far-reaching second and third stages of the proposals should therefore await the satisfactory completion of the initial steps, which will need to include the participation of the UK in the existing Exchange Rate Mechanism.

Thirdly, a single European currency may offer considerable benefits to British business by removing the need for foreign exchange transactions within the Community and the exposure to exchange risk that this brings. But this should not be achieved at any price. Indeed, the ability to realign under the present Exchange Rate Mechanism offers a degree of flexibility to national economies in correcting imbalances which would be lost under a fixed exchange rate system.

Finally, CBI members are concerned about the concentration of power over fiscal decisions in the hands of Community institutions implied by the report. Such "binding fiscal rules" are not only undesirable, in that they may well be used to raise the tax burden on business, but are probably not necessary, even if Europe is to move towards a single currency.

I hope these comments are helpful and I look forward to being able to provide a more considered reaction in due course.

Yours sincerely



Sir Trevor Holdsworth