

DRAFT

Oral Report to the European Committee

Meeting with the Prime Minister on 15th June, 1989

As agreed at the last meeting, I wrote to the Chancellor and to Number 10 to request a discussion of follow-up to the Delors Report between Jeremy Morse, Michael Franklin and myself and the Chancellor and the Prime Minister (separately). The Chancellor spoke to me on the telephone after the informal Ecofin meeting in mid-May and later wrote to say that he looked forward to hearing from me again once I had seen the Prime Minister. Charles Powell indicated that I should come to see the Prime Minister on my own. I had an hour with her on 15th June.

2. I told the Prime Minister that the European Committee had had a preliminary discussion of the Delors Report and were proposing to resume discussion at our next meeting concentrating on Stage I. I said that there was a range of views in the Committee but that the general consensus seemed to be that the "in for a penny in for a pound" thesis in paragraph 39, suggesting that all three Stages had to be accepted now, was unsound and unnecessary; that Stage II was very sketchy and that the outline of Stage III was not the only form of economic and monetary union which could be envisaged. My view, which I thought that most members of the Committee would agree with, was that most of Stage I was quite sensible and that the "progressive realisation of economic and monetary union" as in the Hanover Council conclusions, should be evolutionary. It would be easier to say how best to proceed in further stages when Stage I had been agreed and implemented.

3. I said that there would be concern in the City if the outcome of the forthcoming E.C. discussions was that the other Governments went ahead with an attempt to set-up a European monetary institution without the U.K. London's position as the main financial centre in the European time zone was in any case going to be under challenge. The French in particular would be making a major effort to draw business

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away from London. Luxembourg, with its favourable tax regime, was attractive to fund management and other companies. Amsterdam and Frankfurt would also be in the race. At the moment, a great number of non-European financial institutions not only regarded London as the main financial centre in Europe but dealt with Europe as a whole out of London. If the impression was created that the British might stand aside from European monetary developments they would probably shift some of their staff and business elsewhere. It was very important that Britain should be fully involved in discussion of the progressive realisation of economic and monetary union.

4. The European Committee had discussed a paper I had put to it and there seemed to be support for the following line:-

- (a) the Prime Minister, at the European Council in Madrid, should confirm that we will work constructively on the proposals in Stage I of the Delors Report with a view to decisions by July 1990;
- (b) the aim should be agreement to implement Stage I in parallel with the completion of the Single Market programme up to the end of 1992; further progress after Stage I should be considered at the end of 1992.

5. The Prime Minister did not comment directly on these suggestions. She took a dim view of the Delors Report as a whole, particularly paragraph 39, but said that she would welcome advice, on any points of detail relating to Stage I. She was concerned that some member Governments, particularly the Germans, would delay or obstruct progress towards a genuinely free market in financial services and would like advice as to the points on which she should press her colleagues at Madrid for swifter progress in this field.



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21st June, 1989

C. Powell, Esq.,
10 Downing Street,
London, S.W.1.

Dear Charles,

Madrid European Council
Economic and Monetary Union and the Single Market

At our discussion on 15th June the Prime Minister asked me to produce a note covering both Stage I of the Delors Report and the Single Market. I had expected to be able to do this in the light of a discussion in the European Committee of the BIEC today. Unfortunately it had to be postponed owing to the strikes. So the enclosed note, which I should be grateful if you would show to the Prime Minister, has had to be written on my own responsibility in the light of previous discussion in the Committee.

I also enclose a draft oral report on my discussion with the Prime Minister which, unless you see objection, I shall use when the Committee meets on 5th July.

Yours sincerely,

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Michael

Sir Michael Butler