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PRIME MINISTER

MADRID EUROPEAN COUNCIL: DELORS REPORT

You have time for a word on Monday with Alan Walters, Brian Griffiths, Andrew, Paul and me about the joint minute from the Foreign Secretary and the Chancellor on the handling of economic and monetary union at the Madrid European Council. We have provided time for a meeting with the Foreign Secretary and the Chancellor the following day.

You have already seen the minute and my note. I have also put in the folder Stage I of the Delors' Report, and the various texts for which you asked.

The main points which you have to settle seem to me:

- are you willing to elaborate in any way on our current position that we shall join the ERM when the time is right? Clearly you are not prepared to indicate any deadline (and indeed it would be rash to do so). But we could spell out certain qualifications or conditions to be fulfilled before we join, as Alan Walters suggested in his note some time ago. You would still need to retain sole discretion over a decision on when the time is right.
- if you are prepared to consider some modification in the way our position is expressed, can we devise a formula which is sufficiently attractive to the other Europeans to discourage them from rushing ahead to an Intergovernmental Conference, yet does not in substance go beyond the policy set out in the Election manifesto? One such suggestion is on page 3 of my earlier note.
- would spelling out the conditions which would have to be fulfilled before we join the ERM be useful as a spoiling tactic, in the sense that compelling the others to fulfil them would place the ERM under irresistible pressure?

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Or is that wishful thinking?

- even assuming you are ready to contemplate a formula, is it right to table it at Madrid? Or shall we just be making our concession too early (given that it cannot be retracted), and be better off keeping it to the European Council in Paris in December?
- if you rule out any elaboration of our position on ERM, what other opportunities are open to us to reach an agreed position at Madrid on the next steps on ERM? The text of the Delors Report does not make membership of the ERM an absolute condition of Stage I: it says that "it would be important to include all Community currencies in the EMS exchange rate mechanism". Can we for instance offer to expand Stage I in any respect?
- can we draw up a tight linkage to ensure that implementation of Stage I only proceeds in strict parallel with completion of the Single market on all its aspects, (ie. not just financial)? Would achieving that be a sufficient incentive to warrant some elaboration of our position on eventual membership of the ERM?

e.p.?

C. D. POWELL

16 June 1989

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