

PRIME MINISTER

MADRID EUROPEAN COUNCIL: CABINET

I am told that the Foreign Secretary does not intend to raise the question of ERM at Cabinet tomorrow. I do not know whether the Chancellor is likely to do so. But I assume that you will only want to use the speaking note I have suggested if there is a full discussion initiated by others.

Yes
mr

C.D.T

CHARLES POWELL

21 June 1989

EMS,

Rie Minister (2)

MADRID EUROPEAN COUNCIL

You asked Richard
Baker to let you
have his views on
Madrid. His views
of what is necessary

The Delors Report

1. This note is written on the assumption that the Prime Minister:-

- (a) will be prepared to confirm, as at Hanover, "the objective of progressive realization of Economic and Monetary Union"; *to obtain a*
- (b) will not be prepared to accept the linkage in paragraph 39 of the Delors Report between Stage I and Stages II and III; *substantive*
- (c) will wish, if possible, to avoid a Treaty drafting exercise at this stage. *conclusion on*

2. In the circumstances I recommend that:-

- (a) she agree that the European Council confirm the ECOFIN decision to go to work on Stage I, with a view to decisions by July 1990;
- (b) argue that Stage I should be implemented in parallel with the completion of Council's work on the single market during the period up to the end of 1992; and that the right time to consider further progress after Stage I will be in 1992 (evolution not blue-print, institutions to be created only if and when there is a need for them to do something that has to be done).

EMU is closer
to your than to
the Council / Per. Sec

it
does
not
see

a
need to

per a
decision for

3. The main proposals for Stage I in paragraphs 50-52 seem to be on broadly acceptable lines, though Finance Ministers may wish to adjust them in detail. The disagreed proposal in paragraph 53 for a European Reserve Fund, though it might be possible to implement it without Treaty amendment and though it would not be a very radical step, could perhaps better be considered in 1992, as an option for further progress then.

joining
the
ERM

CBD
21/6

4. The Prime Minister's European colleagues may try to secure a more explicit commitment to join the ERM than the formula in paragraph 2.(b) above. Though there are varying views on timing in the European Committee and some members would not be in favour of joining in today's circumstances, I judge that all would be relaxed if the Prime Minister were prepared to go a little further than 2.(b).

The Single Market

5. Good progress is being made by the Council in adopting the measures necessary to create a single market in the financial services field. The Second Banking Co-ordination directive agreed on Monday is particularly important. The main outstanding points to which the European Committee will attach importance are:-
 - (a) implementation without backsliding by the French and Italians of the commitment to remove all remaining exchange controls by July 1990;
 - (b) agreement on the Investment Services Directive in good time to allow implementation by 1st January, 1993 in parallel with the Second Banking Co-ordination directive;
 - (c) agreement on a life insurance directive;
 - (d) agreement on a Merger Control regulation which provides clarity and avoidance of double jeopardy (Commission and national authorities) for companies planning to undertake mergers.

6. The Committee expects progress on the draft takeover directive to be slow and recognizes that many of the barriers to takeovers in other member states cannot be removed by E.C. legislative action. The Committee's view is that it would be better to take the time to negotiate an improved version than to rush through a less satisfactory draft.

7. One subject which is of less direct interest to the City but which is important to many industrial companies is public purchasing. The sooner liberalization can be extended to fields such as telecommunications the better. It will be important for the Commission to try to negotiate equal openness for European companies in U.S. and Japanese public companies in return for their continuing to receive the same treatment as European companies in Europe.

Conclusion

8. In conclusion, I should like to reiterate the importance the City attaches to Britain being fully involved in future E.C. discussions of the "progressive realization of Economic and Monetary Union". There is evidence of, for example, American banks asking themselves whether London remains the best place in Europe in which to establish themselves and of Japanese banks already established here wondering whether they should continue to do most of their European business out of London. If other member governments were to embark on discussions about the creation of future European monetary institutions without the U.K., this would be damaging to London's chances of remaining the principal financial centre in the European time-zone.

MDB/st/2y2
21st June, 1989