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PRIME MINISTER

MEETING WITH ALAN WALTERS: 27 SEPTEMBER

You are seeing Alan for 45 minutes tomorrow morning.

I have had a long talk with him this afternoon to brief him on current developments. I suggest the priorities for discussion tomorrow are:

- i. the economy - interest rates, trade figures, M0, etc.;
- ii. electricity privatisation;
- iii. (if time permits) EMU.

Economy

My impression is that Alan feels strongly that the present level of interest rates is right and we should not contemplate any change. He seems reasonably satisfied with the course of the M0 figures, and is relatively sanguine about the continuing high external deficit. As you know, he does not favour significant intervention to prevent the exchange rate falling if that is what the market wants - whereas you have adopted an asymmetrical approach under which you do not favour intervention to stop the pound rising but are content with intervention to stop it falling.

Electricity Privatisation

You may like to take Alan's mind on this in advance of Thursday's meeting. I have reported to him on your recent talks both with John Wakeham and Nick Ridley, and he has seen John Wakeham's latest paper which you started to look at earlier today. This is enclosed at Flag A, in case you wanted to have a full read of it this evening to see the new compromise John Wakeham is suggesting.

My impression is that Alan is most concerned about the extent of the limitations proposed on competition and the sheer bureaucracy of it all. The problem of course is how to increase the competitive element given the constraints of:

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- the tight timetable;
- the fact that we cannot force the newly privatised companies to sign contracts they don't want;
- the various aspects of the nuclear problem;
- the coal strike risk.

EMU

Alan missed most of the key meetings of the Peter Middleton group during the summer that prepared the papers leading up to the 'competing currencies' proposal. But I think by the time he sees you tomorrow morning he will have had a chance to touch base with Peter Middleton on this and other issues. I imagine you will want him to do further work on this. But in terms of priorities for the use of the time available tomorrow, the economy and electricity privatisation are both more pressing.

*PaCC.*

PAUL GRAY

26 September 1989