

SECRET AND PERSONAL



SUBJECT CC MASTER

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*From the Private Secretary*

5 April 1990

Dear John,

EUROPEAN MONETARY ISSUES

At their bilateral yesterday afternoon, the Prime Minister and the Chancellor had a brief discussion about the position on a number of European monetary matters.

I should be grateful if you would ensure that this letter is seen only by those with a strict need to know.

The Chancellor said that he would shortly be sending to the Prime Minister a detailed paper prepared by officials on the various options for handling discussions on progress towards economic and monetary union in the run up to the Inter-Governmental Conference. He would also be sending her a minute setting out his conclusions on the best way forward. The objective was to design the best strategy for protecting against rapid progress towards stages 2 and 3 of EMU and the erosion of national sovereignty, while ensuring that the UK was not excluded from the negotiating process. It was crucial to maximise our influence in the negotiations and on the way in which Europe would develop; and that influence was bound to be affected by developments in relation to future UK membership of the Exchange Rate Mechanism.

The Prime Minister said that there would be an opportunity at the seminar planned for Tuesday 17 April to discuss some of these issues and in particular to consider further the question of UK membership of the ERM. She looked forward to receiving the promised minute from the Chancellor. In considering further developments on EMU it was essential to avoid the loss of national sovereignty and the growth of central control. She commended to the Chancellor a recent IEA pamphlet by Mr. Frank Vibert, entitled "The New Europe: Constitutionalist or Centralist?". While the UK had indicated it was prepared to enter the ERM, subject to the appropriate conditions being met, moves towards central European control were an entirely different matter. There were serious dangers in the UK adopting a posture which implied that moves beyond ERM membership towards further economic and monetary integration

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could be contemplated. If other member states wished to take such steps that was their concern, but the UK should make clear it was not prepared to participate in the process; if we made that position absolutely clear it was likely that, under pressure from the Bundesbank, Germany would also decline to move to further stages. The desirability of developing increasingly free trade relations with the USA and other countries, possibly via the GATT process, should be kept clearly in view; whereas tight centrally controlled blocks of countries should not be allowed to develop.

Yan,  
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PAUL GRAY

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