

PRIME MINISTER

EMU

You have a meeting tomorrow with the Chancellor and Nigel Wicks to discuss EMU. You have read the Chancellor's note, although not (I think) the fuller paper by officials attached to it. You have also read Sir Michael Butler's paper, and my own note, all of which you will find in the folder.

The questions we need to address tomorrow are:

- has our present evolutionary approach, as set out in our paper on competing currencies, run out of steam? I am afraid the answer is that it has: not because it's a bad paper, but because it provides no new institutional step forward and does not therefore command support from other EC members.
- will a 'rejectionist' approach work? ie, if we simply refuse to accept Treaty amendment, will the others eventually back down? Or will they go ahead with a Treaty among Eleven? The best advice from all quarters is that they will so go ahead with a separate Treaty.
- does it matter if the Eleven go ahead without us? There is a difference here between standing aside from the beginning and negotiating right up to the final stage of Treaty amendment before deciding whether to join any new mechanism or institution ourselves. I would have thought the former would be in a difficult position to sustain, both within the Conservative Party and in the country in the run-up to a General Election. It is surely a better posture to be stuck in there, arguing our point of view and making clear what we cannot accept, than just standing aside.
- should we put forward some new proposals for Stage 2 of EMU? There are some ingenious proposals in the Butler paper and in the Treasury paper. Either of them would put us in a positive position of having some clear alternative proposals

to put forward. Neither involves erosion of Parliament's sovereignty. The differences between them are largely technical (you might ask the Chancellor or Nigel Wicks to explain them).

- can we sustain in the EC a position whereby Treaty Amendment is limited to Stage II, but detailed specification of Stage III is left for a subsequent Treaty? There is no doubt this would be a very good solution from our point of view: and one can certainly regard Michael Butler's paper as arguing for this (the Treaty revision which he proposes would deal only with Stage II). Had we joined the ERM in the interim, our credentials for arguing for a Stage II only Treaty would be stronger. The Chancellor and his officials - who are of course directly exposed to the debate in Europe - take the view that we shall not get away with this, and that we shall have to accept a Treaty which gives a full definition of EMU and the institutions necessary for its final stage (although on an 'opting-in' basis), if we are to get by. This judgment is perhaps the most crucial one. At least at this juncture we should surely be arguing (i) that the first task is to complete Stage I; (ii) that we are prepared to contemplate a substantial Stage II with an institution and therefore Treaty amendment; but (iii) we can only accept a general definition of Stage III without any attempt to define its institutions. We may in the end have to go beyond this: but we should start here.

- if we have eventually to accept that a Treaty will define Stage III and its institutions, is the Chancellor's 'opting-in' proposal a runner? The end result could be the same as standing aside from the whole debate now: that is a two-speed Europe. But at least it would be one in which we would be seen to have tried and put forward positive arguments of our own: and it would not happen for quite a long time. The Chancellor will argue that, without his 'opting-in' proposals for Stage III, our ideas for Stage II will be scorned by the others.

- timing of these proposals? You will want to ask the Chancellor when he intends to float these ideas, and in what form. If we go ahead with them, it will be important to derive the maximum political benefit.

C.D.P.

Charles Powell

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