CONFIDENTIAL

PRIME MINISTER

EMU/ERM

The Chancellor would like to discuss this at the bilateral next Thursday before opening it out to a wider group of colleagues. Content for him to bring Sir Peter Middleton and Nigel Wicks to that meeting? Yes m

The option which the Treasury feel has most attractions has some similarities with ERM as that too was a system with a provision for latecomers. It will be argued that our arguments for a latecomer's provision will carry more weight if we have joined the ERM as this will be interpreted as evidence that we will join eventually and are not just seeking this provision in order to avoid ever entering EMU. It is a variant of the more general argument that we will carry more weight in the IGC having joined.

Conversely, to have joined the ERM will alarm those who oppose EMU fundamentally as they will draw the conclusion that one is always forced eventually to activate the latecomer's clause.

AT

ANDREW TURNBULL

25 May 1990

chex.kf/jg/61 **PERSONAL AND C**

cc PC
(CDP agreed)

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

NATO –

PRIME MINISTER

EMU

Following our talk on 18 April I have been thinking further about the way ahead on EMU in the coming months.

2. We are, quite frankly, cornered a bit by the IGC. My present judgement of the situation is as follows:

- the Eleven are determined to agree Treaty amendments providing for an EMU, on the Delors definition, a single monetary policy, locked currencies, (very probably) a single currency, and all to be administered by a European Central Bank;

- whatever support there is in the Community for a substantial Stage 2 (and it looks to be declining), it is certain that the Eleven will not be satisfied with a Treaty which deals only with Stage 2; but

- the House of Commons will not accept a Treaty which commits the United Kingdom to move to the final stages of an EMU on the lines described above; nor would we wish to recommend one;

Have not the votes to commit 2 Parliaments ahead.

(1) Long time coming - but will come

Japs. or U.S.

Bad for Europe.

Have not the veto to commit 2 Parliaments ahead.

(1) Long time coming - but will come

Japs. v U.S.

Bad for Europe.

- if we refuse to sign the Treaty likely to emerge from December's Inter-Governmental Conference, the Eleven will before too long go ahead with their own separate Treaty;

- a Treaty of Eleven would be seen by many as, and may indeed be, the beginning of a path to a two-tier Europe. At this crucial electoral stage the overwhelming majority of our supporters will, I believe, want to avoid our being confronted with this option;

What's wrong with that if the other tier is going in the wrong direction. Why do we wish to add further to the enormous deficit we have in dealing with the E.C. but France or Germany do it.

- the timetable for the IGC on EMU is, in electoral terms, acutely embarrassing. It could well complete its work in the summer of 1991 with Parliamentary consideration of the amending Treaty, should we agree to put it forward, some time during the next 18 months.

3. If these judgements are correct we have got to find a way out of this hole, and we need to do so quickly. It is very likely that other Member States are already preparing drafts of Treaty amendments for December's IGC. Unless we are to be faced with a series of faits accomplis and a totally impossible negotiating position, we need to be ready to table our own amendments in a form where there is some prospect of their securing some support. In short, we need a formula for an amending Treaty which: No

- permits the Community to proceed with Treaty amendment for EMU on the lines described in paragraph 2 above;

- allows us to agree such a Treaty; but

- does not require a commitment from this present House of Commons to make the transfer of sovereignty implicit in a single monetary policy, a single currency etc; and keeps open the options for future Houses to remain outside the system if they wish; and

- avoids our having to make any decision about a two-stage Europe.

4. The paper attached at Annex A considers five options which might achieve that end. Of the five, the last is, I think, the only one which offers a prospect of negotiability and which would meet our objectives.

5. Under this option, the amending Treaty would provide that when a simple majority of Member States (or even less) had indicated that they were ready to proceed to full EMU, the appropriate provisions of the Treaty would come into effect. But they would apply only to the Member States which had opted in to that final stage. It would be essential to ensure that the Treaty made clear that Member States could decline to opt in to the final stages of EMU and that this right could be maintained indefinitely. We would also wish to make clear, I am sure, that any decision to opt in to these final stages would be taken at the national level and that, at least in the UK, our national Parliament would need to be fully involved. Unavoidably under this option we would have to accept the definition of full EMU, but as the note at Annex A explains, the only way of not accepting such a definition is not to sign the Treaty. The important point for us is that we want to avoid a Treaty which would commit us to moving to full EMU. We want an arrangement that would permit us to maintain that position indefinitely if that is what Parliament wanted. The fifth option in the paper at Annex A is intended to do that.

6. I believe that this option could be presented positively and in a way which makes clear the overriding importance which we attach to the position of Parliament. We could say justifiably

that the route chosen reserved the important decision regarding the transfer of monetary sovereignty to the Parliament of the day and gave that Parliament the freedom to decide. We could point out to our supporters that freedom of decision would not have been preserved either if we had presented Parliament with a Treaty which committed the UK to move to monetary union or if we had stood aside and let the Eleven sign a separate Treaty. In the first case Parliament would have been asked to concede the principle at the outset, perhaps years before the issue became a practical one, and in the second Parliament would have been deprived of exercising the option of moving to a single monetary policy etc should it ever choose to do so. The route outlined above - leaving the crucial decision to the Parliament of the day - is one which is sensible in itself and which preserves the freedom of Parliament.

7. We would need to think very carefully how we put this approach to the other Member States. One possibility might be to say that in practical terms no-one in the Community is ready to move now to full monetary union; the opting-in arrangement recognises this position. It would provide a means whereby the British people could, through a vote of the Parliament of the day, provide the necessary consent for a significant transfer of monetary sovereignty. If we put the issue in this way, we could take credit for what we have in mind and not be on the defensive. We also need to consider when we would make clear to the Community that an opting-in provision on the lines described above is essential for us. I believe that if we do not make clear our position at an early stage our presentation in the Community and in the UK would become impossible. To spring this on other Member States at a late stage would risk accusations of bad faith and in the meanwhile raise suspicions among our supporters in this country.

8. On the assumption that we can establish a viable negotiating position for the UK on the final stage of EMU, I have been considering whether we should float some ideas for the so-called Stage 2 of EMU. The essential distinction of this stage from the final stage is that responsibility for monetary policy would still remain in national hands. There are two broad reasons why a Stage 2 might be in our interest:

(i) Political: we want to postpone for as long as possible Member States' actual decision to move to the final stage. Directly Member States, or a group of them, take that decision, we will be faced with decisions about use of the opting-in provision described in paragraph 5 above. Provided it was of sufficient content, a Stage 2 could help in extending the time before we were confronted with such a decision. More generally, the other eleven will want to set up an institution in the near future and an EMF could satisfy that in a way that would be acceptable to us.

(ii) Economic: in view of the complexity of EMU there is much to be said for devising an approach which is both valuable in its own right and which provides, for those Member States wanting to go to the final end, a mechanism whereby the final stage can evolve out of Stage 2 rather than being a leap from Stage 1. An extended Stage 2 would also give time for the necessary economic convergence to take place.

Public justification for Stage 2 could, of course, rest only on the economic arguments. If other Member States believed that we were advocating a Stage 2 as a means of temporising, our ideas would be dead on arrival. This suggests that we should only float ideas for a Stage 2:

- within the context of our acceptance of an amending Treaty which would include provisions for the final stage; and

- if our Stage 2 ideas could be seen both as a transitional step on the way to the final stage <u>and</u> as a useful step in their own right (and which would not commit individual Member States to go all the way to full EMU).

9. Officials from the Treasury and Bank of England have set out in the paper at Annex B an assessment of the possibilities for a Stage 2. Two broad, but not necessarily conflicting, approaches are described, both of which involve the creation of a European Monetary Fund (EMF). They are: the creation of an ecu currency board with the objective of providing a mechanism for putting ecu bank notes into circulation without adding to monetary growth in the Community; and a more ambitious approach, based on Sir Michael Butler's paper, involving the creation of a new "hard" ecu which would never devalue against any Community currency at an ERM realignment. This latter approach is quite radical and intended to create an institution with embryonic monetary policy functions at the same time as monetary sovereignty is kept in national hands. But it is still essentially evolutionary in nature : individuals and companies would be free to choose between using this ecu or separately circulating national currencies. Safeguards need to be built in to prevent the process adding to total Community monetary growth and undermining national monetary policies. Providing this can be done the scheme should act as a further instrument of financial discipline in the Community. Further work is urgently in hand on these aspects in the Treasury and the Bank.

CHANCELLOR OF THE EXCHEQUER

10. Both approaches can be coupled with additional features whereby the EMF could assume certain functions eg:

- in managing the ERM and the ecu;

- the co-ordination of intervention against third currencies; and

- playing a role in the granting of the Community's conditional balance of payments loans.

11. We know from their present positions that it will not be easy to convince the other Member States of the merits of our proposed EMF approach to beyond Stage 1. There have been indications since our meeting in April that the French, who appeared to see some attractions in a long Stage 2, are now ready to accept a short Stage 2. So (unsurprisingly) are the Commission. Even so the proposal for an EMF should attract some interest in the Community. To the extent that some elements of the proposal, including the "hard" ecu, add to financial discipline, it should have some attractions to the Germans. But they may argue that the scheme smacks too much of creating a parallel currency which they traditionally dislike. But, some members of the Community may see the approach as a useful means whereby the Central Banks can work together in the implementation of monetary policy in the stage after Stage 1 while keeping control of that policy in national hands. We could retain the currency board option described in the Interdepartmental Group's Report, possibly as an interim stage. We certainly could present both approaches as compatible with our evolutionary competing currency approach.

12. As I say, we cannot be sure the proposal would fly in the Community and the probability at the moment is that it would not have majority support. Even so, I believe it is worth floating in broad terms as a further constructive UK contribution to the

debate, provided we make our position clear on Stage 3 as I suggest above.

13. I recognise that these are all extremely difficult issues. But I see no way of avoiding them. Unless we can find a way through, we will face difficulties not only in the Community but also with many of our supporters in the House and in the country. Of course, we will need to consider very carefully the tactics for presenting all this to the Community and to the House of Commons especially in view of the likely discussion of these issues at ECOFIN on 11 June and later in the month at the European Council. But first I should like to discuss the substance with you when we might also consider how best to involve a wider group of colleagues.

I don't see the difficulty.

M

John M.

[J.M.]

24 May 1990

AN EMU TREATY: UK OPTIONS

Introduction

1. This note examines possible options for an EMU Treaty and the considerations affecting the UK's attitude to it.

2. Our main concern is to avoid a commitment to unacceptable monetary arrangements, including a single Community monetary policy and a single currency. Our attitude to a single EC central monetary institution would depend on whether membership carried any commitment to a single Community monetary policy in the UK. We expect to have less difficulty over economic union, provided binding rules on budget deficits can be avoided. The rest of this note therefore concentrates on monetary union (MU), on the assumption that the UK will secure its objectives on economic union.

3. The UK is already committed (most recently in the preamble to the Single European Act) to the general objective of "progressive realisation of Economic and Monetary Union". The nearest we have come to accepting a Delors-style definition of MU is in the preamble to the 1973 Regulation establishing the European Monetary Cooperation Fund (EMCF). However, these are both political, not legally enforceable, commitments since they appear only in the preambular paragraphs of Community legal documents.

4. Any EMU Treaty amendment will impose specific legal commitments on all member states. It is worth distinguishing between two different sorts of Treaty commitment:

(i) commitment to a detailed <u>definition/specification</u> of full MU;

(ii) commitment actually to <u>move</u> to full MU.

Some of the options considered below would enable the UK to avoid (i). Others would avoid (ii) but not (i).

5. There is a further distinction between a Treaty which gives individual member states the choice of :

a. <u>whether</u> to move to full MU; or

b. <u>when</u> to move to full MU.

The former would preserve discretion never to move to full MU, on grounds of principle. The latter would imply acceptance of the detailed definition, but would preserve the right to delay joining until the relevant economic conditions were met.

6. The Commission envisage Treaty amendment involving:-

(a) commitment to a detailed definition/specification for Stages 2 and 3, and commitment to move to both stages (but no timetable);

(b) the definition of economic pre-conditions for moves from one stage to the next, with arrangements to enable different member states to move at different speeds, but not to delay indefinitely.

All other member states will support (a). Most are likely to support (b), but none favour provision for <u>indefinite</u> delay.

Options for the UK

7. We have identified the following main options.

(i) No definition of full MU in the Treaty

8. This could in principle be achieved by

(a) limiting the Treaty to Stage 2 arrangements, with any further stage and any definition of full MU to be covered in a later Treaty. We do not believe that this option is negotiable. All other member states want a Treaty which provides for the final stage as well;

(b) blocking any new Treaty which defines full MU. We consider this would result in the other member states concluding a separate "Treaty of 11";

(c) restricting the MU provisions in the Treaty to Stage 2, with a protocol signed by the other 11 member states committing them to move subsequently to full MU. We think this option is unlikely; the 11 would probably prefer to conclude a separate Treaty if they could not carry the UK with them.

9. Both (b) and (c) above would exclude the UK from any Stage 3 arrangements and would rule out the option of joining. The terms on which any future accession could take place would have to be negotiated afresh.

(ii) Treaty defines full MU but UK does not accept that definition

10. The Treaty could in theory include a reservation clause enabling the UK to make clear that we did not accept those parts which defined full MU and provided for its implementation.

11. Such a device would be unprecedented in the Community and would be inconsistent with the Community-wide nature of EC obligations. We do not believe it would be negotiable with our Community partners. Again, they would almost certainly prefer to negotiate a separate Treaty of 11.

So be it – Germany – France would have to pay all the regional subventions. – OR there would be NONE in which case the poorer nations would NOT agree [illegible]

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12. Options (i) and (ii), or variants of them, are the only ways of avoiding a commitment to a detailed definition/specification of MU. Otherwise, if the UK signs a Treaty which defines full MU, it accepts that definition. The only way of not accepting the definition is not to sign the Treaty. The only way of subsequently changing the definition would be to renegotiate the Treaty.

13. The remaining options involve accepting the definition of monetary union, but preserve discretion on whether or when to move to full MU.

(iii) Sign Treaty, but ensure that no member state can move to Stage 3 without unanimous agreement

14. We could seek a Treaty which requires a unanimous vote by all 12 member states to trigger any move from one stage to the next. The UK could then exercise its veto indefinitely.

15. This option has attractions in theory, since it would ensure that the 11 did not enter arrangements from which the UK was excluded. Moreover, it would enable Ministers to assure Parliament that although they had in principle accepted the Treaty definition of full MU, there was full protection in practice against it ever being implemented. However, we judge that it would be extremely difficult if not impossible, to negotiate given others' awareness of the danger that the UK, or indeed any other member state, would exercise its veto.

(iv) <u>Sign Treaty, but include specific provision that UK will never move to full MU</u>

16. It might be possible to include in the new Treaty a permanent derogation or exclusion for the UK from Stage 3 arrangements. (This is an alternative version of the idea of a reservation discussed in option (ii) above. Although we would accept the definition of MU, we would be protected from ever moving to it).

17. For the same reasons as set out in paragraph 11, we do not think that this would be negotiable. Arguably it would not in any case be in the UK's interests, since it would not retain discretion for us to opt into full MU should we eventually wish to do so without a fresh negotiation.

(v) <u>Sign Treaty, but retain discretion on whether and if so when UK would move to full MU</u>

18. The Treaty could provide that when, say, a simple majority of member states (or even less) had indicated that they were ready to proceed to the relevant stage, the appropriate provisions of the Treaty would come into effect. They would apply only to the member states which had opted in.

19. As noted in paragraph 6, the Commission itself may well propose something on these lines. In itself it would not be enough to protect the UK's position. We would need to be satisfied on two further points.

20. First, the Commission's proposals would probably give member states the choice of when to move to MU, but would make clear that this was only a matter of time in order to meet the necessary conditions. We would want the Treaty to make clear that member states could decline to opt in to the final stages of MU, and that this right could be maintained indefinitely.

21. Secondly, the UK would wish to make clear that any decision to opt in to the final stages of MU would be taken at national level and that, at least in the UK, our national parliament would need to be fully involved. Ways of securing this might be:

a. the Government could make a declaration at the time of signing the Treaty that it would intend to secure Parliamentary approval before any <u>decision</u> to opt in to full MU. This would have strong political force although strictly speaking Governments cannot bind their successors.

b. the Treaty itself could provide for national opting-in decisions to be authorised according to national constitutional requirements. The UK would make that in our case this article meant an affirmative vote of both Houses of Parliament. This approach has the advantage of, effectively, building the requirement for Parliamentary approval into the Treaty itself. But it would be difficult to insist on such a provision if other member states were opposed to accepting constraints on their own opting-in procedures.

22. These mechanisms would register the need for Parliamentary approval of any <u>decision</u> to opt in. In addition it would be necessary to <u>implement</u> in our national law the further legal obligations flowing from the decision to opt in. This would require domestic legislation - probably a Bill - for instance amending legislation concerning the Bank of England.

23. An "opting-in" Treaty on lines satisfactory to the UK <u>may</u> be negotiable, though we cannot be sure. Much would depend on the precise language used about grounds for remaining outside full MU; the Community's interpretation of the spirit in which the UK proposal was put forward; and whether this was seen as the only way of avoiding a Treaty of 11. It would be more likely to be negotiable if member states believed it to be an arrangement whereby HMG was leaving it to the Parliament of the day to decide on this important issue. It would be less likely to be negotiable if they thought we had prejudged the issue now.

24. Various questions about the practicality of an opting-in Treaty arise. For instance, should opting in arrangements apply to Stage 2 as well as Stage 3? Could economic conditions for moving from one stage to the next be imposed if joining full MU were optional? Would non-optants be able to participate in some aspects of the new arrangements, even though they did not come within a single Community monetary policy? These issues will need further consideration.

<u>Summary</u>

25. The main options for the UK seem to be:

(i) Refuse to sign a new Treaty. This would ensure that we were not committed to a detailed definition of MU, nor to full participation in Stage 3. But we judge that the 11 would move to a separate Treaty.

(ii) Persuade our Community partners to restrict the Treaty provisions to Stage 2, possibly with a protocol signed only by the 11 committing themselves to move subsequently to full MU. This would also ensure that the UK was not committed to a detailed definition of monetary union, but we do not think it negotiable. The 11 would move forward to a separate Treaty without us.

(iii) Sign a Treaty which provides for the Community to move to full MU, but includes a reservation or permanent derogation for the UK. This is unprecedented in the Community and would almost certainly not be negotiable.

(iv) Sign a Treaty which requires a unanimous vote before any member state may move from one stage to the next. This would not avoid a commitment to the detailed definition of full MU, but would enable the UK to block anyone in the Community progressing to it. However it is most unlikely that it would be negotiable, since it would give the UK or any other member state a blocking device.

(v) Sign a new Treaty but insist on satisfactory opting-in arrangements based on separate decisions by individual member states. This commits the UK to a definition of full MU, but retains for us full discretion on whether/when to move to it. It is more likely to be negotiable; but in the last analysis there would be no way of preventing the 11 moving ahead without us.

(vi) Offer an alternative (1 or more) which some would accept.

HM Treasury
16 May 1990

EMU : A UK PROPOSAL FOR EVOLUTION OF INSTITUTIONS AFTER STAGE 1

Any proposal we make should if possible pass all the following tests :-

i) it has to meet the desire of many to make early progress in establishing new Community monetary institutions.

ii) it must leave responsibility for setting and operating national monetary policies clearly in national hands.

iii) it must not in any way compromise or weaken national policies to control inflation; ideally it should help to reinforce them.

iv) the development must be one that others can regard as a transitional step on the way to the eventual emergence of a single European currency, and monetary union; but which we can present as a useful step in its own right.

v) there would be both real and presentational advantages in promoting and popularising use of the ecu as a 13th common Community currency, circulating alongside national currencies.

2. Judged against these tests, there is little or no difficulty in giving a new institution, a European Monetary Fund (EMF), the following functions. Most of them are already performed by other bodies within the Community.

a) The various tasks involved in **managing the Exchange Rate Mechanism**, and its financing facilities, including the functions in this respect of the Central Bank Governors'

Committee and the existing European Monetary Co-operation Fund (EMCF).

b) **Managing the ecu.** For example agreeing any changes in the weighting of the ecu basket; generally overseeing and promoting the development of private ecu markets, and encouraging removal of barriers to its use; and possibly taking over responsibility for managing the ecu clearing and settlement system (a function currently undertaken by the BIS in Basle).

c) Taking over the key role in **managing Community medium-term balance of payments lending.** Final decisions on granting balance of payments loans would remain with the Council of Ministers, but the EMF could join with the Commission in setting conditions for loans; and the EMF's consent might be required before any loan was granted. This should help to strengthen financial discipline in the Community.

d) It could take on a new role of **co-ordinating intervention against third currencies** (the dollar and yen). By the end of Stage 1, all Community currencies will be members of the ERM. All member states will thus have a common interest in the value of their currencies against the dollar and yen. This co-ordination does not require pooling of reserves. Intervention can be financed by contributing dollars, or national currencies, as required, according to an agreed key. Nor does it require the EMF actually to undertake the intervention. This can be delegated or sub-contracted to individual national central banks.

3. The final element of our potential institutional package is more interesting, but also more difficult. Its aim is to go further in popularising use of the ecu, and developing ecu markets; and at the same time to develop the EMF in a way that others would see more obviously as a potential step towards the development of the Community central monetary institution that

they wish to see. For us it is crucial that any development should in no way compromise the operation of national monetary policy; this is also a key German requirement in any arrangement short of full monetary union. We and they both wish if possible to strengthen the incentive on member governments to follow sound policies designed to achieve low inflation. It will be essential to design the proposals in such a way as to overcome longstanding German opposition to a "parallel currency".

4. There are two versions of the proposal, which can be presented as two possibilities in a spectrum of ideas, possibly with one leading later on to the other.

5. The first version involves the creation of an **ecu currency board**. Under this proposal the ecu would remain defined as a basket of the 12 Community currencies. We could either retain the present definition, which allows for changes in the basket every 5 years. Or suggest adoption of the proposal in our evolutionary approach paper that the composition of the basket should be fixed for all time. This would lead to a gradual improvement of quality in the ecu, as the weaker Community currencies lose their value and hence take a lesser weight in the basket.

6. The objective is to provide a mechanism for putting ecu bank notes into circulation, but to do so without adding to monetary growth in the Community. Alongside this it would be natural for Community commercial banks to hold their ecu settlement accounts with the currency board, in the same way that UK banks hold their sterling settlement accounts at the Bank of England. The currency board would arrange for ecu bank notes to be printed and issued, in exchange for Community currencies. The operations could be sub-contracted to national central banks. It would continuously balance its books, buying and selling currencies in the market as necessary, keeping as assets in its balance sheet the exact basket of national currencies required to match the notes issued. These assets could be held as bank notes, or in accounts at the relevant central banks, ensuring no net increase in the Community's money supply.

7. The board therefore undertakes no currency risk. There is no money creation, and no threat to inflation.

8. Demand for ecu bank notes might be relatively small initially, although it could prove a natural currency for tourists and business travellers. But the idea could catch the popular imagination; and as notes came to be used more frequently it could help the development of more important markets in ecu deposits, furthering progress on the evolutionary approach sketched out in the earlier Treasury paper. Interest rates on ecu deposits and loans would be determined, as now, by the weighted average of interest rates on the ecu's constituent currencies. The currency board would play no role in setting interest rates.

9. The second version is more ambitious, and involves the development of a new **hard ecu**. This version could be combined with the issue of ecu bank notes, although that is not an essential element of it.

10. It involves creation of a new redefined ecu, the hard ecu, that would no longer be defined as a basket of Community currencies. It would be defined instead as a currency that never devalues against any other Community currency at an ERM realignment. The board of the EMF would therefore have an active job to do, managing the currency to ensure that between realignments it stayed within its margins against the other 12 currencies, and that at realignments it never devalued. Hard ecu interest rates would not be set automatically in the market, as they are with a basket currency. The EMF would itself intervene in ecu money markets (this presupposes sufficient development of money markets for the purpose) to establish ecu interest rates. The EMF would also be able to intervene, buying and selling ecus for other Community currencies, and possibly dollars as well.

11. It would issue new ecus mainly in exchange for national currencies. But no mixture of Community currencies held as assets could be guaranteed to maintain its value against the ecu liabilities of the institution. Arrangements or rules would be needed to prevent the EMF being forced to support weak Community

currencies. The simplest version would be a rule prescribing a maximum holding for the EMF in each Community currency. If the, say, drachma were under pressure because of imprudent policies, the EMF would not be allowed to let the Greek authorities off the hook by providing large scale support.

12. This second version amounts to the creation of a true parallel currency, albeit one with good anti-inflation characteristics. There are difficult technical issues to address, including the question of how to prevent the operation adding to total monetary growth in the Community, and thereby possibly undermining other currencies. The definition of the hard ecu is no guarantee against weakness in <u>all</u> Community currencies. But it is possible that sufficient safeguards can be built in to overcome traditional German antagonism to such proposals. Work is continuing in the Bank of England on these technical aspects.