

PRIME MINISTER

EMU

The attached paper conveys the Chancellor's latest thinking on EMU. You will find it unpalatable.

The Chancellor's analysis is that the other Eleven Member States will agree to amend the Treaty to provide for an eventual EMU on the Delors definition, ie single currency and Central Bank. They will not be satisfied with our expanded Stage 2 as a substitute for this, although may accept it as a way-station. If we refuse to sign up to their definition of EMU, they will go ahead with a separate Treaty of Eleven, creating a two-tier Community. This would happen at a politically embarrassing time, ie around the likely time of the next Election.

The Chancellor's conclusion is that, if we are to avoid relegation to Division Two, we have to go along with the definition of EMU, but build in a provision which enables Member States to decide for themselves whether and when to join. That would effectively leave the decision to Parliament. In parallel, we should put forward our ideas - either the Butler proposals or the less ambitious Treasury version - for Stage 2. Although this would not deter others from wanting to sign up to Stage 3, our scheme might in practice postpone the evil day.

The Chancellor wants to discuss the position with you first, then with a wider group of colleagues. He does not think we can delay taking a public position much longer.

There are a number of basic questions to be resolved.

Is the Chancellor's pessimistic analysis of the inevitability that the other Eleven will commit themselves now to the aim of Delors Stage 3 justified? No

One can only say that it reflects the unanimous view of Nigel Wicks and others dealing with this issue. There are widely

They are
too
timid.

CONFIDENTIAL

- 2 -

differing views in the Community about when and under what conditions the transition to Delors Stage 3 would actually be made. But something close to consensus on the aim. This is a crucial difference with the debate on political union. The questions we have to ask are: are we being defeatist? Is there some combination of ingenuity, political will or nerve which can thwart the apparent resolve of the Eleven to commit themselves through Treaty amendment to Delors Stage 3? Is the Treasury analysis too much of a straight-line projection of current views, when in reality all sorts of developments eg GEMU may intervene to throw the others off course? There is a tendency in judging our tactics in the EC to over-estimate the real determination of our opponents. Things in the real world are rarely as simple as they appear. The choice seems unlikely to present itself in quite such stark terms as the Chancellor suggests. But the crucial point is that if we decide now to proceed as proposed by the Chancellor, we are throwing in the towel on substance of EMU and arguing only about tactics. Are we ready to do this? Or do we carry on trying to get a weaker definition of EMU?

Yes

Yes

That is a correct assessment

What are the prospects for significantly diluting the Delors Stage 3 prescription in further discussion in the Community?

The Chancellor's minute does not really deal with this, presumably because he feels there is not much to be done. But surely this is the sort of guerilla warfare in which we excel in the community. Should we not have a tactical game plan for hobbling the Delors Stage 3 definition as extensively as possible?

Does it matter if the Eleven go ahead without us?

It would look bad. There would be a clamour from the City, who would fear the consequences of being outside the mainstream. How much it would matter in substance depends on the view one takes of the likelihood of the Eleven in practice going ahead with full EMU within the foreseeable future. In reality, nothing much would change for quite a while.

CONFIDENTIAL

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- 3 -

*We have no authority to do so.
Parliament is against.*

If we accept the Chancellor's analysis that we have no option but to subscribe to the goal of Delors Stage 3, can we negotiate provisions which would leave open not only when Member States would join, but whether they would do so?

This is crucial. One option would be to say that the move to full EMU could only take place on the basis of unanimity. This is perhaps too easily dismissed in the Treasury paper, on the grounds that others would suspect that we would use the device of unanimity to exercise an indefinite veto. But I would be quite surprised if countries like France and Germany would be ready to give up a veto on the timing of a move to full EMU. On the other hand, we could find ourselves isolated and under great pressure, in which case a clear commitment in advance that a decision whether to join is a matter for each Member State would be a better protection.

*We don't know
in the
long run.*

There is also the tactical question: should we put forward our opting-in mechanism early on or spring it on the others at a late stage? The choice can be argued both ways. If we table it early, we give too much time to the others to argue it down: while introducing it late would put them under more pressure to agree, so as to avoid a last minute break-down. Equally, tabling it late in the day would mean that we would appear to have no position during most of the IGC debate, and that would go down badly with the Government's supporters.

Is it worth tabling our proposals for the next Stage if doing so is not going to save us from having to subscribe to the goal of Delors Stage 3?

*Yes - it may save us in the
new uncertain world.*

There are two purposes in putting forward our proposals for the next stage: first, as an alternative to a commitment to Delors Stage 3 (or at least as a means of securing only a vague and tenuous commitment to Stage 3): second, if there is a commitment to Stage 3, to postpone in practice the day when it would be implemented in practice. The Chancellor is clear that the first aim cannot be achieved. Is it still worth tabling our proposals to achieve the second?

CONFIDENTIAL

- 4 -

In that case, should we go for the more or the less ambitious of our proposals?

One could argue that since our proposal is unlikely to achieve much, there is little point in tabling the more ambitious one. On the other hand, the Treasury is so unambitious as to be scarcely credible. The Butler proposal would at least appear a more intellectually and politically credible effort: and if it were to be implemented, it is sufficiently substantial and complex to delay a move to Delors Stage 3 for a considerable time.

You may like to go over some of these points with the Chancellor initially. Thereafter, you might have a wider meeting of:

Chancellor
Foreign Secretary
Trade and Industry Secretary
Sir D Hannay
Nigel Wicks
Professor Griffiths

*I will have
a long talk
// //*

Agree?

*with the Chancellor
his advisers.*

CDP

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C. D. POWELL
25 May 1990

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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 mt

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