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PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: EMU

Your bilateral with the Chancellor tomorrow is to be devoted mostly to discussion of his paper on EMU. Sir Peter Middleton and Nigel Wicks will also attend.

You have read the Chancellor's note and attached paper by officials, as well as my covering note. You are not happy with the Chancellor's proposals because:

- you doubt whether the others would in practice go to Delors Stage 3 without us, not least because the French and Germans would balk at having to make the vast additional transfers of funds which the poorer countries will demand as the price of full EMU;
- even if they did go ahead, you still do not believe that we should move in what we regard as a fundamentally wrong direction:
- you think the Chancellor underestimates the difficulties which signing up to Delors Stage 3, even on an opting-in basis, would cause with Parliament;
- more generally, you think the Treasury/FCO line is much too defeatist. The position of other member states is likely to shift as they come up against the real problems involved in Delors Stage 3. None of us know what the consequences of GEMU will be. Our own views will be given greater weight once we are in the ERM. So we shouldn't be too timid, but set out to do battle for a weaker definition of EMU: and to avoid a commitment to Delors Stage 3;
- we should table our own proposals for what should follow Stage I of EMU - probably the Butler proposals rather than the milder Treasury version - without indicating willingness to subscribe to the Delors concept;

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- we should also consider some wrecking amendments e.g. by proposing that there could be no move to full EMU until all subsidies in all Member States have been abolished.

What you are saying in effect is that

- you are not going to accept a single currency and a Central Bank;
- that the Chancellor should continue to argue the case against full EMU and be prepared for a long war of attrition stretching through the Intergovernmental Conference;
- that he should float our ideas for the next stage of EMU as soon as possible;
- but he should not put forward his opting-in arrangement for the final stage of EMU.

Beyond that, you will want to encourage the Chancellor and his officials not to be mesmerized by the Delors scheme but to enlarge the terms of the debate and come up with some more imaginative and original alternatives. Ideas which you might try on them include some wider monetary link extending to the dollar and the yen, perhaps as part of a free trade area taking in the United States and Japan.

You will want to grind the Chancellor and his officials down so far as possible in this meeting. When the issue goes to wider ministerial discussion, you will want to ensure participation by the Trade and Industry Secretary to balance the Foreign Secretary (who agrees with the Chancellor).

C.D.P.

C.D. POWELL

30 May 1990

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