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Private Secretary to the
Prime Minister
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CPM 6/6

Dear Charles

ECONOMIC AND MONETARY UNION

Following his discussion with the Prime Minister last week the Chancellor has been reflecting on how to carry matters forward.

The Prime Minister suggested a three part initiative involving:

- the creation of an Atlantic Community free trade area, encompassing the European Members of NATO, the USA and Canada;
- building up NATO's political side, possibly to include some economic aspects;
- linking of the major world currencies, including the dollar and the yen, to an objective reference standard, for example a commodity index which would work automatically.

The Prime Minister envisaged launching the initiative at the NATO summit and the Economic summit which, together with the European Council, take place in the next six weeks. If it is to prosper she may wish to broach the matter in advance with selected heads of Government. The necessary work, therefore, needs to be done very quickly.

The Treasury did some work last year on the possibility of an objective reference standard for exchange rates, as you will



recall from the first paper on alternative to Delors which was sent to the Prime Minister on 5 September. The Chancellor has asked officials urgently to look at the matter again and will let the Prime Minister have a note on her return from the Soviet Union. He thinks it is for the Foreign Office and the Department of Trade and Industry to take the lead on the other two elements above and suggests that they should be asked to prepare an urgent note on the options and their relationship, in particular, to the Uruguay round.

All three notes should cover not only the content of the proposal but also how it could be presented in relation to EMU.

Alongside this further work, the Chancellor is considering how best to put forward the proposals for a substantial Stage II.

If the Prime Minister agrees, you may wish to circulate your letter of 31 May and the Chancellor's minute to the Foreign Secretary, the Secretary of State for Trade and Industry and the Cabinet Secretary and commission the further work.

Vols

Jsh.

JOHN GIEVE
Principal Private Secretary