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From the Private Secretary

6 June 1990

Dear Stephen,

ECONOMIC AND MONETARY UNION

The Chancellor of the Exchequer recently sent the Prime Minister a personal minute about the way ahead on Economic and Monetary Union: and the Prime Minister discussed it with him on 31 May. I enclose a copy of the minute and a copy of my record.

You will see that two ideas arise from the discussion which need further work. They are:

- linking of the major world currencies, including the dollar and the yen, to an objective reference standard, for instance a commodity index which would work automatically.
- the concept of giving greater emphasis and substance to the transatlantic relationship in the trade and economic field, so that EMU does not result in a narrow, tighter, more inward-looking European bloc.

The Treasury did some work last year on the possibility of an objective reference standard for exchange rates. They are now looking at this again, and the Chancellor intends to put a note to the Prime Minister on her return from the Soviet Union.

The other aspect falls more to FCO and DTI. As you will see from my note of the meeting, the Prime Minister wants to enlarge the discussion of economic and monetary union and give it a much broader context. She fears that without this, there is a risk that the world will increasingly divide into tight blocs of countries, whose instincts will be protectionist. She would like us to examine proposals for creating a much broader trade and economic area spanning the Atlantic (within Europe a start has already been made with the arrangements between the EC and EFTA). One possibility would be linking the EC, EFTA and the US/Canada in a free trade area, although this does of course raise all sorts of issues (free trade in agriculture as well?) Obviously such work has to take account of what is already in place, for instance the recently improved and institutionalised

links between the US and the European Community, as well as the GATT. The basic motivation is to strengthen free markets and free economic and monetary exchange: but there is also the tactical element of trying to overshadow EMU within the European Community, not so much in the expectation of derailing it but of leading it off in a rather different direction. The Prime Minister would be grateful if the FCO and DTI could do some work on this quite urgently and let her have a note, setting out some broad thoughts on which she might draw in discussion at the European Council, the NATO Summit and the Economic Summit.

Once some work has been done on both these aspects, the Prime Minister would like a discussion with the Foreign Secretary, the Chancellor and the Trade & Industry Secretary.

I am copying this letter and enclosures to Martin Stanley (DTI) and without enclosures to John Gieve (Treasury).

*Yours sincerely,
Charles Powell*

CHARLES POWELL

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