



PM/90/038

Prime Minister

CD
10/6.

PRIME MINISTEREconomic and Monetary Union

1. I have read with considerable interest the Trade and Industry Secretary's minute of 14 June, and I agree with the paper he enclosed. I think this offers some admirable suggestions for bridging the Atlantic. I am, however, concerned about two aspects of his analysis of what might follow if we were now to kick over the EMU table.

2. First, I agree that there is much to be said for EFTA countries joining the Community. I have said as much. But we should not delude ourselves that they would not want to join EMU as well. Some of them - the Norwegians and Austrians - have already sought to join the ERM. The Austrian Schilling is already closely tied to the DM. The Swiss have the economic strength for EMU, and would have far less political difficulty with it than with e.g. free movement of persons or even full Single Market participation. If Norway and Denmark were in EMU, I doubt if the Swedes would stay out. I do not know about Finland and Iceland: I suppose they might stick with us, together with the Greeks and Portuguese, and perhaps ex-COMECON countries like Poland, if they were to join the EC in the longer term. But the bulk of EFTA would surely move straight into the upper tier.



3. The whole notion that new entrants to the Community would be opposed to further integration is fashionable but flawed. The Spanish example is worth pondering.

4. Second, I do not agree that the Japanese and the Americans are concerned only with the Single Market, and that their perceptions of us would not change if we chose to distance ourselves now from any EMU development, whether alone or in the company of a few others on the Community's periphery. UK self-exclusion would I think damage US (and Japanese) perceptions of our likely future role and influence on the Continent, and hence our clout in Washington (and Tokyo), and US and Japanese investment here. That is one of the reasons why I welcomed your decision on 31 May that the Chancellor should table proposals for a substantial Stage II.

4. I am copying this minute to the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

A handwritten signature in dark ink, appearing to be 'D. Hurd'.

(DOUGLAS HURD)

Foreign and Commonwealth Office
17 June 1990

