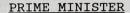
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MEETING WITH THE CHANCELLOR, FOREIGN SECRETARY AND TRADE AND INDUSTRY SECRETARY

You have a meeting tomorrow with the Chancellor, the Foreign Secretary and the Trade and Industry Secretary to discuss the line you are to take on Economic and Monetary Union at the forthcoming European Council. In fact there is a chance that discussion there will be quite limited, concerned mainly with setting a date for an IGC. But we shall anyway need agreement on the line that the Chancellor and his officials take in continuing discussion in ECOFIN and elsewhere.

In practice, I think there are three distinct issues, and there may not be time tomorrow to discuss all of them:

- when and how we launch our proposals for what should follow Stage I of EMU. There is agreement in principle that we should put forward the Butler proposals, but disagreement on whether we present them as all that is necessary and can reasonably be decided now for what should follow Stage I: or whether we have to put them forward as a step on the road to eventual full EMU. Since you and the Trade and Industry Secretary cannot accept the latter, they can only in practice be put forward as a self-standing proposal. question is whether to do so before the European Council, at the Council or subsequently. It is probably too dense and detailed a proposal to put forward in its entirety at the Council itself. It may be enough for you to announce an impending proposal with an agreed form of words: and for the Chancellor then to spell it out subsequently in a speech.
- how we deal with the increasing propensity of the other member states to agree on Stage III? There are three points of view:
 - the Chancellor and the Foreign Secretary think we have to go along, but with an opting-in mechanism,



otherwise the Eleven will go ahead without us:

- the Trade and Industry Secretary takes the view that it doesn't much matter if they do, we should anyway be looking to a wider Community in which different combinations of countries come together for different purposes:
- and your own suggestion that we should try to widen the discussion by proposing an objective reference standard, which would also take in the dollar and the yen.

This issue is not going to be resolved tomorrow morning, but discussion may centre on the <u>objective reference standard</u>, of which the Chancellor's minute is fairly damning. As you point out, however, some of the arguments which he deploys against an objective reference standard could be used to rule out our joining the ERM. Where he may be on stronger ground is in arguing that we shall <u>not</u> succeed in diverting others from Stage III EMU by proposing an objective reference standard: they are just too far along the road.

It seems to me that you should play for a goal-less draw tomorrow:

- you are not prepared to accept Stage III at Dublin or subsequently, or to propose an opting-in mechanism:
- we should start to consider what tactics and arguments we could use to delay the conclusion of an IGC until after an election in this country:
- and we need further work on how to promote and refine an objective reference standard on its own merits (not just as a diversion).
- how to take forward your ideas on avoiding blocs and creating a wider free trade area? There is unlikely to be time to get on to this. The Trade and Industry Secretary CONFIDENTIAL

makes a powerful case for concentrating on the GATT round for now, but starting to look at what might follow it, in particular sectoral agreements to liberalise areas like aviation and financial services. The most important task is the need to break the deadlock on the agricultural issue at the Houston Economic Summit. You will need to speak to this point at the Dublin European Council.

You will find papers by the Chancellor and the Trade and Industry Secretary and the folder. You have read these. There are further notes by the Chancellor and the Foreign Secretary which you have not yet seen.

CDY

CDP

18 June 1990

jd c:chancellor