

SUBJECT OF MASTER

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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

19 June 1990

Dear John,

**EUROPEAN MONETARY UNION**

The Prime Minister met with the Chancellor, the Foreign Secretary and the Trade and Industry Secretary this morning to discuss how to handle the item on EMU at the forthcoming European Council in Dublin.

This letter contains matters of a sensitive nature and should receive a very limited distribution only.

The Prime Minister said that the main issue to be decided was when and in what manner our proposals for the second stage of EMU should be announced. Looking beyond that, there was agreement that we could not subscribe to a Delors Stage III including a common currency and a European Central Bank, but disagreement on the most appropriate tactics for handling this aspect. She has herself put forward some ideas for an objective reference standard for currencies and for a wider transatlantic free trade area. She was grateful for the written comments from the Chancellor and the Trade and Industry Secretary. These issues were more suitable for discussion at the Economic Summit in Houston than at the European Council.

The Prime Minister expressed her concern about recent stories in the press, purporting to give details of the Government's deliberations on these matters. It was agreed that they were most unfortunate and any repetition must be avoided.

Stage II

In discussion, it was agreed that we should table the so-called Butler proposals for Stage II, involving a hard ecu. The Chancellor emphasised that our ideas were likely to receive a fairly cool reception in the Community, in particular from the Germans who were opposed to a parallel currency. But some fresh problems had recently emerged within the Community over EMU, following the President of the Bundesbank's proposal for a two-tier approach, and it was possible that our ideas would pick up

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more friends than we had earlier expected. The Governor of the Bank of England was fully in support of the proposal, and it would be helpful to be able to cite the close involvement of the City in working it up. It would be for the Governor to pursue the technical aspects of our ideas in the Committee of Central Bank Governors. The Trade and Industry Secretary suggested that we should also make use of the argument that our proposal was easier to reconcile with future enlargement of the Community than the common currency envisaged in Delors Stage III.

Turning to the mechanics of our tabling our proposal, it was agreed that the best vehicle would be a speech by the Chancellor. Ideally this should be for delivery before the European Council: but, if not, it should be very shortly afterwards. Either way, the Prime Minister would need a form of words for use at the Council itself. We should consult closely with Sir Michael Butler on presentation and handling. We should need to do some active missionary work, both with the media and with other European Governments, to get as much support for it as possible. The Prime Minister emphasised that our proposal should be presented not as Stage II, but as the most that could reasonably be decided about future EMU at this point.

Stage III

The Chancellor reported that other member states were increasingly committing themselves to the goal of full EMU as proposed in Delors Stage III. He continued to believe that the best way for us to retain influence over the debate, while avoiding any commitment by the United Kingdom to such an outcome, was to propose an opting-in mechanism.

In discussion, it was pointed out that the other eleven member states were quite likely to reach a conclusion in this sense by the middle of 1991. It could cause serious political problems ('a smash') for the Government if we were left in an eleven to one situation. That would go down badly with many of the Government's own supporters, would be exploited by the Opposition who were moving increasingly towards acceptance of EMU, and would be regarded with dismay by the United States and our other allies.

Against this it was suggested that the permanently fixed exchange rates envisaged in Delors Stage III were unworkable, and that we could not surrender the degree of sovereignty over economic and monetary policies which would be involved. The House of Commons had already expressed its views on this. Moreover, massive subventions to the poorer EC countries would be required and we could not contemplate any increase in the already excessive sum which we paid over to the EC. We should argue our objections to Stage III vigorously and should not be too concerned about being left in a minority of one. Indeed we could gain certain advantages from that, and should do some contingency work on how to handle such an outcome in terms of domestic politics.

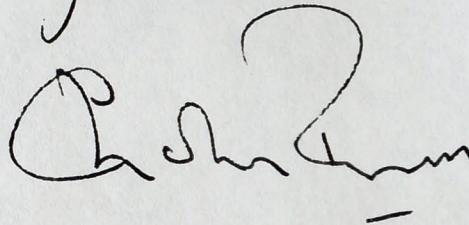
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The Prime Minister concluded that the position remained that we would not, at the European Council or subsequently, hold out any prospect that the United Kingdom would be prepared to subscribe to a treaty amendment providing for a common currency or a Central Bank.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), Martin Stanley (Department of Trade and Industry) and Sonia Phippard (Cabinet Office).

Yours sincerely,  


C. D. POWELL

John Gieve, Esq.,  
H. M. Treasury

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