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Following Personal for Charles Powell  
From Sir Michael Butler

Copies Personal to Michael Jay, Nigel Wicks, Andrew Crockett and John Kerr UKRep Brussels

EMI

1. I had an informal discussion with Padoa Schioppa yesterday. He stressed that he was speaking as an old friend who wanted to reach agreement in the IGC and not as a representative of the Presidency. His assistant was considerably more hostile towards the UK.

2. Padoa Schioppa said that the preparations for the IGC were nearly complete. With the British entering a general reserve and then participating intelligently in the discussion, agreement had virtually been reached in the Central Bank Governors' and ECOFIN frameworks on the arrangements for Stage 3. It only remained to discuss transitional arrangements in November, in accordance with normal EC practise. Draft Treaty language reflecting this large measure of agreement would be put to the IGC. The European Council on 27 October would presumably confirm this approach.

3. When I said that the Prime Minister would presumably want to discuss Stage 2, he said that even with heroic efforts on her part, going over to the offensive in a positive spirit instead of first entering reserves, he doubted whether she could now persuade her colleagues to reverse the order and discuss Stage 2 before Stage 3. In later stages of the conversation he and his assistant (more brutally) returned to this theme as far as the IGC was concerned. The IGC would first concentrate on Treaty language for Stage 3.

4. In response to my probing he admitted that:

a) the fast-track, short Stage 2, route to Stage 3 advocated by the Commission did not (not) have majority support;

b) the present Bundesbank concept of a long Stage 2 without institutional development would not pass either.

There would have to be a proper Stage 2 and here proposals such as those I had put to the Hambros Seminar last week, which he had had from Biancheri, would come in useful. (He is quite favourable to the hard ECU and the EMF as a way of getting from Stage 1 to Stage 3). When I argued that it would be logical to deal with first things first, he repeated that he was afraid that it was difficult to conceive of the eleven now agreeing to reverse the order.

5. He said that one interpretation being given, perhaps optimistically, to the British position was that the Prime Minister would agree to stand aside and allow the consensus among the eleven to be reflected in the Treaty, with Britain remaining outside for the time being. I said I knew of no support for this view in London, in or out of Government.

6. Touching on the Prime Minister's opposition to a Single Currency, he said that in his personal view that was not the essential point. The European Council had only confirmed that full EMU was the aim, ie

permanently fixed parities and a Single Monetary policy. But he wondered if that would be helpful? I said that it might be, but only to a very modest extent.

Comment

7. Despite what he and his assistant said, I think that there would still be a fair chance of getting out of trench warfare and into a campaign of movement, with hope of getting some support from different Member States for different parts of our position, if the Prime Minister were to table institutional and Treaty proposals for Stage 2, even without any reference to the Single Currency, and argue in favour of discussing first things first.