

at trap



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Charles Powell Esq
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Prime Minister
10 Downing Street
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Prime Minister

*For your talks
with Michael Butler*

tomorrow.

CP 11/11

Dear Charles,

MEETING WITH SIR MICHAEL BUTLER AND LETTER FROM SIR LEON BRITTAN

at trap

...

Thank you for your letter of 10 December. I attach a brief for the Prime Minister's meeting tomorrow with Sir Michael Butler

Sir Michael's letter of 29 November covers a paper which was presented at a British Invisibles seminar, at which the Financial Secretary and Sir Terence Burns spoke, on 11 October. The paper proposes that amendments to the Treaty agreed at the IGC should:

- (i) create a European System of Central Banks, consisting of the European Monetary Fund (EMF) and the twelve national central banks;
- (ii) set out the objective of a single currency;
- (iii) provide that the Statute of the EMF could be amended by unanimous agreement so as to move to a single currency.

In a subsequent paper for the European Committee of British invisibles, Sir Michael emphasised his view that "the UK Government have still not been receiving credit for their proposals because they have not been able to present them unambiguously as being for Stage 2 in a three-stage process".



We have not of course accepted that the Treaty should set out the objective of a single currency, even if subsequent moves to it were subject to the unanimous agreement of all Member States.

I am sending copies of this letter to Richard Gozney (Foreign Office).

Tomasz Tarkowski

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Private Secretary

PRIME MINISTER'S MEETING WITH SIR MICHAEL BUTLER

Line to take

Grateful for Sir Michael's role in presenting and arguing for British proposals. Suggestions constructive and helpful. Good deal of common ground. Agree that hard ecu proposals provide the best way forward:

- concentrate on the next practical steps, so allowing the new monetary institution to evolve, and enabling the Community to move forward together.
- would promote convergence in an anti-inflationary way, without fixing exchange rates prematurely.
- as Sir Michael says, would create a common currency which banks, companies and individuals could use if they so wished, rather than having it imposed on them.

Government has also of course been thinking about approach to IGC. Not convinced we need to propose establishment of a European System of Central Banks (ESCB). Hard ecu could ultimately evolve towards a single currency, if it were wish of peoples and governments that it should be used in preference to national currencies. But if we were to set up an ESCB in advance of expression of that preference, we run the risk of confusing responsibility for monetary policy.

No-one will take hard ecu seriously if we don't accept Stage 3?

Not so. Stage 3 a long way off - would be foolish for others not to take seriously our constructive proposals for Stage 2 just because they don't agree with us about Stage 3. Hard ecu attracting much interest - eg Beregovoy comments ["I entirely approve of an ecu whose definition will be strengthened and whose use on the markets will be developed."]

EMF should have evolutionary capacity to enable it to become ESCB?

UK will be putting forward proposals for EMF at IGC. Not set in stone - quite prepared to accept they could be further developed. But need to concentrate first of all on mechanics of EMF operation in Stage 2.

Evans B. Evans P. 9



EMUThe approach to the IGC

1. This suggestion is based on two considerations:
 - (a) for Community negotiating reasons, we need at the IGC to present our hard ecu proposals as Stage 2 in a Stage 3 process, building on the timetable of the Eleven agreed at Rome I; otherwise we cannot put forward the arguments which will move the others in our direction;
 - (b) for internal political reasons, only minimal moves from our June 20 position are desirable at present, building on the formula - the common currency could become a single currency if the peoples (? Parliaments) and Governments so choose.

2. The Prime Minister might establish to his own satisfaction at Rome II that the other eleven governments do want to describe the aim of Stage 3 as permanently fixed parities leading to a single currency (as stated in the Communique of Rome I). He might then say that he would be prepared at the end of the IGC to consider recommending to the British Parliament that it endorse this long-term aim provided that:-
 - (a) the EC adopts a pragmatic way forward from Stage 1 towards Stage 3 which avoids economic shocks or leaps in the dark; he regards our own Stage 2 proposals as being the best route for the EC to follow;

- (b) it is agreed that no final decision will be taken to move to Stage 3 until after the third year review (Rome I communique) and that the decision, whenever it is taken, will require the unanimous consent of the Governments and Parliaments of the day.

3. In reporting to the British Parliament afterwards he could say that:-

- (a) he had always argued that the common currency could become a single currency one day if the Governments and peoples so wished;
- (b) the other eleven governments do wish to set that aim, though it remains to be seen whether they will agree on a pragmatic way forward which would prepare the ground for a decision in 1997/98 for a subsequent move to Stage 3;
- (c) that, if our Stage 2 proposals work well, we could arrive at a situation towards the end of the decade where the hard ecu is well established in the markets, where most EC economies (including the British economy) have achieved convergence in inflation rates and interest rates and, above all, where the 12 Central Bank Governors and the EMF have demonstrated that they can manage the hard ecu and coordinate national monetary policies in the interests of price stability;

- (d) if these desirable things do not happen, the EC as a whole would be most unwise to move to Stage 3; if they do, the next British Parliament but one might consider that Britain could and should safely join a general EC move to Stage 3, but as he said on June 20 this decision does not need to be taken now;
- (e) he is not asking Parliament to endorse the long-term aim of Stage 3 before the IGC discussions show whether the EC is ready to take a sensible route towards it and he will certainly insist that the decision to move to Stage 3 can only be taken in the light of progress in Stage 2, but he thought it right at Rome II to lay the foundations for a constructive negotiation by taking the line in para 2 above.