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THE PRIME MINISTER

4 January, 1991.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 7 / 91

Dear Helmut,

I very much welcomed the opportunity we had in Rome to meet and discuss future developments in the Community. I look forward very much to continuing these discussions.

I mentioned, in Rome, that we were determined to approach the discussions in the political and EMU Inter Governmental Conferences in a constructive and optimistic spirit. I genuinely believe that, given goodwill, we can find a way forward that is acceptable to us all. It is in that spirit that we are about to submit our suggestions for Treaty Amendments to the EMU IGC. These amendments would provide for the establishment of a European Monetary Fund charged with managing a "hard ecu" in line with the proposals that I and Norman Lamont have outlined and developed over the past few months.

I am writing to you now because I wanted to let you know personally that we intend to table the texts formally in the week beginning 7 January. I will endeavour to ensure that you receive a copy before they are released to the press.

The texts, as they stand, do no more than implement our proposals for what has become known as Stage 2 of EMU. They provide for a common Community currency, tentatively called the hard ecu, and a new monetary institution, the European Monetary

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Fund. However, as you know, I have of course always made it clear that the hard ecu could develop into a single currency if the Governments and peoples of Member States so chose. If other Member States wished to suggest ways of building on our proposal in ways that would meet their aspirations, we would certainly not object. Indeed we would be happy to participate constructively in such discussions, provided it remained clear that we are not able to accept the imposition of a single currency and a single monetary policy. Like other Member States, we cannot commit ourselves to accepting any Treaty amendment arising from the IGC until we see its precise terms.

When we were in Rome, I was struck by how much common ground there was between us on EMU. We are agreed on an overriding commitment to price stability, on the importance of ensuring that there is at no stage any confusion of responsibility for monetary policy and on the need to ensure that convergence is achieved in an anti-inflationary manner. I think that the IGC will want to consider very carefully how these objectives might be achieved during Stage 2. I know that you have reservations about the hard ecu proposals. But I would urge you to look at them as one possible way of meeting our jointly held objectives for Stage 2. They are put forward as a basis for discussion, not a blueprint, and I would welcome discussion of how they could be developed and improved.

Your Ever,
John

