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Dear Andrew

EMU

- Dep.

Your letter of 2 January raised a number of questions about the launch of the British proposals for amending the EC Treaty.

The Texts will be formally submitted to the Luxembourg Presidency and to all EC Finance Ministers and to M. Delors tomorrow morning, 8 January. Advance copies have been sent to those countries to whose Heads of Government the Prime Minister wrote last week.

The Texts will be released to the press at 11.30 am, also on 8 January. They will be accompanied by a press release, which will include quotations from the Chancellor. There will then be an off the record press briefing by officials and we will be following that up with individual contacts. I attach copies of the press notice and the Q and A briefing.

The press notice and briefing will be sent to EC posts with instructions on the action to take with host Governments. The Chancellor will also be writing to the Chairman of the TCSC and to Lord Aldington and the Chancellor and Financial Secretary will be speaking to and writing to a number of other MPs and MEPs.

Tomasz Tarkowski

T TARKOWSKI
Private Secretary

CHANCELLOR TABLES TREATY AMENDMENTS TO ESTABLISH "HARD ECU"

The Chancellor of the Exchequer, the Rt Hon Norman Lamont MP, today put forward a detailed plan to give effect to the British proposals for a common Community currency - tentatively called the hard ecu - and a new monetary institution - the European Monetary Fund.

Recalling that his predecessor, Mr John Major MP, first outlined the British proposals in June, Mr Lamont said today that he now wished to table the necessary amendments to the Treaty of Rome to bring the common Community currency into effect.

Mr Lamont said:

"At the first meeting, in Rome, of the Inter Governmental Conference on EMU. I made it clear that the UK intended to negotiate constructively on the basis of the hard ecu/EMF proposals put forward by the Prime Minister last June when he was Chancellor. I am today submitting, to the Luxembourg Presidency, proposed Treaty amendments which would bring the British proposals into effect.

At the Rome meeting, a number of Member States expressed their interest in the hard ecu. Indeed, a number of other countries are putting forward their own proposals too. The positive and cooperative atmosphere reinforces my belief that our proposals can provide a basis for an agreement which meets both British concerns and also the aspirations of our Community partners and keeps all Member States moving forward together"

Mr Lamont made it clear that the proposals were put forward as a basis for discussion in the IGC.

The Treaty texts, as they stand, do no more than implement our proposals for what has become known as Stage 2 of EMU. However, as you know, I have 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 not object. Indeed, we would participate constructively in such discussions provided it is clear that our position remains that we are not able to accept the imposition of a single currency and a single monetary policy".

The proposed amendments to the Treaty of Rome, together with an explanatory commentary, are attached.

Notes for Editors

The British proposals for a hard ecu and European Monetary Fund were first put forward by the present Prime Minister, then Chancellor, in a speech to the German Industry Forum on 20 June 1990. The document released today puts those proposals in to the legal form of amendments to the Treaty of Rome and a Statute of the European Monetary Fund.

The UK proposals would create a European Monetary Fund (EMF), which would manage the hard ecu. This would not be basket of currencies, like the current ecu, but a currency in its own right. The hard ecu would be powerful force for anti-inflationary convergence throughout the Community. It would be managed by the EMF to ensure it was never devalued against other EC currencies at realignments of the Exchange Rate Mechanism. This would require the EMF to pursue a monetary policy at least as tight as the most rigorous national monetary policy in the Community.

Full details are set out in the Autumn 1990 Treasury Bulletin.

The first meeting of the Inter Governmental Conference was held in Rome on 15 December 1990. The European Commission submitted formal Treaty amendments to the IGC, designed to bring economic and monetary union into effect. A number of Member States expressed doubts about particular aspects of the Commission's proposals and indicated that they would be submitting papers of their own to the IGC. The Chancellor reaffirmed that the UK could not accept the imposition of a single currency, and added that the UK, would also be submitting proposals for discussion. The attached texts meet that remit.

Meetings of the IGC will be held monthly through the Luxembourg Presidency of the EC timed to coincide with the regular monthly meetings of Economic and Finance Ministers (ECOFIN). The next meeting will be on 28 January in Brussels. The Chancellor will represent the UK. The IGC will be supported by meetings of special representatives meeting twice a month. The first meeting will be on 15 January. Mr Nigel Wicks, second permanent secretary to the Treasury will be the Chancellor's special representative.

H M TREASURY

8 January 1991

EMU: PRESS BRIEFING

Q1. Hard ecu proposals already dead?

A1. Certainly not. Considerable interest shown by Member States particularly at first meeting of IGC in Rome. Has great advantages for Community as a whole. Some criticisms by individual Member States, of course, but I believe we have met them. Happy to discuss further. I would add that this is not a final blue print. It is a suggestion for a common currency. Other countries are putting forward their own proposals too.

Q2. Commission Proposals?

A2. Commission have circulated proposals for Treaty changes designed to bring about a single currency and single bank. At Rome meeting of IGC many Member States had reservations about aspects of Commissions proposals. We do not accept the Commissions objective but they have made substantial contribution to the debate and we are studying their proposals carefully.

Q3. Other 11 have accepted single currency in Stage 3. UK isolated?

A3. Well known that UK has reserve on single currency and monetary policy. Increasingly, other Member States are showing even where they agree with the ultimate objective, that they share UK concerns about the economic risks of premature move, before adequate convergence of economies is achieved. UK hard ecu proposals best way forward whatever the ultimate objective. Important now not to get hung up on abstract questions of principle and definitions. Work must concentrate on substance of progress towards EMU.

Q4. UK has accepted principle of single currency?

A4. No. UK does not accept imposition of a single currency.. Hard ecu would be a common currency.

Q5. British proposals could lead to a single currency?

A5. Always said hard ecu could develop into a single currency if peoples and governments choose. If other Member States suggest ways of building on British texts, to meet their aspirations, we will participate in those discussions provided it is understood that our reserve remains in place. Obviously cannot commit ourselves to final Treaty amendment until we see what it says.

Q6. Difference between Commission and UK Texts.

A6. The Commission's texts provide the creation, ultimately of a single European central bank running a single currency and monetary policy for the Community. The UK Texts provide for the early establishment of a European Monetary institute - the EMF - which would manage a common currency. Existing Member States would remain responsible for national monetary policies.

Q7. Has the UK accepted the draft statutes for a Eurofed drawn up by Central Bank Governors.

A7. No Governor of Bank of England made clear UK reserve still in place. Proposals for European Monetary Fund draw on work of Central Bank Governors where this is appropriate given that the EMF is not a Eurofed.

Q8. EMF would be independent/not accountable to national Parliaments?

A8. The EMF would have less discretion than the ESCB - interest rates have to be set to ensure hard ecu stays as hard as the hardest ERM currency. Even so, question of independence and accountability is important. Have sought views on this from other Member States. British Government not yet taken a final view.

- A9. Nobody else interested?
- Q9. No. Several Member States interested in developing content of stage 2 and strengthening of ecu, eg Spain, France, Germany.
- A10. Advantages of UK proposals.
- Q10. Allow early progress towards substantive Stage 2. All Member States more forward together. Creates hard ecu and EMF with a real job so it can learn by doing. Promote convergence of economies. Provides foundation for further development if peoples and governments so choose.
- Q11. These proposals confirm Delors' suspicions of British motives - will provoke political crisis?
- A11. The proposals are put forward as a basis for discussion UK wishes to negotiate constructively in the IGC and the positive atmosphere in Rome gives us good cause to believe we can agree an acceptable outcome.
- Q12. Publish/Lay before House all working documents of IGC.
- A12. The Treaty texts are being published and placed in the House of Commons Library as promised by the Prime Minister in the House on 18 December. Would not be appropriate to give same treatment to all IGC working documents but will keep House of Commons informed of progress.