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Charles!
Tone of this suggests
first indication of a difference of
assessment emerging
O.K. so far but...

10.2

Direct line 071-215 5621
Our ref PE2041
Your ref
Date 8 February 1991

Dear Chancellor

leaf

INTERGOVERNMENTAL CONFERENCE ON ECONOMIC AND MONETARY UNION

Charles Powell's letter of 25 January invites comments from colleagues on your paper for OPD.

I well understand why we are unlikely to have any early discussion in the EMU IGC, and I am generally content with the tactical approach outlined in your paper. Nonetheless, given the crucial political and economic issues being addressed in this Intergovernmental Conference, I trust we shall from time to time have an opportunity collectively to discuss our stance as proposals develop.

I hope you are right to see increasing recognition amongst other Member States of the difficulties of too early a movement to the single currency to which they pledged themselves at the first Rome European Council. Our objective must be to continue to press the practical economic and commercial realities, against the temptation for others to enter unrealistic political commitments.

Your overall approach is predicated on your judgement that, if we refused to countenance any move forward our partners would (and your legal advice is that they could), create EMU amongst themselves by agreeing a separate treaty of Eleven. They would of course in that case have to do so outwith the EC Treaty and its institutions. This is a critical assessment, and your officials have helpfully provided mine with the legal background.

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Whatever the legal practicalities, I think we should all recognise, that other Member States will be very keen to go ahead on a unified Community basis. We therefore should not underestimate - any more than we should overestimate - our bargaining strength.

That said, I agree with the main objectives set out in paragraph 6 of your paper - not least, given my Department's interest in the structural funds, the negative signal on "cohesion". We are far from convinced that the structural funds have yet proved themselves an effective way of providing cohesion in the present Community. Large increases in such transfers would cost the larger Member States dear and would provide no substitute - and might indeed mask the need for - the macro- and micro-economic convergence essential to economies taking on the single currency.

I am sending a copy of this letter to the Prime Minister and to members of OPD, and to Sir Robin Butler.

Yours Sincerely

(Approved by the Secretary of State
and signed in his absence.)

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