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Date 26 October 1989

Dear John,

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In his letter to you of 25 October Charles Powell asked that any detailed amendments to the Chancellor's paper for ECOFIN on European Monetary Union should be sent to the Treasury. We have two specific amendments to suggest in areas of concern to the DTI, as follows:-

a) Paragraph 16

The paper emphasises remaining barriers to a single financial market and single financial area. While the examples of such barriers - particularly on insurance establishment - are ones which should be tackled, at least in the longer term, it is not clear how convincing or appealing this section will be. This is particularly so as regards the Germans, who will see this passage as an attack on their regulation of savings institutions and on their 'prudential' approach to insurance.

They do not welcome the accelerated progress on insurance that we are seeking, and are not enthusiastic about other single market measures affecting financial institutions. Steps to harmonise the conduct of business rules (mainly applicable to investment business) or compensation schemes (which is usually taken to relate to investment firms, but could also concern banks' depositor protection) throughout the EC are controversial in domestic UK terms, and need cautious presentation.

Paragraph 16 is nonetheless an important plank in the paper's argument. Our essential position could be safeguarded without putting off potential allies by







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redrafting the fourth sentence to read:

"And access to financial services throughout the single financial area will be less uniform than it should be where any unnecessary differences remain beyond Stage 1 - for example in the conduct of business rules, compensation schemes, the regulatory requirements for the operation of established insurance companies, and the financial techniques and distribution channels which are permitted."

b) Paragraph 21

This is a purely presentation point. Paragraph 21, as now drafted, risks upsetting countries like Greece and Portugal which attach particular importance to regional support. It could be softened at no cost to ourselves by a reference to action to which the EC is already committed, especially the doubling the Structural Funds. The revised opening of paragraph 21 suggested below picks up the reference in the Single European Act to the aim of reducing regional disparities:-

"The Community is committed through the Single European Act to measures, such as the doubling of the Structural Funds by 1992, which will reduce regional disparities. But these disparities will be alleviated primarily through the operation of the market ...."

I understand that these amendments are acceptable to the FCO at official level.

I am sending a copy of this letter to Charles Powell (Number Ten) and to Stephen Wall (Foreign and Commonwealth Office).

*Yours ever,*

*Neil Thornton*

NEIL THORNTON  
Principal Private Secretary



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revising the fourth sentence to read:

"The financial services throughout the financial area will be less uniform than it is at present. There are any number of reasons for this - for example in the conduct of business, competition between the regulatory bodies, the operation of established financial institutions, and the financial institutions which are established."

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This is a presentation point. Paragraph 21, as now drafted, takes account of the fact that particular importance is attached to regional support. It could be argued that the EC is already committed, especially the Structural Funds. The revised opening of paragraph 21 suggested below picks up the reference in the Single European Act to the aim of reducing regional disparities.

"The Community is committed through the Single European Act to measures, such as the Structural Funds by 1992, which will reduce regional disparities. But these disparities will be alleviated gradually through the operation of the market..."

I understand that these amendments are acceptable to the EC at official level.

I am sending a copy of this letter to Charles Powell (London) and to Jürgen Wolf (Paris) and Commission officials.

KEIL THORNTON  
Principal Private Secretary

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