



Mr. Hughes

*cc PH
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Charles Powell Esq
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Dear Charles

EMU

You may have seen reports in today's press (Financial Times and Independent - copies attached) about the High Level Group on economic and monetary union. The Group has recently completed its report, which will be discussed at the General Affairs Council on Monday 6 November and at ECOFIN on Monday 13 November. The report is also likely to be discussed at the European Council. You will recall that we agreed to participate in the Group following the Prime Minister's discussion with President Mitterrand on 1 September.

... I attach a short background note which Bernard Ingham might like to use with the press. As the Times correctly reports today (in a report datelined Paris and presumably based on French briefing), the British members of the Group, John Kerr from the Foreign Office and Nigel Wicks from the Treasury, while contributing actively and constructively in the work of the Committee, repeatedly prefaced their contributions to the discussion with the caveat that their Government did not share the basic assumptions of the Delors Report.

I am sending a copy of this letter to Stephen Wall in the FCO.

V...
JG

JOHN GIEVE
Principal Private Secretary

Report adds strength to Delors framework

By Ian Davidson
in Paris

THE BRITISH paper on an Evolutionary Approach to Economic and Monetary Union in Europe has almost certainly come too late to have any impact on the basic framework of debate inside the EC.

That framework was set by the Delors Report, which was approved at the Madrid summit in June, and has been further reinforced by the recent report of the Guigou committee, unanimously approved by officials from the Twelve.

The committee, chaired by Mrs Elizabeth Guigou, top co-ordinator of French EC policy, was set up by France in its capacity as Community president, to prepare the ground for a conference on economic and monetary union (EMU).

The committee, attended by senior officials from national foreign and finance ministries, completed its work last week, and its 10-page report will be discussed by foreign ministers next Monday, and by finance ministers a week later.

It did not attempt to preempt any of the political decisions on EMU, which will have to be taken by heads of government either at Strasbourg in

December, or at a subsequent inter-governmental conference.

Instead, it set out to clarify questions which governments will need to address in order to take the appropriate decisions. Among other issues, it highlights the question whether the EC would need new institutions or merely a strengthening of existing bodies, as well as whether economic policy co-ordination within the framework of economic union would require binding constraints on national budgetary policies.

The report also focuses on whether economic and monetary union would require a strengthening of the EC's democratic arrangements.

The British paper is doubtless in time to secure a place on the agenda at the two sessions of the Council of Ministers. But the tenor of the Guigou report (so far unpublished) is understood to indicate that all the other governments are satisfied with the Delors Report as the starting point for discussion.

The difference of opinion between Delors and the rest is explicitly referred to at one point. An allusion is made to the UK's suggestion that there could be a different framework from that set out in Delors, but the report says this view was not shared by the other delegates.

In all other respects, however, it is understood to be unanimous. The British officials, Mr John Kerr of the Foreign Office and Mr Nigel Wicks of the Treasury, contributed actively and constructively to the work of the committee, though they repeatedly prefaced their contributions to discussion, with the caveat that their Government did not share the basic assumptions of the Delors Report.

Though the committee made no attempt to answer the questions it raised, the

French administration is apparently confident that political support for the Delors framework of EMU, and for the convening of an inter-governmental conference is widespread among member states except Britain.

French pressure for EC economic union

PRESSURE on Britain to yield to a revision of the EC Treaty to accommodate economic and monetary union will be increased on Monday when foreign ministers will see a new discussion paper detailing the main issues that would have to be tackled.

The text, known as the Guigou paper after Elizabeth Guigou, an economic aide to President Mitterrand, is the result of long negotiations between officials of all the member states, including Britain. It all but assumes that an inter-governmental treaty conference should take place and that the Delors Report published earlier this year would be the basis.

As such, it runs directly counter to the "go-slow" philosophy enshrined in Britain's alternative paper on monetary union released yesterday. Moreover, as a multi-country document it is likely to drown out the British contribution.

The Delors Report set out a three-stage progression to union, entailing a central banking system and currency. The first stage, involving only a strengthening of existing co-ordination mechanisms, was endorsed by heads of government in Madrid last June and will get under way next July.

Britain argues that the first stage, which would also mean

From David Usborne
in Brussels

sterling joining the exchange rate mechanism, should be allowed to mature before considering Treaty changes for the next two stages. Margaret Thatcher is therefore expected to resist moves at the 8-9 December Strasbourg summit to set a date for next autumn for inter-governmental talks.

Britain is also clinging to a phrase in the Madrid conclusions stating that "full and adequate" preparation must be made before Treaty talks are considered. However, France, at least, is likely to insist that precisely this new paper will serve as the main plank of that preparation, ensuring it will be completed by next autumn.

Among the issues raised in the new text, which takes the form of a series of direct questions, is the eventuality of one or more member states opting out of a Delors-type union. With clear, if unstated, reference to Britain and possibly one or two other countries, it asks: "Should there be provision for some flexibility as to the timetables and terms on which certain member states accede to certain arrangements? If so, what consequences should be drawn for the operation of the in-

stitutions?" There may be some bemusement in Downing Street over how it has happened that a paper, which explicitly develops consideration of the second two stages of the Delors Report, has been endorsed by a committee that included a joint delegation from the British Treasury and Foreign Office.

Britain may attempt to play down the apparent inconsistency by pointing to the inclusion of a British-sponsored question asking whether a common EC monetary policy is necessary or whether union could be achieved by competing national policies. But if this, the text says: "The working party did not reach agreement on these questions as in the case of many delegations... to question the constituent elements of monetary union".

Other questions raised address the extent to which national budget policies should be bound by common rules, whether other fiscal policies should also be covered and whether a common currency in the end would prove necessary. While the question of ensuring democratic accountability of the central banking system is also put forward, there is no suggestion that such a system's political independence might have to be compromised.

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HIGH LEVEL WORKING PARTY ON ECONOMIC AND MONETARY UNION

The Working Party was convened on the initiative of the French Presidency. It was composed of personal representatives of Ministers of Foreign Affairs and Finance and of the Commission. As its report, it drew up a questionnaire to assist in the full and adequate preparation, as called for by the European Council in Madrid, of the Intergovernmental Conference envisaged in the Council's conclusions. The report comprises a list of questions, which it does not attempt to answer. They were drawn up largely on the basis of material in the Delors Report since that was the only document (at the time) before the Council. The report will now be considered by the General Affairs Council on 6 November and by ECOFIN on 13 November.

2. As the ^{financial} Times correctly reports today (in a report datelined Paris and presumably based on French briefing), the British members of the Group, John Kerr from the Foreign Office and Nigel Wicks from the Treasury, while contributing actively and constructively in the work of the Committee, repeatedly prefaced their contributions to the discussion with the caveat that their Government did not share the basic assumptions of the Delors Report.

3. The report includes the following:

"The following questions were put during the Working Party's discussions. The Working Party did not reach agreement on these questions as, in the view of many delegations, they called into question the constituent aspects of monetary union:

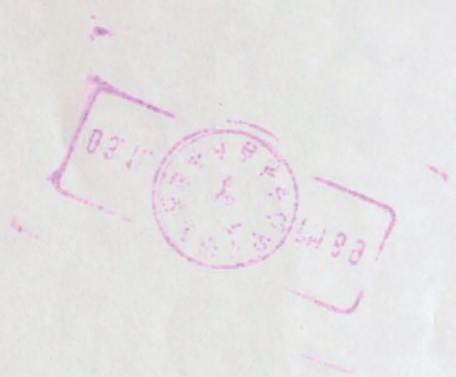
"Is it agreed that the establishment of a monetary union requires a common Community monetary policy, or could monetary union be achieved through the coordination of Member States' monetary policies to an agreed Community

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objective? If a monetary union is established through the coordination of Member States' monetary policies, what arrangements would be required?" "

These questions were put by the UK. The formula above was the only means for securing inclusion of this material in the report. [NB. A common Community monetary policy is central to the approach in the Delors Report. The coordination of Member States' monetary policies is central to the approach in the UK's paper "An Evolutionary Approach to Economic and Monetary Union". Inclusion of the questions signifies that at least in the view of some delegations these questions are still for discussion.]



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