

PERSONAL & CONFIDENTIAL

Mr Powell
le. 26/11

SIR PERCY CRADOCK

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E van LENNEP: ERM & EMU

Emile van Lennep who is an old friend, and now State Minister in Holland, came to see me last Friday. He expressed views on two issues which he said were those of the Dutch Treasury.

ERM

In his opinion it would be very helpful if the UK would:

- (a) join the ERM within the next 6 months; a long delay would mean many people questioning our real objectives;
- (b) in our own interests chose an exchange rate below the present rate;
- (c) be prepared for difficulty, especially from the French over a realignment of exchange rates;
- (d) demand a wider margin, say $\pm 6\%$, on entry.

EMU: Stages II and III

The Dutch Treasury and the Prime Minister were in favour of an IGC providing it would be possible to get certain conditions agreed at Strasbourg regarding Stages II and III. These were:

- (a) that the Central Monetary Institution should be an independent central bank;
- (b) that its mandate should be zero inflation;

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(c) that it should under no circumstances bale out governments with public sector financing difficulties;

(d) that it should not in any way subsidise regions of the Community.

These conditions were put to Mitterand during his visit to Holland last week. Having heard them he just shrugged his shoulders, went outside and said that the Dutch were enthusiastic about an IGC!

If these conditions could not be met at Strasbourg, it would be best to cancel the IGC.

Brian Griffiths

BRIAN GRIFFITHS