

CONFIDENTIAL

PRIME MINISTER

EUROPEAN COUNCIL IN MADRID

You will no doubt want to say a few words in Cabinet about the European Council in Madrid. The points you will want to stress are:

- We succeeded in holding the others back from accepting the Delors Report as a whole. We are committed to Stage 1 only and there is nothing automatic about moving beyond that.
- You reaffirmed our intention to join the ERM once inflation was significantly down and there was satisfactory implementation of the first phase of the Delors Report, including free movement of capital and abolition of foreign exchange control. But you were not under any pressure to set a date or a deadline and did not do so.
- It is clear that other Member States will in due course want to move beyond Stage 1. It is doubtful whether most of them really want Stages 2 and 3 of Delors: and the more they look at them the less they will like them. We need to start to draw up an alternative vision of what might follow Stage 1, which keeps crucial decisions on economic and monetary matters in the hands of national governments. The French Presidency are likely to push ahead rapidly with further work on this subject. It would be helpful for a group to be set up to produce recommendations for Ministers by the early autumn. It should draw on outside expertise as necessary.

Netherlands
Denmark
Luxembourg

CST.
CHARLES POWELL28 June 1989