



cc PC

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

30 November 1989

C.D. 20/11

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Charles,

EUROPEAN COUNCIL: STRASBOURG: ECONOMIC AND MONETARY UNION

Thank you for your letter of 22 November enclosing Sir Michael Butler's paper on EMU. The Chancellor thinks it is probably not necessary for the Prime Minister to see Sir Michael herself unless she is particularly inclined to since he has, as you will know, already agreed to see Sir Michael about this on Tuesday, 5 December.

Sir Michael wrote the paper as Chairman of the European Committee of the British Invisible Exports Council (BIEC), and it was briefly discussed at a recent meeting of the Committee attended by Treasury officials. It is far from clear to us that the paper reflects the views of other City institutions: to a large extent it appears to contain Sir Michael's personal view on UK tactics in the EMU debate.

The paper's theme is that the UK needs to put forward more positive ideas if its evolutionary approach is to be taken seriously in Europe. In that way he believes we could keep the focus of discussion on questions of substance, not institutions.

Our comments on Sir Michael's main suggestions are:

Development of the ecu (paragraph 6)

Sir Michael does not distinguish between developing the ecu in its present form - ie. a basket of other currencies which are the responsibility of individual governments and their



central banks; and creating a separate currency, with a separate mechanism for creating new money. Sir Michael's suggestions for removing impediments to the private use of the ecu (a) and freezing the composition of the ecu (d) fall in the first category, and are already proposed in the UK's paper on EMU. His other suggestions fall into the second category and are much more problematical. They amount to a proposal to create the ecu as a separate and parallel currency. That is not a feature of the UK's approach, based on competition between the currencies and monetary policies of each member state.

Coordination of monetary and economic policy after Stage I
(paragraphs 7-8)

Sir Michael suggests that the UK paper could discuss more fully the conditions in which ERM bands might be narrowed and ways of coordinating monetary and economic policies and monetary supply in the Community as a whole after Stage I. We do not believe it is possible to anticipate developments beyond Stage I in detail. Our approach is based on "learning by doing". Nor do we agree that Community-wide money supply will be "of major concern to all member states": our approach rests on maintaining separate monetary and economic policies in each member state. However, we fully agree with Sir Michael's overall conclusion that steps beyond stage 2 need not necessarily involve further institutional changes.

I hope these points are helpful.

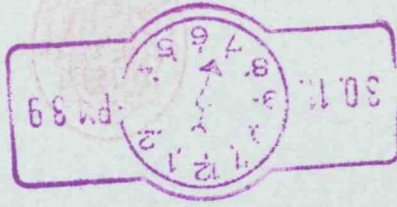
I am sending copies of this letter to Stephen Wall (FCO) and David Hadley (Cabinet Office).

Tomasz Tarkowski

T TARKOWSKI
Private Secretary

Euro 101: Strasbourg

Euro meeting
P. 35



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ECONOMIC AND MONETARY UNION: FURTHER WORK

It seems likely that whatever is decided at the European Council in Strasbourg, the questions identified in the Report of the High Level Group on EMU (the Guigou Report) will be addressed in some or other Community forum, for example the Monetary Committee, another high level group or an Intergovernmental Conference if one is called. The Chancellor has arranged therefore for the Treasury EMU Working Party to be reconvened, with representation from the Bank of England, FCO, Cabinet Office and Professor Griffiths from the No 10 Policy Unit, as well as the Treasury, with the task of making a detailed examination of the questions raised in the Guigou Report. Any other question which is relevant should also be examined. The purpose of this work would be to strengthen our position and to inform our contribution in the forthcoming debate.

I am sending a copy of this letter to Stephen Wall (FCO) and Trevor Woolley (Cabinet Office).

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Jsl.

JOHN GIEVE
Principal Private Secretary