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C.D.

From the Private Secretary

5 December 1989

See Stephen.

STRASBOURG EUROPEAN COUNCIL: ECONOMIC AND MONETARY UNION

The Prime Minister had a talk this evening with the Chancellor, the Foreign Secretary and the Governor of the Bank of England about the handling of the debate on Economic and Monetary Union at the Strasbourg European Council.

The Foreign Secretary reported on his discussions with M. Dumas, the French Foreign Minister, earlier in the day. The French Presidency would start the Council with a discussion of the Single Market and then go on to EMU and the Social Charter. They proposed that further discussion of Eastern Europe would be held over lunch or dinner. On EMU, the Presidency would press for a commitment to start an IGC in the second half of 1990, leaving the Italian Presidency to set the precise date. The German position was still unclear and would be decided by Chancellor Kohl personally. It was possible that he would argue against setting a date for an IGC before there had been further detailed consideration of the substance. He might prefer to avoid an IGC before the German elections. The Foreign Secretary continued that the French did not envisage a reference to the Delors Report as such in connection with an IGC, but would simply refer to economic and monetary union. They did not want a great argument at Strasbourg and did not expect anyone to commit themselves on the substance.

In discussion it was noted that a decision to hold an IGC was not purely a procedural one, since it implied acceptance of the need for Treaty amendment (although it would of course be possible to argue against such amendment at an IGC). There was also the risk that an IGC might be extended to cover other issues such as the powers of the European Parliament, which was an additional reason for caution. We should let Chancellor Kohl speak first in Strasbourg, in case he was ready to argue for delay. But the odds were that he would defer to President Mitterrand's desire to set a date for an IGC. In that event, it must be absolutely clear in the Council's conclusions that we regarded an IGC as unnecessary, and opposed much of the substance of Delors Stages 2 and 3. But we should also try - through the Secretary-General of the Commission and the Secretary-General of the Council - to feed into the Presidency's conclusions a number of conditions which would have the effect of constraining an IGC. (In essence, these would be the conditions proposed in John

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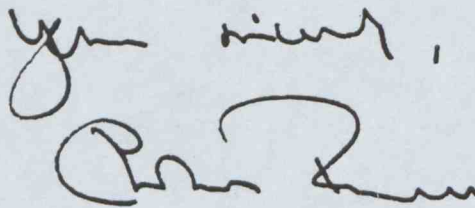
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Gieve's letter of 24 November to me.) It would be important to try to secure acceptance that nothing would be implemented as a result of an IGC, until the Community had gained proper experience of Stage 1 of Delors and the operation of the Single Market. In the event that we were able to get worthwhile conditions, we could claim a success. Further down the road, an IGC would in any case force other member states to face up to the fundamental difficulties involved in Delors Stages 2 and 3.

The Chancellor cautioned that there might be an attempt at Strasbourg to raise the issues of tax approximation and abolition of fiscal frontiers, which could be difficult for us.

The Prime Minister concluded that we should continue to argue at Strasbourg against an IGC, and should be ready to support the Germans if they sought a delay. In the event that there was a clear majority in favour of setting a date in the second half of 1990, we should record our dissent and work behind the scenes to have conditions imposed which would so far as possible constrain an IGC.

I am copying this letter to John Gieve (HM Treasury), Paul Tucker (Bank of England) and Trevor Woolley (Cabinet Office).

A handwritten signature in dark ink, appearing to read 'C.D. Powell', with a stylized, cursive script.

C.D. POWELL

J.S. Wall, Esq.,
Foreign and Commonwealth Office.