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Treasury Chambers, Parliament Street, SW1P 3AG
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6 June 1991

Stephen Wall Esq LVO
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
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Dear Stephen,

PRIME MINISTER'S MEETING WITH MR KOHL

EMU: EUROPEAN COUNCIL

As I indicated to you in my letter of 4 June (covering briefing for the Prime Minister's meeting with M Santer) we are hoping to persuade the Germans to join with us to encourage the Luxembourgers not to be too ambitious for the June European Council.

... The Prime Minister saw M Santer on 5 June. He is seeing Mr Kohl on 9 June and I attach briefing for that meeting. The Prime Minister might wish to compare the impressions that he and Mr Kohl have gained from recent meetings with M Santer about the Luxembourger's intentions for the European Council. Subject to that, the Prime Minister might then wish to underline the point that pressure for a premature agreement at the European Council would be very difficult for the UK and make future negotiations even more difficult than they otherwise will be.

As agreed with the Prime Minister draft conclusions for the Presidency have already been shown to officials at the German Chancellery. The Prime Minister might indicate that officials are in contact: the Chancellery have promised an early reaction.

I am sending a copy of this letter to Richard Gozney.

Yours,

Sheila

S M A JAMES
Private Secretary

ec1.gm/may/Kohl

PRIME MINISTER'S MEETING WITH KOHL

EMU: EUROPEAN COUNCIL

Points to Make

- Believe that Luxembourgers have made a good start to EMU discussions in the IGC but concerned that they may try too be too ambitious and try to get broad endorsement for the Presidency non paper (draft Treaty amendments) in general and to the content of Stage 2 and Transition to Stage 3 specifically.

- Especially important that there is no endorsement of the proposal that a European Central Bank be established and begin operating before a date had been set for the beginning of Stage 3.

- For the UK, it is important that no attempt is make to reach Conclusions which deal with the British concern (not to accept a Treaty which commits us to move to a single currency without a separate decision by Government and Parliament). Do not think this is the major outstanding issue for the IGC. But very sensitive for UK. Much Press and Parliamentary comment, some adverse, including Early Day Motion, followed remarks by President Delors and M. Beregovoy at informal ECOFIN in May. Any attempt at premature agreement at the European Council would provoke very critical response. Would be very difficult for UK in further negotiations.

- Have spoken to M. Santer in these terms.

- Luxembourgers deserve credit for progress so far. Suggest we encourage them to secure endorsement of Presidency conclusions which:

    - Congratulate them on progress made so far;

- Note agreement on importance of convergence and on the value of multi annual programmes (the responsibility of Member States) to achieve that convergence.

- Agreement that national monetary policy should remain in national hands in Stage 2;

- Commend Presidency text as a useful contribution to future discussions.

- Propose to offer draft conclusions language to Luxembourgers. Treasury Officials are in touch with your officials in the Chancellery to ensure that any text we put forward would cause no embarrassment to you.

Background

We understand that the Germans share our concern that the Luxembourgers might seek a broad endorsement of their draft Treaty amendments at the European Council. The Germans are, like us, particularly concerned that there should be no endorsement of the proposal that a ESCB or ECB should be established during Stage 2.

The Prime Minister underlined UK concerns to M. Santer on 5 June. M.Santer was sympathetic but still appeared to be looking for an outcome that might prove too ambitious for the UK.

Treasury officials have passed a copy of draft Conclusions language to German Chancellery officials, (copy at annex) we await their considered comments. We have told Kohl's advisers that you will not expect him to discuss the text at this meeting.

DRAFT CONCLUSIONS

Conference on Economic and Monetary Union

The European Council welcomes the important work that has been carried out by the Inter-Governmental Conference on economic and monetary union, and commends the Presidency on its handling of the Conference.

2. It welcomes the agreement that convergence of member states' economies is essential for a successful and dynamic economic and monetary union. It calls on member states to draw up and adopt, where necessary and as soon as practicable, and within the framework of the Convergence Decision of 12 March 1990, multiannual adjustment programmes intended to ensure lasting convergence, in particular with regard to price stability and balanced public finances. It requests the ECOFIN Council and the Commission to assess and monitor the implementation of such programmes and report by no later than the end of June 1992.

3. The European Council notes with satisfaction the progress made by the Inter-Governmental Conference in identifying possible Treaty Amendments designed to promote convergence, in particular through:

- strengthened multilateral surveillance procedures, and in particular to build on the multiannual convergence programmes;

- convergence conditions - relating to price stability, budget balances, interest rates and market flexibility - for determining moves from one stage to another;

- recognition that any move to the final stage requires prior achievement of price stability on a durable basis; budget deficits reduced to levels which are sustainable in the long term and consistent with monetary stability; the achievement of market flexibility; a high degree of alignment of short and long term interest rates on the capital markets.

4. The European Council similarly commends the Presidency's work in focussing discussion on the content of Stage 2 of economic and monetary union, and reaffirms that a new Community monetary institution shall be set up at the beginning of the second stage, assuming the duties of the Committee of Governors of the Central Banks of the member states. The European Council notes agreement that the institution's tasks in Stage 2, respecting the principle that responsibility for defining and carrying out monetary policy will remain with the authorities of the member states during Stage 2, shall be

- to promote the smooth operation of the EMS, as membership of the exchange rate mechanism extends to all Community currencies;

- to facilitate the development and hardening of the ecu, ensuring that from the beginning of Stage 2 it does not devalue against any currency participating in the exchange rate mechanism;

- to strengthen cooperation among the central banks of the member states; and

- to promote the coordination of the monetary policies of the member states with the aim of ensuring price stability.

5. The European Council reaffirms the importance it attaches to adherence to the timetable, set out in Strasbourg and Dublin, for completion of the Inter-Governmental Conference and ratification of its results by member states by the end of 1992. It notes with satisfaction that the good progress made in the Luxembourg Presidency is fully consistent with this timetable.