



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

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C D Powell Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

**MEETINGS WITH PRIME MINISTER LUBBERS, CHANCELLOR KOHL AND
PRESIDENT DE MITA: THE DELORS REPORT**

The Prime Minister's meetings with Messrs Lubbers, De Mita and Kohl provide an important opportunity to begin moving the follow-up to the Delors Report in the direction that meets our interests. The Chancellor has therefore asked that I should write setting out the line he suggests the Prime Minister might take at these three meetings.

We have, of course, already made our general response to the Delors Report very clear: that it brings out starkly the fundamental nature of economic and monetary union, with the transfer of national sovereignty which it would involve, and that there is no question of the UK agreeing to further Treaty amendment. The Chancellor believes that for these three meetings, we should concentrate on the following more immediate and practical points:

- There are many useful practical measures which the Community can, and should, take to further economic and monetary co-operation among member states.
- The task of the European Council should be to concentrate attention on these measures and agree a procedure for pursuing them - almost certainly in ECOFIN and, where appropriate, in conjunction with the Committee of Central Bank Governors.



- In fact, many of the practical measures to which the UK would willingly agree are included in Stage 1 of the Delors Report. These cover financial aspects of the completion of the single market, including of course capital movement liberalisation; and improving economic and monetary cooperation for example by replicating in the Community the arrangements for discussions between G7 finance ministers and central bank governors. We would also favour other measures such as the promotion of greater use of the private ecu and increased holdings of Community currencies in national foreign exchange reserves. (This last item would be unwelcome to the Germans).

We shall need to develop our line further in the run-up to the European Council, for example on exactly how we should react if other Governments press for an IGC to discuss Treaty amendment. But the Chancellor believes it is worth putting our wares on the table now, and trying to steer the discussion in the direction we want. Besides making the points above, the Prime Minister might say:

- The European Council should remit the work on practical measures to ECOFIN and central bank Governors, as appropriate, with instructions to bring as many as possible of them into effect as early as practicable. The ECOFIN should report progress to the Paris Council.

- None of these measures should require amendment of the Treaty. Suggestions for Treaty amendment are a diversion from the main task now before the Community - the completion of the single market, on which a lot of work is still needed (for example, further transport liberalisation, public procurement, and a range of measures in the area of financial services). So proposals for amending the Treaty should be set on one side. They are irrelevant to the practical work which the Community should now be concentrating upon.

- The Report itself makes clear that early institutional change is not required, so this is not something on which time should be spent at the European Council in Madrid. In any event, Parliament and public opinion in the UK would not accept further Treaty amendment, particularly when the Treaty has so recently been amended by the Single European Act.

The Chancellor believes that we stand a better chance of securing agreement to our strategy, and to heading off those who argue for early Treaty amendment, if we concentrate the Community's attention on these practical steps on which early action can take place. For that reason he thinks that it would be a tactical mistake to concentrate too much on the principle of EMU, on which the UK's views are already clear and well known, and to which all Member States feel they have signed up in the preamble to the Single European Act. So, if the Prime Minister is asked during her meetings about our attitude to EMU, the Chancellor suggests she should use the line agreed for the press briefing: namely



that EMU implies nothing less than European Government and political union. This is simply not on the agenda now, nor for the foreseeable future. In the meantime the priorities must be to concentrate on making a success of the Single Market, coupled with the practical steps for improved monetary and economic co-operation outlined above.

If the Prime Minister is asked about the sentence in paragraph 39 "... the decision to enter upon the first stage should be a decision to embark on the entire process", the Chancellor thinks that she should say that it is quite impossible for any British Government to accept such a commitment. There is no possibility of a British Parliament passing a single comprehensive Treaty of the sort described in the Report.

Annex A of this letter describes the stance taken so far by the Dutch, Italian and German Governments on the Delors Report. The Chancellor sees no reason for the Prime Minister to differentiate the presentation of our line in her discussions with the three Heads of Government. But she might emphasise to:

Lubbers: the similarity of the UK and Dutch positions on practical next steps; the substantial nature of those steps; and the crisis in which the Community will find itself if Treaty amendment is pressed;

Kohl: that the time to transfer control of economic and monetary affairs from a national to a Community level is not on the agenda and will not realistically be so for the foreseeable future;

De Mita: the need for further work, as soon as possible, to provide a sound basis for economic and monetary development in the Community.

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

*Yours
Alex*

A C S ALLAN
Principal Private
Secretary

BACKGROUND

DELORS COMMITTEE REPORT: OTHERS' VIEWS

Netherlands

1. The Dutch Government have yet to take a formal position on the report. The State Secretary for Foreign Affairs, Van Voorst Tot Voorst, said on 18 April that the proposal for a European System of Central Banks was worth considering, and observed that the Dutch position on the ESCB was likely to be in line with that of the German Government. The Finance Minister, Ruding, described the report as constructive. Duisenberg, Governor of the Netherlands Bank, said on 18 April that all member states should agree now to the final goal of economic and monetary union; but that it would be a long time before there was a single currency and a single central bank. The Dutch Cabinet is likely to have its first full consideration of the report on 28 April.

2. Senior officials have told us privately that whilst the Dutch Government may be prepared to endorse the concept of an independent central bank as a final stage in the process of EMU, Dutch attitudes towards next steps are close to our own. In particular, the Dutch may be reluctant to see follow-up referred to an Inter-Governmental Conference (IGC), and may be receptive to UK proposals for a series of practical intermediate steps. They recognise, however, the problems inherent in the fact that whilst Treaty amendment requires unanimity, only 7 member states are required to call an IGC.

Federal Republic of Germany

3. Chancellor Kohl, beset by domestic difficulties, has yet to declare his hand on the report. His position will be influenced by both Genscher (EMU enthusiast) and Pöhl (cautious welcome to report). The independence of central banks, and the possibility of increased structural funds, are central to German concerns; and Kohl will be very cautious about making commitments that could be seen as damaging to German interests. At the same time, he will be reluctant to rebuff French aspirations for substantive progress during their Presidency, and may see political benefits of his own in movement on the EMU dossier. Whilst Genscher and Dumas are reported to have called at the Franco-German summit on 19-20 April for early joint examination of Treaty amendment, officials have suggested that no work is yet under way, and that real German willingness to transfer control of economic and monetary affairs from a national to a Community level is an extremely long way off.

4. There is little evidence of liaison between the Government in Bonn and the Bundesbank in Frankfurt on follow-up to the report; or indeed of any Bundesbank strategy, beyond seeking to ensure the freedom from political influence of any European monetary institution. While Bundesbank officials see progress towards EMU as a long-term but inevitable process, they argue that Treaty amendment should not be considered until after the completion of the first of the three stages in the report. They also have reservations about the possibility of a European Reserve Fund, and about references to the structural funds, which they see as a potentially costly distraction.

Italy

5. The Italians favour rapid movement towards Economic and Monetary Union and have no objections of principle to Treaty change. In a press statement, De Mita has said that the report:

"will allow the Heads of State and Government of the twelve to show clearly their political will to pursue monetary and economic union.... The report confirms that economic and monetary union is necessary to realise the full potential of European integration. It is not only desirable but above all feasible.... The basis has now been laid for the next European Council at Madrid to agree to begin immediately the first phase and to set out the procedures for calling a conference charged with drawing up a new Treaty to provide for the institutions in the economic and monetary field".

6. The Italian Treasury and Bank of Italy have not commented publicly but have welcomed privately the report's emphasis on fiscal rectitude and the control of public deficits. The Minister for EC Affairs, La Pergola, noted in a discussion with the Ambassador on 18 April that the report set the basis for "those countries which wished to do so" to proceed with the necessary steps leading to the establishment of EMU.

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