

Meeting Record

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10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

18 April 1990

ECONOMIC AND MONETARY UNION

The Prime Minister had a meeting with the Chancellor of the Exchequer this afternoon to consider, in a preliminary way, our approach towards the next phase of discussion within the European Community of Economic and Monetary Union. The meeting had before it the Chancellor's minute of 9 April and the accompanying report to Ministers by a group of officials. Sir Peter Middleton and Mr Nigel Wicks were also present.

The Chancellor said that recent discussions in ECOFIN left him in no doubt that all other EC governments would be ready, at the Inter-Governmental Conference, to agree Treaty amendments which would adopt the definition of EMU in Stage 3 of the Delors report. There were differences of view about the length and substance of Stage 2 and consequently about when Stage 3 would be reached. In other words, most governments distinguished between drafting a Treaty and the actual move to EMU. But the goal of full EMU as described by Delors was shared by all except the United Kingdom.

This was the background against which we had to devise our negotiating position, and his minute set out various possible options. The United Kingdom did not find the Delors prescription acceptable. But our evolutionary approach had been brushed aside and was regarded by others as overtaken by events. If we were not prepared to engage in discussion on the basis that the goal should be full EMU as defined by Delors, there was a significant risk that the other Eleven member states would go ahead and sign a separate Treaty. This would be politically damaging. We should do our utmost to preserve a Community of Twelve and our influence in it. In short, we needed to devise a policy which would maximise our influence in the negotiations, and minimise our commitment to the outcome. It was on this basis that he recommended that we propose some institutional development in the form of a European Monetary Fund in Stage 2, and an "opting-in" mechanism for Stage 3.

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There was no disagreement, in discussion, that we could not accept the substance of EMU as defined by Delors, ie a single currency (or fixed exchange rates) and a Central Bank. The House of Commons had made its opposition very plain. we had to find a way to delay and frustrate this ultimate objective, without placing ourselves outside the game. The Chancellor's proposal for a "opting-in" mechanism offered one means of achieving this. The disadvantage was that it involved signing up to the objective of full EMU. This was objectionable on practical grounds: it was simply wrong to be trying to centralise powers in the Community: and it made no sense to subscribe to EMU before we had any real idea of the consequences of GEMU. Moreover, if we signed up to the Delors definition, it would be represented that we were gradually being drawn along to adopt the substance.

On the other hand, the ideas in the Chancellor's minute and the report by officials for building up Stage 2 were ingenious and offered a way forward, as did the fairly similar ideas in the paper circulated by Sir Michael Butler. It would be helpful to have an appraisal of where the two papers coincided and where they differed. Both had the advantage that they offered a new institution, in the form of a European Monetary Fund, which would require treaty amendment. They both went significantly further than Delors Stage 2. The proposals should be further worked up. At the same time, we should be prepared to put forward Treaty amendments at the IGC incorporating the doctrine of subsidiarity.

The question remained how far the proposal for a European Monetary Fund would carry us. One tactic would be to present it as subsuming and substituting for both stage 2 and 3 of the Delors report. We would represent it as a sufficient step beyond Stage 1 for the foreseeable future, removing the need for any Treaty amendment defining a subsequent Stage of EMU. The other members of the Community would then be faced with a choice of our proposal, constituting a major step forward, agreed by Twelve: or a separate Treaty agreed by Eleven. Particularly if combined with other steps, then there would be a prospect of securing wider support for our proposal.

Against this, while other member states would probably welcome our proposal as an improvement and strengthening of Stage 2, they were unlikely to drop their insistence on Treaty amendments defining the goal of full EMU. Our only option then would be to find some procedural device which would enable the others to sign up to this goal, but would not commit us to it. This would be difficult.

Summing up the discussion, the Prime Minister said that she did not believe that the Government could subscribe to a Treaty amendment containing the full Delors' definition of EMU. Further work should be done in the first instance to develop our proposal for a European Monetary Fund which we could put forward as the most that it was necessary for the Community to agree upon for now. The proposal would need to be considered by a wider group of Ministers. Parliament should be given an opportunity to debate the proposal in due course, although it was unlikely to give rise to difficulties. We should also need to consider the tactical handling of the proposal within the Community, in



particular how we should present it: and whether we should put all our cards on the table at once (although we should have to put forward most of them to stand a chance of attracting the support of other member states). Further thought was needed on how to finesse attempts to impose a binding commitment in a Treaty amendment to full EMU.

I am copying this letter on a personal basis to Stephen Wall (Foreign and Commonwealth Office).

C. D. POWELL

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H.M. Treasury