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PRIME MINISTER

I have seen Nick Ridley's minute of 14 June. As you know, I share his view that we need to face up to the issues posed by the forthcoming inter-government conference on EMU and determine our position as soon as possible.

WITH 3P ?

My starting point is very similar to his. The House of Commons will not accept a treaty which commits the United Kingdom to move to the final stages of an EMU which involves a single currency and a European Central Bank. I not only accept that, I entirely agree with it.

But I do not agree with Nick's view that we can stand aside and be indifferent to the nature and speed of change in the economic and monetary field in the Community. Whether we explicitly dismiss the ideas of the other eleven members or simply stay silent, the evidence suggests that, in all probability, the eleven will go ahead with their own separate treaty. This process would start in December and would continue right up to a General Election. If that occurs, I do not think that either the economics or the politics are attractive. The market response would almost certainly be sharply adverse at an appallingly difficult time and, to the dismay of many of our supporters (inside and outside Parliament) and of much of industry and the City, we would be seen as opting out of having serious influence in the Community. I am convinced we would also suffer in the longer term a price in lost inward investment and more generally in loss of influence. The converse is also true: handled skilfully we can maximise our influence in Europe and wholly wrong foot our political opponents.

PERSONAL AND CONFIDENTIAL



My solution to the difficulties we face explicitly does not involve abandoning the Government's present position in any way. I wish to join in the negotiations precisely to ensure that nothing damaging to our interests is done. If we have ideas to offer we should promote them. If we have nothing, we may get nothing. I want to put forward the sensible proposals for Stage 2 that we agreed in order to avoid a headlong rush on the part of others to Stage 3 with Britain seen as isolated and irrelevant - a position which cannot be in our interests. This objective will be difficult to achieve, such is the momentum to Stage 3. But the reaction from a number of Governments to Poehl's recent suggestion of a two speed union shows that we may well find support for an approach in which all 12 members can participate.

If we want to pursue this possibility, we must move quickly. We have so far failed to influence the debate because of a lack of a clear position and because we have consistently been behind the game. Hence my proposal that we should enter the negotiations with the object of securing a treaty which would become operational for member states only when they opted in, and which would retain the right to decline to opt in indefinitely. This fully protects the position of Parliament. I am no Euro-enthusiast but I would have no difficulty in defending that position. It means that we should have to negotiate within the ambit of the Delors definitions. But in my view that is preferable to the only alternative - neither to take part in the drafting of the treaty nor to sign it.

I am sending copies of this to Nick and Douglas Hurd.

JOHN MAJOR

18 June 1990

