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Prime Minister  
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De. Charles

**CHANCELLOR'S MEETING WITH FRENCH MINISTER OF FINANCE**

... You may be interested to see the attached record of the Chancellor's meeting with M. Berezgovoy in Washington. As you know, the latter emphasised how important it was that the Prime Minister should meet the President to discuss EMU.

I should add that in the discussion before lunch, M Berezgovoy implied that he would himself welcome an opportunity to meet the Prime Minister. The Chancellor did not respond to this hint and we have not heard any more about it yet.

V...  
JGL.  
**JOHN GIEVE**  
Principal Private Secretary



NOTE OF A DISCUSSION OVER LUNCH  
AT HM AMBASSADOR'S RESIDENCE WASHINGTON ON 24 SEPTEMBER 1990

Present:

Chancellor of the Exchequer  
Mr Wicks

M. Beregovoy, French Minister of Finance  
M. Samuel-Lajeunesse  
M. Authman

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The whole of the discussion concerned EMU. The conversation was carried out through an interpreter.

2. The Chancellor said he had found the discussion in ECOFIN in September most interesting. The German position, in particular, was open to different interpretations and might not become clear until after their elections. He would be interested to hear the Minister's views on the timescale for moves to EMU, on whether dates or conditions should be set for the move from Stage 1 to Stage 2 and on how the preparations for the IGC should proceed.

3. M Beregovoy agreed that the German position was not wholly clear. While Kohl and Genscher favoured EMU, Poehl and Waigel were concerned not to proceed too quickly (although it was not quite clear whether Poehl's remarks were intended to slow down the whole process fundamentally or to pave the way for a more rapid union of an inner core). However there was a clear agreement among most Community countries on the final goal: a single currency controlled by a European Central Bank which would be independent but democratically accountable. The question was how to get there. One issue concerned the starting date and nature of Stage 2. The French hoped that a treaty would be ratified by the

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beginning of 1993 and would like Stage 2 to start then but might be willing to delay the start for a year. He had discussed with the Dutch their proposals on the transition. He thought they might offer a way forward although he had made clear that the independence of national central banks should not be a precondition of making the move to union but a part of that move. The French Government had not reached final positions on a number of questions. For example Stage 2 might have to be longer than the Commission had proposed and perhaps there could be a requirement for a unanimous decision to move to Stage 3. There might also need to be provision for longer transitional periods for certain countries. The form of the Treaty was also not yet clear. The French were keen for all 12 to participate. But the central question remained how far the UK could go and wished to go.

4. The Chancellor said that there was a minority in both the major parties in Parliament against any development of the Community. There was also a much more widespread opposition to giving up the control of finance that was the basis of Parliament's power. In addition to this concern over sovereignty there was a concern that a move towards economic union which preceded economic convergence would be profoundly damaging and disruptive. At present, even if the Government wished to accept the Commission's approach to EMU, it would not be able to carry it through Parliament. That was the background to our proposals on the hard ecu. These were not just tactical proposals but a genuine attempt to find a way towards economic and monetary union around which all 12 could unite. Moreover, they had the advantage of providing a practical way beyond Stage 1 and a way which would help to bring about the convergence that our partners were eager to see. In answer to a question, the Chancellor said

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that we were committed to joining the ERM not least because of the lesson we had learnt from French experience over the last 5 years. We would join as soon as it was sensible to do so.

5. M Beregovoy said it would certainly help in the negotiations if the UK had joined the ERM. But the central question was whether we wanted to move to a closer political union in Europe. Certainly within France EMU was seen as part of and a condition of closer political union. If the UK could not accept the final goal of a single currency there might at some point be a breach with the majority of the Community. That was certainly not what he wanted. It would be more difficult to build a monetary union without the UK. Turning to the IGC, he said that one issue was whether the October European Council should give it a mandate or should simply leave it to do its best within the agreed time scale.

6. The Chancellor said that there was a risk of the emergence of an inner core if the pressure continued for a rapid move towards EMU. That would be disastrous. M Beregovoy agreed that it would be very difficult and undesirable so it was important to clarify common ground. He said it was very important therefore for the Prime Minister to talk directly to the President.

7. The discussion then turned to our hard ecu proposal. M Beregovoy said it was not clear a thirteenth currency would help. Under a competitive system one currency might dominate the others. It was not plain that it would bring about convergence. The Chancellor explained that the system would work as a powerful discipline on governments to converge on low inflation. M Beregovoy asked whether an independent EMF might not give rise to the same problems of sovereignty as the Delors prescription. The Chancellor said that the exact constitution of the EMF was for

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discussion but there was a major difference between our evolutionary approach, in which people and markets would decide on the use of the ecu, and the prescriptive approach in the Delors report under which a single currency would be imposed by government fiat. He pointed out that it was not at all clear how the ESCB could be both independent and politically accountable.

8. M Beregovoy agreed that there was a real issue and that was why there should be separate arrangements for external policy, arrangements for the ECSB to report to democratic institutions, and the ECSB's members should be appointed by politicians. He was still not sure how the hard ecu proposals would work but he did not wish simply to set them aside. They needed to be examined at the IGC.

9. The Chancellor said that the UK would play a full part in the IGC negotiations. It was important that there should not be prior decisions upon dates. A large number of difficult political issues were bound to arise in the detailed discussions and it was important to proceed at a sustainable pace.

10. M Beregovoy said that the French could be flexible about dates providing there was agreement on the "architecture". There were those who were looking for EMU through institutional change, the traditional approach of the French and Italians, and those looking for a more pragmatic path. The risk of the UK's approach was that it might not lead to European union at all. If the majority supported the European Commission proposal that would either lead to a breach with the UK or, possibly, to the UK joining the majority at the end of the negotiations.

11. The Chancellor said that while we had come round in the end on other issues, that would not be true on EMU. If the other

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States pressed ahead with the Delors prescription we would not join them; indeed such pressure would strengthen the hands of opponents of the Community within Parliament. Of course, the others could proceed without us but that would have a big cost for the Community, destroying the balance between France, Germany and the United Kingdom.

12. M Beregovoy emphasised that he did not want to see a breach with the UK. In his view it would be absurd to proceed with monetary union without Italy and the UK. The UK played a key role in the WEU and in political cooperation in Europe; it was essential that they should also play a role in the monetary union. But there remained some doubts on whether the UK was committed to "building Europe". If that was clear it should be possible to come together pragmatically. He referred again to the fears of those who wished to tie Germany down for fear that it would become too strong and too oriented to the East. He did not take that view himself.

13. The Chancellor said that the UK certainly did wish to build up the Community. The process of convergence and greater unity was bound to continue. As for Germany he shared the Minister's view that its links with the West were indissoluble. But one way of ensuring that it did not begin to look East was to give the Eastern Europeans themselves the prospect of joining the Community in due course. That prize would be at risk if an inner core proceeded to closer union.

14. M Beregovoy said that President Mitterrand had this in mind when he spoke of a Confederation of Europe but he also wanted a strong federation. In practice Czechoslovakia and Hungary would not be ready to join the Community for many years and attempts to tie their entry to further strengthening of the Community could

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look like a delaying tactics. He repeated that it was very important for the Prime Minister to meet the President and talk through these issues.

[we tried]

JL

JOHN GIEVE

3 October 1990

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