

John Major
Mrs. name of
his business.
EM

CONFIDENTIAL
DEDIP PERSONAL
FM FCC
TO IMMEDIATE UKREP BRUSSELS
TELNO 298
OF 072233Z OCTOBER 90
AND TO DESKBY 080800Z LUXEMBOURG

mt

FOLLOWING FROM PRIVATE SECRETARY
LUXEMBOURG FOR KERR AND CHANCELLOR OF THE EXCHEQUER'S PARTY ON
ARRIVAL

UK ENTRY TO THE ERM

1. SITTING TOGETHER AT LUNCH DURING THE EC FOREIGN MINISTERS' INFORMAL WEEKEND AT ASOLO ON 6 OCTOBER, THE SECRETARY OF STATE HAD A WORD WITH M. DELORS ABOUT THE LATTER'S REACTION TO THE ANNOUNCEMENT IN LONDON ON 5 OCTOBER THAT THE UK WAS APPLYING TO JOIN THE ERM.
2. THE SECRETARY OF STATE SAID THAT HE HAD HEARD DELORS' INTERVIEW ON THE BBC ON 5 OCTOBER, IN WHICH HE HAD WELCOMED THE BRITISH DECISION. HOWEVER, THE CHANCELLOR HAD BEEN PUZZLED BY RATHER FIERCE REMARKS WHICH DELORS HAD MADE TO HIM ON THE TELEPHONE THAT DAY.
3. DELORS SAID THAT THE ANNOUNCEMENT HAD CAUSED HIM THREE DIFFICULTIES:
 - A. HE HAD THOUGHT THAT THE PROCEEDURE WAS WRONG. THE FINANCE MINISTERS SHOULD HAVE BEEN SUMMONED TO A MEETING THIS WEEKEND.
 - B. HE THOUGHT THE BAND WAS TOO WIDE. A FOUR PER CENT BAND, RATHER THAN A SIX PER CENT BAND, WOULD HAVE BEEN ENOUGH. THE SECRETARY OF STATE SAID HE WAS SURPRISED TO HEAR THIS. GIVEN THAT THERE WAS BOUND TO BE SOME RISK INVOLVED IN STERLING JOINING THE ERM EVEN WITHIN A WIDE BAND, AND GIVEN THE TURBULANCE OF THE MARKETS AS A RESULT OF THE GULF CRISIS, A WIDE BAND SEEMED SENSIBLE. DELORS CLAIMED THAT HMG UNDERESTIMATED THE DIFFICULTIES THEY FACED FROM PRESSURE FOR HIGHER WAGES. A WIDE BAND FOR STERLING WOULD NOT PROVIDE ENOUGH DISCIPLINE TO CONTROL THE PRESSURE FOR WAGE RISES. THOUGH HE REALISED THAT POLITICALLY THE TIMING WAS SHREWD, IN ECONOMIC TERMS HE FELT IT WOULD HAVE MADE MORE SENSE FOR HMG TO HAVE GOT WAGE SETTLEMENTS DOWN BEFORE JOINING THE ERM.