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From the Private Secretary

27 January 1991

EMU IGC

The Prime Minister was grateful for the Chancellor's minute covering the treaty texts which it is intended to table at the Inter-Governmental Conference on 29 January. He has commented that he is unperturbed by the reference to Stage 3: we shall have to grasp this some time, and now is as good as time as any.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office).

Charles Powell

John Gieve Esq
HM Treasury

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Prime Minister
CDP
26/1

Treasury Chambers, Parliament Street, SW1P 3AG
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"This is fine. I'm unperturbed by the reference to Stage III. We'll have to grasp this some time — now is as good as any."
28.1.

PRIME MINISTER

EMU IGC

I thought you might like to know that we may table some treaty texts at the Inter-Governmental Conference on Tuesday, 29 January. The meeting is at official level, and the texts would be tabled as low key working documents and would not be published.

I attach the draft Treaty Articles in the form in which they would be tabled at the IGC. (The explanatory notes are for the benefit of the other member states). The Articles are mainly concerned with the economic aspects of EMU, and reflect our agreed position on binding rules on budget deficit, bail-outs and monetary financing.

The key text is Article 102a. In legal terms, this Article counts for little: it simply provides a sign-post for the Articles which follow. But the Commission has put forward a draft which is clearly unacceptable - <u>inter alia</u> it refers to 'a single monetary policy'.

If we are to negotiate sensibly, we need to put forward a text that makes some reference to Stage 3 - subject, of course, to our negotiating reserve. And I think this provides a good opportunity to set out our fundamental position. The key words in the text attached are that 'A member state shall neither be bound nor committed to participate in Stage 3'.

This is no more than a reflection of our position that this Government cannot commit the UK to participation in the final stage. But the European reaction may be slightly different. The fact that we are putting forward a form of words at all may be seen as positive. And some member states will see it as a pointer to the nature of a final compromise, reconciling our need to avoid the imposition of a single currency with others' determination to write a Treaty providing for Stage 3.

I am copying this minute to Douglas Hurd.

NL.

[N.L.]
January 1991

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Article 102a

Economic and monetary union shall be brought about progressively over a period divided into three stages, with parallellism between economic and monetary elements being ensured.

Building on the developments which have taken place since stage 1 began on 1 July 1990, stage 2 shall begin in accordance with the arrangements specified in Article [ ]. During stage 2, Articles [ ] shall apply.

A finding that the conditions for transition to stage 3 are met shall be made in accordance with Article [ ]. A Member State shall neither be bound nor committed to participate in stage 3.

Explanatory Note

This draft article provides for economic and monetary union to be brought about in stages.

2. The UK remains opposed to the imposition of a single currency. The second sentence of paragraph 3 reflects this concern.

3. Detailed arrangements for moving from one stage to another will be spelt out later in the Treaty. Paragraphs 2 and 3 will reflect the content of the relevant provisions.

4. The whole of this article may need to be amended in the light of decisions on the subsequent sections of the Treaty.

Article 102b

1. In order to facilitate the attainment of the objectives set out in paragraph 2, the Member States shall coordinate their economic policies.

2. The economic policies of the Member States shall aim to ensure generally balanced public finances and free and competitive markets, as a necessary basis for the achievement of price stability, stable and sustained output growth, high employment, efficient resource use and a sustainable balance of payments position. They shall be based on the progress achieved with regard to convergence since the beginning of stage 1 of economic and monetary union and on an internal market which has been completed in accordance with Article 8a.

Explanatory Note

This draft article sets out the main economic policy objectives which should guide the conduct of economic policy within the Community. It is based on the principle of subsidiarity and reflects the consensus within the Community that most economic policy functions will remain the preserve of Member States, acting within agreed broad objectives such as those set out in the second paragraph of this article.

2. The UK believes that economic policy should be targeted at those objectives which governments can influence. It is sound monetary and fiscal conditions, combined with flexible markets, that create the climate for sustained and steady growth.

Article 103

1. In order to help achieve the objectives specified in Article 102b and to promote the convergence of economic performance in all Member States, the Council shall undertake multilateral surveillance of the economic policies of the Member States.

2. Surveillance shall cover

- the economic conditions, prospects and policies in the Member States

- the compatibility of policies within each Member State, and

- the external economic environment and its interaction with the economies of Member States.

Multilateral surveillance shall cover all aspects of economic policy in both the short and medium term perspectives. It shall focus on macroeconomic, microeconomic and structural policies.

3. Surveillance shall take place in accordance with procedural rules adopted by decision of the Council acting unanimously and after consulting the Monetary Committee.

4. The work of the Council on surveillance shall be prepared by the Monetary Committee established under Article [ ]. The chairman of the Monetary Committee shall attend the Council meetings at which surveillance is carried out.

5. The Council, acting by qualified majority, may make recommendations based on the results of surveillance.

6. Where it is observed that a Member State has failed to implement any such recommendation, the Council, after notifying the Member State concerned, may decide, acting by qualified majority, to make its recommendation public.

Explanatory Note

The revised article suggested above is intended to provide a more clearly focussed basis for multilateral surveillance than does the existing Article 103.

2. This draft article draws on the arrangements set out in the convergence decision of 12 March 1990 (20/141/EEC). It provides for a system of multilateral surveillance leading to recommendations.

Article 104

1. Each Member State shall seek to avoid excessive budget deficits and undertakes to adjust its budgetary policy to the extent it considers necessary to give effect to any recommendation based on the results of surveillance under Article 103.

2. The Member States shall not have recourse to any form of budget deficit financing involving the creation of money, which is not in accordance with measures adopted by the Council under this paragraph or is otherwise prohibited by this Treaty.

The Council, acting unanimously and after consulting the Monetary Committee, shall adopt the measures needed to give effect to this paragraph.

3. Each Member State shall be responsible for discharging its own indebtedness and shall ensure that it is able to pay its debts without recourse to guarantees or other assistance from other Member States, save in accordance with the operating procedures of the European Monetary System, or from the Community.

The Community budget shall not be used to provide assistance, by guarantee or otherwise, to enable a Member State to pay its debts.

Explanatory Note

This draft article reflects the widely held concern that budget deficits and their financing could, under certain circumstances, pose a threat to the objective of price stability.

2. Paragraph 1 lays down a clear obligation on Member States to avoid excessive budget deficits.

3. Paragraphs 2 would outlaw monetary financing. Given the wide range of potential sources of monetary financing, it seems

appropriate to rely on subordinate legislation for implementation. Such legislation would have to be consistent with the monetary institution's obligation not to provide monetary financing, set out elsewhere in the Treaty.

4. The no 'bail-out' requirement is provided for in paragraph 3. It would outlaw conditional, as well as unconditional, bail-outs through the Community budget.