



Treasury Chambers, Parliament Street, SW1P 3AG

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PRIME MINISTER

DELORS COMMITTEE

WITH PG?

I have been thinking further over the weekend about the Governor's note attached to the Bank's letter of 10 February, which he had discussed with me last week.

... I fully understand the difficult situation which the Governor faces in the Committee, not least in the light of the terms of reference given to the Committee by the European Council (text attached). But after further reflection I have come to doubt whether the tactics which he suggests in his letter, and which I had discussed with him, are likely to lead to the outcome which he is seeking. My reading of Parts II and III of the draft Report suggests that they are so far from being satisfactory that he would face an impossible task in the Group to secure agreement to an acceptable redraft.

There are also, in my view, risks in submitting a redraft of the whole Part III of the Report (which would set out the steps towards EMU) as the Governor suggests. Unless the redraft were to be dismissive of the so-called stages II and III of the transition to EMU - and this would be unacceptable to some members of the Group - the redraft might give the impression that he favoured the steps which were envisaged for those stages.

I therefore feel that the Governor might well do better to submit to the Group a free-standing statement of his views and conclusions, which might be included in the Report. It is of course possible that one or two other members of the Group might support this statement: if so, so much the better.



I suggest that this statement might include the following elements:

- A short review of the history of economic and monetary co-operation in the Community, leading to the present position. Tactically, it would be right to present the value of co-operation in as positive terms as possible.
- A passage to the effect that it was clear from Group's discussion that "full" EMU, as conceived by the Group, would require massive shifts of economic and political sovereignty from member states, together with some paragraphs to provide the evidence for this in suitably stark terms.
- A comment that such a shift would require fundamental amendment to the Treaty, noting that this issue goes beyond the competence of the members of the Group - who are monetary, not constitutional and political experts, and saying that it is for Heads of State and Government to draw the constitutional consequences, and not something to which Central Bank Governors should make recommendations.
- A passage setting out the positive steps which could be taken in the period immediately ahead to enhance economic and monetary co-operation within the Community.
- A conclusion that this would be a more fruitful approach to progress on carrying forward economic and monetary co-operation than that described in the main Report, which has fundamental flaws, which should be spelt out.

CONFIDENTIAL



I hope that we can have an opportunity to discuss this approach at our meeting on Wednesday.

I am sending a copy of this minute to the Foreign and Commonwealth Secretary and to the Governor of the Bank of England.

N.L.

[N.L.]

13 February 1989

invited the Commission to prepare proposals for concrete measures to implement the Community's contribution to the international cooperation referred to in Toronto.

5) MONETARY UNION

The European Council recalls that, in adopting the Single Act, the Member States confirmed the objective of progressive realization of Economic and Monetary Union.

They therefore decided to examine at the European Council meeting in Madrid in June 1989 the means of achieving this Union.

To that end they decided to entrust to a Committee the task of studying and proposing concrete stages leading towards this Union.

The Committee will be chaired by Mr Jacques DELORS, President of the European Commission.

The Head of State and Government agreed to invite the President or Governor of their Central Banks to take part in a personal capacity in the proceedings of the Committee, which will also include one other member of the Commission and three personalities designated by common agreement by the Heads of State or Government. They have agreed to invite :

- Mr Niels THYGESSEN, Professor of Economics, Copenhagen,
- Mr LAMFALUSSY, Director-General of the Bank for International Settlements in Basle, Professor of Monetary Economics at the Catholic University of Louvain-la-Neuve
- Mr Miguel BOYER, President of "Banco Exterior de España".

The Committee should have completed its proceedings in good time to enable the Ministers for Economic Affairs and for Finance to examine its results before the European Council meeting in Madrid.