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CE MASTER



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From the Private Secretary

15 February 1989

Dear Alex,

DELORS COMMITTEE: ECONOMIC AND MONETARY UNION

The Prime Minister held a further meeting with the Chancellor, the Foreign Secretary and the Governor of the Bank of England this afternoon, to discuss progress in the Delors Committee.

The Governor gave an account of the Committee's most recent meeting. He had pressed for the draft report to be amended so that it did no more than describe the practical and technical consequences which would follow if Heads of Government decided to move forward towards Economic and Monetary Union. It would be quite clear that the decisions rested with Heads of Government and that the Committee's Report could not pre-empt them. There appeared to be quite wide support for this approach, although it remained to be seen how far it would be reflected in the further work of the rapporteurs. He had also circulated some suggestions for practical steps towards EMU which stopped short of requiring Treaty amendment. These would be discussed at the Committee's next meeting.

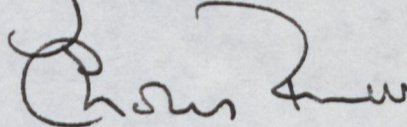
In discussion, it was agreed that the language of the existing drafts of Parts II and III of the Committee's Report was prejudicial. The result was to make it look as though the goals of a common currency and a Central Bank were already agreed and the Committee's task was simply to prescribe the steps necessary to reach them. This went far beyond the remit from the Hanover European Council. The draft also included references to Treaty amendment, which went beyond the Committee's competence. And it made dirigiste solutions, for instance the expansion of the Community's regional and social funds, appear to be the inevitable concomitant of progress towards EMU. We must work for a much more agnostic report, which set out starkly the far-reaching consequences for national sovereignty of the steps necessary to reach EMU.

There were various possible ways to achieve this. One could argue that the draft was so far from what we could accept that the Governor should circulate his own statement at

the next meeting, explaining in clear and positive terms the problems we saw with the Report. This was in essence the solution which the Chancellor had proposed in his minute. Against this, there were still several meetings of the Committee to be held and it would be inept for the Governor to disown the draft report at this stage without further efforts to amend it.

The conclusion reached was that the Governor should circulate an alternative version of Part II of the Committee's Report at the next meeting, drawing on the points in the Chancellor's minute. A text should be prepared, in appropriately stark language, by the EMU Working Group. Taken with the version of Part III of the Report which the Governor had already circulated, this would provide some leverage for securing amendments in the Delors Committee. In the event that the resulting text was still unsatisfactory, the Governor's versions could then be the basis for a dissenting minority commentary on the full Committee's Report.

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), John Footman (Bank of England) and Roger Lavelle (Cabinet Office).

yours sincerely,


(C.D. POWELL)

Alex Allan, Esq.,
HM Treasury.