

PRIME MINISTER

TOMORROW'S MEETING

They will come to No.10 at 0815 tomorrow. You may find such intelligence as I can glean of some help.

Background

G has been making the running in pressing for the meeting. N has allowed himself to be persuaded.

Both are agitated about the Madrid Council. They know and accept that we shall be isolated on the Social Charter. But they fear that the other Eleven will decide to go ahead without us on the economic and monetary issues. They believe that would hurt the Government politically and be very damaging to the City's position. They think such a situation can be avoided if we agree to join the ERM by the end of Delors Stage I. They will seek your agreement that you will go that far if necessary at Madrid to prevent us being isolated. In other words they want your explicit agreement to the proposition that we would join ERM by the end of Delors Stage I.

In G's case it goes wider than that. He is worked up about the elections, about our general tone on Europe and about divisions within the Party. He thinks it has all been badly handled, runs counter to what he has been doing in Europe and therefore reflects badly on him. He judges that an agreed outcome on economic and monetary matters at Madrid would stop Europe being a divisive issue in the Party. Both take the line that they are dissatisfied with the outcome of last week's discussion, and that you have not fully appreciated the risks at Madrid. G is getting quite emotional about it and those close to him are not certain quite what he will do (though expect normal prudence to assert itself).

Arguments

There are any number of arguments:

- the reason it has become a divisive issue is that ambitious and self-seeking people have made it one
- opinion as a whole is neutral or sceptical
- it would not be right to commit ourselves to a date. There is no authority to do so. The Manifesto spoke only of joining when the time is right
- anyway, if others in Europe are really determined to press on to Delors Stages II and III, this won't stop them. They will pocket any concession and go on
- there is no way we can commit ourselves at present. Even Delors has said he would not expect it
- anyway you have already told them you are ready to say at Madrid that completion of Delors Stage I would - if our inflation also comes down - create the conditions for us to join, although it has to remain a sovereign decision. Others can deduce a date from that if they want.

Handling

You will want to decide whether to use the arguments or simply listen. One way would certainly be to ask them to bring out all the points they want to make. You would listen politely, say that you had heard them out and taken careful note of their advice. You share the wish to avoid us being isolated, but this is a Heads of Government meeting and the decision on how to handle it must be yours. You have nothing further to say but the Foreign Secretary will of course be on the spot at Madrid to advise as appropriate.

CHARLES POWELL

24 June 1989