

CONFIDENTIAL

FM BONN

TO IMMEDIATE FCO

TELNO 426

OF 211822Z APRIL 89

INFO PRIORITY OTHER EC POSTS, TOKYO, WASHINGTON
INFO ROUTINE UKDEL OECD, BERNE, VIENNA, OSLO, STOCKHOLM
INFO SAVING HMCBS IN THE FRG AND BERLIN, BMG BERLIN

(FRAME ECONOMIC)

YOUR TELNO 274 TO PARIS: ECONOMIC AND MONETARY UNION: DELORS REPORT.

SUMMARY

1. THE BUNDESBANK IS GENERALLY SATISFIED WITH THE DELORS REPORT. THEY SEE PROGRESS TOWARDS EMU AS A LONG TERM BUT UNSTOPPABLE PROCESS. TREATY AMENDMENT SHOULD NOT BE CONSIDERED UNTIL AFTER STAGE ONE HAS BEEN COMPLETED. THEY HAVE RESERVATIONS ABOUT THE RESERVE FUND AND REFERENCES TO STRUCTURAL FUNDS.

2. AS YET THERE IS NO CLEAR LIAISON BETWEEN FRANKFURT AND BONN ON THE WAY FORWARD AND IT IS NOT CLEAR WHAT ROLE THE BUNDESBANK WILL PLAY. SAFEGUARDING THE INDEPENDENCE OF ANY EUROPEAN MONETARY INSTITUTION REMAINS A MAJOR PREOCCUPATION.

DETAIL

3. MINISTER CALLED ON RIEKE, HEAD OF DIVISION RESPONSIBLE FOR INTERNATIONAL MONETARY QUESTIONS IN THE BUNDESBANK ON 20 APRIL. THE BANK IS EVIDENTLY GENERALLY SATISFIED WITH THE REPORT WHICH REFLECTS THEIR VIEWS IN KEY RESPECTS. POEHL HAD BEEN PLEASANTLY SURPRISED AT THE DEGREE OF CONSENSUS AROUND GERMAN THINKING WHICH HAD BEEN ACHIEVED. RIEKE SAID THAT THERE HAD BEEN ROWS WITH DELORS OVER HIS 'AMAZING' DRAFTS BUT THAT DELORS HAD BACKED OFF EVIDENTLY DECIDING THAT IT WAS BETTER TO HAVE POEHL ON HIS SIDE. THE KEY TO OVERALL AGREEMENT HAD BEEN EVOLUTION IN FRENCH ATTITUDES AND DE LA ROSTERE'S ACCEPTANCE THAT BUNDESBANK IDEAS WERE 'REASONABLE'. IN THE LAST STAGES OF DEBATE, THOUGH THE LANGUAGE OF SIR R LEIGH PEMBERTON'S DRAFT HAD NOT BEEN ACCEPTED, THE THINKING IT REFLECTED HAD BEEN INFLUENTIAL.

4. IN FURTHER DISCUSSION, RIEKE MADE THE FOLLOWING POINTS:

- THE FIRST STAGE. THIS AMOUNTED TO A STRENGTHENED VERSION OF

EXISTING POLICY BUT WAS NEVERTHELESS EXTREMELY IMPORTANT. SO FAR AS THE BUNDESBANK WAS CONCERNED, THE REFERENCES TO PREPARATIONS FOR TREATY AMENDMENT SHOULD BE UNDERSTOOD AS MEANING THAT THE ACCOMPLISHMENT OF THE FIRST STAGE ITSELF WAS THE RELEVANT PREPARATION, IN THE LIGHT OF WHICH IT WOULD BE RIGHT TO CONSIDER TREATY AMENDMENT:

- THE FIRST STAGE WAS VALID IN ITS OWN RIGHT AND, EVEN IF THE UK DID NOT ACCEPT THE GOAL OF EMU, THE BUNDESBANK HOPED VERY MUCH THAT BRITAIN WOULD JOIN THE ERM:

- THE PROCESS OF MOVEMENT TOWARDS EMU WOULD GO AHEAD WHETHER OR NOT THE UK JOINED THE ERM:

- THE CREATION OF THE EUROPEAN RESERVE FUND IN THE FIRST STAGE THOUGH IT WAS BEING PUSHED BY THE FRENCH ALONE, WOULD, IN RIEKE'S VIEW, HAVE SPANISH, GREEK AND POSSIBLY BELGIAN SUPPORT:

- THE SECOND, TRANSITIONAL, STAGE WAS LIGHTLY SKETCHED PARTLY BECAUSE IT HAD PROVED THE MOST CONTENTIOUS AND DIFFICULT TO WRITE. WHEN PUBLISHED, THE BACKGROUND PAPERS CONTRIBUTED BY MEMBERS OF THE GROUP WOULD SHOW THE DIVERGENCES. THERE HAD BEEN CONSIDERABLE PAPERING OVER OF DIFFERENCES IN THIS SECTION:

- REFERENCES TO HISTORICAL EXPERIENCE SHOWING THE NEED FOR ECONOMIC TRANSFERS WERE 'A RED HERRING' WHICH THE POORER MEMBER STATES HAD BEEN ALLOWED TO GET AWAY WITH. DOYLE HAD PUSHED ESPECIALLY HARD. BUT THE BUNDESBANK SAW THESE REFERENCES AS HAVING LITTLE IF ANY ECONOMIC JUSTIFICATION AND REGARDED THEM AS ESSENTIALLY POLITICAL. RIEKE WAS UNHAPPY THAT POEHL HAD FAILED, TO MAKE THE POTENTIAL HUGE COST UNAMBIGUOUSLY CLEAR:

- IN RELATION TO THE THIRD STAGE, HE DESCRIBED IN DETAIL BUNDESBANK EFFORTS TO ENSURE THAT THE DRAFT PROVIDED FOR INDEPENDENT TENURE OF OFFICE BY MEMBERS OF BOTH THE ESCB COUNCIL AND BOARD:

- SO FAR AS THE BUNDESBANK WAS CONCERNED THE GOAL OF EMU REMAINED A DISTANT ONE:

- THE NEED TO MAKE FRESH DECISIONS BETWEEN DIFFERENT STAGES LEADING TO EMU IS MUCH MORE IMPORTANT TO THE BANK THAN THE IDEA THAT A COMMITMENT TO THE WHOLE PROCESS SHOULD BE MADE AT THE OUTSET:

- NEXT MOVES ARE UP TO THE POLITICIANS.

NEXT STEPS

5. RIEKE SAID THAT WHILE POEHL PERSONALLY MIGHT HAVE IDEAS ON FOLLOW UP BEYOND THOSE RECOMMENDED IN THE REPORT, THERE WAS NO BUNDESBANK STRATEGY, AT ANY RATE, YET. THE CENTRAL BANK GOVERNORS HAD DONE THEIR JOB. THEY HAD SET OUT THE STEPS, MACHINERY AND THE CONDITIONS THAT NEEDED TO BE FULFILLED. THE WHOLE THING WAS NOW UP TO GOVERNMENTS. TO HIS KNOWLEDGE THERE HAD SO FAR BEEN NO CONTACT BETWEEN THE BUNDESBANK AND THE FEDERAL GOVERNMENT. THEY DID NOT KNOW WHAT BONN THOUGHT BEYOND THE TWO SHORT PUBLIC STATEMENTS OF WELCOME MADE BY GENSCHER AND STAVENHAGEN (STATE SECRETARY, CHANCELLERY). THEY HAD NO IDEA WHAT THE NEW FINANCE MINISTER, WAIGEL, THOUGHT.

COMMENT

6. RIEKE GAVE THE IMPRESSION THAT THE BUNDESBANK WERE NOW HAPPY TO HAND OVER THE BABY. THEIR PREOCCUPATION WITH FREEDOM FROM POLITICAL INFLUENCE OF ANY EUROPEAN MONETARY INSTITUTION REMAINS A MAJOR CONCERN, BUT BEYOND PROTECTING THIS, IT IS NOT CLEAR THAT THE BANK INTENDS TO PLAY AN ACTIVE ROLE IN FOLLOW UP. CONVERSATIONS IN THE FEDERAL GOVERNMENT DEPARTMENTS (SEE MIFT) SHOW THAT THE BANK HAS NOT GOT ACROSS ITS VIEW OF WHEN IT WOULD BE RIGHT TO START THINKING ABOUT TREATY AMENDMENT.

7. FCO PLEASE ADVANCE TO: PS/SOFS, KERR, ARTHUR (ECD(I)), PS/CHANCELLOR OF THE EXCHEQUER, WICKS (TREASURY), PS/GOVERNOR, ARROWSMITH (BANK)

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TELNO 427

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(FRAME ECONOMIC)

MIPT: ECONOMIC AND MONETARY UNION: DELORS REPORT.

SUMMARY

1. GOVERNMENT DEPARTMENTS EXPRESS RELIEF THAT THE DELORS REPORT IS MORE SENSIBLE THAN WAS FEARED. PUBLIC WELCOME FOR THE REPORT BUT PRIVATELY OFFICIALS ACKNOWLEDGE THAT IT CONTAINS LESS WELCOME FEATURES AND THAT SOME ISSUES HAVE BEEN DUCKED. RECOGNITION THAT A EUROPEAN CENTRAL BANK IS ALONG WAY OFF. CAUTION OVER TREATY AMENDMENT BUT AN EARLY LOOK AT INSTITUTIONAL ASPECTS NOT RULED OUT. GENSCHER AND DUMAS SUGGEST A JOINT EXAMINATION.

2. VIEWS OF KOHL AND WAIGEL NOT KNOWN. BUT EVIDENCE THAT GENSCHER IS MANOEUVRING.

DETAIL.

3. INITIAL CONTACT WITH THE CHANCELLERY AND THE FEDERAL ECONOMICS MINISTRY HAS REVEALED RELIEF THAT THE DELORS REPORT IS MORE SENSIBLE THAN WAS FEARED. THE FOREIGN MINISTRY IS VERY PLEASED. IN PUBLIC THE GOVERNMENT HAS DESCRIBED THE REPORT AS A POSITIVE STEP TOWARDS EUROPEAN MONETARY UNION (EMU). IN PRIVATE OFFICIALS ACCEPT THAT WHILE THE REPORT CONTAINS MANY ELEMENTS OF IMPORTANCE TO GERMANY (A CLEARLY DEFINED ROAD MAP WITHOUT A TIMETABLE, INDEPENDENCE FROM POLITICAL INFLUENCE ON ANY NEW MONETARY INSTITUTIONS THE CENTRAL IMPORTANCE OF PRICE STABILITY) IT ALSO INCLUDES SOME LESS WELCOME FEATURES (THE ERF POSSIBLE IN STAGE 1, VASTLY INCREASED STRUCTURAL FUNDS). MORE DETAILED VIEWS ARE AS FOLLOWS.

THE QUALITY OF THE REPORT.

4. LAUTENSCHLAGER (STATE SECRETARY, AUSWAERTIGES AMT) EXPRESSED TO ME A WIDELY HELD VIEW THAT THE REPORT IS WRITTEN WITH SKILL AND CLARITY AND THAT THE AUTHORS HAD DONE WHAT HAD BEEN ASKED OF THEM IN

SETTING OUT THE STEPS AND THE DECISIONS THAT MUST BE FACED. THE ECONOMICS MINISTRY, WHILE AGREEING GENERALLY, ARE ALSO MORE CRITICAL. THEY CONSIDER THAT THE QUALITY OF THE ECONOMIC ANALYSIS IS NOT AS HIGH AS THE MONETARY ANALYSIS AND IN PLACES IS POSITIVELY SKIMPY. THE ISSUE OF FISCAL POLICY, A CONTROVERSIAL AREA OVER WHICH THERE HAD BEEN DISAGREEMENT HAS BEEN LARGELY DUCKED. TIETMEYER (STATE SECRETARY, FINANCE MINISTRY) IS SAID TO BELIEVE THAT IN STAGE 2, THERE SHOULD BE A NEW EUROPEAN BODY TO COORDINATE FISCAL AND BUDGETARY POLICY SINCE THE ECONOMIC POLICY COMMITTEE AND THE MONETARY COMMITTEE ARE NEITHER OF THEM STRONG ENOUGH. THE ECONOMICS MINISTRY WERE STRONGLY CRITICAL OF THE PASSAGES IN THE REPORT ON ECONOMIC TRANSFERS WHICH ARE UNBACKED BY ANALYSIS AND NOT ACCEPTABLE.

RELEVANCE OF THE REPORT AND SPEED OF ITS IMPLEMENTATION

5. THE ECONOMICS MINISTRY AGREE THAT THERE IS NO NECESSARY ECONOMIC LINK WITH THE COMPLETION OF THE SINGLE MARKET THOUGH AN OFFICIAL REMARKED THAT A POLITICAL RELATIONSHIP HAD ALREADY BEEN ESTABLISHED. THE ECONOMICS MINISTRY CONSIDER THAT THERE IS AN ELEMENT OF SURREALISM IN ALL THE TALK ABOUT THE ESTABLISHMENT OF A EUROPEAN CENTRAL BANK. REAL WILLINGNESS TO TRANSFER CONTROL FROM THE NATIONAL LEVEL WAS AN EXCEEDINGLY LONG WAY OFF. THIELE (CHANCELLERY) STRONGLY AGREED THAT IMPLEMENTATION WOULD NEED TO BE CAREFUL THOUGH HE DID NOT ACCEPT THAT IT NEED BE DELAYED AND AT MADRID A POLITICAL COMMITMENT SHOULD BE MADE TO THE PROCESS LEADING TO EMU, IRRESPECTIVE OF THE QUESTION OF TREATY AMENDMENT. (SEE BELOW). THE CONSEQUENCES OF THE FREEING OF CAPITAL MOVEMENTS WOULD NEED TO BE FULLY WORKED THROUGH BEFORE STAGE 2 WAS EMBARKED UPON. THE IDEA OF ESTABLISHING THE ERF BEFORE THEN WAS 'NOT SO GOOD'. HE SPECULATED THAT THE FRENCH WERE STAKING OUT A BARGAINING POSITION.

TREATY AMENDMENT

6. THE ECONOMICS MINISTRY WERE PREDICTABLY CAUTIOUS ABOUT TREATY AMENDMENT. THE CHANCELLERY IS AS WELL ALTHOUGH THIELE ARGUED THAT AN EARLY LOOK AT INSTITUTIONAL ASPECTS COULD NOT BE RULED OUT NOR AN INTER-GOVERNMENTAL CONFERENCE. LAUTENSCHLAGER REMARKED TO ME THAT ANY NEW TREATY WOULD BE AS IMPORTANT AS THE TREATY OF ROME ITSELF. ACCORDING TO KUEHN (DIRECTOR, ECONOMICS MINISTRY), WHO WAS PRESENT AT THE FRANCO/GERMAN SUMMIT, GENSCHER AND DUMAS REPORTED TO THE PLENARY THAT THERE SHOULD BE EARLY FRANCO-GERMAN EXAMINATION OF TREATY AMENDMENT.

COMMENT

7. FOR GERMAN MINISTRIES THESE ARE EARLY DAYS AND NONE OF OUR INTERLOCUTORS HAS BEEN ABLE TO SAY IF, HOW AND WHEN THE FEDERAL GOVERNMENT WILL TAKE A COLLECTIVE VIEW EITHER OF THE SUBSTANCE OF THE REPORT OR PROCEDURE. KOHL'S VIEWS ARE NOT KNOWN TO HIS ADVISORS. THE CHANCELLERY ADMIT THAT HE IS LIKELY TO BE TORN TWO WAYS: HE WILL WANT MOVEMENT FOR POLITICAL REASONS BUT BE CAUTIOUS ABOUT PUSHING FOR SPECIFIC STEPS HIMSELF FOR FEAR OF MAKING COMMITMENTS THAT WOULD BE REGARDED AS DAMAGING TO GERMAN INTERESTS. THIS AMBIGUITY IS REFLECTED IN THIELE'S CAUTION ABOUT IMPLEMENTATION OF THE SUBSTANCE OF THE DELORS REPORT BUT APPARENT WILLINGNESS TO CONTEMPLATE GOING ALONG WITH EARLY WORK ON INSTITUTIONAL ASPECTS. THIS POTENTIALLY GIVES GENSCHER, WHO IS ALREADY BEGINNING TO MANOEUVRE, LOTS OF SCOPE. HAUSSMANN, AT THE ECONOMICS MINISTRY, IS LIKELY TO BE WELL ADVISED BY HIS OFFICIALS BUT THEY OPENLY SAY THAT AS A JUNIOR FDP MINISTER AND PROTEGE OF GENSCHER, HE WILL NOT CHALLENGE HIS PATRON. IN THIS SITUATION, THE POSITION OF WAIGEL, THE NEW FINANCE MINISTRY, WHO ONLY TOOK OFFICE TODAY, AND WHOSE VIEWS ARE UNKNOWN, WILL BE CRUCIAL. I SHALL HAVE A CHANCE TO TALK TO HIM OVER LUNCH ON 25 APRIL.

8. FCO PLEASE ADVANCE TO: PS/SOFS, KERR, ARTHUR (ECD(I)), PS/CHANCELLOR OF THE EXCHEQUER, WICKS (TREASURY), PS/GOVERNOR, ARROWSMITH (BANK)

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