

CONFIDENTIAL
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INFO DESKBY 060800Z UKREP BRUSSELS
INFO IMMEDIATE PARIS
INFO PRIORITY OTHER EUROM POSTS

MY TELNO 1042: EMU: UK PAPER.

SUMMARY

1. FEDERAL GOVERNMENT AND BUNDESBANK DISPOSED TO ACCEPT THE PAPER AS A SERIOUS, IF LATE, CONTRIBUTION TO THE DEBATE. SERIOUS RESERVATIONS THAT THE FREE MARKET APPROACH WILL NOT EXERT THE NECESSARY DISCIPLINE ON MEMBER STATES TO ENSURE CURRENCY STABILITY. STRESS LAID ON KEEPING THE UK IN THE DEBATE.

2. AUSWAERTIGES AMT ENVISAGE CONTINUING INVOLVEMENT OF FOREIGN MINISTERS THROUGH THE FAC. GENSCHER WILL CONTINUE TO PUSH FOR AGREEMENT AT STRASBOURG ON A IGC IN THE SECOND HALF OF 1990, BUT KOHL'S POSITION REMAINS UNCLEAR.

DETAIL

3. ON 3 NOVEMBER MINISTER CALLED ON THIELE (FEDERAL CHANCELLRY). RIEKE (BUNDESBANK) AND LAUTENSCHLAGER (AUSWAERTIGES AMT) AND HAD LUNCH WITH SCHLESINGER (VICE-PRESIDENT OF THE BUNDESBANK) AND GADDUM (THE NEWEST BOARD MEMBER SAID BY SCHLESINGER TO BE CLOSE TO KOHL.) THE FOLLOWING ARE THE MAIN POINTS ARISING FROM THE DISCUSSIONS.

REACTIONS TO THE PAPER.

4. THE PAPER IS REGARDED AS A SERIOUS AND IMPORTANT IF BELATED CONTRIBUTION. THE EMPHASIS LAID IN THE PAPER ON BUILDING ON THE ERM IS WELCOME, PARTICULARLY TO THE BUNDESBANK, THOUGH IT INEVITABLY DRAWS ATTENTION TO THE POSITION OF STERLING. MORE GENERALLY, THE BUNDESBANK, WHILE IT ADMIRES THE FREE MARKET APPROACH, IS SCEPTICAL ON TWO RELATED COUNTS, BOTH ESSENTIALLY POLITICAL. IT DOUBTS THAT ALL GOVERNMENTS, LEFT TO THEMSELVES, WILL PRACTICE THE NECESSARY DISCIPLINES: SECONDLY THEY DO NOT BELIEVE THAT (MOSTLY THE SAME) GOVERNMENTS WILL HONOUR THEIR OBLIGATIONS WITHOUT SUPPORT AND INDUCEMENT. THE BANK AND THE CHANCELLRY AGREE ABOUT THE IMPORTANCE OF CONSOLIDATING STAGE I AND NOT RUSHING AHEAD PREMATURELY, BUT NEITHER LIKES THE IDEA THAT IT IS TOO EARLY TO START TO IDENTIFY THE

CONDITIONS, INCLUDING THE INSTITUTIONAL FRAMEWORK, FOR REALISING EMU. BANK AND GOVERNMENT HAVE A HORROR OF LAUNCHING OFF INTO THE UNKNOWN, AS THEY SEE IT, ACQUIRING OBLIGATIONS ON THE WAY, BUT NO RULES TO LIMIT THEM BY. THIS DISTURBS GERMAN SENSE OF ORDER AND, AS SCHLESINGER COMMENTED 'MARKET FORCES ARE NO LONGER IN THE ASCENDANT IN THE FRG'. THE BANK WANTS DETAILED CONDITIONS FOR MOVING BEYOND STAGE I AND THE CHANCELLERY REFLECTS THIS CONCERN. THEY SEE ANYTHING LESS AS LIKELY TO PREJUDICE THE INDEPENDENCE (AND POWER) OF CENTRAL BANKS AND UNDERMINE THE STABILITY OF CURRENCY BY DEGREES.

5. ALL INTERLOCUTORS PROMISED THAT SO FAR AS THEY WERE CONCERNED, THE PAPER WOULD GET THE SERIOUS CONSIDERATION IT DESERVED, BOTH INSIDE THE GOVERNMENT AND IN BRUSSELS. THE BUNDESBANK ARE PARTICULARLY KEEN TO ENSURE THAT THE UK IS NEITHER BRUSHED ASIDE NOR ISOLATED. RIEKE CLAIMED TO HAVE DECIDED PERSONALLY TO ATTEND A MEETING IN BONN OF THE INTERDEPARTMENTAL COORDINATING GROUP ON THE AFTERNOON OF 3 NOVEMBER TO ENSURE JUST THIS. OVER LUNCH IT WAS REVEALED THAT THE UK PAPER HAD BEEN MENTIONED AT A MEETING BETWEEN THE BANK AND THE INDEPENDENT AND INFLUENTIAL COUNCIL OF ECONOMIC EXPERTS FROM WHICH SCHLESINGER AND GADDUM HAD JUST COME. (THE COUNCIL'S ANNUAL ECONOMIC REPORT WILL BE PRESENTED TO THE FEDERAL GOVERNMENT LATER THIS MONTH AND SEEMS LIKELY TO INCLUDE COMMENTS ABOUT ECONOMIC AND MONETARY UNION.) SCHLESINGER COMMENTED THAT THE UK WOULD BE 'WELL PLACED' TO MAKE AN IMPORTANT CONTRIBUTION TO DEFINING THE PRECONDITIONS FOR AN IGC WHICH THEY ARE CONVINCED WILL BE CALLED ON FRENCH TIMING.

PROCEDURE

6. THE MINSITER DEPLOYED WITH LAUTENSCHLAGER THE POINTS CONTAINED IN YOUR TELNO 896 TO PARIS. LAUTENSCHLAGER MADE IT CLEAR THAT ''SO LONG AS WE ARE AROUND'' THE FOREIGN MINISTERS WOULD TAKE A CLOSE INTEREST IN EMU. GENSCHER WAS NOT CONTENT TO LET FINANCE MINISTERS OR CENTRAL BANK GOVERNORS MAKE THE RUNNING ALONE. LAUTENSCHLAGER ACCEPTED THE IMPORTANCE OF WHAT HE DESCRIBED AS THE TECHNICAL AND ECONOMIC ASPECTS BUT WENT ON AT GREAT LENGTH ABOUT POLITICAL WILL AND COMMITMENT, CITING THE SINGLE EUROPEAN ACT, STUTTGART AND MADRID. HE DID NOT THINK THAT MEMBER STATES SHOULD ATTEMPT TO DOT EVERY I BEFORE CALLING AN IGC. THE CHANCELLRY TAKE A QUITE DIFFERENT LINE. ACCORDING TO THIELE, THEY WANT SUFFICIENT TIME DURING STAGE I FOR LEARNING FROM EXPERIENCE AND THEY WANT AT LEAST A BROAD OUTLINE OF THE ANSWERS TO THE QUESTIONS RAISED BY THE GUIGOU GROUP BEFORE MOVING TO AN IGC. THE CHANCELLRY HAVE NOT THOUGHT THROUGH HOW THEY WANT WORK TO PROCEED. IT IS CLEAR THEY DO NOT EXCLUDE A CONTINUING,

BUT CERTAINLY NOT EXCLUSIVE, ROLE FOR THE HIGH LEVEL GROUP. READING BETWEEN THE LINES, IT IS APPARENT THAT THE AUSWAERTIGES AMT CERTAINLY WANT THIS. LAUTENSCHLAGER WAS AT PAINS TO UNDERLINE HOW IMPORTANT IN ALL OF THIS WAS THE INVOLVEMENT OF THE UK ON A BASIS EQUAL WITH ALL OTHER MEMBER STATES. HE SAID HE WAS SURE THAT GENSCHER WOULD VERY MUCH WELCOME THIS OPPORTUNITY TO DISCUSS THE ISSUES WITH YOU.

CONCLUSION.

THE WELCOME GIVEN TO THE PAPER WAS GENUINE ENOUGH IN THE BANK AND THE FINANCE AND ECONOMIC MINISTRIES AND CHANCELLRY, THOUGH OUR FRIENDS ARE WORRIED THAT ITS LATE APPEARANCE WILL PREVENT IT GETTING EQUAL TIME. THE AUSWAERTIGES AMT PROFESSES ITSELF PLEASED TO SEE THE PAPER ARRIVE, BUT PROBABLY THINK IT INCONVENIENT AT THIS STAGE. PREDICTABLY, EVEN THE BUNDESBANK WHILE AGREEING WITH ITS EMPHASIS ON THE DISCIPLINE OF MARKET FORCES, DOES NOT THINK IT GOES FAR ENOUGH. THEY WANT MUCH MORE OF A ROAD MAP THAN THEY SEE IT GIVING AND THE AUSWAERTIGES AMT WANTS A TIME TABLE TOO. THE BUNDESBANK WOULD MUCH PREFER TO DISPENSE WITH THE LATTER, BUT THERE IS A FATALISTIC RESIGNATION, GENSCHER'S CURRENT DIFFICULTIES IN DELIVERING THE GERMAN TO THE FRENCH NOTWITHSTANDING, THAT HE WILL EVENTUALLY GET HIS WAY FOR BROADER POLITICAL REASONS. SCHLESINGER ALLUDED TO THESE SAYING THAT THE GERMAN OSTPOLITIK CAST DOUBTS ON THE FRG GOOD FAITH IN THE COMMUNITY WHICH PROPELLED THE GOVERNMENT INTO A HIGH PROFILE DEMONSTRATION OF COMMITMENT. TO A LARGE EXTENT THE BUNDESBANK SEEMS TO SEE ITS ROLE AS LIMITING THE POTENTIAL DAMAGE OF A SITUATION IT CANNOT CONTROL. PINNING DOWN JUST WHAT THE FRG IS TAKING ON AND RULES TO GOVERN THUS ASSUME EXTREME IMPORTANCE. THE BUNDESBANK - AND INDEED THE FINANCIAL AND ECONOMIC MINISTRIES - WOULD DEARLY LIKE A WORKING ALLIANCE WITH THE UK TO THE FULLEST EXTENT POSSIBLE. THIS WOULD NEED TO BE DISCREET, GIVEN THAT THE AUSWAERTIGES AMT WOULD SEE THIS AS STRENGTHENING THE RESISTANCE OF THE DOMESTIC FORCES THEY NEED TO WIN ROUND. CONTACTS WITH THE CHANCELLRY, WHICH WOULD CERTAINLY BE OPEN TO DIALOGUE, WOULD BE IMPORTANT.

RESIDENT CLERK PLEASE PASS TO PS/SOFS AND KERR BEFORE DEPARTURE FOR FAC ON 6 NOVEMBER.

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