

CONFIDENTIAL

167731
MDHIAN 4023

CONFIDENTIAL
FM BONN
TO DESKBY 101600Z FC0
TELNO 1084
OF 101457Z NOVEMBER 89
INFO IMMEDIATE UKREP BRUSSELS, PARIS
INFO ROUTINE OTHER EC POSTS

FRAME ECONOMIC

EMU: POEHL'S VIEWS ON THE BRITISH PAPER AND THE PROSPECTS

SUMMARY

1. POEHL LIKES OUR PAPER AND INTENDS TO USE IT TO ADVANCE HIS VIEWS. HIS COMMENTS ON THE PUBLIC DEBATE IN THE FRG. HE IS RESIGNED TO THE EUROPEAN COUNCIL DECIDING NEXT MONTH ON AN IGC. HE HOPES THE IGC WILL LAST SEVERAL YEARS. HIS VIEWS ON POSSIBLE OUTCOMES.

DETAIL

2. I DISCUSSED EMU WITH POEHL FOR 90 MINUTES ON 9 NOVEMBER. I SAID WE HOPED THE BRITISH PAPER WOULD PLAY A SIGNIFICANT ROLE IN FURTHER DISCUSSIONS OF EMU. I ARGUED THE CASE FOR MOVING CAREFULLY AND LEARNING FROM THE EXPERIENCE OF THE MANY THINGS THAT WOULD HAPPEN IN STAGE 1. I THANKED POEHL FOR SAYING, IN A SPEECH ON 7 NOVEMBER, THAT THE BRITISH PAPER WAS REALISTIC AND SENSIBLE (MY TELNO 1074).

3. POEHL SAID THAT THESE WORDS EXACTLY DESCRIBED HIS VIEW. HE AGREED WITH VIRTUALLY EVERYTHING IN OUR PAPER, THOUGH THE IDEAS ABOUT COMPETITION BETWEEN CURRENCIES WERE NOT VERY DETAILED. OUR PAPER WAS A DESCRIPTION OF PHASE I, WITH RATHER MORE DETAIL. I DISAGREED AND TOOK POEHL THROUGH THE RELEVANT PARTS OF THE PAPER. HE ACCEPTED THAT PARAGRAPH 21, FOR EXAMPLE, WENT BEYOND PHASE I BY IDENTIFYING FURTHER STEPS TO FREE THE USE OF COMMUNITY CURRENCIES. HE SAW NO DIFFICULTY WITH THESE STEPS. POEHL PARTICULARLY PRAISED THE PAPER'S INSISTENCE ON 'ASYMMETRICAL' ALIGNMENT OF CURRENCIES ON TO THOSE EXPERIENCING THE LOWEST INFLATION.

4. POEHL LIKED OUR INSISTENCE ON LEARNING FROM EXPERIENCE. ONE SHOULD CONCENTRATE ON WHAT WAS POSSIBLE AND NOT GO IN FOR VISIONS. HE WOULD LIKE PHASE I TO BE UNLIMITED IN TIME AND TO LAST SEVERAL YEARS. HE WOULD USE OUR PAPER IN HIS ATTEMPTS TO ARGUE AGAINST HASTE ON EMU.

THE DEBATE IN THE FRG

5. I SAID THAT POEHL HAD BEEN ALMOST THE ONLY PERSON IN THE DEBATE ON EMU IN THE FRG TO ADDRESS THE SUBSTANCE. I THOUGHT HE WAS HAVING IMPACT IN THE CDU. POEHL AGREED THAT HE HAD MADE PROGRESS. BUT HE COULD SPEAK ONLY ON THE MONETARY SIDE, NOT THE ECONOMIC. I SAID IT WAS ASTONISHING THAT MANY PEOPLE IN THE FRG DID NOT REALISE THAT AN IGC WOULD BE ABOUT REPLACING THE BUNDESBANK WITH ANOTHER SYSTEM FOR MANAGING THE CURRENCY, OR THAT THE BUDGETARY INDEPENDENCE OF THE LAENDER, LAID DOWN IN THE FRG'S BASIC LAW, WOULD BE AFFECTED. THERE MIGHT HAVE TO BE CHANGES TO THE BASIC LAW AND THERE WOULD HAVE TO BE CHANGES TO THE BUNDESBANK LAW. POEHL SAID THAT THESE WERE EXACTLY THE POINTS HE HAD BEEN STRESSING TO KOHL AND OTHER MINISTERS. THE DEBATE IN THE FRG WAS FAR TOO GENERAL AND TOOK LITTLE ACCOUNT OF THE SUBSTANCE.

IGC

6. POEHL SAID THAT HE HOPED THE UK WOULD ARGUE AT THE STRASBOURG EUROPEAN COUNCIL FOR IMPLEMENTATION OF THE MATTERS ON WHICH THERE WAS AGREEMENT, IE PHASE I. AN IGC WAS PREMATURE, BUT HE WAS PESSIMISTIC ABOUT PREVENTING IT. GENSCHER WAS DETERMINED TO HAVE A POSITIVE DECISION IN STRASBOURG. WAIGEL (CSU) AND LAMBSDORFF (FDP), IE TWO OF THE THREE PARTY LEADERS IN THE COALITION, WERE FOR DELAY. WAIGEL WAS FEARFUL THAT AN IGC WOULD AROUSE FEARS IN THE FRG ABOUT FUTURE STABILITY OF THE DMARK AND THAT THIS COULD HELP THE FAR RIGHT REPUBLIKANER PARTY. KOHL SEEMED UNDECIDED. BUT POEHL HAD A PERSONAL IMPRESSION, OF WHICH HE WAS NOT CONFIDENT AND DEFINITELY SHOULD NOT BE QUOTED, THAT KOHL MIGHT HAVE PRIVATELY PROMISED MITTERRAND THAT HE WOULD VOTE FOR AN IGC. POEHL EXPECTED IN ANY CASE A BIG MAJORITY FOR THIS AT STRASBOURG. KOHL MIGHT DECLARE SOME PRINCIPLES ON THE BASIS OF WHICH THE FRG WOULD ACT IN THE IGC, NOTABLY THAT A EUROPEAN CENTRAL BANK MUST BE INDEPENDENT AND MONETARY STABILITY MUST BE THE AIM. KOHL WOULD NOT AGREE TO A TIME LIMIT FOR CONCLUDING AN IGC.

7. POEHL HAD NOT HEARD OF THE IDEA OF A PREPARATORY CONFERENCE OF OFFICIALS (MY TELNO 1062 PARA 5). HE LIKED IT BUT DID NOT THINK IT WOULD RUN. HE WAS ALSO SCEPTICAL ABOUT PROVIDING IN A NEW TREATY FOR A UNANIMOUS DECISION OF GOVERNMENTS BEFORE A MOVE BEYOND PHASE I COULD TAKE PLACE. THIS SEEMED TO HIM SUPERFLUOUS, SINCE ALL GOVERNMENTS AND PARLIAMENTS WOULD HAVE TO AGREE TO A NEW TREATY. POEHL ADDED, HOWEVER, THAT HE TOOK SERIOUSLY THE FRENCH TALK OF A TREATY AMONG FEWER COUNTRIES IF NOT ALL THE TWELVE WOULD AGREE TO ONE.

8. I SAID IT WAS BETTER NOT TO START A CONFERENCE WITHOUT SOME PROSPECT OF AGREEMENT. A FAILED CONFERENCE WOULD BE MUCH WORSE FOR EUROPE THAN NO CONFERENCE. ONE DANGER WOULD BE THAT, ONCE A CONFERENCE HAD STARTED, THERE WOULD BE PRESSURES FOR COMPROMISE AND A BAD TREATY COULD GAIN SUPPORT. POEHL AGREED. HE SAW THREE POSSIBLE OUTCOMES FOR AN IGC:

(A) FAILURE TO AGREE

(B) ESTABLISHMENT OF A EUROPEAN CENTRAL BANK LESS EFFECTIVE AND INDEPENDENT THAN THE BUNDESBANK

(C) ESTABLISHMENT OF A EUROPEAN CENTRAL BANK ESSENTIALLY LIKE THE BUNDESBANK.

HE THOUGHT (C) UNREALISTIC. PARAGRAPH 33 OF OUR PAPER (ABOUT ACCOUNTABILITY FOR MONETARY POLICY) WAS OVERSTATED BUT ITS BASIC THOUGHT WOULD BE WIDELY ACCEPTED IN AN IGC. BETWEEN THE OTHER TWO OUTCOMES (B) WAS THE MORE LIKELY. WITH (A) OR (B), AN IGC WOULD HARM THE FRG. KOHL KNEW HIS VIEWS.

COMMENT

9. POEHL FEARS A BAD TREATY AND HOPES THAT DECISIONS CAN BE DELAYED, AND PHASE 1 PROLONGED, AS LONG AS POSSIBLE. HE SEES THE SUBSTANCE MUCH AS WE DO BUT DEFERS TO THE POLITICIANS' RIGHT TO TAKE A DECISION. HIS FATALISM ABOUT THE INEVITABILITY OF AN IGC NEXT YEAR INFECTS THE REST OF THE BUNDESBANK (MY TELNO 1050). BUT I THINK HE IS SOMEWHAT BEHIND A RAPIDLY DEVELOPING DEBATE IN BONN. KOHL HAS NOT YET TAKEN A DECISION ON WHETHER TO AGREE AT STRASBOURG TO AN IGC AND I DOUBT THAT HE HAS - YET AT LEAST - MADE TO MITTERRAND WHAT AT PRESENT WOULD BE A DANGEROUS COMMITMENT FOR HIM.

10. FCO PLEASE ADVANCE TO PS/SOFS, KERR, ARTHUR (ECD(I)), PS/CHANCELLOR OF THE EXCHEQUER, WICKS, MRS BROWN (TSY) HADLEY, MOGG PARKER (CABINET OFFICE) PS/GOVERNOR, CROCKETT, ARROWSMITH (BANK OF ENGLAND)

MALLABY

YYYY

CONFIDENTIAL

16701
MDHIAN 4023

DISTRIBUTION 194

MAIN 193

.FRAME ECONOMIC

ECD (I)

ADDITIONAL 1

FRAME

NNNN

PAGE 4
CONFIDENTIAL