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FRAME ECONOMIC

ECOFIN: 18 NOVEMBER 1985: AMENDMENT TO MONETARY PROVISIONS OF THE TREATY

SUMMARY

1. COUNCIL DIVIDED DOWN MIDDLE. STOLTENBERGER AND CHANCELLOR SAID TREATY AMENDMENT BOTH UNNECESSARY AND RAISED CONSTITUTIONAL ISSUES. ATTENTION SHOULD CONCENTRATE ON IMPLEMENTATION OF EXISTING PROVISIONS ON CAPITAL CONTROLS. BEREGOVY SAID TREATY AMENDMENT UNTHINKABLE WITHOUT REFERENCE TO MONETARY ISSUES. DELORS CIRCULATED AMENDED PROPOSAL DROPPING EARLIER INVIDIOUS VOTING PROPOSALS BUT INTRODUCED A REFERENCE TO EMU. DUTCH CONSIDERING ALTERNATIVE AMENDMENTS: BELGIAN DRAFT CIRCULATED.

DETAIL

2. TIETMEYER (CHAIRMAN OF MONETARY COMMITTEE) REPORTED ON THE COMMITTEE'S EXAMINATION OF THE COMMISSION'S DRAFT AMENDMENT TO ARTICLE 107. OPINION IN THE COMMITTEE HAD BEEN DIVIDED ON THE QUESTION WHETHER THE PROGRESS MADE IN MONETARY COOPERATION IN RECENT YEARS SHOULD BE REFLECTED IN A TREATY AMENDMENT. THE COMMISSION'S AMENDMENT HAD BEEN CRITICISED FOR MAKING NO REFERENCE TO ECONOMIC AND MONETARY UNION (EMU): BECAUSE IT THREATENED THE CHECKS AND BALANCES BETWEEN GOVERNMENTS AND CENTRAL BANKS AND IMPLIED THAT THE COMMISSION WOULD PROPOSE COMMUNITY ACTION IN THIS AREA UNDER ARTICLE 235: BECAUSE OF THE DISTINCTION IT DREW BETWEEN PARTICIPANTS AND NON-PARTICIPANTS IN THE EXCHANGE RATE MECHANISM (ERM): AND BECAUSE IT WAS TOO DESCRIPTIVE AND RAISED TOO MANY DIFFICULT DETAILS. EVEN THOSE MEMBERS OF THE COMMITTEE WHO SUPPORTED MONETARY AMENDMENT IN PRINCIPLE THOUGHT THE TEXT UNSATISFACTORY. THE COMMITTEE WAS UNABLE TO GIVE ANY CLEAR CUT CONCLUSIONS AS TO THE NEXT STEP: BUT STOOD READY TO ASSIST ECOFIN IF MINISTERS WISHED WORK TAKEN FORWARD IN THIS AREA.

3. DUISENBERG (CHAIRMAN OF COMMITTEE OF CENTRAL BANK GOVERNORS) SUMMARISED HIS COMMITTEE'S REACTION TO DELORS' PROPOSAL ON THE LINES OF 10387/85. THE TREATY CHANGE ENVISAGED MIGHT AFFECT THE FUNCTIONING OF THE EUROPEAN MONETARY SYSTEM (EMS). ECOFIN HAD AGREED ON 11 JUNE THAT FURTHER DEVELOPMENT OF EMS SHOULD REMAIN A MATTER FOR FINANCE MINISTERS AND FOR THE COMPETENT COMMITTEES. ANY TREATY CHANGE SHOULD PROVIDE FOR EQUILIBRIUM BETWEEN PROGRESS IN THE MONETARY AND NON-MONETARY SPHERES: SHOULD NOT AFFECT THE DECISION MAKING PROCESS: AND SHOULD BE PLACED IN THE CONTEXT OF THE ULTIMATE OBJECTIVE OF EMU, TAKING ACCOUNT OF EXPERIENCE IN EMS.

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4. DELORS (COMMISSION) SAID THAT THE COMMISSION'S PROPOSAL REFLECTED 4 PRINCIPLES.

(I) POLITICAL: FAILURE TO AMEND ARTICLE 107 WOULD SUGGEST THAT THE COMMUNITY DID NOT BELIEVE IN MONETARY COOPERATION. THERE MIGHT NOT BE ANOTHER IGC FOR 30 YEARS.

(II) THERE SHOULD BE NO TRANSFER OF MONETARY POWERS AT PRESENT FROM NATIONAL CENTRAL BANKS TO COMMUNITY INSTITUTIONS.

(III) THERE WAS ROOM FOR IMPROVEMENT IN THE PRESENT SYSTEM.

(IV) NO INSTITUTIONAL CHANGE UNLESS IT WAS RATIFIED BY NATIONAL PARLIAMENTS: THE COMMISSION'S DRAFT MADE CLEAR THAT THIS WAS A NECESSARY CONDITION FOR TRANSFORMING THE EMCF INTO AND EMF.

THE COMMISSION'S PROPOSALS SHOULD ALSO BE SEEN AGAINST THE BACKGROUND OF THE 1978 DECISION TO SET UP THE EMS AND OF THE DISCUSSION AT THE 1984 INFORMAL ECOFIN AT RAMBOUILLET.

5. IN THE LIGHT OF THE MONETARY COMMITTEE'S AND CENTRAL BANK GOVERNORS' COMMENTS HE NOW WISHED TO PROPOSE A REVISED AMENDMENT TO ARTICLE 2 (TO COVER EMU) AND ARTICLE 107. (TEXT MUFAXED TO MORTIMER (TREASURY) AND WALL (FCO)). THIS REFERRED TO THE NEED TO COOPERATE IN ECONOMIC AS WELL AS MONETARY POLICIES. IT ALSO OMITTED ANY REFERENCE TO VOTING ARRANGEMENTS WITHIN THE EMCF, EVEN THOUGH HE DISAGREED WITH THE OBJECTIONS WHICH HAD BEEN RAISED TO THIS FEATURE OF THE COMMISSION'S ORIGINAL PROPOSAL. DIFFERENTIATION WAS A PROBLEM IN A NUMBER OF AREAS OF COMMUNITY POLICY.

6. WATNIEL (BELGIUM) SUPPORTED THE PRINCIPLE OF TREATY AMENDMENT AND CIRCULATED ALTERNATIVE PROPOSALS (MUFAXED TO MORTIMER AND WALL). THE TREATY SHOULD REFER TO EMU, THOUGH TREATY AMENDMENTS SHOULD BE KEPT TO A MINIMUM AND SHOULD BE COUCHED IN BROAD TERMS TO ASSIST FUTURE DEVELOPMENT OF MONETARY COOPERATION. AMENDMENTS TO ARTICLE 104 SHOULD BE CONSIDERED AS WELL. THE MONETARY COMMITTEE SHOULD DO FURTHER PREPARATORY WORK.

7. THE CHANCELLOR RECALLED THE DISCUSSION AT RAMBOUILLET TO WHICH DELORS HAD REFERRED. MINISTERS HAD AGREED THAT THE EMS HAD DEVELOPED SUCCESSFULLY. BUT THIS DID NOT JUSTIFY TREATY AMENDMENTS, WHICH WERE TECHNICALLY UNNECESSARY AND RISKY. TECHNICALLY, THE EMS HAD WORKED SATISFACTORILY AND FLEXIBLY. TREATY AMENDMENT MIGHT MAKE PROGRESS IN THE EMS MORE DIFFICULT. THERE WOULD BE PROBLEMS BECAUSE OF THE LIKELIHOOD OF COMMISSION PROPOSALS UNDER ARTICLE 235 AND BECAUSE OF THE INVOLVEMENT OF THE EP. WE SHOULD CONCENTRATE ON PRACTICAL DECISIONS: REMOVAL OF EXCHANGE CONTROLS AND BARRIERS TO THE PRIVATE USE OF THE ECU. THE COMMISSION'S NEW DRAFT REMAINED AMBIGUOUS. HE WAS GLAD THAT THE REFERENCE TO EMCF VOTING RIGHTS HAD BEEN DELETED: BUT THE REFERENCE TO EMU MADE MATTERS WORSE. EMU INVOLVED A COMMUNITY CURRENCY, A COMMUNITY CENTRAL BANK AND FISCAL UNION WHICH WOULD IN TURN INVOLVE POLITICAL UNION. THE COMMUNITY SHOULD AVOID MAKING ITSELF A LAUGHING STOCK BY AGAIN ADOPTING, AS IN 1972, VAGUE COMMITMENTS TO EMU WHICH WOULD NOT BE FULFILLED.

8. STOLTENBERG (GERMANY) ECHOED THE CHANCELLOR'S OPPOSITION AND SCEPTICISM. THE COMMISSION'S PROPOSALS WOULD JEOPARDISE THE /BUNDESBANK'S

CONDUCT OF EXTERNAL AND INTERNAL POLICY. THEY DID NOT MERELY ENSHRINE EXISTING PRACTICE IN THE TREATY. THE CHANCELLOR HAD BEEN RIGHT TO POINT TO THE RISK OF AN INCREASING ROLE FOR THE COMMISSION. ARTICLE 107 SHOULD NOT REFER TO A TWO-SPEED EUROPE. THE GERMAN CABINET HAD DISCUSSED MONETARY AMENDMENT: THEY HAD AGREED THAT THEY COULD NOT ACCEPT A MONETARY AMENDMENT NOW. THE EUROPEAN COUNCIL WOULD HAVE SUFFICIENT SUBJECTS WITHOUT AMENDMENT TO THE MONETARY ARTICLES. TOO MANY PROBLEMS COULD NOT BE TACKLED AT ONCE.

9. DUKES (IRELAND) AGREED WITH STOLTENBERG THAT FAILURE TO AGREE MONETARY AMENDMENTS WOULD NOT MAKE THE IGC AND THE DECEMBER EUROPEAN COUNCIL A FAILURE. THE EUROPEAN COUNCIL HAD IN THE PAST ASKED ECOFIN TO GET ON WITH THE JOB OF IMPROVING MONETARY COOPERATION AND CONVERGENCE OF ECONOMIC POLICY AND PERFORMANCE. THERE WAS NO SHORTAGE OF POLICY INSTRUMENTS. THE PROCESS WOULD NOT BE HELPED BY HASTY AMENDMENTS TO THE TREATY. HE SHARED THE CHANCELLOR'S DOUBTS ABOUT THE WISDOM OF REFERRING TO EMU.

10. BEREGOVY (FRANCE) ARGUED THAT MONETARY AMENDMENT WAS A NECESSARY PART OF TREATY AMENDMENT. A MONETARY DIMENSION WAS AN ESSENTIAL INGREDIENT IN THE CHANGES TO THE COMMUNITY WHICH IS NOW UNDER DISCUSSION. NOT TO AMEND ARTICLE 107 WOULD BE TO TAKE A STEP BACKWARDS WHEN AN OPPORTUNITY OF TREATY AMENDMENT WAS THERE. ANY AMENDMENT SHOULD INCLUDE A REFERENCE TO EMU, EMS AND THE ECU. DETAILED REFERENCES TO THE EMCF WERE PERHAPS PREMATURE AND OBJECTIONABLE.

11. ANDERSSON (DENMARK) SAID THAT THE EMS HAD OPERATED SUCCESSFULLY SO FAR. THE DANISH GOVERNMENT'S POSITION ON TREATY AMENDMENT WAS RESERVED: BUT CHANGING ARTICLE 107 MIGHT HAVE AWKWARD LEGAL CONSEQUENCES WHILE A REFERENCE TO EMU COULD JEOPARDISE DANISH COOPERATION ON TREATY AMENDMENT.

12. POOS (LUXEMBOURG) SUPPORTED THE PRINCIPLE OF TREATY AMENDMENTS. THE IGC SHOULD CONSIDER THE COMMISSION TEXT AND THE BELGIAN PROPOSALS.

13. CALAMIA (ITALY) SAID THAT PROGRESS MUST BE MADE IN THIS AREA. THE TREATY SHOULD REFER TO EMU AND CONSOLIDATE THE PROGRESS BROUGHT ABOUT ON THE EMS.

14. RUDING (NETHERLANDS) OBSERVED THAT OPINIONS WERE DEEPLY DIVIDED. THE NETHERLANDS WOULD NOT WISH TO BLOCK MONETARY AMENDMENT BUT AMENDING ARTICLE 107 WAS NOT A HIGH PRIORITY FOR THE IGC. ANY AMENDMENT WOULD NEED TO BE EXAMINED VERY CAREFULLY IN A VERY SHORT PERIOD OF TIME. SUBSTANTIVE NEGOTIATION ON ANY TEXT MUST REMAIN WITHIN ECOFIN AND ITS ATTENDANT COMMITTEES. THE COMMISSION'S REVISED PROPOSAL WAS AN IMPROVEMENT ON THE FIRST DRAFT: IT INCLUDED THE FINAL OBJECTIVE OF EMU AND EXCLUDED THE NOTION OF A TWO-SPEED EUROPE. IN A LATER INTERVENTION HE SUGGESTED THAT HE MIGHT BE ABLE TO OFFER A REFERENCE TO THE 1978 COUNCIL DECISIONS ON THE EMS TAKING THE FORM OF A PREAMBLE TO THE REVISED TREATY. THIS MIGHT GET OVER THE JURIDICAL PROBLEM OF A REFERENCE IN THE BODY OF THE TREATY. (SUBSEQUENTLY WE OBTAINED

OBTAINED COPIES OF THE DRAFTS ON WHICH THE DUTCH ARE WORKING -
MUFAXED TO MORTIMER AND WALL. THE AMENDMENT TO THE PREAMBLE
REPRESENTS ONLY A SMALL PART OF THE DUTCH PROPOSALS).

15. IN A FURTHER ROUND OF INTERVENTIONS, DELORS EXPRESSED SURPRISE
AT THE REJECTION BY SOME OF A FAIRLY MODEST TEXT. IT ALTERED
NOTHING. THE EMU WAS ALREADY IMPLICITLY IN THE TREATY. IN THE EMS
CONTEXT THE COMMISSION HAD NEITHER MADE NOR INTENDED INITIATIVES.
STOLTENBERG DENIED THAT HE HAD GIVEN ANY ULTIMATUM. HE HAD EXPLAINED
THE PROBLEMS WITH THE COMMISSION TEXT. GIVEN THE SHORTAGE OF TIME,
THE EUROPEAN COUNCIL SHOULD CONCENTRATE ON WHAT COULD BE ACHIEVED:
THE GERMAN VIEW WAS THAT THE MONETARY DIMENSION WAS NOT ESSENTIAL.
IF NECESSARY THE MATTER COULD BE REMITTED AGAIN TO ECOFIN. THE
CHANCELLOR SAID THAT HE HAD NOTED THE SUGGESTION THAT AN AMENDMENT
MIGHT JUST RECORD EXISTING PROGRESS. BUT THERE WAS A PHILOSOPHIC
PARADOX. SUCH A COURSE WAS JURIDICALLY IMPOSSIBLE. SIMILARLY IT HAD
BEEN SUGGESTED THAT EMU WAS IMPLICITLY PRESENT IN THE TREATY. BUT
EXPLICIT REFERENCE WOULD BE POLITICALLY UNACCEPTABLE. THIS WAS A
HIGHLY COMPLEX AREA. THE MILAN COUNCIL HAD BEEN RIGHT TO REMIT IT TO
ECOFIN. DISCUSSION THERE AND ITS ATTENDANT COMMITTEES WAS THE ONLY
WAY FORWARD EVEN IF IT COULD TECHNICALLY BE DISCUSSED IN THE EUROPE-
AN COUNCIL. THE LATTER COULD BRING THE WHOLE EXERCISE INTO DISARRAY.

16. SANTER (PRESIDENCY) SUMMED UP. THERE WERE CLEARLY CONSIDERABLE
DIVISIONS OF OPINION. BUT IT WOULD NOT BE POSSIBLE TO AVOID HAVING A
PROPOSAL FOR MONETARY AMENDMENTS IN SOME FORM BEFORE THE DECEMBER
EUROPEAN COUNCIL: THE AGREEMENT AT MILAN HAD REQUIRED A QUALITATIVE
LEAP FORWARD IN COMMUNITY AFFAIRS. HE HAD NOT GIVEN UP HOPE THAT A
MIDDLE WAY COULD BE FOUND WHICH WOULD COMMAND GENERAL ASSENT. THE
MONETARY COMMITTEE SHOULD CONSIDER ON 28 NOVEMBER DELORS'S REVISED
DRAFT AND THE BELGIAN PROPOSALS. ITS DISCUSSION COULD BE REPORTED TO
THE EUROPEAN COUNCIL.

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FRAME ECONOMIC

FCO ADVANCE TO (ALL DESKBY):-

FCO - RENWICK, WALL, BLOOMFIELD

CAB - WILLIAMSON, JAY

TSY - PS/CHANCELLOR, LITTLER, LAVELLE, FITCHEW, EDWARDS, MS BARBER

BANK - KIRBY, LOEHNIS

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