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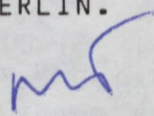
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EUROPEAN MONETARY UNION. 

SUMMARY

1. BUNDESBANK CENTRAL COUNCIL DISCUSSES EUROPEAN MONETARY UNION ON 5 MAY ON BASIS OF AN INTERNAL STUDY. ACCEPTS NEED FOR PROGRESS TOWARDS STILL DISTANT GOAL OF MONETARY UNION. EXAMINES NECESSARY CONDITIONS FOR REACHING THIS AND FAVOURS MAKING COMMITTEE OF CENTRAL BANK GOVERNORS IN BASLE NUCLEUS OF PRAGMATIC COOPERATION. TIETMEYER (FEDERAL FINANCE MINISTER) PRESENT AND PUBLICLY WELCOMES DISCUSSION. STRESSES THE EXISTENCE OF A LARGE MEASURE OF AGREEMENT BETWEEN BONN AND FRANKFURT, BUT CONFIRMS THAT THERE IS STILL NO AGREED POSITION OF THE FEDERAL GOVERNMENT. GENSCHER CONTINUES TO PROMISE HIS OWN IDEAS (MY TELNO 422): REPORTS OF DIVIDED COUNSELS INSIDE THE CHANCELLERY. TIETMEYER ANNOUNCES THE FEDERAL GOVERNMENT WILL BE CONSULTING OTHER MEMBER STATES AND MENTIONS BOTH THE MAY INFORMAL MEETING OF FINANCE MINISTERS AT TRAVEMUENDE AND THE JUNE ECOFIN AS PLACES WHERE THE ISSUE WILL COME UP. TRAVEMUENDE LIKELY TO BE IMPORTANT.

DETAIL.

2. MINISTER (ECONOMIC) CALLED ON RIEKE (BUNDESBANK) AUTHOR OF THE DISCUSSION PAPER ON MONETARY UNION TAKEN BY THE BUNDESBANK AT A REGULAR THURSDAY MEETING ON 5 MAY AT WHICH TIETMEYER (FINANCE MINISTRY) WAS PRESENT AT HIS REQUEST. RIEKE WAS VERY FRANK (PLEASE PROTECT). HE GAVE THE IMPRESSION THAT THE BUNDESBANK RECOGNISED THE PRESSURES TOWARDS FURTHER MONETARY INTEGRATION (HE DID NOT SAY THEY SAW THE NEED). IT HAD THEREFORE UNDERTAKEN A THOROUGH ANALYSIS OF THE APPROPRIATE CONDITIONS FOR IT AND HAD SOUGHT A PRAGMATIC WAY FORWARD, IE COOPERATION THROUGH THE COMMITTEE OF CENTRAL BANK GOVERNORS IN BASLE.

3. HIS PAPER, WHICH IS ABOUT 50 PAGES LONG, FALLS INTO 3 PARTS: (A) AN ASSESSMENT OF THE NATURE OF MONETARY UNION, DRAWING HEAVILY ON THE WERNER REPORT, BUT TAKING INTO ACCOUNT DEVELOPMENTS SINCE THEN, SUCH AS THE IMMINENCE OF THE SINGLE MARKET. RIEKE SAID THAT

THIS PART UNDERLINED THE INDESPENSABLE INGREDIENTS OF MONETARY UNION AS IDENTIFIED BY WERNER - EXCHANGE RATE STABILITY AND FULL CONVERTABILITY - IMPLYING CLOSE CONVERGENCE OF DOMESTIC ECONOMIC POLICY, AND ENDORSED THEM.

RIEKE COMMENTED THAT NONE OF THIS WAS NEW BUT NEEDED TO BE SAID TO THE POLITICIANS. THIS SECTION HAS BEEN INTERPRETED IN THE GERMAN PRESS AS THE BUNDESBANK SETTING PRECONDITIONS WHICH RIEKE WAS AT PAINS TO DENY (BUT SEE PARA BELOW)

B) AN ANALYSIS OF THE VARIOUS IDEAS IN PLAY ABOUT THE FORM THAT PROGRESS TOWARDS MONETARY UNION MIGHT TAKE.

THE PAPER FOCUSED PARTICULARLY ON THE CONCEPT OF A PARALLEL CURRENCY WHICH RIEKE DESCRIBED AS PROBABLY UNWORKABLE, BUT IF WORKABLE, DANGEROUS, ESPECIALLY TO THE DEUTSCH MARK. IT WAS EVIDENT THAT THE BUNDESBANK SAW THIS IDEA AS AN ESPECIALLY INSIDIOUS SOFT OPTION THAT IT WAS IMPORTANT TO KILL.

C) A SUGGESTED WAY FORWARD, GIVING AN ENHANCED ROLE TO THE COMMITTEE OF CENTRAL BANK GOVERNORS IN BASLE AS THE NUCLEUS OF COOPERATION AT THE EUROPEAN LEVEL. RIEKE SAID THE BANK REJECTED ANY MODEL WHICH INVOLVED THE NUCLEUS TAKING ON RESPONSIBILITY CENTRALLY FOR SUPPORTING MEMBER CURRENCIES OR EXTENDING CREDIT (THE SO CALLED IMF MODEL). THIS WOULD CONTINUE TO REST WITH NATIONAL CENTRAL BANKS. (THE USE OF THE WORD 'FEDERAL' IN THIS CONNECTION IS INTENDED TO EMPHASISE DECENTRALISATION OF RESPONSIBILITY). THE BANK'S CONCEPTION WAS MUCH LIGHTER AND MORE PRAGMATIC THAN AN IMF. WHILE MEMBER GOVERNMENTS WOULD NOT BE EXPECTED TO REVEAL BUDGETARY SECRETS IN DETAIL BEFORE THEY BECAME PUBLIC NATIONALLY, THE ESSENCE OF THE WAY FORWARD WOULD BE MUCH CLOSER SHARING THAN NOW OF INFORMATION ABOUT THE TRENDS OF DOMESTIC ECONOMIC POLICY MAKING BEFORE DECISIONS WERE TAKEN (RIEKE DESCRIBED THIS AS EX ANTE RATHER THAN EX POST DISCUSSION).

4. THE BUNDESBANK REGARD THEMSELVES AS HAVING MADE A CONSTRUCTIVE CONTRIBUTION TO THE DEBATE IN TWO WAYS. FIRST, THEY SEE THE FORMULA OF THE CENTRAL BANK GOVERNORS, WHICH IT SUITS THEM TOO, AS BEING HELPFUL TO THE UNITED KINGDOM IN PARTICULAR. RIEKE SAID THAT 'UNLIKE SOME OTHERS' THEY DID NOT WANT TO MOVE FORWARD WITHOUT THE UK. SECONDLY, THEY FEEL THEY HAVE COME FORWARD WITH A REAL (AND GOOD) ALTERNATIVE WITH WHICH TO BEAT GENSCHER AND THOSE IN THE CHANCELLERY (UNSPECIFIED) WHO THOUGHT LIKE HIM. THEY ARE HOWEVER WORRIED THAT ITS VERY LACK OF GLAMOUR WILL MEAN THAT IT FAILS TO ATTRACT SUFFICIENT SUPPORT. THAT THIS DANGER IS REAL IS CLEAR FROM THE ALMOST TOTAL LACK OF NOTICE ACCORDED TO THE PROPOSAL IN GERMAN REPORTS OF POEHL'S PRESS CONFERENCE, WHERE THE BANK'S SUPPOSEDLY NEGATIVE ATTITUDE WAS HIGHLIGHTED.

COMMENT

5. THE BUNDESBANK IS FOLLOWING UP ITS DISCUSSION WITH ANOTHER PAPER. BOTH OF THESE WILL ALMOST CERTAINLY BE IN TIETMEYER'S POSSESSION AT TRAVEMUENDE. AS SEEN FROM HERE, THAT MEETING LOOKS CRUCIAL IN THE PROCESS OF SHAPING THE GERMAN - AND THE PRESIDENCY - POSITION FOR HANOVER. ON THE ONE HAND ARE THE MODEST AND PRAGMATIC IDEAS OF THE BANK WITH WHICH TIETMEYER HAS ASSOCIATED THE FINANCE MINISTRY. ON THE OTHER ARE THE GLAMOROUS BUT DOUBTFUL BEING FLOATED BY GENSCHER. THE PROBLEM IS THAT MERIT AND POLITICAL PULLING POWER ON THIS ISSUE IN BONN DO NOT GO HAND IN HAND. THE PRAGMATIC SCHOOL IS UNLIKELY TO BEAT GENSCHER WITHOUT THE ASSISTANCE OF OTHER PARTNERS.

6. SEE MIFT FOR MAIN POINTS OF POEHL'S PRESS CONFERENCE. HE DREW HEAVILY ON THE BANKS INTERNAL PAPER WITHOUT HOWEVER MENTIONING ITS EXISTENCE WHICH IS NOT PUBLIC KNOWLEDGE.

7. FCO PLEASE ADVANCE TO BRAITHWAITE (FCO) SIR G LITTLER (TREASURY) LOEHNIS (BANK OF ENGLAND)

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MIPT: EUROPEAN MONETARY COOPERATION

SUMMARY

1. POEHL OUTLINES BUNDESBANK THINKING ON PROGRESS TOWARDS MONETARY UNION. TIETMEYER WELCOMES THE BUNDESBANK'S STATEMENT AND COMMENTS ON THE PROSPECTS FOR FURTHER DISCUSSION AT HANOVER.

DETAIL

2. AT A PRESS CONFERENCE FOLLOWING THE REGULAR MEETING OF THE CENTRAL BANK COUNCIL IN FRANKFURT ON 5 MAY, POHL ISSUED A STATEMENT CONCERNING THE COUNCIL'S VIEWS ON EUROPEAN MONETARY COOPERATION.

3. POHL EMPHASISED THAT THE BUNDESBANK DID NOT INTEND TO DELAY PROGRESS TOWARDS CLOSER MONETARY COOPERATION. HE OBSERVED THAT THE EC WAS ENTERING A NEW PHASE WITH THE SINGLE MARKET CLEARLY IN SIGHT AND WITH THE LIBERALISATION OF CAPITAL MOVEMENTS. THE QUESTION WAS COULD THERE BE ECONOMIC UNION WITHOUT MONETARY UNION. THE CONDITIONS FOR MONETARY UNION IDENTIFIED IN THE WERNER REPORT (IRREVERSIBLE MOVEMENTS TOWARDS FIXED EXCHANGE RATES, THE PARITY AND CONVERTIBILITY OF CURRENCIES AND THE COMPLETE LIBERALISATION OF CAPITAL MOVEMENTS) WERE STILL VALID. DESPITE RECENT PROGRESS (NYBORG, ETC) IN THE BUNDESBANK'S VIEW A COMMON EUROPEAN CURRENCY AND A EUROPEAN CENTRAL BANK REQUIRED SUPRANATIONAL DECISIONS INVOLVING SOVEREIGNTY WHICH EUROPEAN GOVERNMENTS WERE NOT YET READY TO TAKE. HE EMPHASISED THE COOPERATION BETWEEN ALL MEMBERS OF THE EC WOULD BE NECESSARY TO CREATE THE RIGHT CONDITIONS FOR PROGRESS. THE FEDERAL REPUBLIC AND FRANCE ALREADY COOPERATED INTENSIVELY. BUT HE QUESTIONED HOW FURTHER PROGRESS COULD BE MADE WHEN FOUR MEMBERS OF THE EC, THE UK, SPAIN, PORTUGAL AND GREECE, WERE NOT YET MEMBERS OF THE ERM AND ONE, ITALY HAD SPECIAL ARRANGEMENTS. FURTHER PROGRESS DEPENDED ON A GREATER CONVERGENCE OF ECONOMIC, FISCAL, REGIONAL AND SOCIAL POLICIES. AND WHERE SHOULD A FUTURE EUROPEAN FINANCIAL CENTRE BE: FRANKFURT, PARIS OR PERHAPS LONDON. HE MENTIONED THREE

ELEMENTS THAT WOULD BE NECESSARY ON THE WAY TO CLOSER COOPERATION:

- A) THE EMS SHOULD BE COMPLETED:
 B) CAPITAL MOVEMENTS WITHIN EUROPE HAD TO BE FULLY LIBERALISED -
 'THE LITMUS TEST FOR THE SINGLE MARKET':
 C) THE COMMITTEE OF CENTRAL BANK GOVERNORS SHOULD INTENSIFY
 COOPERATION - IT MIGHT BE RIGHT FOR THEM TO TAKE OVER FROM THE
 COUNCIL OF MINISTERS RESPONSIBILITY FOR DECISIONS REGARDING CHANGES
 IN EMS ALIGNMENTS.

FOR THE GOVERNMENT, TIETMEYER WELCOMED THE BUNDESBANK'S STATEMENT. HE SAID THAT THERE WAS A LARGE MEASURE OF AGREEMENT BETWEEN BONN AND FRANKFURT. IN RESPONSE TO A QUESTION ABOUT THE PROSPECTS FOR HANOVER, TIETMEYER SAID THAT HE COULD WELL IMAGINE THAT THERE WOULD BE A DISCUSSION ABOUT THE COORDINATION OF MONETARY POLICY.

4. ASKED ABOUT THE BUNDESBANK'S CONCERNS ABOUT ITS AUTONOMY AND THE REQUESTS FROM THE CENTRAL BANK COUNCIL FOR A PREAMBLE TO THE AGREEMENT ESTABLISHING THE FRANCO-GERMAN ECONOMIC AND FINANCE COUNCIL, TIETMEYER SAID THAT CHANCELLOR KOHL HAD WRITTEN TO THE COUNCIL ON 27 APRIL SAYING THAT SUCH A PROTOCOL WAS NOT NECESSARY AND THAT THE RIGHTS OF THE BUNDESBANK WOULD BE SAFEGUARDED.

5. FULL TRANSLATION OF THE TRANSCRIPT OF THE PRESS CONFERENCE FOLLOWS BY BAG.

6. FCO PLEASE ADVANCE TO BRAITHWAITE (FCO), SIR G LITTLER (TREASURY), LOEHNIS (BANK OF ENGLAND).

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