

CONFIDENTIAL

124464  
MDHIAN 2955

CONFIDENTIAL

FM BONN

TO IMMEDIATE FCO

TELNO 569

OF 101830Z JUNE 88

INFO IMMEDIATE UKREP BRUSSELS, PARIS, LUXEMBOURG,  
INFO ROUTINE OTHER EC POSTS, TOKYO, WASHINGTON, OTTAWA

LUXEMBOURG FOR UKREP

FRAME ECONOMIC

EUROPEAN CENTRAL BANK AND MONETARY COOPERATION

SUMMARY

1. GERMANS STILL FAVOUR CENTRAL BANK GOVERNORS BEING CHARGED BY HANOVER EUROPEAN COUNCIL WITH A STUDY ABOUT THE FUTURE OF EUROPEAN MONETARY COOPERATION BUT DO NOT SEE THIS SQUARING WITH THEIR UNDERSTANDING OF MITTERAND'S POSITION. NO WISH TO EXCLUDE THE UK FROM THE STUDY. A DRAFT MANDATE FOR THE STUDY BEING PREPARED.

DETAIL

2. GERMAN THINKING REMAINS FLUID. JELONEK (FOREIGN MINISTRY) CONFIRMED TO ME TODAY THAT THE TIDE IN BONN HAD BEEN MOVING STEADILY TOWARDS REMITTING THE SUBJECT TO CENTRAL BANK GOVERNORS (THUS IMPLICITLY ADMITTING THAT THE GENSCHER CAMP HAD HAD TO CONCEDE ON THE IDEA OF A STUDY BY WISE MEN). BUT IN RECENT DAYS THE AUSWAETIGES AMT HAD BEEN CONSIDERING HYBRID IDEAS INVOLVING CENTRAL BANK GOVERNORS AND INDEPENDANT EXPERTS OF HIGH STANDING. THESE IDEAS INCLUDED A MIXED GROUP OF UP TO TWELVE PEOPLE (IE BANK GOVERNORS OR INDEPENDENT EXPERTS, AS GOVERNMENTS CHOSE): OR A GROUP DOUBLE THAT SIZE (AN EXPERT PER COUNTRY AS WELL AS THE BANK GOVERNOR): OR THE TWELVE GOVERNORS BEING 'ADVISED' BY A GROUP OF EXPERTS BUT SUBORDINATE TO THEM.

3. THIS UNHELPFUL EMPHASIS ON EXPERTS DERIVES FROM KOHL'S MEETING WITH MITTERAND AT EVIAN. ACCORDING TO TELTSCHIK, WHOM I ALSO SAW TODAY, MITTERAND SAID THAT HE COULD NOT AGREE TO A GROUP COMPOSED SOLELY OF CENTRAL BANK GOVERNORS SINCE THEY WOULD NOT MOVE MATTERS FORWARD. HE WOULD HAVE NO OBJECTION TO INCLUSION OF CENTRAL BANK GOVERNORS IN A GROUP BUT HE WOULD ALSO WANT TO NOMINATE A POLITICAL REPRESENTATIVE THOUGH NOT (NOT) GISCARD. TELTSCHIK COMMENTED THAT A GROUP OF 24 PERSONS WAS THEREFORE THE OBVIOUS SOLUTION YET THAT

WOULD BE UNWIELDY. EQUALLY, IT WOULD BE DIFFICULT TO IDENTIFY CRITERIA FOR SELECTING A SMALLER NUMBER. SO FAR THE GERMANS HAD SEEN NO WAY ROUND THIS. TELTSCHIK EMPHASISED - AS DID JELONEK - THAT THERE WAS NO IDEA OF EXCLUDING FROM THE STUDY THOSE MEMBER STATES WHICH WERE NOT MEMBERS OF THE ERM. I SAID THAT IT WAS NOT ACCEPTED IN LONDON THAT THE CASE FOR A STUDY HAD BEEN CONCLUSIVELY MADE, AND THAT THE INVOLVEMENT OF NON-EXPERTS WOULD MAKE THE IDEA LESS ATTRACTIVE. IT WAS NO GOOD MOVING TOWARDS THE FRENCH POSITION FOR THE SAKE OF GENERAL AGREEMENT IF ONE PARTED COMPANY IN SO DOING FROM OTHER PARTNERS.

4. THE GERMAN DRAFT OF A MANDATE FOR THE EUROPEAN COUNCIL TO GIVE TO THE GROUP DOING THE STUDY ASKS THE GROUP TO CONCENTRATE ON CONCRETE STEPS TO IMPROVE COORDINATION OF FINANCIAL AND MONETARY POLICY AND ON STRENGTHENING THE EMS, BOTH IN THE CONTEXT OF THE SINGLE MARKET. A EUROPEAN CENTRAL BANK IS REFERRED TO AS BEING 'WITHIN THE FRAMEWORK OF A SYSTEM OF (PRESUMABLY NATIONAL) CENTRAL BANKS' - THE SO-CALLED 'FEDERAL' SOLUTION. JELONEK COMMENTED TO ME THAT THE MANDATE SHOULD BE BROAD, FOCUSING ON WHICH STEPS WERE DESIRABLE, IN WHAT ORDER AND FORM AND THE IMPLICATIONS OF EACH. THE RESULTS OF THE STUDY, WHICH MIGHT BE CALLED FOR IN A YEAR, EIGHTEEN MONTHS OR TWO YEARS, WOULD NOT BE BINDING ON GOVERNMENTS BUT WOULD, THE GERMANS HOPED, BE VERY INFLUENTIAL. A REFERENCE IN THE PREAMBLE OF THE MANDATE TO MEMBER STATES' COMMITMENT TO EUROPEAN UNION MIGHT BE AN UNCONTROVERSIAL WAY OF SAYING THAT MONETARY UNION WAS AN AIM WITHOUT EXPLICITLY AFFIRMING THIS.

## COMMENT

5. THE GERMANS ARE NOW TRYING TO CATCH THE HARE THEY HAVE RUN. THE REASSERTION OF THE AUTHORITY OF THE FINANCE AND ECONOMIC MINISTERS (WITH THE STRONG URGING OF THE BUNDESBANK) OVER THE AUSWAERTIGES AMT, AS THE RESULT OF WHICH THE PRESIDENCY WOULD ALMOST CERTAINLY HAVE PROPOSED REMITTING THE SUBJECT TO THE SAFE HANDS OF CENTRAL BANKERS, HAS BEEN UPSET BY MITTERRAND. IT IS NOT CLEAR HOW FAR GENSCHER WILL WANT OR BE ABLE TO EXPLOIT THIS, NOR HOW MUCH GROUND THE CHANCELLERY WILL FEEL OBLIGED TO YIELD. MY GUESS IS THAT THEY WILL TRY TO HANG ON TO A CENTRAL ROLE FOR BANK GOVERNORS BUT WILL NOW NEED MORE ACTIVE SUPPORT THAN PREVIOUSLY FOR SUCH A RELATIVELY ANODYNE SOLUTION.

6. SEE MIFT FOR KOHL'S REMARKS ABOUT HANOVER AT HIS PRESS CONFERENCE YESTERDAY.

MALLABY

UNCLASSIFIED

FM BONN

TO IMMEDIATE FCO

TELNO 570

OF 101832Z JUNE 88

INFO IMMEDIATE UKREP BRUSSELS, PARIS, LUXEMBOURG

INFO ROUTINE OTHER EC POSTS, TOKYO, WASHINGTON, OTTAWA

LUXEMBOURG FOR UKREP

FRAME ECONOMIC

MIPT: EUROPEAN MONETARY COOPERATION

FOLLOWING IS OUR TRANSLATION OF OFFICIAL TEXT OF CHANCELLOR KOHL'S  
REMARKS ON THE HANOVER COUNCIL AT HIS PRESS CONFERENCE ON 9 JUNE:

'THE NEXT EUROPEAN COUNCIL MEETING WILL BE HELD IN HANOVER ON 27/28  
JUNE. WE ARE MAKING INTENSIVE PREPARATIONS FOR THIS SUMMIT.'

ATTENTION WILL FOCUS ON THE FOLLOWING TOPICS IN HANOVER:

- THE INTERNAL MARKET: BASED ON A SURVEY OF ACHIEVEMENTS UNDER THE  
GERMAN PRESIDENCY WE WANT TO DRAW UP GUIDELINES AND PRIORITIES, A  
'WORKING PROGRAMME', FOR THE TIME AHEAD. WE HAVE MADE CONSIDERABLE  
PROGRESS IN RECENT MONTHS IN ALL THE AREAS TO WHICH WE INTENDED TO  
DEVOTE PRIORITY.

- WE WANT TO DISCUSS HOW WE CAN BEST DO JUSTICE TO THE SOCIAL  
DIMENSION OF THE INTERNAL MARKET. WE MUST GAIN STRONGER SUPPORT FOR  
THE INTERNAL MARKET FROM EMPLOYEES.

- IN HANOVER WE WANT TO MAKE PREPARATIONS FOR THE FURTHER  
DEVELOPMENT OF MONETARY POLICY COOPERATION ON THE PATH TO ECONOMIC  
AND MONETARY UNION. IT IS NOT A QUESTION OF TAKING A DECISION ON THE  
ESTABLISHMENT OF A EUROPEAN CENTRAL BANK. SUCH A BANK, FIRMLY ROOTED  
IN A EUROPEAN CENTRAL BANK SYSTEM, CAN ONLY LIE AT THE END OF THIS  
ROAD.'

MALLABY

YYYY

UNCLASSIFIED

124557  
MDHIAN 2963

DISTRIBUTION 206

MAIN 205

.FRAME ECONOMIC ECD (I)

ADDITIONAL 1

FRAME

NNNN