

UNCLASSIFIED
 FM BONN
 TO DESKBY 231200Z FCO
 TELNO 661
 OF 231117Z JUNE 89
 AND TO DESKBY 231200Z HM TREASURY
 INFO IMMEDIATE MADRID, UKREP BRUSSELS
 INFO PRIORITY PARIS

*EMU. Mostly kept,
 except for x
 Poehl
 22nd June
 AM*

EMS AND EMU : COMMENTS BY PRESIDENT OF THE BUNDESBANK

SUMMARY

1. IN A SPEECH ON 22 JUNE POEHL REITERATED HIS COMMITMENT TO ECONOMIC AND MONETARY UNION BUT WARNED AGAINST A PRECIPITATE RUSH. HE SAID THAT AN IGC WAS PREMATURE AND NOT NECESSARY IN THE SHORT TERM.

DETAIL

2. POEHL WAS SPEAKING AT CELEBRATIONS TO MARK THE 40TH ANNIVERSARY OF THE IFO ECONOMIC INSTITUTE IN MUNICH. THE TEXT OF HIS SPEECH WAS NOT RELEASED. THE BUNDESBANK HAVE PROMISED US A TEXT, INCLUDING REMARKS MADE OFF THE CUFF, BUT THIS HAS YET TO BE CLEARED.

3. POEHL SAID THAT THE EUROPEAN MONETARY SYSTEM HAD BEEN SUCCESSFUL IN STABILISING EXCHANGE RATES. HOWEVER HE RECOGNISED THAT IT WOULD REMAIN INCOMPLETE UNLESS BRITAIN JOINED THE EXCHANGE RATE MECHANISM. IT WOULD BE A PITY IF EUROPE'S MAIN FINANCIAL CENTRE WAS NOT FULLY INCLUDED IN THE SYSTEM. HE FORESAW ADVANTAGES BOTH FOR BRITAIN AND THE COMMUNITY BUT IN THE END IT WAS A MATTER FOR THE BRITISH GOVERNMENT.

4. POEHL APPEARED TO WANT TO DISTANCE HIMSELF FROM THE DETAIL OF THE DELORS REPORT, SAYING THAT IT REPRESENTED A COMPROMISE OF IDEAS WHICH HAD BEEN PRODUCED IN A HURRY. NOT EVERYONE AGREED WITH EVERY DETAIL. HE SAID THAT THE CURRENT DEBATE OVER PARAGRAPH 39 WAS POINTLESS, 'A BIT LIKE QUARRELLING OVER THE KAISER'S BEARD'. IT WOULD BE ENOUGH IF THE EUROPEAN COUNCIL CONFIRMED THE BROAD AIM OF EMU WITHOUT A TIMETABLE AND WITHOUT A COMMITMENT TO EVERY WORD OF DELORS.

X) 5. HOWEVER HE SAID THAT THE BUNDESBANK WOULD NOT BEGIN WORK ON PHASE I WITHOUT SUCH A COMMITMENT SINCE IT MADE NO SENSE TO EMBARK ON A PROCESS WITHOUT KNOWING WHERE IT LEAD. THIS APPLIED PARTICULARLY TO CONVERGENCE OF ECONOMIC POLICY AND OF CENTRAL BANK COLLABORATION IN

MONEY MANAGEMENT. REFERRING TO THE BUNDESBANK'S CONTINUED IRRITATION AT THE WAY IN WHICH THE FRANCO-GERMAN ECONOMIC AND FINANCE COUNCIL HAD BEEN SET UP, POEHL SAID THAT ''SALAMI TACTICS'' INTENDED TO ERODE THE BUNDESBANK'S AUTONOMY ON THE ROAD TO EMU WOULD BE REJECTED. THE FEDERAL GOVERNMENT WOULD BE WELL ADVISED NOT TO UNDERMINE THE CONFIDENCE OF THE BUNDESBANK UNTIL THEY WERE SURE THERE WAS SOMETHING BETTER TO PUT IN ITS PLACE. THERE WOULD HAVE TO BE A FORMAL TREATY REPLACING THE BUNDESBANK LAW BUT THE TIME WAS NOT RIGHT FOR SUCH A FAR REACHING STEP.

6. POEHL SAID THAT FOR THE FUNCTIONING OF AN ECONOMIC AND MONETARY UNION A CONSISTENT POLICY WAS MORE IMPORTANT THAN INSTITUTIONAL CHANGE OR A SINGLE CURRENCY. AS A FIRST STEP, HE ARGUED FOR MEASURES ON THE BASIS OF EXISTING LAWS AND DECISIONS, IN PARTICULAR COMPLETION OF THE EMS, LIBERALISATION OF CAPITAL MOVEMENTS THROUGHOUT THE COMMUNITY AND ACHIEVEMENT OF THE SINGLE MARKET. AN INTERGOVERNMENTAL CONFERENCE WAS NOT NECESSARY IN THE SHORT TERM AND WOULD BE PREMATURE SO LONG AS THERE WAS NO AGREEMENT ON WHAT IT SHOULD ACHIEVE. THERE WAS A DANGER THAT IT WILL FAIL AND SIMPLY CAUSE ACRIMONY WITHIN THE COMMUNITY.

7. FCO PLEASE ADVISE TO PS SECRETARY OF STATE, PS CHANCELLOR OF THE EXCHEQUER, PS GOVERNOR OF THE BANK OF ENGLAND, PERETZ HM TREASURY, KERR AND ARTHUR FCO.

MALLABY

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