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(SUBJECT TO CORRECTION REFTEL PARA 5 II)

TO DESKBY 231500Z FCO

TELNO 829

OF 231125Z JUNE 89

INFO IMMEDIATE UKREP BRUSSELS, MADRID

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Paris mt

FRAME GENERAL

MADRID EUROPEAN COUNCIL: FRENCH VIEWS ON MONETARY UNION

SUMMARY

1. SOME HARDENING OF THE FRENCH LINE, BUT A READINESS TO NEGOTIATE.

DETAIL

2. RECENT CONVERSATIONS HERE CONFIRM MONETARY UNION AS THE KEY TOPIC FOR THE FRENCH AT MADRID, AND SUGGEST THAT AT LEAST THEIR LIKELY OPENING BID MAY HAVE HARDENED IN THE LAST FEW DAYS, BUT THAT THEY ARE STILL UNCERTAIN ABOUT HOW TO PLAY THEIR HAND.

3. THE FRENCH SEE PROGRESS TOWARDS MONETARY UNION AS IMPORTANT IN ITS OWN RIGHT, BUT THE GERMAN DIMENSION CONTINUES STRONGLY TO INFLUENCE THEIR THINKING. THEY FEAR GERMANY'S EASTWARD DRIFT, WERE WORRIED BY THE ROW OVER SNF, AND ARE LOOKING FOR WAYS OF REINFORCING GERMANY'S ORIENTATION TOWARDS THE WESTERN CAMP. EUROPEAN COMMUNITY CONSTRUCTION HAS CONSISTENTLY BEEN ONE OF THEIR MAIN MEANS OF DOING SO. THEIR OWN PRESIDENCY NOT ONLY GIVES THEM A SPECIAL ROLE BUT REINFORCES THE ATTRACTION OF A SIGNIFICANT ACHIEVEMENT, APPEALING TO THEIR DOMESTIC OPINION. THE MADRID SUMMIT WITH ITS EMPHASIS ON MONETARY UNION AND THE SOCIAL DIMENSION IS AN ESSENTIAL CURTAIN RAISER. THE FRENCH HAD FEARED THAT A POOR PERFORMANCE BY KOHL IN THE EUROPEAN ELECTIONS MIGHT WEAKEN HIS RESOLVE TO PUSH AHEAD ON EUROPEAN CONSTRUCTION, BUT THEY JUDGE THAT HE DID WELL ENOUGH FOR THE FRENCH AND GERMANS TO PUSH AHEAD NOW TOGETHER. THEY MAKE AN ASSUMPTION THAT THE OPPOSITION (I.E. THE BRITISH) WILL NOW HAVE A WEAKER NEGOTIATING POSITION.

4. THE FRENCH OPENING BID AT MADRID IS LIKELY TO BE HIGH, PERHAPS INCLUDING:

- I. COMMITMENT NOW TO STRENGTHEN ECONOMIC AND MONETARY COOPERATION AS SET OUT IN PHASE 1 OF THE DELORS REPORT

II. A TIMETABLE FOR ALL EC CURRENCIES TO JOIN THE ERM, PREFERABLY BY 1 JULY 1990

III. AGREEMENT TO SET IN MOTION AN INTERGOVERNMENTAL CONFERENCE, PERHAPS TO COMPLETE ITS WORK BY THE DECEMBER EUROPEAN COUNCIL

IV. COMMITMENT TO THE GOAL OF ECONOMIC AND MONETARY UNION

5. THEY WILL KNOW WE WILL NOT ACCEPT ALL OF THIS, AND THAT SOME OTHERS WILL NOT EITHER THOUGH THERE IS LITTLE ANALYSIS HERE OF THE POSITIONS OF OTHER EC MEMBERS AND A WIDESPREAD ASSUMPTION THAT THEY WILL FALL INTO LINE WITH WHATEVER THE FRENCH AND GERMANS AGREE ON. THEY MAY NOT HOLD OUT FOR IT ALL. I JUDGE THAT THEIR BOTTOM LINE MIGHT BE:

I. IMMEDIATE START ON PHASE 1 OF THE DELORS REPORT

II. COMMITMENT TO THE DELORS REPORT QUOTE IN ITS TOTALITY UNQUOTE, THE PHRASE USED IN THE COMMUNIQUE ISSUED AFTER GENSCHER'S TALKS HERE WITH DUMAS LAST WEEK (PARIS TELNO). THE ELYSEE TELL US MITTERRAND AND KOHL WERE AT ONE ON THIS AT THEIR MEETING HERE YESTERDAY. THEY HAVE ALSO COMMENTED THAT THIS DOES NOT MEAN ACCEPTING EVERYTHING IN PHASES II AND III OF THE REPORT, WHICH THEY REALISE REQUIRE EXTRA STUDY, ALTHOUGH IT DOES MEAN GOING BEYOND EXISTING COMMITMENTS, EG IN THE PREAMBLE TO THE SINGLE EUROPEAN ACT.

III. ACCEPTABLE LANGUAGE ON STERLING AND THE ERM.

6. LESS PREDICTABLE IS THEIR LINE ON AN IGC. MY GUESS IS THAT IF THEY SEE THE PROSPECT OF AGREEMENT ON THE BASIS OF I. - III. ABOVE, THEY WILL NOT PUSH FOR AN EARLY CONFERENCE LEADING TO EARLY DECISIONS, BUT WILL NONETHELESS WANT SOME SORT OF PREPARATORY WORK SET IN TRAIN. THE ELYSEE HAVE KEPT MUM ON THE POINT, BUT TODAY'S PRESS, COMMENTING ON KOHL'S VISIT YESTERDAY, TALKS OF FRANCO-GERMAN AGREEMENT ON THE NEED FOR QUOTE PREPARATORY WORK BEFORE AN IGC IS CALLED UNQUOTE.

7. WE CONTINUE TO HEAR SUGGESTIONS THAT IF MITTERRAND DOES NOT GET AGREEMENT TO SOMETHING ON THE LINES OF PARA 4, HE WILL URGE THOSE WHO DO AGREE WITH HIM TO PRESS AHEAD WITH SEPARATE DISCUSSIONS ON HOW TO COOPERATE MORE CLOSELY ON MONETARY ISSUES. THIS CANNOT, INDEED, BE EXCLUDED. BUT I JUDGE THAT HE WILL HOPE AND WORK FOR AGREEMENT ON SOMETHING LIKE PARA 5 ABOVE, AND WILL WISH TO AVOID STARTING THE FRENCH PRESIDENCY WITH THE COMMUNITY DIVIDED.

FERGUSON