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FROM UKREP BRUSSELS

ECONOMIC AND MONETARY UNION

SUMMARY

1. LENGTHY TOUR DE TABLE, INCLUDING CHAIRMEN OF CENTRAL BANK GOVERNORS, MONETARY AND ECONOMIC POLICY COMMITTEES AND PRESIDENT DELORS. EMPHASIS ON IMPORTANCE OF SUCCESSFUL STAGE 1, AND INCREASING PROMINENCE GIVEN TO QUESTION OF FORM OF STAGE 2. MOST SPEAKERS STRESSED IMPORTANCE OF ECOFIN ROLE, NEED TO INVOLVE FINANCE MINISTERS IN IGC AND FAVOURED ONE MEMBER ONE VOTE ON ANY ESCB BOARD. PRESIDENCY CONCLUDED THAT PROGRESS REPORT WOULD BE SUBMITTED TO EUROPEAN COUNCIL IDENTIFYING MAIN ISSUES FOR RESOLUTION.

DETAIL

2. MAJOR SET-PIECE DISCUSSION OF STATE OF PREPARATION FOR IGC ON ECONOMIC AND MONETARY UNION. REYNOLDS (PRESIDENCY) BEGAN BY ASKING THE COMMISSION TO INTRODUCE THEIR PAPER, AND THE CHAIRMEN OF THE BOARD OF CENTRAL BANK GOVERNORS, OF THE MONETARY COMMITTEE, OF THE ECONOMIC AND POLICY COMMITTEE AND OF COREPER TO REPORT ON THE WORK THEY HAD BEEN DOING.

3. DELORS SAID THAT THE COMMISSION PAPER HAD NOW TO TAKE FULL ACCOUNT OF SEVERAL KEY POINTS: THERE HAD BEEN NO UNANIMITY AT THE INFORMAL ECOFIN ON THE FORM OF THE FINAL STAGE OF EMU: WORK WAS GOING ON IN OTHER FORA: AND THE EP'S VIEWS, MANY OF WHICH HAD BEEN REJECTED BY THE COMMISSION NEEDED TO BE BORNE IN MIND. HE STRESSED THAT SOME ASPECTS OF THE COMMISSION'S INSTITUTIONAL PROPOSALS WOULD NEED TO BE REVIEWED IF A SECOND IGC ON POLITICAL UNION WERE CONVENED.

4. STAGE 1 WAS VITAL IF 'LEARNING BY DOING' DID NOT WORK, IT

WOULD BE DIFFICULT TO GO BEYOND STAGE 1. DELORS DIVIDED HIS COMMENTS ON NEXT STEPS INTO THREE CATEGORIES: MONETARY, ECONOMIC, AND THE RELATIONSHIP BETWEEN THE TWO. ON MONETARY UNION, THE COMMISSION FAVOURED A SINGLE CURRENCY, AND ITS PROPOSALS ON THE STRUCTURE OF THE EUROPEAN SYSTEM OF CENTRAL BANKS REFLECTED THE NEED FOR IT TO BE INDEPENDENT. THE COMMISSION WAS OPEN TO ARGUMENT ON VOTING STRUCTURES. THREE KEY PROBLEMS REMAINED: RESPONSIBILITY FOR EXTERNAL MONETARY POLICY, THE ROLE OF THE ECU: AND MOST DIFFICULT OF ALL, THE BALANCE BETWEEN POLITICAL ACCOUNTABILITY AND INDEPENDENCE.

5. ON ECONOMIC UNION, THE COMMUNITY BUDGET MIGHT MOVE FROM 3 PER CENT TO 5 PER CENT OF TOTAL PUBLIC EXPENDITURE, AND SAW THIS AS AN APPLICATION OF THE SUBSIDIARITY PRINCIPLE. THE COMMISSION'S POSITION ON BUDGETARY CONSTRAINTS WAS A MINIMALIST ONE, AND IT MIGHT BE NECESSARY TO GO FURTHER IN THE IGC. DELOR'S VIEW WAS THAT THE EUROPEAN COUNCIL NEEDED TO BE INVOLVED IN SETTING THE FRAMEWORK FOR ECONOMIC POLICY BUT THAT FINANCE MINISTERS SHOULD ATTEND RELEVANT EUROPEAN COUNCIL SESSIONS.

6. THE RELATIONSHIP BETWEEN ECONOMIC AND MONETARY UNION WOULD NOW BE ENHANCED IF THE CHAIRMAN OF THE ESCB ATTENDED ECOFIN DISCUSSIONS AND BOTH PRESIDENT OF ECOFIN, AND A COMMISSION REPRESENTATIVE WERE OBSERVERS ON THE ESCB.

7. POEHL (CHAIRMAN, COMMITTEE OF CENTRAL BANKERS) SAID THAT, AS PART OF STAGE 1, HIS COMMITTEE WAS DEVELOPING A COMMON FRAMEWORK FOR MONITORING NATIONAL MONETARY POLICIES, TO HELP CONVERGENCE AND AS A FORE-RUNNER OF THE CENTRAL BANK SYSTEM ITSELF. THEY WERE WORKING TOWARDS COMPATIBLE MEASURES OF MONETARY CONDITIONS TO ALLOW MONITORING OF PROGRESS.

9. HE CONFIRMED THAT HIS COMMITTEE WAS PREPARING A PAPER ON THE MONETARY POLICY ASPECTS OF SUBSEQUENT STAGES, IN WHICH HE INTENDED TO INCLUDE A DRAFT TEXT OF THE STATUTES FOR THE ESCB. HE SAID THAT THIS WAS BEING DRAFTED ON THE ASSUMPTION THAT NATIONAL GOVERNMENTS WOULD BE WILLING TO ACCEPT THE TRANSFER OF SOVEREIGNTY REQUIRED FOR A CENTRAL MONETARY POLICY, BUT EXPRESSED PERSONAL DOUBTS AS TO WILLINGNESS. HIS COMMITTEE WOULD HOPE TO COMPLETE THEIR WORK IN ADVANCE OF THE CONVENING OF THE IGC. THEY WOULD BE CONSIDERING A LONG LIST OF QUESTIONS AND HE COMMENTED ON TWO IN PARTICULAR: ON VOTING RIGHTS, HE THOUGHT IT WOULD BE PREMATURE TO TAKE A FIRM VIEW BEFORE BROADER DECISIONS ON STRUCTURE HAD BEEN TAKEN: AND ON THE ROLE OF THE ECU HE SAID THAT LOGICALLY A COMMON CURRENCY WAS THE LAST STEP, BUT HE HAD LEARNT OF INTERESTING IDEAS, EMANATING FROM

LONDON, ON A POSSIBLE ROLE FOR THE ECU IN EARLIER STAGES. HIS VIEW AS THAT THIS WAS NOT AN APPROACH THAT SHOULD BE TAKEN UP BY THE IGC, BUT WAS A MATTER FOR THE MARKETS.

10. SARCINELLI (CHAIRMAN, MONETARY COMMITTEE) COMMENTED ON PHASING AND INSTITUTIONAL ISSUES. THE MONETARY COMMITTEE WOULD PRODUCE A COMPREHENSIVE REPORT ON THE TRANSITION FROM STAGE 1 TO STAGE 3 IN TIME FOR THE SEPTEMBER INFORMAL ECOFIN. HE (AND THE TWO SUBSEQUENT SPEAKERS) NOTED THAT HIS COMMENTS WERE SUBJECT TO THE UK'S GENERAL RESERVE ON STAGE 3. THERE WERE TWO APPROACHES TO STAGE 2: SOME SAW A NEED FOR AN INTERMEDIATE STAGE, INVOLVING STRONG ECONOMIC POLICY COORDINATION, OTHERS CONSIDERED THAT THIS COULD ALL BE ACHIEVED AS PART OF STAGE 1, WITH NO NEED FOR AN INTERMEDIATE STAGE. THERE WOULD BE FURTHER DISCUSSION IN THE MONETARY COMMITTEE ON THESE ISSUES BUT HE STRESSED THAT: PARTICIPATION IN ANY STAGE 2, WHICH WAS ESSENTIALLY A TRANSITIONAL STAGE, IMPLIED A COMMITMENT TO STAGE 3 AND THAT HE EXPECTED ALL COUNTRIES TO MOVE AT THE SAME STIME TO STAGES 2 AND 3, THOUGH A TWO SPEED APPROACH COULD NOT BE RULES OUT.

11. ON INSITUTIONAL ISSUES, THE MONETARY COMMITTEE HAD DISCUSSED THE COMMISSION PAPER. THE COMMISSION PAPER GAVE INSUFFICIENT WEIGHT TO THE ROLE OF ECOFIN, AND THE COMMITTEE DID NOT ACCPET THE PROPOSAL THAT THE COMMISSION SHOULD HAVE THE EXCLUSIVE RIGHT OF INITIATIVE IN THE EXTERNAL MONETARY POLICY FIELD. EX-ANTE CONSULTATION WITH THE EP WOULD NOT ALWAYS BE POSSIBLE, AND THE ROLE OF NATIONAL PARLIAMENTS NEED TO BE BROUGHT OUT. ONE MEMBER ONE VOTE HAD BEEN FAVOURED BY THE COMMITTEE, TO UNDERLINE THE ESCB'S INDEPENDENCE, AND A LONGER TERM OF OFFICE OF FIVE YEARS FOR BOARD MEMBERS WAS DESIRABLE FOR THE SAME REASON.

12. MOLITOR (CHAIRMAN, ECONOMIC POLICY COMMITTEE) SAID THAT HIS COMMITTEE HAD LOOKED AT THE COSTS AND BENEFITS OF EMU AND THE REGIONAL POLICY IMPLICATIONS. EMU SHOULD LEAD TO LOWER INTEREST RATES, LOWER TRANSACTION COSTS AND HIGHER INVESTMENT. THERE WOULD BE STRUCTURAL ADJUSTMENT PROBLEMS, INCLUDING UNEMPLOYMENT, IN THE TRANSITIONAL STAGE, BUT THIS COULD BE SEEN AS MUCH AS AN EFFECT OF THE SINGLE MARKET AS OF EMU, AND THE DECISION TO DOUBLE THE STRUCTURAL FUNDS HAD BEEN TAKEN IN THE LIGHT OF THE LIKELY IMPACT OF THE SINGLE MARKET, THE EPC WOULD PRODUCE A FULL REPORT IN THE AUTUMN.

13. CAMPBELL (CHAIRMAN, COREPER) SAID THAT COREPER HAD DISCUSSED SIMILAR ISSUES TO THE MONETARY COMMITTEE, AND SIMILAR VIEWS HAD BEEN

EXPRESSED. ON INSTITUTIONAL ISSUES THE QUESTION OF ACCOUNTABILITY HAD BEEN DISCUSSED, AND THERE HAD BEEN SOME QUESTIONING OF THE RELATIVE ROLE OF THE EUROPEAN COUNCIL AND ECONFIN. THERE HAD BEEN A TENDENCY TOWARDS ONE MEMBER ONE VOTE. COREPER WOULD CONTINUE TO WORK TO MAINTAIN COHERENCE AND CONSISTENCY IN THE RUN UP TO THE IGC.

14. REYNOLDS INVITED COMMENTS, SUGGESTING THAT DISCUSSION SHOULD CONCENTRATE ON THE ROLE OF ECOFIN, AND THE STRUCTURE AND ACCOUNTABILITY OF THE ESCB. HE DID NOT THINK THAT THE TIME WAS YET RIGHT FOR DISCUSSION OF PHASING.

15. NONETHELESS, MOST SPEAKERS REFERRED TO THE QUESTION OF PHASING. KOK (NETHERLANDS) AND WAIGEL (GERMANY) SAW NO ECONOMIC CASE FOR STAGE 2, THOUGH HE UNDERLINED THAT RESPONSIBILITY FOR MONETARY POLICY COULD NOT BE SHARED. THE CHANCELLOR DREW ATTENTION TO HOW LITTLE WORK HAD BEEN DONE ON TRANSITIONAL ARRANGEMENTS, UNDERLINED THE RISKS ASSOCIATED WITH DISPENSING WITH STAGE 2, AND ARGUED FOR ARRANGEMENTS WHICH BUILT ON STAGE 1, AND ALLOWED THE PROCESS OF ECONOMIC CONVERGENCE TO CONTINUE. BEREGOVY (FRANCE) AGREED THAT THE NATURE OF STAGE 2 NEEDED TO BE CLARIFIED.

16. ON INSTITUTIONAL ISSUES WAIGEL ARGUED STRONGLY THAT FINANCE MINISTERS SHOULD BE DIRECTLY INVOLVED IN THE IGC, AND SHOULD TAKE THE LEAD ROLE IN ITS PREPARATION. HE WAS SUPPORTED BY KOK, HELVEG PETERSEN (DENMARK), BEREGOVY, CARLI (ITALY) AND THE CHANCELLOR. THE SAME SPEAKERS ALSO CONSIDERED THAT ECONFIN SHOULD HAVE A MORE PROMINENT ROLE IN ECONOMIC POLICY COORDINATION THAN PROPOSED IN THE COMMISSION PAPER.

17. KOK, HELVEG PETERSEN, MAYSTADT (BELGIUM), BELEZA (PORTUGAL), SOLCHAGA (SPAIN), WAIGEL, CARLI AND GEOGHAN QUINN (IRELAND) ARGUED FOR ONE MEMBER VOTE ON THE BOARD OF THE ESCB.

18. KOK AND WAIGEL ARGUED STRONGLY FOR CONCRETE AND BINDING CONTROLS ON NATIONAL BUDGETS, AND WAIGEL EXPRESSED SCEPTICISM ABOUT THE PROPOSAL BY THE COMMISSION ON COHESION.

19. KOK ARGUED THAT THE SAME TRANSITION CRITERIA SHOULD APPLY FOR THE MOVE FROM STAGE 1 TO STAGE 2 AS FOR THE MOVE FROM 2 TO 3. EVERYONE SHOULD BE GIVEN THE OPPORTUNITY TO PARTICIPATE FROM THE OUTSET, BUT THOSE WHO DID NOT WOULD BE WELCOME AT A LATER STAGE.

20. WAIGEL STRESSED THAT MOVEMENT FROM STAGE 1 REQUIRED CONVERGENCE OF ECONOMIC AND MONETARY POLICY. INDEPENDENCE OF THE

ESCB COULD ONLY BE ASSURED IF NATIONAL CENTRAL BANKS WERE ALSO INDEPENDENT. THE QUESTION OF VOTING STRUCTURE COLD NOT BE RESOLVED UNTIL BROADER QUESTIONS HAD BEEN ANSWERED. THE COMMISSION'S PROPOSALS FOR MULTI-ANNUAL ECONOMIC POLICY FRAMEWORKS LOOKED SIMILAR TO THE UNSUCCESSFUL ATTEMPTS TO FINE TUNE ECONOMIC POLICY IN THE 1970S. FINANCE MINISTERS SHOULD BE INVOLVED IN BOTH IGCS, SINCE THE IGC ON POLITICAL UNION WOULD HAVE INEVITABLE REPERCUSSIONS FOR EMU.

21. IN ADDITIONAL TO HIS COMMENTS ON PHASING, AND NOTING THE UK'S GENERAL RESERVE ON PHASE 3, THE CHANCELLOR STRESSED THE IMPORTANCE OF APPLYING CLEAR PRINCIPLES AT ALL STAGES, INCLUDING MAINTAINING OPEN MARKETS, SECURING PRICE STABILITY, MAINTAINING BALANCED BUDGETS, AND AVOIDING UNNECESSARY CENTRALISATION. MOVEMENTS FROM ONE STAGE TO THE NEXT MUST DEPEND ON A HIGH DEGREE OF ECONOMIC CONVERGENCE, AND HE ASKED WHETHER, SINCE THAT CONVERGENCE WOULD TAKE TIME, THE COMMUNITY'S APPROACH WOULD BE TO MOVE FORWARD TOGETHER? IF NOT, WHICH COUNTRIES WOULD BE LEFT BEHIND, AND WOULD THEY EVER CATCH UP? HE UNDERLINED THE IMPORTANCE OF ENHANCING THE ROLE OF NATIONAL PARLIAMENTS, AND WELCOMED THE COMMISSION'S CONCLUSION AGAINST BINDING RULES ON BUDGET DEFICITS.

22. BEREGOVY, IN A NUANCED INTERVENTION, STRESSED THE IMPORTANCE OF PROGRESS. ALL MEMBER STATES SHOULD GO FORWARD TOGETHER, AND IT WAS THEREFORE ESSENTIAL TO TAKE MEASURES TO PERSUADE ALL TO MOVE FORWARD AND TO HELP THE WEAKER ECONOMIES, INDPENDENCE AND POLITICAL ACCOUNTABILTY HAD TO BE RECONCILED, AND THERE WAS STIL CONFUSION OVER RESPONSIBILTY FOR EXTERNAL POLICY.

23. CARLI IDENTIFIED WHAT HE SAW AS THE KEY PROBLEMS TO BE RECONCILED: WAS INDEPENDENT MONETARY POLICY CONSISTENT WITH LEAVING EXTERNAL POLICY IN THE HANDS OF THE COUNCIL? COULD ESCB INDEPENDENCE BE RECONCILED WITH DEMOCRATIC ACCOUNTABILITY? WOULD NATIONAL PARLIAMENTS ACCEPT THE CONSTRAINTS ON THEIR BUDGETARY POWERS THAT WOULD BE NEEDED IN EMU?

24. GEOGHAN QUINN, CHRISTODOULOU (GREECE), SOLCHANGA AND BELEZA STRESSED THE IMPORTANCCE OF EXTRA REGIONAL SUPPORT THROUGH STRUCTURAL FUND SPENDING. CHRISTODOULOU ARGUED FOR A SUBSTANTIVE SECOND STAGE, AND FOR A STEP BY STEP APPROACH. SOLCHAGA (SUPPORTED BY KOK) ARGUED THAT THE COMMUNITY SHOULD HAVE A SINGLE REPRESENTATIVE IN EXTERNAL POLICY DISCUSSIONS. MAYSTADT, SUPPORTED BY BEREGOVY, ARGUED THAT THERE WAS A LINK BETWEEN FISCAL HARMONISATION AND THE BUDGET DISCIPLINE REQUIREMENTS OF EMU, SINCE

IT WAS NECESSARY TO OUTLAW COMPETITIVE REDUCTIONS IN TAXATION, BY MOVE TOWARDS THE HARMONISATION, IN ORDER TO PREVENT SERIOUS REVENUE LEAKAGE CREATING BUDGETARY PROBLEMS FOR MEMBER STATES. HIS PRIME MINISTER WOULD RAISE THE POINT AT THE EUROPEAN COUNCIL.

25. REYNOLDS CONCLUDED THAT ECOFIN SHOULD BE CENTRAL IN DETERMINING AND OPERATING THE ECONOMIC POLICIES OF THE COMMUNITY, ASKED THE EPC TO INTENSIFY THEIR WORK ON COHESION, AND SAID THAT THE PRESIDENCY WOULD PREPARE A PROGRESS REPORT ON PREPARATION FOR THE IGC FOR THE EUROPEAN COUNCIL, IDENTIFYING THE MAIN ISSUES FOR RESOLUTION. (FULL TEXT IN MIFT).

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