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FRAME ECONOMIC

PART 1 OF 2

ECOFIN COUNCIL : 23 JULY

ECONOMIC AND MONETARY UNION (EMU)

SUMMARY

1. AFTER LONG TABLE ROUND ON MONETARY COMMITTEE REPORT PRESIDENCY CONCLUDE THAT THERE IS BROAD CONSENSUS FOR ITS TIMETABLE FOR FURTHER WORK ON EMU. CHANCELLOR INTRODUCED UK IDEAS FOR DEVELOPMENTS BEYOND STAGE 1. SPECIAL MEETING OF MONETARY COMMITTEE ON 4 SEPTEMBER WILL CONSIDER THEM IN ADVANCE OF INFORMAL ECOFIN ON 8 SEPTEMBER. AT GERMAN REQUEST ECONOMIC POLICY COMMITTEE TO CONSIDER ECONOMIC ASPECTS. COMMISSION TO AGREE ON ITS POSITION ON 21 AUGUST. PRESIDENCY AIM TO REACH CONSENSUS IN ECOFIN ON IGC AGENDA BY OCTOBER WITH A VIEW TO CIRCULATING GUIDELINES FOR AMENDING THE IGC BEFORE ITS START DATE IN DECEMBER.

DETAIL

2. CARLI (PRESIDENCY) SET OUT THE PRESIDENCY'S PREFERRED TIMETABLE FOR FURTHER DISCUSSIONS OF EMU. THE PRESIDENCY INTENDED TO VISIT CAPITALS IN THE LAST 10 DAYS OF AUGUST WITH A VIEW TO ACHIEVING A BROAD CONSENSUS AT THE INFORMAL ECOFIN COUNCIL IN SEPTEMBER. THERE WOULD BE A MEETING WITH THE EUROPEAN PARLIAMENT ON THE SAME DAY AS THE 8 OCTOBER COUNCIL IN LUXEMBOURG. THE PRESIDENCY INTENDED TO CIRCULATE A PAPER ON GUIDELINES FOR AMENDING THE TREATY BEFORE THE START OF THE IGC. IN THE MEANTIME THE GOVERNORS COMMITTEE WAS PREPARING DRAFT STATUTES FOR THE EUROPEAN CENTRAL BANK SYSTEM (ECBS) FOR DISCUSSION IN OCTOBER. CARLI SUGGESTED THAT THE UK PROPOSALS COULD BE DISCUSSED AT THE INFORMAL ECOFIN ON 8 SEPTEMBER.

3. SARCINELLI (CHAIRMAN OF THE MONETARY COMMITTEE) INTRODUCED THE MONETARY COMMITTEE REPORT. HE NOTED THAT THERE WAS A BROAD DEGREE OF

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CONSENSUS ON MOST ISSUES BUT THE REPORT WAS SUBJECT TO A GENERAL RESERVE BY THE UK MEMBERS AND THE COMMITTEE HAD NOT YET BEEN ABLE TO EXAMINE THE UK PROPOSALS IN DETAIL. SUBJECT TO THE UK RESERVE THERE WAS BROAD AGREEMENT ON THE FOLLOWING POINTS:

(I) IT WAS IN THE POWER OF THE COMMUNITY TO ACHIEVE EMU BASED ON PRICE STABILITY AND A SINGLE CURRENCY.

(II) THIS REQUIRED A TRANSFER OF SOVEREIGNTY OVER MONETARY POLICY AND ACCEPTANCE OF CONSTRAINTS ON ECONOMIC POLICY.

(III) THERE SHOULD BE BINDING COMMITMENTS TO BUDGET DISCIPLINE AND CLOSER COORDINATION OF ECONOMIC POLICIES. SOME MEMBERS WANTED MACRO-ECONOMIC STABILISERS AT THE COMMUNITY LEVEL TO HELP COPE WITH EXTERNAL SHOCKS.

(IV) THE COMMUNITY WOULD NEED TO AVOID EMU WORKING AGAINST THE INTERESTS OF THE PERIPHERAL REGIONS. *i.e. money*

(V) DOMESTIC MONETARY POLICY SHOULD BE DETERMINED BY AN INDEPENDENT INSTITUTION COMMITTED TO PRICE STABILITY BUT EXECUTED BY NATIONAL CENTRAL BANKS.

(VI) A HIGH DEGREE OF ECONOMIC CONVERGENCE SHOULD ENABLE THE ESTABLISHMENT OF A SINGLE CURRENCY.

(VII) EXTERNAL MONETARY POLICY SHOULD BE DETERMINED BY THE POLITICAL AUTHORITY BUT THE MODALITIES NEEDED FURTHER DISCUSSION.

(VIII) PASSAGE TO FULL EMU REQUIRED A TRANSITIONAL STAGE BUT IF CONVERGENCE WAS ACHIEVED, STAGE 2 COULD BE RELATIVELY SHORT. MINISTERS WOULD NEED TO DECIDE WHETHER THE ECSB SHOULD HAVE RESPONSIBILITY FOR INTERVENTION IN STAGE 2.

(IX) THE ROLE OF THE ECOFIN COUNCIL WOULD NEED TO BE ENHANCED WITH IMPLICATIONS FOR THE COMPETENCE OF THE MONETARY COMMITTEE.

4. SARCINELLI SUMMARISED THE MONETARY COMMITTEE'S REPLIES TO DELORS' 6 KEY QUESTIONS AS FOLLOWS:

(I) THE COMMUNITY DID NEED A SINGLE MONETARY POLICY. *No Co-operation*

(II) THE COMMITMENT TO BUDGETARY DISCIPLINE AND COORDINATION OF ECONOMIC POLICIES WERE THE KEY ELEMENTS OF ECONOMIC UNION. *Co-operation*

(III) EMU WOULD BRING BENEFITS AS WELL AS DISADVANTAGES TO THE PERIPHERAL REGIONS. THE CASE FOR A FURTHER INCREASE IN STRUCTURAL FUNDS WAS UNPROVEN.

(IV) THE COUNCIL WOULD NEED TO DECIDE ON THE APPROPRIATE RELATIONS WITH THE EUROPEAN PARLIAMENT AND NATIONAL PARLIAMENTS TO ACHIEVE POLITICAL AND DEMOCRATIC LEGITIMACY FOR THEIR ECSB.

(V) A TRANSITIONAL STAGE WOULD BE NECESSARY.

(VI) IN THE FINAL STAGE THE ECU WOULD BECOME THE SINGLE CURRENCY.

5. THE FOLLOWING WILL REMAIN POINTS RAISED IN THE SUCCEEDING TABLE ROUND. REYNOLDS (IRELAND) CALLED FOR AN AGREED DEFINITION ON MONETARY FINANCING AND FURTHER STUDY OF THE PROBLEMS OF COHESION. IT SHOULD NOT SIMPLY BE ASSUMED THAT THE STRUCTURAL FUNDS AND COHESION WERE THE SAME THING. BEREGOVY (FRANCE) SUGGESTED THAT THE KEY QUESTION WAS WHEN STAGE 2 SHOULD BEGIN AND UNDER WHAT CONDITIONS. IN HIS VIEW THE TARGET DATE SHOULD BE 1 JANUARY 1993 (TO COINCIDE WITH THE SINGLE MARKET). BY THAT STAGE ALL CURRENCIES SHOULD BE WITHIN THE NARROW BANDS OF THE ERM, ALTHOUGH TRANSITIONAL ARRANGEMENTS COULD BE ENVISAGED FOR THOSE WHO WERE NOT. THE ECSB SHOULD BE INDEPENDENT BUT EXTERNAL MONETARY POLICY SHOULD BE DETERMINED BY THE POLITICAL AUTHORITY NOT THE ECSB. BEREGOVY ALSO CONSIDERED THAT IT WOULD BE DIFFICULT TO ACHIEVE EMU WITHOUT SOME FURTHER FISCAL HARMONISATION, PARTICULARLY OF CAPITAL TAXES.

6. SOLCHAGA (SPAIN) SUGGESTED A REVIEW OF COMMON POLICIES TO AVOID DISCRIMINATION AGAINST THE PERIPHERY. THIS SHOULD INCLUDE A REVIEW OF THE RELATIVE BURDENS IMPOSED BY THE COMMUNITY BUDGET. ANY ECSB PROFITS COULD BE TREATED AS NEW RESOURCES. MACRO-ECONOMIC STABILISERS MIGHT BE NECESSARY. THE GENERAL COORDINATION OF BUDGET POLICIES MIGHT IN THE FUTURE NEED TO BE EXPANSIONARY. HE AGREED WITH BEREGOVY THAT FISCAL COMPETITION COULD BE DETRIMENTAL TO ECONOMIC CONVERGENCE. HE FAVOURED DEFINING THE ECU AS THE FUTURE SINGLE CURRENCY WITHOUT CHANGING ITS MAKE-UP. OBJECTIVE CRITERIA WILL BE NEEDED TO MOVE FROM STAGE 1 TO STAGE 2 BUT COUNTRIES UNWILLING TO MAKE THE TRANSITION SHOULD NOT BE ALLOWED TO PREVENT THE MAJORITY FROM MAKING PROGRESS. IT WOULD BE HELPFUL TO SET TARGET DATES FOR THE ACHIEVEMENT OF STAGE 2.

7. PALAEOKRASSAS (GREECE) REJECTED THE CONCEPT OF A TWO SPEED EUROPE. IT WAS NECESSARY TO TAKE ACCOUNT OF INFRASTRUCTURE AND

ECONOMIC DEVELOPMENT AS WELL AS BUDGET DISCIPLINE AND COORDINATION OF MONETARY POLICY. BUDGETARY RULES NEEDED TO BE FLEXIBLE. HE WAS SCEPTICAL ABOUT SANCTIONS. THERE WOULD NEED TO BE A NEW COMMITMENT TO ENHANCING STRUCTURAL POLICIES TO COUNTERACT THE DISADVANTAGES OF EMU FOR THE PERIPHERY. THE TRANSITION FROM STAGE 1 TO STAGE 2 SHOULD BE GRADUAL.

8. WAIGEL (GERMANY) ADVOCATED CRITERIA FOR IDENTIFYING EXCESSIVE DEFICITS. HE COMMENDED THE PROVISION IN THE GERMAN CONSTITUTION THAT THE BUDGET DEFICIT SHOULD NOT EXCEED TOTAL INVESTMENT. THERE NEEDED TO BE A SINGLE MONETARY POLICY DETERMINED BY CENTRALISED (NOT REGIONALISED) CENTRAL BANK SYSTEM. MONETARY POLICY INSTRUMENTS SHOULD BE HARMONISED. THE LENGTH OF STAGE 2 SHOULD BE DETERMINED BY PROGRESS TOWARDS CONVERGENCE: ARTIFICIAL DEADLINES SHOULD NOT BE SET. HE SUGGESTED THAT THE ECONOMIC POLICY COMMITTEE SHOULD LOOK FURTHER INTO THE ECONOMIC ASPECTS OF EMU. FINANCE MINISTERS SHOULD BE INVOLVED IN THE EMU IGC. SCHLECHT (STATE SECRETARY GERMAN ECONOMIC MINISTRY) ADDED SOME FURTHER COMMENTS ON THE NEED FOR CONVERGENCE OF ECONOMIC POLICIES INCLUDING ON WAGES AND SALARIES, COMPETITIVENESS AND THE EFFICIENCY STRUCTURAL SPENDING.

9. PETERSEN (DENMARK) SAID THAT OTHER ECONOMIC POLICY OBJECTIVES (IE GROWTH AND EMPLOYMENT) SHOULD BE GIVEN EQUAL STATUS WITH PRICE STABILITY. ON BUDGET DISCIPLINE HE COULD NOT ACCEPT COMMUNITY DECISIONS WHICH OVERRODE NATIONAL DECISIONS ON THE LEVEL OF BUDGETS. FINANCE MINISTERS SHOULD LEAD IN THE EMU IGC. MAYSTADT (BELGIUM) AGREED WITH BEREGOVY ON THE TIMING OF STAGE 2 AND THE DESIRABILITY OF FISCAL HARMONISATION. THE ECSB'S DEMOCRATIC LEGITIMACY COULD BE ACHIEVED BY MAKING APPOINTMENTS TO ITS DIRECTORATE SUBJECT TO APPROVAL BY THE EUROPEAN PARLIAMENT.

10. THE CHANCELLOR OF THE EXCHEQUER NOTED THAT FURTHER WORK WAS NECESSARY IN A NUMBER OF AREAS INCLUDING BUDGET DISCIPLINE SANCTIONS, THE CRITERIA FOR DECIDING THE OVERALL EC BUDGET STANCE AND ITS CONSISTENCY WITH NATIONAL BUDGETS AND THE CRITERIA FOR ANY CENTRALISATION OF RESERVES. HE SUGGESTED THAT THE UK IDEAS FOR DEVELOPMENTS BEYOND STAGE 1 SHOULD BE CONSIDERED BY THE MONETARY COMMITTEE. THEY WERE INTENDED TO BE A POSITIVE CONTRIBUTION TO THE DEBATE WHICH OFFERED A WAY OF MAKING REAL PROGRESS TOWARDS MONETARY INTEGRATION BEYOND STAGE 1 WHILST AVOIDING A PREMATURE BIG BANG TRANSITION TOWARDS MONETARY UNION. THEY WOULD ENABLE THE COMMUNITY TO MOVE FORWARD TOGETHER AND PROVIDE TIME FOR PROCESS OF CONVERGENCE TO GATHER PACE. THE HARD ECU COULD PROVIDE AN ATTRACTIVE COMMON CURRENCY AND HAD BEEN DESIGNED IN A WAY WHICH WOULD STRENGTHEN NOT

WEAKEN ANTI-INFLATIONARY FORCES IN THE COMMUNITY. ALL THESE ISSUES DESERVED FURTHER CONSIDERATION BEFORE THE START OF THE IGC IN DECEMBER.

11. BELEZA (PORTUGAL) SAID THAT MANAGEMENT OF THE PROCESS TOWARDS ECONOMIC SOCIAL COHESION WOULD BE DIFFICULT. THE EFFECTS ON CAPITAL IMPORTING COUNTRIES WOULD BE DIFFERENT FROM THOSE ON CAPITAL EXPORTING COUNTRIES. HE ALSO LOOKED FOR PROGRESS ON FISCAL HARMONISATION. NIEMAN (NETHERLANDS) AGREED WITH WAIGEL ON THE IMPORTANCE OF BUDGET DISCIPLINE. ECONOMIC CONVERGENCE SHOULD BE SUBSTANTIALLY IMPROVED IN STAGE 1 TO ALLOW FOR A SHORT, TECHNICAL STAGE 2. HE SUPPORTED THE UK'S REQUEST FOR A THOROUGH EXAMINATION OF ITS IDEAS. ECOFIN MINISTERS SHOULD TAKE THE LEAD IN THE EMU IGC.

12. JUNKER (LUXEMBOURG) AGREED THAT FURTHER STUDY WAS NEEDED ON OBJECTIVE CRITERIA FOR BUDGET DEFICITS. THE GERMAN EXPERIENCE MIGHT BE HELPFUL. HE REFERRED TO PROSPECTIVE REFORMS OF THE LUXEMBOURG TAX SYSTEM BUT WAS RESERVED ON CALLS FOR FISCAL HARMONISATION. SOCIAL POLICIES COULD ALSO EFFECT MEMBER STATES' COMPETITIVENESS. RUBBI (ITALY) AGREED THAT FINANCE MINISTERS SHOULD TAKE THE LEAD IN THE EMU IGC. THERE WOULD NEED TO BE PARALLEL PROGRESS ON EMU AND THE POLITICAL UNION IGC. THE EUROPEAN PARLIAMENT WOULD ALSO WISH TO EXPRESS ITS VIEWS. HE SUPPORTED THE NEED FOR FURTHER FISCAL HARMONISATION.

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FINAL PART OF 2

ECOFIN COUNCIL: 23 JULY

ECONOMIC AND MONETARY UNION (EMU)

13. DELORS (COMMISSION) EXPRESSED SUPPORT FOR THE PRESIDENCY'S WORK PROGRAMME. IT WAS NOT NECESSARY TO REACH AGREEMENT ON ALL POINTS BEFORE THE START OF THE IGC. HE EXPRESSED INTEREST IN THE UK'S IDEAS AS AN APPROACH TO THE TRANSITIONAL PHASE BUT DOUBTED WHETHER THEY WOULD LEAD TO THE FINAL OBJECTIVE SPONTANEOUSLY. THE COMMISSION WOULD ADOPT ITS POSITION ON 21 AUGUST. HE NOTED THE LINK BETWEEN THE EMU AND EPU IGCS, ALTHOUGH HE PREFERRED TO DESCRIBE THE LATTER AS THE POLITICAL AND INSTITUTIONAL REINFORCEMENT OF THE COMMUNITY. HE AGREED WITH SCHLECHT ON THE NEED TO STUDY WIDER ECONOMIC POLICIES AND HE PERSONALLY SUPPORTED THE GERMAN POSITION ON BUDGETARY RULES. ON COHESION THE POORER REGIONS COULD BENEFIT FROM EMU BECAUSE OF THEIR LOWER PRODUCTION COSTS. THE STRUCTURAL FUNDS HAD BEEN DOUBLED IN 1988 AND THE EFFECTIVENESS OF THIS POLICY COULD NOT BE ASSESSED UNTIL THE REVIEW EXPECTED AT THE END OF 1991. HE HAD EXPRESSED THE VIEW THAT IN THE FINAL STAGE OF EMU THE EC BUDGET MIGHT RISE FROM 2.5 PERCENT OF TOTAL PUBLIC EXPENDITURE TO 5 PERCENT. HE AGREED WITH BEREGOVY ON THE NEED FOR FISCAL APPROXIMATION. THE COMMUNITY SHOULD AVOID BEING PERFECTIONIST IN SETTING CONDITIONS FOR FURTHER PROGRESS ON EMU: OTHERWISE NO FURTHER PROGRESS WOULD BE MADE.

14. CARLI CONCLUDED THAT ECOFIN MUST RESPECT THE CALENDER SET BY THE DUBLIN EUROPEAN COUNCIL. IN HIS VIEW THERE WAS SUFFICIENT CONSENSUS TO PROPOSE AN AGENDA FOR THE IGC. DECISIONS WOULD BE TAKEN AT THE IGC. THE MONETARY COMMITTEE WOULD HAVE A SPECIAL MEETING ON TUESDAY 4 SEPTEMBER TO DISCUSS THE POINTS RAISED AT THIS MEETING AND IN PARTICULAR THE UK IDEAS BUT WITHOUT RE-OPENING DISCUSSION ON ALL

THE POINTS IN THEIR EXISTING REPORT. THE ECONOMIC POLICY COMMITTEE SHOULD BE INVITED TO MEET ON THE SAME TIMESCALE. BOTH REPORTS WOULD BE CONSIDERED BY THE INFORMAL ECOFIN ON 8 SEPTEMBER.

15. AFTER THE LUNCH THE PRESIDENT OF THE COMMISSISON SPOKE PRIVATELY TO THE CHANCELLOR. DELORS ASKED THAT THE UK SHOULD NOW CIRCULATE A FULL PAPER (IN ADDITION TO THE SHORT PAPER DISTRIBUTED IN COREPER AND TO THE TECHNICAL PAPER IN THE COMMITTEE OF CENTRAL BANK GOVERNORS) ON ITS 'HARD ECU' AND EMF IDEAS. THE COMMISSION WOULD LIKE TO TAKE PROPER ACCOUNT OF THESE IDEAS IN THE COMPREHENSIVE PAPER ON EMU WHICH IT WOULD BE CIRCULATING ON 21 AUGUST. TO DO SO THE PAPER NEEDED TO BE ROUND A WEEK OR SO BEFORE THAT. DELORS SAID HE HOPED ANY SUCH PAPER WOULD UNDERLINE, AS THE CHANCELLOR HAD IN ECOFIN, THE MAIN DIFFERENCES BETWEEN THE UK PROPOSALS AND THE EARLIER COMMON CURRENCY PROPOSALS WHICH WERE CONSIDERED AND REJECTED BY THE DELORS COMMITTEE. THE CHANCELLOR SAID WE WOULD CERTAINLY BE CIRCUALTING SUCH A PAPER: WE WOULD AIM TO GET IT ROUND IN GOOD TIME AS DELORS SUGGESTED: AND WE WOULD EMPHASISE THE DIFFERENCE BETWEEN THIS AND EARLIER COMMON CURENCY PROPOSALS.

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