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# OUT TELEGRAM

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cc Mr Sherwald
Mr Arthur
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AND TO IMMEDIATE ALL EC POSTS, UKDEL IMF/IBRD WASHINGTON, EFTA COUNTRIES, UKDEL OECD FOR WICKS, STRASBOURG FOR MR LILLEY'S PARTY

Prime Minister

Nigel Wicks' account of the informal ECOFIN meeting.

CDP 10/9

INFORMAL ECOFIN

SUMMARY

1. The Chancellor of the Exchequer and the Governor represented the UK at Saturday's Informal ECOFIN in Rome at which EMU and help for the front line states affected by sanctions were discussed. On EMU, the eleven Member States maintained their intention to amend the treaty to establish a single currency and an independent Central Bank, but disagreement about the pace of transition and other issues emerged. Presidency to report to October's Informal European Council. Another informal ECOFIN possible. A general welcome that the UK had put forward proposals which remain on the table for further examination. Solchaga incorporates UK ideas in his proposals for Stage 2. Commission proposals on help for front line states affected by sanctions to be examined in

Brussels

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Brussels colon no decisions. Sensible conclusions about the economic policy response to the oil price rise.

EMU

2. Setting the meeting's agenda Carli said consensus was emerging on colon a common monetary policy semi colon a single currency semi colon price stability as the main economic policy objective semi colon an independent Central Bank with democratic legitimacy semi colon and no monetary financing of deficits or budgetary bail outs. The outstanding issues included colon binding budgetary rules and their enforcement, including sanctions semi colon cohesion semi colon the transition to full EMU including the decision whether the move to Stage 2 should be taken by reference to a date or to the achievement of economic criteria semi colon the possibilities for a single speed movement to EMU by all Member States semi colon the role of the British ideas for the ecu semi colon and the role of Treasury and Finance Ministers in the two IGCs.

3. In introductory statements the Chairman of the Central Bank Governors' Committee (Poehl) gave a long report of the work of his Committee semi colon Delors said that the Commission had tried in their latest report to keep to the middle road, especially on budgetary issues semi colon Christophersen emphasised that events in the Gulf were no reason to slow up progress to EMU semi colon the Chairman of the Monetary Committee (Sarcinelli) reported on his Committee's discussion of the British proposals as in FCO Tel No 238 semi colon and the Chairman of the Economic Policy Committee (Molitor) summarised his Committee's report.

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MANAGEMENT OF THE TRANSITION

4. Beregovoy (France) argued in his first intervention for the transition to Stage 2 on 1 January 1993 after completion of the work on the Single Market and membership of all countries of the ERM. But when it became clear that this date had little support, he later moved his date forward by a year with an even stronger emphasis on universal ERM membership for movement. He asked whether the statutes of national Central Banks would have to be modified in Stage 2 to make them independent, which might cause problems. Expressing opposition to variable geometry, he called for every effort to associate all Member States with the move to EMU. Waigel (FRG) thought that dates for the transition should not be decided until clear conditions for convergence had been met. He suggested that at the beginning of Stage 2 the Committee of Governors should be given legal personality in the form of a Council of Central Bank Governors. Only in Stage 3 would the ESCB be established and binding budgetary rules invoked. In this way the issue of two speeds could be avoided for some time, though he volunteered in response to Beregovoy's question that Central Bank constitutions should be approximated in Stage 2 as did Pedersen (Denmark). Kok (Netherlands) agreed. Kok was unconvinced that setting a date for the transition of the move from Stage 1 to Stage 2 would bring EMU nearer. The criteria for convergence described by the Monetary Committee needed to be met. He called for an analysis of convergence. Rubbi (Italy) thought that convergence conditions should focus on trends towards acceptable levels, not precise figures. Transitional provisions were necessary because of the need to be realistic about whether all Member States could move to EMU at the same time. Stage 2 should be shorter than Stage 1. Solchaga

(Spain)

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(Spain) favoured a precise date for the start of Stage 2, namely 1 January 1994, after one year's experience of the Single Market, the removal of all exchange controls, membership of all currencies of the ERM (though not necessarily the narrow band), independence for all Central Banks and a sufficient degree of economic convergence. In addition, a new Community institution should be established at the beginning of Stage 2 independent of national governments and as part of the move to an ESCB. It should issue a genuine currency as proposed by the UK, put pressures on national monetary policies, serve as a forum for coordination, and study the complex procedures necessary for Stage 3. During Stage 2, which should not be exceptionally short, possibly 5-6 years, the ERM bands should narrow to 1 per cent and realignments should become exceptionally rare. The passage to Stage 3 needed to be a certainty for all members though special transitional arrangements should be available for those not able to go immediately to Stage 3.

5. Pedersen (Denmark) thought the arrangements for EMU should permit the association of non-EC European countries. Reynolds (Ireland), emphasising the importance of parallelism, wondered whether speeding up the move to EMU might not exacerbate problems. Juncker (Luxembourg), recalling the Werner experience, thought the setting of deadlines could be counterproductive. Christodoulou (Greece) opposed a rapid transition to EMU, the timing of which should be decided in the light of objective criteria. Beleza (Portugal) supported Solchaga's approach, except that he argued for the moves between stages to be based on economic criteria. Maystadt (Belgium) gave strong support to the Commission's approach to the transition.

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DEMOCRATIC ACCOUNTABILITY

6. Beregovoy, supported by Maystadt, emphasised that further thought should be given to the relationships between European Parliament, the Commission and the Council and for parallel progress between EMU and political union, a point echoed by Christodoulou.

EXTERNAL MONETARY POLICY

7. Beregovoy appeared more ready to accept that an ESCB should be responsible for operation of external monetary policy within a framework or regime established by the political authorities. Waigel and Kok were certainly of this view, as were most other Ministers.

BUDGETARY RULES

8. Waigel emphasised the need for firm budgetary rules, including powers to suspend payments from the Community Budget for Member States with excessive budget deficits. Kok wanted more discussion of prescriptive rules. Just enough sovereignty should be transferred on budgetary policy to prevent the undermining of monetary policy. Rubbi thought that budgetary rules should not be detrimental to national sovereignty, nor restrictive of national budgetary action to deal with quote asymmetric unquote disturbances. There should be a gradation of disciplinary pressure, going beyond peer pressure. Pedersen favoured the latest Commission proposals on budgetary issues and believed it unwise to seek to infringe national sovereignty. He commented too that while he expected a solid majority in Denmark for EMU and an ESCB, his Government would not seek a Parliamentary mandate until the

details

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details were clearer - and in these matters quote the devil lies in the details unquote.

9. Juncker saw quote tiers unquote of responsibility for budgetary policy, including the use of it as an indicator of the golden rule (deficits not to exceed government investment). Christodoulou wanted to avoid rigid rules. Reynolds preferred the Monetary Committee's (tougher) approach to budgetary rules to the Commission's.

COHESION

10. Waigel saw no reason for further Treaty or budgetary provisions for cohesion. He disagreed with the Commission's latest proposal for a special financial assistance facility. Any action should wait until the results of the doubling of the structural funds were available. Kok though that the Commission's proposal conflicted with the no bail out rule. Rubbi argued that lack of harmonisation of fiscal regimes made it harder to achieve cohesion. Maystadt and Beleza agreed and the latter thought tax harmonisation could be made subject to majority vote. He liked the Commission's latest proposals for cohesion and called for an early increase in the Community's resources. Christodoulou favoured the Commission's new facility and argued that cohesion policy was about more than the size of the structural funds.

THE UK'S IDEAS

11. Beregovoy thought that everything should be considered in helping Member States move forward, including the Chancellor's ideas. Waigel was glad that the Monetary Committee would consider further the Chancellor's ideas for a

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hard ecu which could be an important contribution to the move to EMU. (As Poehl pointed out outside the meeting, the Germans' interest is in the hardening of the ecu preparatory to a single currency, not the European Monetary Fund.) Kok, after welcoming the British moves, thought the strong ecu proposals needed serious attention. Rubbi observed delphically that interesting ideas were about on the composite ecu which might not be incompatible with the British ideas. Solchaga saw an important role for the British ideas in his proposals for Stage 2. Reynolds welcomed the degree of movement evident in the UK position but did not see the ideas as an alternative to the Delors approach. Christodoulou welcomed further examination of the UK and Spanish ideas. Beleza thought the UK proposals were constructive, of particular relevance to the transition and should remain on the table.

THE ROLE OF ECOFIN

12. Waigel agreed with the Monetary Committee that the role of ECOFIN should be strengthened and that Finance Ministers should have the fullest role in the IGC. Kok feared preparations for the IGC would not be completed by the Council's October meeting, the last time EMU appeared on their agenda before the IGC despite its appearing on the FAC's November and December agendas. Finance Ministers should remain in charge of the political aspects of EMU. Rubbi and other Ministers assumed that the EMU IGC would be led by Finance Ministers.

13. The Chancellor, speaking towards the end of the morning's discussion, noted that the debate had been realistic and pragmatic. The UK had consistently focused on how the

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Community might move forward after Stage 1. We accepted the need to amend the present Treaty and make institutional changes. Our evolutionary approach could lead to a single currency and monetary policy if peoples and governments so chose, though we were not part of the consensus described by the Chairman in his introductory remarks. The two key issues in his view were now to achieve economic convergency and how to promote price stability. The first issue was relevant to the Council's debate after the timing of the Community's move from Stage 1 and the number of Member States that should make that move. All agreed that greater convergence was a prerequisite for monetary union and that parallelism was a fundamental principle of the move to EMU, though suggestions that the second stage would begin on 1 January 1993 appeared to move away from that principle. Work was needed on the extent to which Community economies were now convergent and how convergent they had to be before EMU could be introduced in a desirable form without enormous tensions and costs.

14. He was grateful for colleagues' consideration of the UK's ideas and had listened with interest to Solchaga's proposals. Clearly more work needed to be done in the Monetary Committee. The UK proposals were directly relevant to his second key issue of the promotion of price stability. In his concluding remarks, the Chancellor emphasised that the objective should be for all Member States to move forward together, not creating, perhaps permanently, different tiers of members.

15. After lunch Delors called on ECOFIN to report to the European Council. Some issues were becoming clearer, for example on exchange rate policy, institutional structure and budgetary restraints. But further definition was needed on

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cohesion, the role of the ecu, and management of the transition where his impression was that matters were moving backwards.

16. After Carli had tried in vain to stimulate discussion of Delors' comments, in a mixture of summing up and personal opinion he attempted to list the issues which should be reported to the European Council and then decided in the IGC colon the conduct of external monetary policy where there was emerging agreement semi colon budgetary policy semi colon the institutional structure where no profound divergences had emerged semi colon the time to modify Central Bank statutes where Delors' suggestion for action when there was certainty of the move to Stage 3 looked a way forward semi colon the two approaches identified for the management of the transition where he preferred the calendar approach, though the majority of Ministers preferred the objective criteria route semi colon and the role of the ecu.

17. Kok then unsuccessfully tried to stimulate more debate on the criteria for moving from Stage 1 which he suggested could combine the timetable and objective criteria approaches. In response to Kok's question, Carli confirmed that ECOFIN would remain in the lead and there could be a further informal ECOFIN before the IGC began, though Waigel thought that the German elections would rule out his attendance.

CONSEQUENCES OF THE SITUATION IN THE GULF

18. Despite Commission pressure during the discussion over lunch, no decisions were reached on their proposals for help for the front line states. There was agreement that the Commission proposals should be rapidly examined in Brussels

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with a report to Coreper later this week, including estimates of the countries' needs and the consequences of a Community contribution for the Community budget. Many Finance Ministers expressed concern about the prospective impact of growing overseas claims on Community and national budgets.

19. There was general agreement about the economic policy response to the oil price rise colon no accommodation of the oil price rise through a relaxation of monetary policies semi colon maintenance of budgetary stringency semi colon advice to wage bargainers not to try to recoup oil price rise through higher wages semi colon and the reflection of crude oil price rises in product prices. Solchaga's suggestion for promulgation of this advice in a communique was not adopted.