

RESTRICTED

FM BONN

TO IMMEDIATE FCO

TELNO 1316

OF 171235Z OCTOBER 90

AND TO IMMEDIATE TREASURY

INFO PRIORITY UKREP BRUSSELS, ROME

INFO ROUTINE OTHER EC POSTS, FRANKFURT, UKDEL OECD

INFO ROUTINE UKDEL IMF/IBRD WASHINGTON

FRAME ECONOMIC

MIPT: EMU: VISIT BY FINANCIAL SECRETARY

SUMMARY

1. BUNDESBANK PRESIDENT DISCUSSES OVER LUNCH THE ROLE TO BE PLAYED BY HARD ECU PROPOSALS. IN THE DOMESTIC DEBATE OVER THE TIMETABLE, POEHL BELIEVES THAT KOHL'S ATTENTION WILL FOCUS ON PRECONDITIONS RATHER THAN DEADLINES.

DETAIL

2. IN THE MARGINS OF THE BDI SYMPOSIUM, MR MAUDE HAD CONVERSATIONS OVER LUNCH WITH HAHN, THE CHAIRMAN OF VOLKSWAGEN, AND POEHL, PRESIDENT OF THE BUNDESBANK. HAHN BEGAN BY SAYING THAT THE KEY POINT ABOUT EMU FOR GERMAN INDUSTRY WAS THAT NEW ARRANGEMENTS MUST NOT BE LESS EFFECTIVE IN COMBATING INFLATION THAN THE PRESENT ARRANGEMENTS IN GERMANY. WHEN I ASKED HOW GERMAN INDUSTRY COULD ENSURE THIS OUTCOME, HAHN SAID THAT THEY RELIED HEAVILY ON THE BRITISH GOVERNMENT TO MAKE SURE THAT MISTAKES WERE NOT MADE.

3. MR MAUDE POINTED OUT THAT FRANCE, WHEN TALKING OF THE NEED TO SHARE RESPONSIBILITY FOR MONETARY STABILITY IN EMU, REALLY WANTED TO DILUTE THE DISCIPLINE CURRENTLY INDUCED BY THE BUNDESBANK, IF THERE WAS A RECESSION AND THINGS BECAME UNCOMFORTABLE. NEITHER HAHN NOR POEHL SOUGHT TO DISPUTE THIS. POEHL SAID THAT EVERYONE CLAIMED THAT THEY WANTED AN INDEPENDENT CENTRAL BANK BUT NO-ONE HAD REALLY CONSIDERED WHAT THAT WOULD MEAN, FOR INSTANCE WHAT KIND OF GENERAL GUIDELINES FINANCE MINISTERS MIGHT GIVE TO A EUROPEAN SYSTEM OF CENTRAL BANKS.

4. POEHL SAID THAT THE BRITISH PROPOSAL OF THE HARD ECU HAD COME BOTH TOO LATE AND TOO SOON. IT WAS TOO LATE TO INFLUENCE THE GENERAL DEBATE, WHERE THE DELORS REPORT HAD CAPTURED THE HIGH GROUND, AND

TOO SOON TO BE THE SOLUTION TO A DEADLOCK IN THE IGC. I SAID THAT THE BRITISH PROPOSAL COULD STILL PLAY THE LATTER ROLE. IT WAS THE ONLY PROPOSAL WHICH MANAGED TO ACHIEVE PROGRESS IN MONETARY COOPERATION WITHOUT RISKING GREATER INFLATION. POEHL SAID THAT GENSCHER HAD JUST MADE A SPEECH DECLARING THAT PHASE 2 OF EMU MUST BEGIN ON 1 JANUARY 1993. I ASKED WHAT THAT COULD MEAN IN REALITY. POEHL SAID THAT GENSCHER MIGHT ONLY MEAN THAT A DECLARATION SHOULD BE MADE ON 1 JANUARY 1993 THAT PHASE 2 WAS BEGINNING, LEAVING AGREEMENT ON WHAT EXACTLY IT SHOULD CONSIST OF TO BE REACHED DURING THE PHASE. POEHL LAUGHINGLY MADE CLEAR THAT THIS WAS AN EXTREME INTERPRETATION OF GENSCHER'S INTENTIONS.

5. POEHL AGREED THAT THE ARGUMENT IN GERMANY BETWEEN THE REALISTS AND PROFESSIONALS LIKE HIMSELF AND THE EUROPEAN IDEALISTS LIKE GENSCHER WOULD CONTINUE ALL THE WAY THROUGH THE IGC. HE AGREED THAT KOHL WAS LIKELY TO TRY TO SQUARE THE CIRCLE BY ACCEPTING GENSCHER'S VIEW THAT A SINGLE CURRENCY AND A SINGLE CENTRAL BANK SHOULD BE ACHIEVED AS SOON AS POSSIBLE BUT ACCEPTING POEHL'S VIEW THAT PROGRESS SHOULD BE ACHIEVED ONLY AS FAST AS WAS RESPONSIBLE AND NOT DESTABILISING. POEHL SAID THAT KOHL WOULD BE MORE LIKELY TO THINK IN TERMS OF CONDITIONS THAT MUST BE MET BEFORE EACH STEP FORWARD THAN IN TERMS OF ARBITRARY, HORTATORY DEADLINES.

6. THE FLAVOUR OF POEHL'S PRIVATE VIEWS ON EC AND EMU WAS CONVEYED IN ANOTHER INFORMAL CONVERSATION I HAD WITH HIM AFTER A DINNER ON 16 OCTOBER. HE SAID THAT IT HAD BEEN A MISTAKE EVER TO LET THE ARCH-TACTICIAN DELORS INTO MONETARY AFFAIRS. BRITAIN SHOULD HAVE JOINED THE ERM SEVERAL YEARS AGO AND THUS EXERCISED MORE INFLUENCE ON DISCUSSION OF EMU. OUR IDEA OF A HARD ECU WAS CLEVER BUT FRANKLY WAS NOT TAKEN SERIOUSLY BY THE PROFESSIONAL FRATERNITY OF CENTRAL BANKERS. I ARGUED THAT CENTRAL BANKERS OUGHT TO BE INTERESTED IN A PROPOSAL THAT SOUGHT TO MAINTAIN STABILITY OF CURRENCY WHILE MAKING PROGRESS ON MONETARY COOPERATION. I SAID THAT UNARGUED DISMISSIVENESS WAS NOT HELPFUL. POEHL OUGHT TO BE MORE CONSTRUCTIVE IN LOOKING AT OUR PROPOSAL. POEHL SAID THAT HE WAS PESSIMISTIC ABOUT THE OUTCOME OF THE STRUGGLE BETWEEN HIMSELF AND GENSCHER FOR KOHL'S HEART ON EMU. KOHL WOULD PROLONG THE APPROACH TO EMU AS LONG AS POSSIBLE BUT AT THE END OF THE DAY WOULD PROBABLY ACCEPT A FUDGE ON THE SUBSTANCE.

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