

UNCLASSIFIED

FM BONN

TO IMMEDIATE FCO

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AND TO IMMEDIATE HM TREASURY

INFO PRIORITY UKREP BRUSSELS, ROME

INFO ROUTINE OTHER EC POSTS, FRANKFURT, UKDEL OECD, UKDEL IMF/IBRD

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and see page  
CDP*

HM TREASURY FOR PS/FINANCIAL SECRETARY.

FRAME ECONOMIC

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EMU: VISIT BY FINANCIAL SECRETARY TO BONN, 15 OCTOBER

## SUMMARY

1. MR MAUDE ADDRESSED A HIGH-LEVEL SYMPOSIUM ON EMU IN BONN ON 15 OCTOBER. PRESIDENT OF GERMAN INDUSTRY FEDERATION EMPHASISED THAT STABILITY MORE IMPORTANT THAN TIMETABLE. POEHL TOO WARNED AGAINST A HASTY APPROACH. ACCOUNT OF INTERESTING LUNCHTIME DISCUSSION IN MIFT. COMMENT IN MY 2ND IFT.

## DETAIL

2. MR MAUDE ADDRESSED AN AUDIENCE OF SOME 150 LEADING FIGURES FROM THE FINANCIAL AND INDUSTRIAL COMMUNITIES AT A SYMPOSIUM ON EMU ORGANISED BY THE BUNDESVERBAND DER DEUTSCHEN INDUSTRIE (CBI EQUIVALENT) IN BONN ON 15 OCTOBER. OTHER MAIN SPEAKERS WERE POEHL, NECKER, THE PRESIDENT OF THE BDI, AND LAGAYETTE, DEPUTY GOVERNOR OF THE BANK OF FRANCE. OVER LUNCH MR MAUDE DISCUSSED THE UK HARD ECU PROPOSAL WITH POEHL AND HAHN, CHAIRMAN OF VOLKSWAGEN. HE LATER HAD NEARLY AN HOUR WITH FRAU ADAM-SCHWAETZER, MINISTER OF STATE AT THE AUSWAERTIGES AMT. THIS TELEGRAM OUTLINES THE MAIN POINTS MADE BY POEHL AND OTHER GERMAN REPRESENTATIVES AT THE SYMPOSIUM.

3. SPEAKING FIRST, NECKER ARGUED THAT MONETARY STABILITY WAS IMPORTANT FOR THE FUTURE OF EUROPE. THE GOAL OF EUROPEAN INTEGRATION WAS A COMMON CURRENCY, BUT THIS WOULD NOT FIND POPULAR ACCEPTANCE IN GERMANY UNLESS IT WAS AS STABLE AS THE DMARK. AS LONG AS STABILITY WAS NOT GUARANTEED, NATIONAL CURRENCIES MUST REMAIN. CERTAIN CONDITIONS MUST BE FULFILLED TO MINIMISE THE RISKS BEFORE THE FIXING OF DATES FOR THE SECOND AND THIRD STAGES. QUOTE WE SHOULD PUT OURSELVES UNDER THE PRESSURE OF QUALITY AND NOT THE PRESSURE OF A TIMETABLE UNQUOTE. A EUROPEAN CENTRAL BANK SYSTEM MUST HAVE THE

INDEPENDENCE TO PURSUE A STRONG MONETARY POLICY WITHOUT POLITICAL INTERFERENCE. INDEPENDENCE OF THE ECBS MUST BE BASED ON AUTONOMY FOR NATIONAL CENTRAL BANKS. MONETARY FINANCING OF PUBLIC SECTOR DEFICITS SHOULD BE PRECLUDED BY STRICT LIMITS ON PUBLIC SECTOR BORROWING. COMPETENCE FOR EXCHANGE RATE POLICY MUST ALSO BE TRANSFERRED TO A FUTURE EUROPEAN CENTRAL BANK: QUOTE MONETARY POLICY IS NOT DIVISIBLE UNQUOTE.

4. POEHL PRODUCED A TOUR DE FORCE IN HIS CHARACTERISTICALLY INFORMAL STYLE, ARGUING AS USUAL THAT PRICE STABILITY WAS THE MAIN ESSENTIAL AND THAT IT COULD ONLY BE GUARANTEED THROUGH THE INDEPENDENCE OF A EUROPEAN CENTRAL BANK. HE SAID THAT THE AMENDMENT TO THE EC TREATY MUST BE DETAILED AND CONCRETE ON THIS ISSUE. HE ANNOUNCED THAT THE CENTRAL BANK GOVERNORS WOULD PRODUCE DETAILED DRAFT STATUTES FOR A EUROPEAN CENTRAL BANK BY MID-NOVEMBER. HE NOTED THAT THE IGC WOULD HAVE TO ADDRESS SOME DIFFICULT PROBLEMS, NOT LEAST THE NEED FOR NATIONAL AUTHORITIES TO CEDE SOVEREIGNTY OVER MONETARY POLICY. THE NATURE OF BINDING RULES ON BUDGETARY DEFICITS WULD ALSO HAVE TO BE CONSIDERED. THE CONFERENCE SHOULD LEAVE NO BIG STRATEGIC DECISIONS UNRESOLVED. POEHL REPEATED HIS WARNING ABOUT AN OVER HASTY APPROACH TO EMU. ASSERTING THAT IN REALITY DIFFERENT MEMBER STATES HAD FOR A LONG TIME MOVED AT DIFFERENT SPEEDS WITHIN THE COMMUNITY, HE THOUGHT THAT THE SAME WOULD BE TRUE OF EMU. HE DOUBTED WHETHER ALL MEMBER STATES WOULD BE READY FOR STAGE 2 TO START ON 1 JANUARY 1993.

5. POEHL NOTED THAT THE IDEA OF A PARALLEL CURRENCY HAD BEEN CONSIDERED AND DISMISSED BY THE DELORS COMMITTEE. A 13TH CURRENCY MADE LITTLE SENSE. HE WELCOMED STERLING'S ENTRY INTO THE ERM BUT DETECTED NO SUBSTANTIAL CHANGE IN THE UK POSITION REGARDING EMU. STERLING'S PARTICIPATION IN THE ERM DID NOT MAKE MONETARY POLICY ANY EASIER FOR THE BUNDESBANK QUOTE NOW THERE IS ANOTHER ELEPHANT IN THE BOAT UNQUOTE.

6. IN AN INTERVENTION IN THE AFTERNOON PANEL DISCUSSION, KOEHLER, STATE SECRETARY AT THE FEDERAL FINANCE MINISTRY, REPEATED AN OLD BUNDESBANK ARGUMENT, NAMELY THAT THE FEDERAL GOVERNMENT WAS AGAINST EMBARKING ON THE ROAD TO EMU WHILE LEAVING THE FINAL DESTINATION OPEN. THE COMMUNITY HAD TO KNOW WHERE IT WAS GOING. HE ALSO REFLECTED THE FRENCH THESIS THAT MOVEMENT TOWARDS MONETARY UNION WOULD ITSELF BE A STABILISING ELEMENT IN THAT IT COULD BRING ABOUT GREATER DISCIPLINE.

7. THE MAIN THEMES OF THE SYMPOSIUM HAVE BEEN WIDELY REFLECTED IN THE PRESS. MR MAUDE'S STRONG DEFENCE OF THE UK HARD ECU PROPOSALS

WAS REPORTED ALONGSIDE DETAILED COVERAGE OF REMARKS BY POEHL AND NECKER. THE UNREMARKABLE SPEECH BY LAGAYETTE ATTRACTED LITTLE ATTENTION EXCEPT FOR HIS REFLECTION OF THE FRENCH POSITION, VIEWED WITH SUSPICION HERE, THAT THERE WILL NEED TO BE A BODY TO GIVE THE EUROPEAN CENTRAL BANK POLITICAL GUIDELINES. PRESS COMMENT AGREES WITH THE CAUTIOUS APPROACH ADVOCATED BY POEHL AND THE NEED TO ENSURE STABILITY.

8. SEE MIFT.

MALLABY

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ADDITIONAL 1

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