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FRAME ECONOMIC

EMU IGC: 25 FEBRUARY

SUMMARY

1. THE PRESIDENCY INVITED MINISTERS' VIEWS ON THE MAIN ISSUES IDENTIFIED IN THE PERSONAL REPRESENTATIVES DISCUSSIONS OF THE ECONOMIC ARTICLES OF THE TREATY. NO SIGNIFICANT CHANGES IN POSITION. ALL CONSIDERED PRESIDENCY NON-PAPER A USEFUL BASIS FOR FUTURE DISCUSSIONS.
2. THE CHANCELLOR OF THE EXCHEQUER REPRESENTED THE UK.
3. NEXT MINISTERIAL SESSION OF THE EMU IGC WILL TAKE PLACE ON THE AFTERNOON OF MONDAY 18 MARCH FOLLOWING MEETING OF ECOFIN IN THE MORNING. PRESIDENCY WARNED THAT THE IGC MEETING MAY GO ON PAST 2000 HRS.

DETAIL

4. JUNCKER (PRESIDENCY) INVITED MERSCH TO REPORT ON THE WORK OF THE PERSONAL REPRESENTATIVES. MERSCH SAID THAT THERE HAD BEEN A CONSTRUCTIVE FIRST READING OF THE ECONOMIC ARTICLES OF THE TREATY (2 TO 105). THE PRESIDENCY HAD PREPARED A NON-PAPER (UEM/28/91) TO REFLECT THE PREVAILING 'DRIFT' OF THE DISCUSSION. THIS WAS NOT AN OFFICIAL COMPROMISE PROPOSAL. THE FOUR IMPORTANT THEMES ON WHICH MINISTERIAL VIEWS WOULD BE WELCOME AT THIS STAGE WERE:
 - A) THE OBJECTIVES AND PRINCIPLES OF ECONOMIC POLICY,
 - B) MULTIANNUAL GUIDELINES AND MULTILATERAL SURVEILLANCE,
 - C) CRITERIA FOR AND SANCTIONS FOR EXCESSIVE BUDGET DEFICITS, AND
 - D) THE PROPOSED EXCEPTIONAL FINANCIAL ASSISTANCE MECHANISM.
5. JUNCKER INVITED MINISTERS TO COMMENT ON THE MAIN ISSUES

IDENTIFIED BY MERSCH AND EMPHASISED THAT HE DID NOT WISH TO ENGAGE IN ANY DRAFTING SESSION AT THIS STAGE.

OBJECTIVES AND PRINCIPLES OF EMU

6. KOEHLER (GERMANY) SAID THAT THE PRESIDENCY NON-PAPER WAS A GOOD BASIS FOR DISCUSSION. IN THE GERMAN VIEW THE CARDINAL PRINCIPLES SHOULD BE OPEN MARKETS INTERNALLY AND EXTERNALLY, THE NEED FOR CONVERGENCE ACHIEVED BY MEMBER STATES' SELF-DISCIPLINE, AVOIDANCE OF BUREAUCRATIC SOLUTIONS AND THE NEED FOR CLARITY ABOUT THE FINAL STAGE OF EMU. KOK (NETHERLANDS) NOTED THAT ARTICLES 2 AND 3 OF THE TREATY WOULD NEED TO BE RECONSIDERED IN THE LIGHT OF DEVELOPMENTS IN THE DISCUSSION IN THE IGC(P). ECONOMIC POLICY WAS STILL LARGELY A NATIONAL RESPONSIBILITY. BUT THERE WOULD BE NEED FOR GREATER COORDINATION AT THE EUROPEAN LEVEL IN ORDER TO ACHIEVE THE NECESSARY CONVERGENCE. MONETARY POLICY SHOULD BE SUBSERVIENT TO ECONOMIC, SOCIAL AND ECOLOGICAL POLICY OBJECTIVES. HE AGREED WITH KOEHLER ABOUT THE NEED TO AVOID EXCESSIVE BUREAUCRACY.

7. BEREGOVY (FRANCE) SAID THAT THERE WAS WIDE AGREEMENT ON OBJECTIVES. THERE WAS NEED FOR A EUROPEAN ECONOMIC AUTHORITY TO BALANCE THE MONETARY AUTHORITY OF THE ECB. EXCHANGE RATE POLICY SHOULD BE DISTINGUISHED FROM MONETARY POLICY IN THE TREATY. THE CHANCELLOR AGREED THAT MANY OF THE OBJECTIVES WERE NOT IN DISPUTE BUT REPEATED THE UK RESERVE ON ANY COMMITMENT TO MOVE TO A SINGLE CURRENCY AND MONETARY POLICY. THE TREATY OUGHT TO INCLUDE CLEAR CONVERGENCE CRITERIA IN TERMS OF FISCAL POLICY, INFLATION AND INTEREST RATES FOR ANY MOVE TO STAGE III. CONDITIONS WOULD ALSO BE NECESSARY FOR STAGE II, ALTHOUGH IF THE UK PROPOSALS FOR A HARD ECU/EMF WERE ADOPTED THEY MIGHT NOT NEED TO BE SO STRINGENT.

8. CARLI (ITALY) COULD ACCEPT THE PRESIDENCY DRAFT OF ARTICLES 2A AND 3A. RASMUSSEN (DENMARK) SUPPORTED REFERENCE TO MARKET ECONOMY AND DEREGULATION. PEREZ (SPAIN) SUPPORTED THE REFERENCES TO COHESION, SOLIDARITY, ETC. HE THOUGHT THE FRENCH PROPOSAL MORE ACCEPTABLE THAN THE COMMISSIONS. MRS GEOGHEGAN-QUINN (IRELAND) SUGGESTED THAT THE OBJECTIVE SHOULD BE 'FULL' RATHER THAN 'HIGH' EMPLOYMENT.

MULTIANNUAL GUIDELINES AND MULTILATERAL SURVEILLANCE

9. MAYSTADT (BELGIUM) THOUGHT THAT THE PRESIDENCY DRAFT ARTICLE 103 WAS ACCEPTABLE. MULTILATERAL SURVEILLANCE SHOULD GO WIDER THAN BUDGETARY POLICIES. BELEZA (PORTUGAL) AGREED ON THE NEED FOR A

MULTIANNUAL FRAMEWORK FOR NATIONAL ECONOMIC DECISIONS. PEREZ AND MRS GEOGHEGAN-QUINN SUPPORTED MAYSTADT ON THE COVERAGE OF MULTILATERAL SURVEILLANCE. KOEHLER EMPHASISED THAT THE COMMUNITY SHOULD MAINLY HAVE A COORDINATING ROLE. MEDIUM TERM GUIDELINES ESTABLISHED BY ECOFIN WERE ACCEPTABLE BUT SHORT TERM SPECIFIC GUIDELINES INVOLVING EG GROWTH TARGETS WERE NOT. KOK AGREED WITH KOEHLER THAT MEMBER STATES SHOULD REMAIN RESPONSIBLE FOR ECONOMIC POLICY BUT SUGGESTED THAT THE COMMUNITY'S COORDINATING ROLE WOULD GROW IN STAGE III.

10. THE CHANCELLOR EMPHASISED THAT ECONOMIC POLICIES WERE A NATIONAL RESPONSIBILITY. A FRAMEWORK OF COORDINATION COULD BE ENVISAGED AND MULTILATERAL SURVEILLANCE COULD BE STRENGTHENED. HE OPPOSED REFERENCES TO THE ECONOMIC POLICY OF THE COMMUNITY AND THE CONCEPT OF MULTIANNUAL GUIDELINES LAID DOWN BY ECOFIN. IT WAS NOT CLEAR WHAT A COMMUNITY ECONOMIC POLICY WAS INTENDED TO COVER AND IT SEEMED TO OFFEND AGAINST THE PRINCIPLE OF SUBSIDIARITY.

11. BEREGOVY (SUPPORTED BY DELORS, COMMISSION) PROPOSED THAT THE EUROPEAN COUNCIL SHOULD DEFINE MULTIANNUAL GUIDELINES FOR ECONOMIC POLICY ON THE BASIS OF A DOCUMENT APPROVED BY ECOFIN. CHRISTODOULOU (GREECE) AGREED ON THE ROLE OF THE EUROPEAN COUNCIL. IN HIS VIEW MULTILATERAL SURVEILLANCE SHOULD COVER THE NEED FOR CONVERGENCE AND ASSESS INFRASTRUCTURE REQUIREMENTS.

BUDGET DEFICITS

12. THE CHANCELLOR AGREED ON THE NEED TO AVOID EXCESSIVE BUDGET DEFICITS. THE TREATY SHOULD PROVIDE ARRANGEMENTS TO PREVENT MONETARY FINANCING AND BAIL OUTS. PROVIDED THAT FINANCIAL MARKETS BELIEVED IN THESE RULES IT WAS NOT NECESSARY TO GO FURTHER. ARGUABLY RULES ON BUDGET DEFICITS COULD UNDERMINE THE CREDIBILITY OF THE NO BAIL OUT RULE. MOREOVER LEGALLY BINDING COMMUNITY RULES ON THE LEVEL OF BUDGET DEFICITS WOULD BE UNWORKABLE AND UNACCEPTABLE TO THE UK ON THE GROUNDS OF SOVEREIGNTY. MECHANICAL CRITERIA TO DEFINE EXCESSIVE BUDGET DEFICITS WERE IMPRACTICABLE, ALTHOUGH IT WOULD BE REASONABLE TO TAKE ACCOUNT OF THE USUAL RATIOS.

13. ALL OTHER MEMBER STATES FAVOURED ESTABLISHING CRITERIA FOR ASSESSING EXCESSIVE BUDGET DEFICITS INCLUDING EG THE 'GOLDEN RULE' GNP/DEBT AND GNP/DEFICIT RATIOS. BELGIUM, PORTUGAL, DENMARK, ITALY AND GREECE SUGGESTED THAT THESE SHOULD BE SPECIFIED IN SECONDARY LEGISLATION TO PROVIDE SOME FLEXIBILITY. CARLI,

DRAWING ON ITALIAN EXPERIENCE ARGUED AGAINST INCLUSION OF A PUBLIC DEFICIT/PRIVATE SAVINGS RATIO. MAYSTADT ARGUED FOR SOME REFERENCE TO THE NEED TO AVOID COMPETITION ON TAX RATES. KOEHLER DISAGREED STRONGLY WITH THE UK: BUDGET DEFICIT RULES HAD TO BE SPECIFIED IN THE TREATY, OTHERWISE MONETARY POLICY WOULD BE OVERLOADED. THERE SHOULD BE CLEAR CRITERIA INCLUDING THE 'GOLDEN RULE'. BEREGOVY SAID THAT THE FRENCH POSITION WAS NEARER TO KOEHLER'S THAN THE CHANCELLOR'S.

14. ON SANCTIONS THE CHANCELLOR COULD ONLY ACCEPT RECOMMENDATIONS FROM THE COUNCIL. MRS GEOGHEGAN-QUINN SAID THAT IN PRINCIPLE SHE COULD ACCEPT TOUGHER SANCTIONS BUT IN PRACTICE SHE THOUGHT IT DIFFICULT TO FIND OTHER 'SYMMETRICAL' SANCTIONS (IE SANCTIONS WHICH WOULD APPLY TO ALL MEMBER STATES NOT JUST THE MAIN BENEFICIARIES FROM THE BUDGET). ALL OTHERS ACCEPTED THE NEED FOR CLEAR SANCTIONS IN THE TREATY BUT SEVERAL (INCLUDING PORTUGAL, SPAIN AND GERMANY) ECHOED THE NEED FOR SYMMETRICALITY. DELORS CLAIMED TO DETECT LESS DIVERGENCE BETWEEN MEMBER STATES' POSITIONS ON THIS SUBJECT THAN IN THE PREVIOUS DISCUSSION IN SEPTEMBER.

EXCEPTIONAL FINANCIAL SUPPORT MECHANISM

15. BELGIUM, PORTUGAL, SPAIN, DENMARK, IRELAND AND GREECE SUPPORTED THE COMMISSION'S PROPOSAL FOR A FINANCIAL SUPPORT MECHANISM FOR COUNTRIES SUFFERING FROM SEVERE EXTERNAL ECONOMIC SHOCKS. MOST EMPHASISED THAT SUCH A FACILITY SHOULD NOT BE INVOKED FOR COUNTRIES SUFFERING FROM THEIR OWN ECONOMIC MISMANAGEMENT.

16. KOEHLER SAID THAT GERMANY WOULD NOT OPPOSE A TRULY EXCEPTIONAL PROCEDURE BUT THOUGHT THAT THE COMMISSION'S JUSTIFICATION FOR ITS PROPOSAL (WHICH HAD REFERRED TO SUPPORT FOR COUNTRIES WITH STRUCTURAL PROBLEMS) WENT FAR TOO FAR. BEREGOVY THOUGHT THAT AN EXCEPTIONAL PROCEDURE MIGHT BE MORE JUSTIFIED IF THERE WERE VERY TIGHT RULES ON BUDGET DEFICITS BUT IN PRACTICE ARTICLE 235 PROVIDED ALL THE NECESSARY LEGAL POWERS. KOK WAS EXTREMELY DOUBTFUL ABOUT THE COMMISSION PROPOSAL AND PARTICULARLY THE SUGGESTION THAT SUCH SUPPORT COULD BE FINANCED BY BORROWING. THE CHANCELLOR THOUGHT THAT A SPECIAL FINANCING FACILITY WAS NEITHER NECESSARY NOR DESIRABLE.

17. JUNCKER DID NOT ATTEMPT TO DRAW SUBSTANTIVE CONCLUSIONS. IT SEEMED TO BE AGREED THAT THE PRESIDENCY NON-PAPER WAS AN ACCEPTABLE BASIS FOR DISCUSSION IN THE LATER STAGES OF THE IGC. THE PERSONAL REPRESENTATIVES ON 26 FEBRUARY WOULD CONTINUE THEIR FIRST READING

DEBATE ON THE MONETARY ARTICLES (105 ONWARDS). THE NEXT MEETING OF THE MINISTERIAL IGC WOULD BE IN THE AFTERNOON OF 18 MARCH WHEN DISCUSSION MIGHT CONTINUE AFTER 2000 HRS.

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ADDITIONAL 3

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