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TO DESKBY 241730Z FCO

TELNO 1012

OF 241704Z OCTOBER 89

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FRAME ECONOMIC

FEDERAL GERMAN VIEWS ON ECONOMIC AND MONETARY UNION (EMU)

PART I OF II

SUMMARY

1. THE FEDERAL GOVERNMENT HAS YET TO AGREE A CLEAR LINE WHEN AND UNDER WHAT CONDITIONS AGREEMENT SHOULD BE GIVEN TO AN INTER-GOVERNMENTAL CONFERENCE. DESPITE INTENSIVE CONSULTATION BETWEEN FEDERAL MINISTRIES AND THE BUNDESBANK TO COORDINATE THE GERMAN POSITION IN THE HIGH LEVEL GROUP, ARGUMENTS CONTINUE ABOUT THE PACE OF PROGRESS TOWARDS EMU. GENSCHER, THE ADVOCATE OF SPEED, APPEARS TO HOLD THE UPPER HAND WHILE WAIGEL, MUCH MORE CAUTIOUS, NEGOTIATES DETAIL WITH THE BUNDESBANK. KOHL IS KEEPING HIS OPTIONS OPEN, AND MAY DO SO FOR SOME TIME.

DETAIL

2. AFTER CALLS BY MY STAFF ON THE FEDERAL CHANCELLERY, AUSWAERTIGES AMT, FINANCE MINISTRY AND BUNDESBANK, I ASSESS THE POSITION HERE AS FOLLOWS:

- THE POLITICAL AND TECHNICAL SIDES OF THE DEBATE REMAIN LARGELY UNTOUCHED BY ONE ANOTHER, AND THE GOVERNMENT HAS YET TO SEEK A BALANCE BETWEEN THEM,
- THE POLITICAL ARGUMENTS FOR EMU AS THE GOAL AND THE DELORS REPORT AS THE METHOD ARE WIDELY KNOWN AND APPROVED. THEIR ECONOMIC SIGNIFICANCE FOR GERMANY AND THE CHANGES THEY WOULD BRING ARE LITTLE UNDERSTOOD AND LARGELY IGNORED.
- THERE IS NO COHERENT PLAN IN THE GOVERNMENT OR THE BUNDESBANK ABOUT GERMAN PRE-CONDITIONS FOR THE CONVENING OF AN INTER-GOVERNMENTAL CONFERENCE, LET ALONE A DECISION ON A TARGET DATE FOR A CONFERENCE.

THE POLITICAL CONTEXT

3. GENSCHER, WHO HAS CAPTURED THE ROLE OF FRONT RUNNER, ARGUES SIMPLY THAT THE TIME HAS COME FOR A FURTHER BIG STEP TOWARDS EUROPEAN UNION AND THAT THE SINGLE MARKET NEEDS EMU FOR ITS FULL REALISATION. THIS VIEW HAS WIDE, IF SUPERFICIAL, APPEAL. GENSCHER'S SENSE OF URGENCY HAS BEEN INCREASED BY EVENTS IN EASTERN EUROPE. HE SEES FURTHER INTEGRATION AS STRENGTHENING THE MAGNETIC INFLUENCE OF THE EC FOR REFORM IN EASTERN EUROPE AND AS COMPATIBLE WITH FUTURE MEMBERSHIP FOR EAST EUROPEAN COUNTRIES THAT BECOME DEMOCRATIC. THIS PRESSURE ON THE ACCELERATOR IS CAUSING THE FINANCIAL AND BUSINESS SECTORS AT LAST TO EXPRESS THEIR LONG-STANDING FEARS. THEY SEE EMU AS MEANING THE TRANSFER OF THE BUNDESBANK SYSTEM TO THE EUROPEAN LEVEL, BUT ARE SCEPTICAL THAT IT WILL WORK SO WELL, EG. THAT DISCIPLINE COULD BE ENFORCED ON THE UNRULY. THEY FEAR THAT HASTE WILL COMPOUND THE DANGERS BY INCREASING THE RISK OF COMPROMISE ON ASPECTS OF THE BUNDESBANK SYSTEM. THIS ARGUMENT, WHICH BOILS DOWN TO SAYING THAT THE FLESH IS TOO WEAK, IS A FORM OF REALISM THAT HAS DIFFICULTY IN MAKING AN IMPACT AGAINST THE IDEALISM OF EUROPEAN UNION. THE SENSE OF WELL BEING IS SO STRONG THAT THERE IS LITTLE APPREHENSION OF THE THREAT THAT EMU COULD POSE TO STABLE PRICES OR THE VALUE OF THE MARK. EVEN THE BUNDESBANK IS RELUCTANT TO USE THIS HIGHLY CONTROVERSIAL ARGUMENT AND NO-ONE YET KNOWS HOW SOON OR HOW FORCEFULLY WAIGEL MIGHT ENGAGE IN THIS KIND OF DEBATE OR HOW KOHL WILL PLAY HIS HAND. HE IS SHOWING CAUTION. THIS TAKES THE PUBLIC FORM OF BEING SILENT ABOUT DETAIL. SITTING BESIDE ANDREOTTI AT A PRESS CONFERENCE LAST WEEK, HE PASSED UP THE OPPORTUNITY TO AGREE THAT AN IGC SHOULD BE CONVENED IN THE SECOND HALF OF 1990.

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ADDITIONAL 1

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