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FM BONN
TO IMMEDIATE FCO
TELNO 1042
OF 021810Z NOVEMBER 89
INFO PRIORITY EC POSTS, UKREP BRUSSELS

FRAME ECONOMIC

YOUR TELS NOS 883 AND 885 TO PARIS: EMU: UK PAPER

SUMMARY.

1. CHANCELLOR'S MESSAGE AND UK PAPER DELIVERED.

DETAIL

2. SINCE I WAS ABSENT FROM BONN THIS MORNING, I SPOKE TO WAIGEL BY TELEPHONE TO DRAW HIS ATTENTION TO THE CHANCELLOR'S MESSAGE AND THE PAPER WHICH MY STAFF DELIVERED. I SPOKE AS IN YOUR TELNO 885. WAIGEL TOOK CAREFUL NOTE. HE SAID HE WOULD READ THE PAPER BEFORE SEEING BEREGOVY AT THE FRANCO-GERMAN SUMMIT IN BONN THIS AFTERNOON AND WOULD COME BACK TO US WITH COMMENTS IN A FEW DAYS.

3. MINISTER ALSO TOOK ACTION WITH TIETMEYER (FEDERAL FINANCE MINISTRY) AND KUEHN (FEDERAL ECONOMICS MINISTRY) AND HANDED TO THEM THE CHANCELLOR'S MESSAGES AND THE UK PAPER, ALSO GERMAN TRANSLATIONS, DRAWING ON TUR.

4. TIETMEYER SAID THAT HE AGREED WITH THE UK DEFINITION OF WHAT MUST BE ACHIEVED IN STAGE 1 OF EMU BEFORE MOVING ON THE STAGE 2. HE EXPRESSED CONCERN HOWEVER ABOUT HMG'S CONDITIONS FOR STERLING JOINING THE ERM. FULL CAPITAL LIBERALISATION WAS FAIR ENOUGH. IT WAS RELEVANT THOUGH ONLY FRANCE AND ITALY REALLY MATTERED - AND THEY WOULD BE TESTED. BUT HE WAS LESS CLEAR ABOUT THE RELEVANCE OF THE REDUCTION OF SUBSIDIES, THE NEED FOR WHICH THE PRIME MINISTER HAD MENTIONED DURING HER TELEVISION INTERVIEW ON 29 OCTOBER. HE HOPED THIS WAS NOT A PRECONDITION SINCE IT DID NOT SEEM DIRECTLY RELEVANT AND COULD BE ARGUED OVER ENDLESSLY. HE AGREED THAT STRENGTHENING COMPETITION POLICY WAS AN IMPORTANT ELEMENT OF STAGE 1. BUT THE CONTINUING EXISTENCE OF SUBSIDIES SHOULD NOT BE USED AS AN EXCUSE EITHER TO BLOCK UK MEMBERSHIP OF THE ERM OR PROGRESS TOWARDS EMU.

5. KUEHN CONFIRMED THAT THE FEDERAL GOVERNMENT POSITION HAD ALTERED LITTLE FROM THAT DESCRIBED IN MY TELNO 1012. INTERDEPARTMENTAL DISCUSSIONS AT OFFICIAL LEVEL WERE CONTINUING. THE DIFFERENCES

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BETWEEN WAIGEL AND GENSCHER OVER THE IGC HAD SURFACED AT THE RECENT GERMAN-ITALIAN SUMMIT. KUEHN'S IMPRESSION (WHICH WE SHARE - MY TELNO 1012) WAS THAT ON THE MERITS KOHL TENDED TOWARDS WAIGEL. BUT HE FELT (AND OBVIOUSLY FEARED) THAT GENSCHER'S ENTHUSIASM (AS HE PUT IT) WOULD CARRY THE DAY WITHIN THE FDP AND THAT HIS MINISTER HAUSSMANN, WOULD NOT ARGUE. IN ADDITION, THE FRANCO-GERMAN ASPECT WOULD WEIGH HEAVILY WITH KOHL. THE FRENCH COULD BE EXPECTED TO APPLY PRESSURE AT THIS WEEK'S SUMMIT AND TO MAINTAIN IT IN THE RUN UP TO STRASBOURG. THE IDEA, ALREADY FLOATED IN STRASBOURG, OF A PREPARATORY CONFERENCE IN 1990 WAS BEING CANVASSED. THE THINKING WAS TWOFOLD. A REAL IGC COULD NOT GO ON INDEFINITELY. THEREFORE TO START ONE IN 1990 WOULD BE TO EMBARK ON A VERY ACCELERATED TIME TABLE. A PREPARATORY CONFERENCE COULD SPIN THINGS OUT. KUEHN COMMENTED THAT WHILE THIS SOLUTION HAD ITS ADMIRERS IN SOME QUARTERS OF THE FEDERAL GOVERNMENT, HE THOUGHT IT UNLIKELY TO BE ENOUGH FOR GENSCHER AND THE FRENCH.

FCO PLEASE ADVANCE TO PS/SOFS, KERR, ARTHUR (ECD(I)) PS/CHANCELLOR OF THE EXCHEQUER, WICKS, EVANS, MRS BROWN (TREASURY), HADLEY, MOGG, PARKER (CABINET OFFICE)

MALLABY

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