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FM BONN

TO DESKBY 270800Z FCO

TELNO 1147

OF 250931Z NOVEMBER 89

INFO DESKBY 270800Z UKREP BRUSSELS (FOR SECRETARY OF STATE'S PARTY)

INFO PRIORITY PARIS

FRAME ECONOMIC

ECONOMIC AND MONETARY UNION: VIEWS OF THE BUNDESBANK

SUMMARY

1. BUNDESBANK BELIEVE THAT QUESTIONS POSED BY THE GUIGOU GROUP NEED TO BE ANSWERED BEFORE AGREEMENT ON AN IGC. STAGE ONE NEEDS TO BE ASSESSED BEFORE MOVING ON. BUNDESBANK PRESIDENT HAS LOBBIED CHANCELLOR KOHL.

DETAIL

2. MINISTER CALLED ON SCHLESINGER (VICE PRESIDENT, BUNDESBANK) ON 24 NOVEMBER. SCHLESINGER SAID THAT THERE WAS STILL NO SINGLE POSITION IN BONN ON THE TIMING OR CONDITIONS FOR AN IGC. HE DESCRIBED THE BANKS'S POSITION. THE GUIGOU GROUP HAD DIRECTED QUESTIONS TO A HIGH LEVEL WHICH NEEDED ANSWERING AT THAT LEVEL. AGREEMENT ON A DATE FOR AN IGC DEPENDED ON THE RIGHT ANSWERS BEING GIVEN. IN ANSWER TO A SPECIFIC QUESTION, HE SAID THAT THE CONFERENCE WOULD NOT BE CALLED UNTIL THIS WORK HAD BEEN COMPLETED.

3. THE RESULTS OF THE FIRST STAGE NEEDED TO BE CAREFULLY ASSESSED BEFORE MOVING ON FURTHER. HE GAVE VARIOUS EXAMPLES OF MAJOR FACTORS SUCH AS THE EFFECTS OF THE LIBERALISATION OF CAPITAL MOVEMENTS. HE DID NOT SAY THAT SUCH ASSESSMENT SHOULD BE COMPLETED BEFORE AN IGC WAS CALLED, THOUGH HE WAS DISTINCTLY LUKEWARM ABOUT COMPROMISES INVOLVING AN EARLY IGC, THE RESULTS OF WHICH WOULD ONLY BE TRIGGERED BY A SEPARATE DECISION LATER. SCHLESINGER SAID THAT STAGE TWO WAS INSIGNIFICANT. A PROPERLY ACCOMPLISHED STAGE I WITH FIXED EXCHANGE RATES, LED DIRECTLY TO THE FINAL STAGE (I.E. TO THE FINAL SHAPE OF INSTITUTIONS). SCHLESINGER COMMENTED THAT THE FRENCH ALWAYS WANTED TO JUMP TO INSTITUTIONAL SOLUTIONS. GIVEN A PROBLEM IN EASTERN EUROPE, CREATE A BANK. GIVEN AN ISSUE IN THE COMMUNITY, CREATE A BANK...THEY FORGOT ABOUT THE DETAIL.

4. SCHLESINGER HAD NO IDEA WHEN THE FEDERAL GOVERNMENT WOULD TAKE A POSITION FOR STRASBOURG. LEGALLY, THE BUNDESBANK PRESIDENT SHOULD BE

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INVITED TO TAKE PART IN CABINET DISCUSSIONS AFFECTING MONETARY POLICY. BUT IN PRACTICE THIS TENDED NOT TO HAPPEN. HE QUOTED AS A RECENT EXAMPLE THE PROTOCOL CONCERNING THE FRANCO-GERMAN ECONOMIC AND FINANCE COUNCIL. SCHLESINGER REVEALED THE POEHL HAD RECENTLY SPOKEN TO KOHL ABOUT EMU BUT HE DID NOT KNOW THE OUTCOME.

COMMENT

5. SCHLESINGER'S MANNER SUGGESTED THAT HE WAS SPEAKING FROM AN AGREED BUNDESBANK POSITION ON THE BASIS OF WHICH POEHL PRESUMABLY SPOKE TO THE CHANCELLOR. IT IS FAIRLY SIMPLE. THE BANK DO NOT WANT THE FRG TO AGREE AT STRASBOURG TO THE CALLING OF AN IGC. WHAT IS LESS CLEAR IS HOW VIGOROUSLY HIS VIEW HAS BEEN AND WILL BE PRESSED. SCHLESINGER'S REMARKS DO NOT SUGGEST THAT THE GERMAN FINANCIAL EXPERTS AT ANY RATE WILL BUY THE TRESOR ARGUMENT (PARIS TELNO. 1554) THAT STAGE I IS VIRTUALLY COMPLETE SINCE THEY DEFINE IT QUITE DIFFERENTLY.

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