

GPS 775  
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FRAME ECONOMIC  
DESKBY 120830Z

FM UKREP BRUSSELS 111906Z FEB 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 494 OF 11 FEBRUARY 1984

INFO COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,  
LUXEMBOURG, ATHENS, INFO SAVING BRUSSELS.

ECOFIN COUNCIL 11 FEBRUARY 1985

LUNCH DISCUSSION

SUMMARY

1. DISCUSSION OF EUROPEAN MONETARY INTEGRATION AND OF WORK OF  
IMF INTERIM COMMITTEE. DELORS SET OUT PRIORITIES IN GENERAL TERMS:  
PROMISED NO MORE ILL-PREPARED COMMISSION PROPOSALS.

DETAIL

2. DELORS SET OUT HIS AGENDA FOR ACTION IN THE ECONOMIC AND  
MONETARY SPHERE IN A LOW KEY PRESENTATION ALONG THE LINES OF  
HIS SPEECH TO THE EUROPEAN PARLIAMENT (FULLER ACCOUNT FOLLOWS  
BY BAG). HE IDENTIFIED FOUR OBJECTIVES: THE DEVELOPMENT OF A TRUE  
INTERNAL MARKET; INCREASED INDUSTRIAL AND SCIENTIFIC COOPERATION;  
GREATER GROWTH; AND GREATER MONETARY COOPERATION. ON THE LATTER  
POINT HE IDENTIFIED SEVERAL ISSUES FOR FURTHER CONSIDERATION,  
INCLUDING

- (I) THE IMPLICATIONS OF GREATER PRIVATE USE OF THE ECU, INCLUDING  
POSSIBLE MONETARY CONTROL CONSIDERATIONS:
- (II) ENHANCING PUBLIC USE OF THE ECU AS AN ELEMENT IN CREATING A  
COUNTER WEIGHT TO THE US DOLLAR:
- (III) THE NEED TO PURSUE MONETARY POLICIES WHICH WOULD INCREASE  
CONVERGENCE AND FINANCIAL INTEGRATION WITHIN THE COMMUNITY:
- (IV) THE DEVELOPMENT OF EUROPEAN MONETARY INSTITUTIONS INCLUDING  
PROGRESS TOWARDS A EUROPEAN CENTRAL BANK.

3. DELORS ACKNOWLEDGED THAT IT WOULD BE DESIRABLE TO LOOK AT THE  
RELATIONSHIP OF MONETARY POLICY WITH OTHER ELEMENTS OF ECONOMIC  
POLICY, INCLUDING STRUCTURAL FACTORS AND THE ECONOMIC CONJUNCTURAL  
SITUATION. HE ACKNOWLEDGED THE NEED TO DEVELOP ANY NEW PROPOSALS  
CAREFULLY AND TO CONSULT BOTH THE MONETARY COMMITTEE AND THE  
COMMITTEE OF CENTRAL BANK GOVERNORS BEFORE PUTTING PROPOSALS TO  
THE ECOFIN COUNCIL. ON THE DOOGUE COMMITTEE DELORS WAS CLEAR IN  
HIS OPPOSITION TO ANY INITIATIVE ON EMS. HE ENCOURAGED THOSE  
PRESENT TO DISCOURAGE DISCUSSION BY THE COMMITTEE AND SAID THAT  
THE COMMISSION WOULD NOT BE PUTTING FORWARD ANY PROPOSAL OF ITS  
OWN.

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/4-STOLTENBURG



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4. STOLTENBURG (FRG) SAID THAT TWO DEVELOPMENTS WERE DESIRABLE AND NECESSARY FOR MONETARY INTEGRATION. FIRST GREATER LIBERALISATION OF CAPITAL MOVEMENTS WAS REQUIRED. GERMANY WOULD WELCOME AN ECOFIN DISCUSSION ON THE POSSIBILITY FOR PROGRESS BASED ON THE 1962 DECISION. THIS WAS LINKED WITH THE NEED FOR FURTHER PROGRESS ON CONVERGENCE. SECONDLY FURTHER PROGRESS WAS DESIRABLE ON EMS BASED ON THE 1973 DECISION, LOOKING IN PARTICULAR AT THE POSSIBILITY OF REDUCING THE SPREAD OF RATES WITHIN THE ERM AND THE CONDITIONS UNDER WHICH STERLING MIGHT JOIN THE MECHANISM. THE FRG MIGHT BE PREPARED TO DISCUSS GREATER OFFICIAL USE OF THE ECU, AND EVEN, POSSIBLY, RELAX THE CONSTRAINT ON PRIVATE USE. ON THIS LATTER HOWEVER THE BUNDESBANK REMAINS AN OBSTACLE AND ANY CHANGE COULD ONLY BE ENVISAGED IN THE CONTEXT OF AN OVERALL PACKAGE. THE DEGREE OF ECONOMIC CONVERGENCE ACHIEVED SO FAR WAS INSUFFICIENT TO ALLOW CONSIDERATION OF THE DEVELOPMENT OF CENTRAL COMMUNITY INSTITUTIONS YET.

5. RUDING (NETHERLANDS) SAID THAT PROGRESS ON THE LIBERALISATION OF CAPITAL MOVEMENTS WAS VERY IMPORTANT. HE WELCOMED THE INCREASED PRIVATE USE OF THE ECU BUT WAS UNCERTAIN ABOUT THE BENEFITS OF ITS WIDER OFFICIAL USE. THE POSITION OF THE US DOLLAR WAS NOW VERY WORRYING. COUNTRIES SUCH AS GERMANY AND THE NETHERLANDS WHO HAD KEPT INTEREST RATES LOW WERE NOW FEELING UNDER PRESSURE. HE ENQUIRED WHEN THE G5 WERE GOING TO LIVE UP TO THE UNDERTAKINGS IN THEIR JANUARY COMMUNIQUE.

6. BEREGEVOY (FRANCE) SAID THAT FRANCE HAD LIBERALISED CAPITAL FLOWS. THERE WAS GREATER CONVERGENCE NOW IN THE COMMUNITY. THE RELATIONSHIP BETWEEN THE EC AND THE US DOLLAR WAS IMPORTANT.

7. THE CHANCELLOR OF THE EXCHEQUER AGREED WITH BEREGEVOY. IT WAS IMPORTANT TO MAKE EUROPE A MORE ATTRACTIVE ECONOMIC ENVIRONMENT. THE PROGRESS MADE IN COUNTERING INFLATION, AND A REDUCTION IN BARRIERS WITHIN THE COMMUNITY WOULD HELP TO INCREASE THE DYNAMISM OF THE EUROPEAN ECONOMY AND, LIBERALISATION OF CAPITAL FLOWS WAS IMPORTANT. THE HARDEST DECISIONS HOWEVER WERE THOSE WHICH HAD TO BE MADE AT HOME. HE COMMENTED THAT THERE APPEARED TO BE SOME CONFLICT BETWEEN DELORS' DESIRE TO ENCOURAGE THE INTERNATIONAL ROLE OF THE EC AND HIS CONCERN TO SATISFACTORILY CONTROL ITS DEVELOPMENT. AS TO THE G5 THE PROBLEM WAS THE FAILURE OF THE US TO ACT IN SUPPORT OF ITS UNDERTAKINGS (HE JUDGED THAT THE JAPANESE WOULD COME INTO LINE IF THE OTHER FOUR COULD AGREE TO ACT). ANY NEW INITIATIVE IN THE INTERNATIONAL MONETARY SYSTEM WOULD NOT WORK IF THE US DID NOT BEHAVE IN A RESPONSIBLE MANNER.

8. DUKES (IRELAND) SAID THAT THE EC COULD COUNTER-BALANCE THE US IF IT ADOPTED UNIFIED ECONOMIC POLICIES. LIBERALISATION OF CAPITAL MOVEMENTS WOULD BE HELPFUL IF IT SERVED TO CREATE A GENUINELY MULTI-POLAR SYSTEM. BUT THIS WOULD REQUIRE MORE THAN PURELY LEGAL CHANGES.

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/9. Discussion.



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9. DISCUSSION THEN SHIFTED TO PREPARATION FOR THE NEXT MEETING OF THE IMF INTERIM COMMITTEE. RUDING REITERATED HIS DESIRE TO GET BANK AND FUND WORK BETTER INTEGRATED. (DELAROSIERE RECOGNISED THAT THE IMF SHOULD BE PRIMARILY CONCERNED WITH MORE DEVELOPED COUNTRIES). HE ALSO MENTIONED THE QUESTION OF RELATIONS BETWEEN THE INTERIM COMMITTEE AND THE DEVELOPMENT COMMITTEE. HE WAS AGAINST THE US PROPOSAL FOR A JOINT MEETING BUT FELT IT WAS DESIRABLE TO DEFINE THEIR RESPECTIVE ROLES. THE INTERIM COMMITTEE MEETINGS IN THE SPRING WOULD DISCUSS THE MEDIUM TERM WORLD ECONOMIC OUTLOOK, REQUESTS FOR A NEW SDR ALLOCATION AND COMPENSATORY FINANCE. HE WOULD LIKE A TWO-WAY AGREEMENT WHEREBY DEVELOPED COUNTRIES WERE PREPARED TO DISCUSS GROWTH, TRADE AND INTEREST RATES IN RETURN FOR UNDERTAKINGS FROM LDCS. RUDING ASKED FOR FEEDBACK FROM OTHER EC MEMBERS.

10. TIETMEYER (FRG) OFFERED THE SERVICES OF THE MONETARY COMMITTEE TO PREPARE ANY OF THE ISSUES DISCUSSED FOR THE ECOFIN COUNCIL AS APPROPRIATE.

FCO ADVANCE TO:- (ALL DESKBY)

FCO - RENWICK, FAIRWEATHER, MARSDEN

CAB - WILLIAMSON

TSY - PS CHANCELLOR, UNWIN, FITCHEW, BYATT, BARBER

BANK - BALFOUR

BUTLER

(ADVANCED AS REQUESTED)

FRAME ECONOMIC

ECD (1)

COPIES TO.

ADVANCE ADDRESSEES

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