PRIME MINISTER

cc Mr. Ingham

LUNCH WITH HERR POEHL

You are to lunch with Herr Poehl in Frankfurt on Monday. The others present will be:

Dr. Herrhausen (Deutsch Bank)
Dr. Röller (Dresdner Bank)
Dr. Seipp (Commerz Bank)
Herr Gleske (Bundesbank Directorate)

The main subject to raise is the work of the Delors Committee. You will also want to discuss broader economic and monetary issues. He will raise British membership of the ERM and our economic prospects (in particular the outlook for inflation).

Delors Committee

First a health warning: the Governor is extremely exercised that you should not admit that you have seen the Delors Committee's papers (please see his letter in the folder). He believes his personal position would be undermined were you to do so. He would not want you to say more to Poehl than that he had discussed the general issues with you.

Poehl's attitude to the work of the Delors Committee is cynical: he thinks none of it is actually going to happen anyway, so why fuss so much about what the report says? This is a dangerous attitude. Once these things are set down on paper in the European Community, they assume a life of their own. If the Central Bankers, who ought to know better, fail to point out in the report of the Delors Committee the very considerable difficulties and objections to EMU they will find it much harder to restore the position once it falls into the hands of the politicians (when you will be the only one they can rely on).

There is also evidence of some quite dangerous slippage in Poehl's views on the substance reflected in the Embassy's telegram in the folder. He now seems ready to envisage sharing of power over monetary policy in a monetary union, which contradicts the view in his earlier article.

You might ask Poehl why the cogent objections which he set out in his original article (in folder) no longer seem to carry so much weight. In particular does he really envisage the massive shifts of economic and political sovereignty involved in EMU taking place? Is he really prepared to put the stability of the Deutschmark at risk? If not, why not say so plainly now.

You might also make the point that the motives of many of those who support full EMU are basically dirigiste and socialist, and surely hard to reconcile with the free market approach in which Britian and Germany believe.

The right outcome from the Delors Committee in your view would be a report which:

- describes in agnostic language the implications of moving to full EMU. If the true implications are described, the Governments will not be able to evade them;

- sets out the practical steps which can be taken now, stopping short of Treaty amendment.

You will want to get a sense of whether he would be likely to rally to a minority report of the sort suggested above, without actually asking him outright.

General Economic and Monetary Matters

You will want to raise your general concern about Germany's structural surplus and what can be done to reduce it. (There is a note by the Chancellor in the folder.) You could press him in particular on the scope for more deregulation and liberalisation in the German economy, which would help domestic demand. You will not of course want to propose fiscal or monetary stimulation which would be counter-productive (and alienate Poehl).

C.D.P.

C.D. POWELL

17 February 1989

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