



Foreign and Commonwealth Office

London SW1A 2AH

30 November 1989

Not really very

helpful - except for

under Kohl's plan on IGC

Dear Charles, would end after the next election
in this country

European Council, Strasbourg: EMU

As you know, the Foreign Secretary believes that the strongest general argument which we need to deploy between now and Strasbourg is that it would be a great mistake to allow disagreement on the procedural question on how the EMU discussion should be carried forward to obscure the main task of the Council, which is to carry forward the work begun in Paris and present a united and emphatic response to the historic events in Eastern Europe. Before she sees M. Delors tomorrow, the Prime Minister might like to have a joint assessment by HMT, Cabinet Office and FCO officials of Kohl's current position, and of the EMU section of his Bundestag speech on 28 November (Bonn telno 1160).

whose?
but if there is no consensus there is no position on I.G.C.
No

The British officials talked about the speech to the Bonn Chancellery on 29 November. They noted that Kohl had referred to a "concrete work programme" which he had put to Mitterrand; to the need for "consensus on the aims and content of EMU" before an IGC starts; and to the need to complete the processes of negotiation and ratification of Treaty amendment in good time before the EP elections in mid-1994. (They also noted that Kohl envisaged that Treaty amendment should not be confined to the economic and monetary area, but should increase the EP's role. They made it clear that this point would be particularly unwelcome in London.) Kohl's officials confirmed that he thought it best to work back from a 1994 deadline, and that he envisaged three interim stages of EMU work:

- Very much needed thinking
- preparation by the competent ECOFIN-based organisations, designed to produce a consensus; and if a consensus is reached on IGC is not necessary?
 - an IGC to negotiate consequent Treaty amendments; and
 - the period (of about a year) necessary for ratification by national legislatures.

They were not to be drawn on - and gave a convincing appearance of not knowing - whether Kohl would propose a timetable for the interim stages, though it was clear that he would want (a) to start soon after Strasbourg. Mitterrand is, of course, likely to press for (b) to start by end-1990: Kohl's officials said yesterday only that this would be a matter for decision on the day at Strasbourg. Our team made clear, as in your letter of 27 November, that we oppose the French idea as wholly premature.



Several of the ideas in the enclosure to John Gieve's letter of 24 November were touched on in the discussion. In particular: _____

- but you cannot have convergence with the Social Charter*
- Kohl's officials agree that the timing of any actual move beyond Stage I would depend on the prior completion of all Stage I measures, and a satisfactory prior convergence of member states' economic performance;
 - "full and adequate" preparation before an IGC remains their theme, as at Madrid, and their stress on analysis and preparation by the competent organisations - not ad hoc groups - is welcome;
 - they agree that before and during any IGC account should be taken of progress with Stage I, and its effects - but they do not see completion of an IGC as depending on the completion of Stage I, because the Chancellor wants Treaty amendments necessary for a Stage II to be ready, and ratified, in advance;
 - they think the Chancellor would support the Dutch, who have referred to the need for the European Council to stress the importance of the 1990 stage in the agreed (1988) timetable for removal of exchange controls. Like us, the Germans are confident that the French will remove their controls: they may indeed do so quite soon. But it is less certain that the Italians will meet the July 1990 deadline;
 - they took note of our view - and appeared to accept - that any reference to an IGC in the Strasbourg Conclusions text would have to make clear that its purpose would not be to draft Treaty amendments to implement the Delors Stages II/III prescription, but would have to make clear that other ideas, including those in our "Evolutionary Approach" paper, would also be on the table.

Over dinner with the Foreign Secretary on 29 November, Genscher was less than clear about German intentions. He said he assumed that the Chancellor would be saying at Strasbourg that an IGC should be initiated by the time of the Rome European Council. Personally, he believed the UK could reasonably agree to an IGC before the end of 1990 and then feed in views as it proceeded. His reasons were selfish: he believed that, on the substance of EMU, British and German attitudes were identical and the FRG wanted the UK firmly in the process.

Kohl's ideas will no doubt continue to evolve, but it is useful that we have fed in ours to his office, as something of a counterweight to pressure from Paris. It may be appropriate to consider a possible message to him next week. His ideas on

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the EP's role are obviously highly unwelcome, and may well be presented at Strasbourg in equally unwelcome federalist terms. But the idea of a 1993 timing for the completion of an IGC has some potential, particularly if it could be given a post-1992 (Single Market) rather than pre-1994 (EP elections) rationale. It contrasts with Mitterrand's public line that the IGC must end by end-1991, to permit ratification by end-1992. The current joint assessment is that, while we should not give up trying to persuade Kohl otherwise, it still seems implausible that Kohl will take Mitterrand head on, on the issue of the end-1990 IGC start-date; it may be more likely that he sees proper advance preparation as a condition for starting an IGC late next year, rather than a reason for setting a later date, or no date.

I am copying this letter to John Gieve (HMT) and David Hadley (Cabinet Office).

Yours ever,

Richard S. Wall

for

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CHANCELLOR KOHL'S SPEECH : ECONOMIC AND MONETARY UNION

SUMMARY

1. KOHL SAYS THAT HE HAS PUT TO MITTERRAND A CONCRETE PROGRAMME OF WORK WHICH ENVISAGES COMPLETING ALL NECESSARY DECISIONS BY 1994. HE HAS LINKED THIS WITH A PROPOSAL FOR INCREASING THE RIGHTS OF THE EUROPEAN PARLIAMENT.

DETAIL

2. KOHL INTERRUPTED THE PREPARED TEXT OF HIS SPEECH TO THE BUNDESTAG THIS MORNING WITH A SHORT PASSAGE ON ECONOMIC AND MONETARY UNION. AFTER REFERRING TO THE AGREEMENT TO BEGIN STAGE I OF EMU ON 1 JULY 1990 TOGETHER WITH THE LIBERALISATION OF CAPITAL MOVEMENTS, HE SAID THAT A DECISION WOULD BE NEEDED ON HOW TO PROCEED WITH FURTHER STAGES. HE EMPHASISED THAT THE EUROPEAN COUNCIL IN MADRID HAD DECIDED THAT AN IGC SHOULD BE CALLED AS SOON AS IT HAD BEEN COMPREHENSIVELY AND PROPERLY PREPARED. SINCE THIS WAS A SENSITIVE AREA INVOLVING THE BUNDESBANK AND THE STABILITY OF THE CURRENCY, EVERY STEP WOULD HAVE TO BE CAREFULLY CONSIDERED IN THE LIGHT OF THE GOVERNMENT'S RESPONSIBILITY BOTH TOWARDS THE FEDERAL REPUBLIC AND TOWARDS THE FUTURE OF THE EC. HE SAW IT AS A SUCCESS THAT THE PREPARATORY WORK SO FAR HAD BEEN BASED ON THE FRG'S OWN PROVEN STRUCTURE OF MONETARY MANAGEMENT. THE GERMANS WOULD HOLD FAST TO THIS IN THE YEAR AHEAD IN STRIVING FOR A CONSENSUS ON THE AIMS AND CONTENT OF EMU BEFORE BEGINNING THE ACTUAL NEGOTIATIONS ON A TREATY AMENDMENT.

3. KOHL SAID THAT HE HAD RECENTLY SUGGESTED A CONCRETE PROGRAMME OF WORK TO PRESIDENT MITTERRAND. HIS AIM WHICH HE SAID HE WANTED UNDERSTOOD WAS THAT THE NEGOTIATIONS AND NECESSARY PARLIAMENTARY RATIFICATIONS BY THE MEMBER STATES SHOULD BE COMPLETED IN GOOD TIME FOR THE NEXT EUROPEAN PARLIAMENTARY ELECTIONS IN 1994. HE WOULD ALSO WANT TO DISCUSS IN STRASBOURG HOW THE RIGHTS OF THE EUROPEAN PARLIAMENT COULD BE EXTENDED. IT WAS OUT OF THE QUESTION TO GO INTO

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THE 1994 ELECTIONS ON THE BASIS OF THE PRESENT RIGHTS OF THE EUROPEAN PARLIAMENT, WHICH WERE A LONG WAY BEHIND THE EXPECTATIONS OF THE EUROPEAN VOTING PUBLIC.

COMMENT

4. THIELE (CHANCELLERY) IS EITHER UNABLE OR UNWILLING TO GIVE DETAILS OF THE WORK PROGRAMME KOHL SUGGESTED TO MITTERRAND. WE SHALL PURSUE THIS FURTHER. HE DID NOT DISSENT FROM THE PROPOSITION THAT TO MEET KOHL'S OWN DEADLINE OF 1994, IT WAS NOT NECESSARY TO CALL AN INTER-GOVERNMENTAL CONFERENCE IN 1990, NOR TO AGREE TO DO THIS AT STRASBOURG. THE PHRASE "IN THE YEAR AHEAD" (PARA 2 ABOVE) WHICH HAS BEEN SUBSTITUTED IN THE WRITTEN TRANSCRIPT FOR SOME OTHER PHRASE, CONVEYS THE IMPRESSION THAT AT STRASBOURG, KOHL WILL GIVE HIS AGREEMENT TO AN IGC IN 1990. THIS MAY WELL BE HIS INTENTION, JUST AS IT MAY ALSO BE DELIBERATE THAT HE HAS NOT COMMITTED HIMSELF IN TERMS. A CONVERSATION BETWEEN THE MINISTER AND HARTMANN (CHANCELLERY) THIS MORNING, AND BEFORE DELIVERY OF THE SPEECH, CONVEYED THE IMPRESSION THAT KOHL'S DECISION DEPENDS UPON WHETHER (UNSPECIFIED) GERMAN CONDITIONS WERE MET.

5. IT HAS ALWAYS BEEN A PART OF THE GERMAN GOVERNMENT'S POSITION THAT THEY WANTED TO KNOW THE WHOLE STORY BEFORE EMBARKING. HARTMANN WARNED THE MINISTER THAT KOHL WOULD RAISE THE POWERS OF THE PARLIAMENT AT STRASBOURG. HARTMANN ARGUED THAT EMU WOULD BE DISCREDITED IF EUROPEAN VOTERS CONTINUED TO TREAT THE EUROPEAN PARLIAMENT WITH THEIR CURRENT DEGREE OF INDIFFERENCE. THE ONLY WAY TO REMEDY THIS WAS TO INCREASE THE IMPORTANCE OF THE PARLIAMENT BY INCREASING ITS POWERS AND RESPONSIBILITIES. PROBING REVEALED THAT GERMAN THINKING HAD GONE NO FURTHER THAN THIS GENERAL PROPOSITION.

6. IT IS NOT CLEAR WHY KOHL CHOSE TO GO PUBLIC NOW. IT COULD BE ARGUED THAT HE IS FLYING A KITE TO ASSESS REACTIONS. HE MAY BE SOFTENING DOMESTIC OPINION UP FOR A DECISION. BY SETTING A TARGET DATE FOR THE END OF THE PROCESS, HE MAY BE PUTTING PRESSURE ON THE FRENCH TO ACQUIESCE IN HIS WORK PROGRAMME. OR, BY INTRODUCING THE PARLIAMENTARY FACTOR, HE COULD BE DELIBERATELY OVER LOADING THE BARQUE. THIS LAST SEEMS LESS PROBABLE THAN THE OTHER HYPOTHESES, WHICH ARE NOT MUTUALLY EXCLUSIVE. WE SHALL INVESTIGATE FURTHER.

7. FCO PLEASE ADVANCE TO ARTHUR ECD(I), MRS BROWN TREASURY, ARROWSMITH BANK OF ENGLAND

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