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FRAME ECONOMIC
FRAME EXTERNAL

ECOFIN COUNCIL: 12 FEBRUARY: GERMAN MONETARY UNION

SUMMARY

1. WAIGEL (FRG) BRIEFED ON DEVELOPMENTS ON GERMAN MONETARY UNION. KOK (NETHERLANDS) AND BEREGOVY (FRANCE) STRUCK A NOTE OF CAUTION. ECONOMIC SECRETARY STRESSED NEED FOR CONSULTATION WITH COMMUNITY PARTNERS. DELORS (COMMISSION) SAID THAT THE GDR IS A SPECIAL CASE AND FULL EC MEMBERSHIP SHOULD BE CONSIDERED. POSSIBLE EMERGENCY ECOFIN COUNCIL MEETING IN NEXT WEEK OR TWO.

DETAIL

2. THERE WAS A BROW-RINGING DISCUSSION, OVER LUNCH, OF THE IMPLICATIONS FOR THE COMMUNITY OF GERMAN ECONOMIC AND MONETARY UNION. WAIGEL (FRG) EMPHASISED THAT THE FRG WOULD NEED TO DISCUSS ECONOMIC INTEGRATION AND UNIFICATION WITH COMMUNITY COLLEAGUES ON A CONTINUING BASIS. UNIFICATION WOULD BENEFIT EUROPE AS A WHOLE BY PROVIDING A BIGGER MARKET FOR EXPORTS. THE SITUATION HAD NOT BEEN CREATED BY THE FRG. GORBACHEV HAD BEEN THE REAL TRIGGER. ALTHOUGH UNTIL A FEW MONTHS AGO GDR DEMOCRATS WANTED THEIR OWN STATE, ALL NOW FAVOURED UNIFICATION - MODROW WAS VISITING FRG TOMORROW WITH A FULL TEAM INCLUDING FINANCE MINISTER LUFT WHOM HE DESCRIBED AS INEPT. THE FRG HAD SIMPLY OFFERED MONETARY UNION TO THE GDR, THERE WAS NO AGREEMENT YET. IT SHOULD BE REMEMBERED THAT THE GDR HAD A GDP ONLY 1/10 THE SIZE OF THE FRG BRINGING THE GDR INTO THE COMMUNITY WAS, IN GDP TERMS, EQUIVALENT TO ADDING A NEW LAND, ABOUT THE SAME PROPORTIONS AS THE LAND OF HESSE. IT WAS PREMATURE TO DISCUSS THE DETAILS UNTIL THE FRG HAD BEEN THROUGH THE GDR BOOKS. AFTER CONVERSION OF THE OSTMARK, THE FRG WOULD INSIST THAT CONTROL OF THE MONEY SUPPLY WAS TOTALLY TRANSFERRED TO THE BUNDESBANK. HE RECOGNISED THAT THERE WERE RISKS OF A RISE IN UNEMPLOYMENT IN THE GDR AND THAT THE SOCIAL SECURITY SYSTEM WOULD NEED TO BE REFORMED. BUT THE FRG WOULD NOT PUMP BILLIONS INTO A SYSTEM THAT THEY COULD NOT CONTROL. STRONG CONDITIONS MUST BE LAID DOWN. THE GDR ALREADY COST FRG 40 BILLION DEUTSCHMARKS A YEAR IN AID TO BORDER AREAS AND

SOCIAL SECURITY/HOUSING COSTS FOR IMMIGRANTS.

3. DELORS (COMMISSION SAID THAT THE GDR WAS A SPECIAL CASE. THERE WAS NO PARALLEL WITH POLAND, WHICH WAS LOCKED INTO A STRONG IMF PROGRAMME. IF THERE WERE ANY ATTEMPT TO IMPOSE A SIMLAR PROGRAMME ON THE GDR THE ENTIRE POPULATION WOULD MIGRATE. WE MUST CONSIDER THE POSSIBILITY OF THE GDR BECOMING FULL EC MEMBERS. HE WANTED TO PLANT THREE QUESTIONS ON GERMAN MONETARY UNION IN DELEGATIONS MINDS: WHAT WOULD THE CONSEQUENCES BE FOR THE RULES THAT GOVERN THE COMMUNITY? WHAT WOULD BE THE EFFECT ON MEMBERS OF THE EMS, AND PARTICULARLY THE ERM? IF THERE WERE UNIFICATION SOON, SHOULD THE FRG PAY ALL THE BILLS? HE APOLOGISED FOR THE LEAK OF THE COMMISSION STUDY DOCUMENT ON GERMAN MONETARY UNION (BY HAND OF EVANS HMT). THE COMMISSION WOULD CONTINUE DISCREET ANALYSIS.

4. KOK (NETHERLANDS) WAS UNEASY THAT THE GERMANS WERE MOVING TOO FAST BUT THE EC RESPONDING TOO SLOWLY. BEREGOVY (FRANCE) ACCEPTED THAT FRG/GDR INTREGRATION MUST BE ENCOURAGED. BUT THERE SHOULD BE CLOSE CONSULTATION BETWEEN THE TWELVE. NOTHING SHOULD BE DONE TO DESTABILISE THE EC EDIFICE.

5. REYNOLDS (PRESIDENCY) SAID THAT AN EMERGENCY ECOFIN MIGHT BE NECESSARY DURING THE NEXT WEEK OR TWO. WAIGEL REMINDED HIM THAT THERE WAS A MONETARY COMMITTEE MEETING ON 23 FEBRUARY.

6. THE ECONOMIC SECRETARY SAID THAT ALTHOUGH CURRENCY UNION WAS PRIMARILY A MATTER FOR THE GERMAN AUTHORITIES, HE WAS GLAD THAT THE FRG RECOGNISED THAT IT RAISED IMPORTANT ISSUES FOR THE EC AND THAT COMMUNITY COUNTRIES WOULD WANT TO MONITOR PROGRESS CAREFULLY. THERE SHOULD BE CAREFUL DISCUSSION. IT WOULD BE ILL ADVISED TO RUSH TO CONCLUSIONS THAT WOULD BE REGRETTEED LATER. THE UK STOOD READY TO PARTICIPATE IN DISCUSSIONS IN THE MONETARY COMMITTEE OR IF NECESSARY AT A SPECIAL ECOFIN.

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