

EUROPEAN PARLIAMENT

Working Documents

1980 - 1981

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DOCUMENT 1-65/80

Report

drawn up on behalf of the Committee on Budgets

on the proposals from the Commission of the European Communities to the Council (Doc. 1-631/79) for

- I. a Regulation amending for the third time the Financial Regulation of 21 December 1977 as regards the use of the ECU in the general budget of the European Communities**
- II. a Regulation on the replacement of the European unit of account by the ECU in Community legal instruments**

Rapporteur: Mr M.R. SIMONNET

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By letter of 21 December 1979 the President of the Council of the European Communities consulted Parliament on the proposals from the Commission of the European Communities for:

- I. a regulation amending for the third time the Financial Regulation of 21 December 1977 as regards the use of the ECU in the general budget of the European Communities,
- II. a regulation on the replacement of the European unit of account by the ECU in Community legal instruments

On 14 January 1980 the President of the European Parliament referred this proposal to the Committee on Budgets as the committee responsible, and to the Committee on Economic and Monetary Affairs for its opinion.

On 24 January 1980 the Committee on Budgets appointed Mr Simonnet rapporteur.

It considered the proposal at its meetings of 19 February and 27 March 1980.

At the latter meeting it adopted the motion for a resolution by 22 votes to 2 with 1 abstention.

Present at the vote on the motion for a resolution as a whole: Mr Lange, chairman; Mr Notenboom, vice-chairman; Mr Simonnet, rapporteur; Mr Adonnino, Mr Arndt, Mr Baillet, Mr Barbi, Mrs Barbarella (deputizing for Mr Spinelli), Mr Bonde, Mrs Boserup, Mrs Cassanmagnago-Cerretti (deputizing for Mr Ryan), Mr Colla, Mr Colleselli (deputizing for Mr Aigner), Mr Fich, Mr Flanagan, Mr Forth, Mr Gouthier, Mr Ghergo (deputizing for Mr Pfennig), Mr Hord, Mr Jackson, Mrs Kellet-Bowman (deputizing for Mr Tuckman), Mr Langes, Mr Lega, Lord O'Hagan, Mr Orlandi, Mrs Pruvot (deputizing for Mrs Scrivener), Mr Schön and Mr Taylor.

The opinion of the Committee on Economic and Monetary Affairs is attached.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council for

- I. a regulation amending for the third time the Financial Regulation of 21 December 1977 as regards the use of the ECU in the general budget of the European Communities,
- II. a regulation on the replacement of the European unit of account by the ECU in Community legal instruments

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council¹,
 - having been consulted by the Council pursuant to Article 209 of the EEC Treaty (Doc. 1-631/79),
 - having regard to the report of the Committee on Budgets and the opinion of the Committee on Economic and Monetary Affairs (Doc.1-65/80),
 - having regard to the opinion of the Court of Auditors,
1. Delivers a favourable opinion on the proposals from the Commission to the Council subject to the amendment of Article 1 of the regulations as shown below;
 2. Points out that in the current legal situation, the provisions of the Treaty and of the Financial Regulation require that Parliament be consulted when the definition of the EUA is to be changed (Arts. 207 and 209 of the Treaty);
 3. Notes that Article 1 of the proposal for a regulation which is put forward as a replacement for Article 10 of the Financial Regulation provides for the automatic applicability of decisions taken by the Council in the context of the EMS on the composition of the ECU;

¹ OJ No C55, 5.3.1980, pp 12-13

4. Considers that:

(a) Such applicability cannot be automatic if the definition of the ECU is changed. In that case, consultation of or even conciliation with, Parliament is imperative;

(b) Such conciliation must, in the event, take place before the change in the definition of the ECU, i.e. when the Council changes the definition of the ECU in application of Article 2 of Regulation No. 3180 of 1978;

5. Asks the Commission to approve the following amendments pursuant to the second paragraph of Article 149 of the Treaty establishing the EEC;

6. Calls for the opening of the conciliation procedure if the Council wishes to derogate from Parliament's proposal.

Preamble and recitals unchanged

Article 1

The Financial Regulation is hereby amended as follows:

1. Article 10 shall be replaced by the following:

Article 10

1. The Budget shall be drawn up in ECU.

The ECU shall be defined by reference to the sum of specified amounts of the currencies of the Member States as set out in Council Regulation (EEC) No.3180/78 of 18 December 1978 changing the value of the unit of account used by the European Monetary Cooperation Fund^{3,4}.

Any change in the definition of the ECU decided on by the Council in the context of the European Monetary System shall automatically apply to this provision.

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The Financial Regulation is hereby amended as follows:

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The ECU shall be composed of the sum of specified amounts of the currencies of the Member States as set out in Council Regulation (EEC) No. 3180/78 of 18 December 1978 changing the value of the unit of account used by the European Monetary Cooperation Fund^{3,4}.

Any change in the composition of the ECU decided on by the Council in the context of the European Monetary System shall automatically apply to this provision.

Remainder unchanged

³ OJ No L 379, 30.12.1978, p.1

⁴ On the entry into force of this Regulation, such amounts are as follows:

DM	0.828
£ sterling	0.0885
FF	1.15
Lit	109
Fl	0.286
Bfrs	3.66
Lfrs	0.14
Dkr	0.217
£(Irish)	0.00759

³ Unchanged

⁴ Unchanged

* For the complete text see OJ No C55, 5.3. 1980 p.12.

EXPLANATORY STATEMENTI. Fundamentals(a) u.a. and EUA

1. With the creation of the European Economic Community the problem arose as to what common clearing unit could be used in financial transactions between the Member States which each had their own currencies. Accordingly Article 207 of the 1957 Treaty of Rome laid down that: 'The budget shall be drawn up in the unit of account determined in accordance with the provisions of the regulations made pursuant to Article 209'.

2. The Financial Regulation adopted by the Council on 15.11.1960 fixed the value of the unit of account (u.a.) at 0.88867088 g of fine gold. In 1962 this unit of account began to be used for the fixing of the common agricultural prices as well in order to provide a binding unit which was a common denominator of the currencies of the Member States.

3. After the abandonment of gold parities which had been a corner-stone of the Bretton-Woods system and the introduction of central rates and/or a general floating of exchange rates, the old u.a. which was identical to the gold parity of the dollar increasingly failed to satisfy the requirements of market conditions. The further individual currencies moved in different directions, the greater the distortion when converting the u.a. into the various national currencies of the Community.

4. In order to bring the Community's expenditure and revenue back to a realistic denominator, in early 1976 the Commission proposed the introduction of a new European Unit of Account (EUA). This is based on a basket of the Member States' currencies whose fixed composition was worked out on the basis of economic indicators and whose daily value in terms of the various currencies of the Member States is calculated from the rates operating on the exchange markets.

5. This new unit of account was used for the first time in the accounts of the European Investment Bank (EIB) by virtue of a decision adopted by the EIB Board of Governors on 18.3.1975.

6. One month later, by the Council Decision of 21.4.1975, the aid granted pursuant to Article 42 of the ACP/EEC Convention also came to be expressed in EUA. This was in order to ensure that the assistance given to the recipient countries was relatively stable.

7. Since 1.1.1976 the EUA has been used for the operational budget of the European Coal and Steel Community (ECSC).

8. Following the proposal of 19.5.1976 from the Commission (Doc. 166/76) on which Parliament was consulted (Doc. 469/76) the old unit of account (u.a.) was replaced by the new unit (EUA) in the amended Financial Regulation of 21.12.1977¹ and thus was applied to the budget of the European Communities as from 1.1.1978.

9. The EUA is expressed as the sum of the following amounts of the currencies of the Member States of the Communities:

0.828	German marks
0.0885	pounds Sterling
1.15	French francs
109.00	Italian lire
0.286	Dutch guilders
3.66	Belgian francs
0.14	Luxembourg francs
0.217	Danish kroner
0.00759	Irish pounds.

10. This weighting was proposed by the Commission after complicated calculations intending to reflect the importance of the national economies of the Member States of the Community. The importance of the national economies was in turn determined according to the following criteria: volume of gross national product and share in intra-Community trade corrected by the share of short-term monetary assistance. When using these criteria to determine the weighting, an average was taken over the five-year period 1969-1973. The result was that the percentage share of the individual currencies was as follows:

27.3%	DM
17.5%	£ Sterling
19.5%	FF
14.0%	Lit
9.0%	F1
7.9%	Bfrs
0.3%	Lfrs
3.0%	Dkr
1.5%	Irish £.

11. The revaluation and devaluation of some of the currencies in this basket have altered the weighting of individual currencies although the absolute shares have remained the same. Thus, through successive revaluations, the German mark has now reached a share of over 33%, whilst the Italian lira has fallen to almost 9% which was the original share of the Dutch guilder.

12. Any adjustment to the currency basket has been designed solely to restore these percentage shares and/or to adapt these shares in accordance with economic criteria.

¹ OJ No. L 356, 31.12.1977

(b) the creation of the ECU

13. By the European Council's Decision of 5.12.1978 on the establishment of a European Monetary System (EMS) a European currency unit was created as a means of settlement between the central banks of the Community. Christened the ECU, it was defined as follows: 'The value and the composition of the ECU will be identical with the value of the EUA at the outset of the system' (point 2.1 of the Council Resolution of 5.12.1978).

14. Whilst the value of the ECU and EUA fluctuates daily on the foreign exchange markets, the central rate of each currency is held in relation to the ECU. 'Adjustments of central rates will be subject to mutual agreement by a common procedure...' (point 3.2 of the Council Resolution).

15. On the subject of the composition, i.e. the weights of currencies in the ECU, point 2.3 of the European Council Resolution of 5.12.1978 states that they 'will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25%'. Revisions will be made 'in line with underlying economic criteria' and will not modify the external value of the ECU.

16. The procedure to be followed for changes to the composition of the ECU is that the Council shall adopt a decision to this effect 'acting unanimously on a proposal from the Commission' and 'after consulting the Monetary Committee and the Board of Governors of the Fund'¹.

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17. The explanations set out above are, in your rapporteur's opinion of prime importance for an understanding of the purpose and aims of the Commission proposal. Since the weights of currencies within the ECU can be changed every five years or at a Member State's request, there is a danger that the differing compositions of the ECU and EUA after such a change would cause them to drift further and further apart in the course of time. This would once again frustrate the objective pursued for some time now by the Commission with support from Parliament of introducing a single unit of account within all spheres of Community activity. Such a development would be all the more regrettable and make the technical aspect of the implementation of the budget all the more complicated since the Council decided shortly after the entry into force of the EMS to replace the old unit of account (u.a.) with the ECU in the agricultural sector.

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¹ Council Regulation (EEC) No. 3180/78 of 18.12.1978 changing the value of the unit of account used by the European Monetary Cooperation Fund

II. Purpose and contents of the Commission proposal

18. In order to avoid the reappearance of two differing units of account should the composition of the ECU be changed, the Commission proposal aims to introduce the ECU into all areas of the Community in which the EUA - which still has the same value and composition at the moment - is now being used. This will mean that the ECU will be used in the General Budget of the European Communities in conjunction with an amendment to the Financial Regulation of 21.12.1977 and that it will be introduced into the legal acts of the Communities; it will also be used for aid granted under the ACP/EEC Convention of Lomé and in the European Coal and Steel Community. Whilst the decisions on its use in the last two cases fall exclusively within the competence of the Council and Commission respectively, Parliament must under the Treaty be consulted on the first two proposals¹.

19. The Commission considers that the units of account used in the Communities' finances must be harmonized as a matter of urgency. There is a certain urgency since the legal texts mentioned above would have to be adopted before the values of the two units of account begin to move apart.

20. In addition the Commission is proposing that the composition of the ECU currency basket should be given only in a footnote and no longer in the body of the Regulation itself so as to prevent even a temporary discrepancy following a change in ECU weights between the new ECU used in all other areas and the old ECU still laid down in the Financial Regulation for the budget. The regulation itself would state that 'any change in the definition of the ECU adopted by the Council in the framework of the European Monetary System ... shall automatically apply to this provision'. This wording did not seem sufficiently clear to our committee, which amended it so as to make it clear that Parliament must be consulted each time the definition of the ECU is changed. Only changes in the composition of the ECU can be decided on by the Council without consulting Parliament.

21. In all other articles of the Financial Regulation in which the EUA appears, it will also be replaced by the ECU.

III. The problem raised by the Commission's proposal

22. In principle your rapporteur can only welcome the Commission's objective that only a single unit of account should be used in all the European Community's spheres of activity. He is convinced that it is vital that there should only be one unit of account for the Community's financial transactions, if a European Economic and Monetary Union and ultimately a common European currency are finally to be achieved.

¹ Articles 207 and 209 of the EEC Treaty

23. The suggested wording of Article 10 of the new Financial Regulation is obviously intended to ensure the uniformity of the units of account used in the Communities' areas of activity: if the Council should decide within the framework of the EMS to change the definition of the ECU, the unit of account laid down in the Financial Regulation for use in the budget will also be changed automatically.

24. The intention of the Commission seems clear; to prevent a situation in which two units of account exist side by side in the European finance and monetary system, i.e. a monetary unit and a budgetary unit. Since, however, there is no provision for Parliament to be consulted on matters concerned with the EMS, our committee proposes that the text of Article 1 should be amended to limit its application and to state explicitly that only changes in the composition of the ECU are the exclusive preserve of the Council. In other words, this amendment means that Parliament must be consulted if the definition of the ECU is to be changed.

25. The only way of upholding the right to be consulted on the definition of the ECU and hence the budgetary unit of account that the Committee on Budgets can see would be to demand the opening of the conciliation procedure if the Council or Commission wanted to change the fundamental monetary basis of the ECU, e.g. by moving over from a basket of currencies to gold.

IV Further field of application for the ECU

26. The second Commission proposal for a regulation would make provision for the replacement of the EUA by the ECU in the legal acts of the Community. 'ECU' is to be substituted for 'EUA' in every case in the Community's current legislation.

27. In principle there should be no objection to this Commission proposal concerning the replacement of the EUA by the ECU.

Opinion of the Committee on Economic
and Monetary Affairs

Draftsman : Mr DAMSEAUX

At its meeting of 24 January 1980, the Committee on Economic and Monetary Affairs appointed Mr Damseaux draftsman of the opinion.

At its meeting of 26 February 1980, the committee considered the draft opinion and adopted it unanimously.

Present : Mr Delors, chairman; Mr Macario, vice-chairman; Mr Damseaux, draftsman of the opinion, Mr Balfour, Mr Beazley (deputizing for Sir David Nicolson), Mr Beumer, Mr von Bismarck, Mr Bonaccini, Mr Carossino (deputizing for Mr Fernandez), Mr Giavazzi, Mr Leonardi, Mr Ruffolo, Mr Sayn-Wittgenstein-Berleburg, Mr Schinzel, Mr Visentini and Mr Walter.

The Commission's proposals for Council regulations on the replacement of the European unit of account by the ECU prompt two sets of observations:

I. The standardization of units of account: general use of the ECU

(a) substitution of the ECU for the European unit of account

1. On 4 and 5 December 1978 the European Council, meeting in Brussels, adopted a resolution establishing a European Monetary System for which the unit of account is the ECU. The ECU, as the European unit of account, is a 'basket currency'; the only difference between the ECU and the European unit of account is that the composition of the ECU may be revised¹ whereas there is no similar provision in the case of the EUA.

Thus the ECU and the European unit of account may not have the same values in the future and it would be detrimental to the smooth functioning of Community activities to have to use two units of account capable of acquiring different values. To avoid the risk of confusion, it is essential that the ECU be brought into general use.

(b) general use of the ECU

2. The ECU, which was introduced for use in EMCF transactions on 1 January 1979, was extended to the common agricultural policy by Council Regulation No. 625/79 of 29 March 1979. The Commission proposes the extension of the ECU to the general budget of the European Communities and to all Community legal instruments. Strictly speaking, the European Parliament is only being consulted on the two proposals for a regulation, but the background document also contains two proposals for decisions to extend the ECU, one by the Council relating to the ACP/EEC Convention of Lomé, the other by the Commission concerning decisions, recommendations, opinions and communications for the purposes of the ECSC Treaty.

It is desirable for accounting and legal reasons to adopt this standardization of the units of account while the two units still have the same value.

¹ Resolution of the European Council of 5 December 1978, paragraph 2.3:

'2.3 The weights of currencies in the ECU will be re-examined and if necessary revised within six months of the entry into force of the system and thereafter every five years or, on request, if the weight of any currency has changed by 25%.

Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria.'

(c) protection of rights acquired by third parties

3. It is stipulated, finally, that rights and obligations of third parties expressed in European units of account shall continue to be managed on the basis of the definition of the European unit of account in force before the entry into force of the regulations and decisions in question. In other words, general use of the ECU will not be retroactive¹.

General use of the ECU would present no difficulties and could readily be accepted by the Committee on Economic and Monetary Affairs which has always desired standardization of the units of account. However, the composition of the ECU, and more particularly the way in which the proposal for a regulation amending the Financial Regulation deals with it, raises a problem of an institutional character affecting the powers of the European Parliament.

II. Composition of the ECU

(a) arrangements for revising the weights of currencies in the ECU

4. Article 2(3) of the resolution of the European Council of 5 December 1978 provides that the composition of the ECU may be revised every five years or, on request, if the weight of any currency has changed by 25%. Revisions have to be mutually accepted; they will, by themselves, not modify the external value of the ECU. They will be made in line with underlying economic criteria: gross national product and each country's share in world trade. Consequently, adjustments will not be made in proportion to the percentage of revaluation or devaluation of exchange rates.

(b) use of the ECU in the general budget of the Community

5. The proposal for a regulation amending the Financial Regulation of 21 December 1977 is not intended merely to substitute the ECU for the European unit of account. It is not without significance that the composition of the ECU is given in a footnote and that the proposal stipulates that 'Any change in the definition of the ECU decided on by the Council in the context of the European Monetary System shall automatically apply to this provision' (second paragraph of Article 10(1)). The justification given by the Council is of an administrative nature: the text of the Financial Regulation cannot be invalidated each time the ECU is revised. While this argument for administrative simplification will be readily appreciated, its implications must be fully realized.

¹ With the exception, in the case of the ECSC, of rights and obligations arising from adjustment operations (Commission decision, Annex IV, Article 1(3))

In amending Article 10 the Commission is seeking to harmonize, with specific reference to the composition of the ECU, the Financial Regulation and the machinery of the European Monetary System referred to in the resolution of the European Council.

However, this concordance between the texts is obtained at the expense of a proper recognition of the budgetary powers of the European Parliament. Both Article 209 of the EEC Treaty and Article 106 of the Financial Regulation of 21 December 1977 stipulate that the European Parliament must be consulted on the financial regulations and on the establishment and implementation of the budget. Revision of the ECU not only affects each of the Member States belonging to the European Monetary System but the Community as a whole. It means that if the weight of one or more currencies is changed upwards or downwards, that of the other currencies is also changed, without the external value of the ECU being modified: how would such a revision affect the budgetary contribution of each of the Member States?

It is for the Committee on Budgets to consider in detail the possible implications of the proposal for a regulation amending the Financial Regulation. The Committee on Economic and Monetary Affairs cannot overemphasize this point. Certainly, the success of the European Monetary System is crucial to the future of the European Community and to the establishment of Economic and Monetary Union, but it is essential, as the Committee on Economic and Monetary Affairs pointed out at the end of the hearings it held during 1979¹, that the European Parliament, which has only been involved very indirectly in the creation of the European Monetary System, should at least be able to monitor and assess its economic and institutional aspects as it develops.

Conclusions: the Committee on Economic and Monetary Affairs:

1. Approves in principle the Commission's proposals for substituting the ECU for the European unit of account and recognizes their timeliness;
2. Considers that it would be detrimental to the Community's activities to have to use two units of account capable of acquiring different values;
3. Feels, however, that the proposed amendment of Article 10 of the Financial Regulation of 21 December 1977 to ensure the automatic implementation of any revisions of the ECU is incompatible with Article 209 of the EEC Treaty and Article 106 of the Financial Regulation in that it fails to take due account of the powers of the European Parliament;

¹ Doc. PE 57.519/fin.

4. Accordingly requests the Committee on Budgets to examine this matter and, if necessary, to look into the most appropriate ways and means, both theoretical and practical, of ensuring that the European Parliament is consulted thereon;
5. Considers that the European Parliament, which has only been involved very indirectly in the establishment of the European Monetary System, must be able to monitor its economic and institutional effects as it develops.

