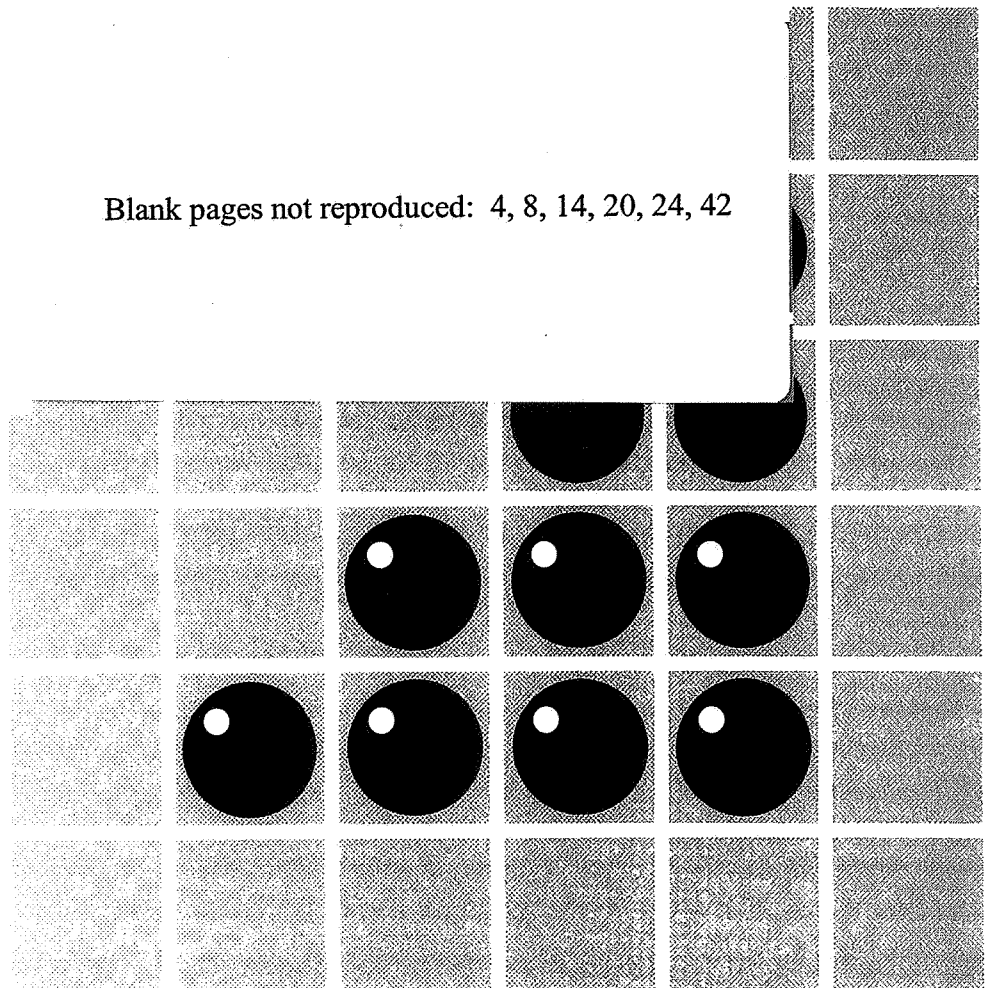


# THE ECU

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## **The ECU**

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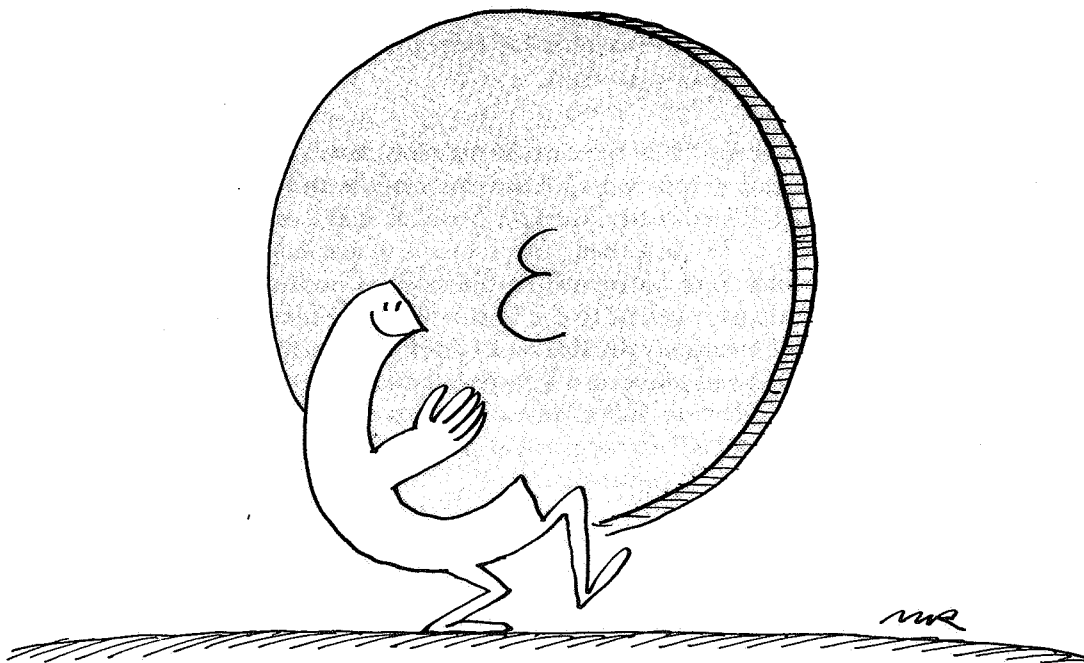
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## I. Origin of the ECU



When individuals, companies or countries do business across the boundaries of their national economic territories, they need a common unit of value. A national currency is not necessarily the appropriate standard since its value can be unilaterally fixed, influenced or changed by the monetary authorities of the issuing country. A measure of value is required that not only determines the claims and obligations when a contract is concluded but also serves to preserve future value. Internationally accepted measures of value, such as gold and silver, existed long before the European Communities were founded. The gold franc, for example, which the Universal Postal Union used to settle balances between national postal administrations, was derived from gold.

In the European Community, which initially comprised six, and now has ten, member countries with equal rights but different currencies, a common measure of value was needed that could not simply be one of the national currencies. Such a measure was essential for drawing up the Community budget, for settling claims and obligations and, following the introduction of the common agricultural policy in the early 1960s, for expressing common prices for agricultural products. But a uniform measure of value is not a common currency:

initially, it is only a common yardstick, a unit of account. As such, it cannot be used in note or coin form to make payments. This is done using conventional currencies.

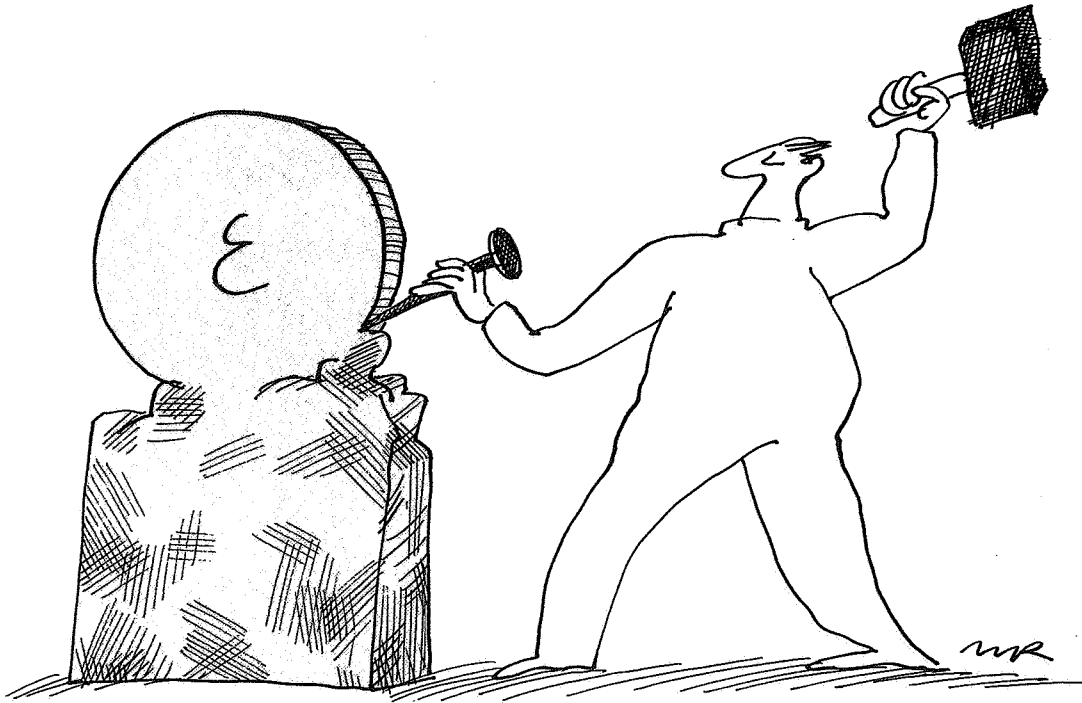
The Community's first unit of account (u. a.) was that used by the European Payments Union (EPU), set up in 1950. Its value was equivalent to the weight in gold of one United States dollar, which at the time still had a fixed relationship to gold and was defined as being worth 0.88867088 gram of fine gold. At the outset, therefore, the Community's unit of account and the dollar were identical in value. But since the end of 1971, they have gone their separate ways. Nowadays, the value of the dollar and that of the ECU, the successor to the unit of account, are determined by widely differing criteria. The parallelism between the dollar and the unit of account was ended by the December 1971 devaluation of the dollar and the March 1973 decision to allow exchange rates to float.

With the disintegration of the system of fixed exchange rates, it was not long before the Community's unit of account began to split as well. Conversion of the unit of account into national currencies was based on the official central rates for Member States' currencies, but these have existed only on paper since 1973. As a result, several units of account came into being in the Community, some of which were based on the old parities notified to the International Monetary Fund while others were geared to the fluctuating daily rates of the currencies concerned. Consequently, the Community decided on 21 April 1975 to follow the example of the International Monetary Fund and to create a European basket-type unit of account made up of specific quantities of the Member States' nine currencies and with an external value that changed daily. At the time, the IMF unit of account, the special drawing right (SDR), consisted of a basket of no fewer than 16 currencies.

The Community's new basket-type unit of account was christened the European unit of account, or EUA. With its introduction in 1975, the foundation was laid for the ECU. When the European Monetary System (EMS) was launched on 13 March 1979, the EUA formula was retained unchanged as the unit of account, but a review clause was incorporated and the EUA renamed the ECU.

The confusion caused during the 1970s by the existence of different units of account was gradually ended. Since April 1979, the ECU has been used as the unit of account for the common agricultural policy. Since 1981, it has replaced the EUA in all the latter's previous fields of application, notably in the Community budget, in relations with the Community's partner countries in Africa, the Caribbean and the Pacific under the Lomé Convention and in the accounts of the European Investment Bank and of the European Coal and Steel Community. The ECU is now the Community's sole unit of account. Different European units of account also came to be used during the 1970s on private money and capital markets, where a growing need was felt for a measure of value that was less volatile than national currencies.

Fortunately, after the EMS had been launched, the ECU clearly carried the day against this multiplicity of units of account. The Community institutions and private business now use only the ECU where balances have to be settled or transactions concluded in units of account. The ECU has put an end to the welter of European units of account that were liable to confuse private users. The singular nature of the ECU has also helped to promote its private use. The EC Commission is planning to secure legal protection for the name 'ECU'.

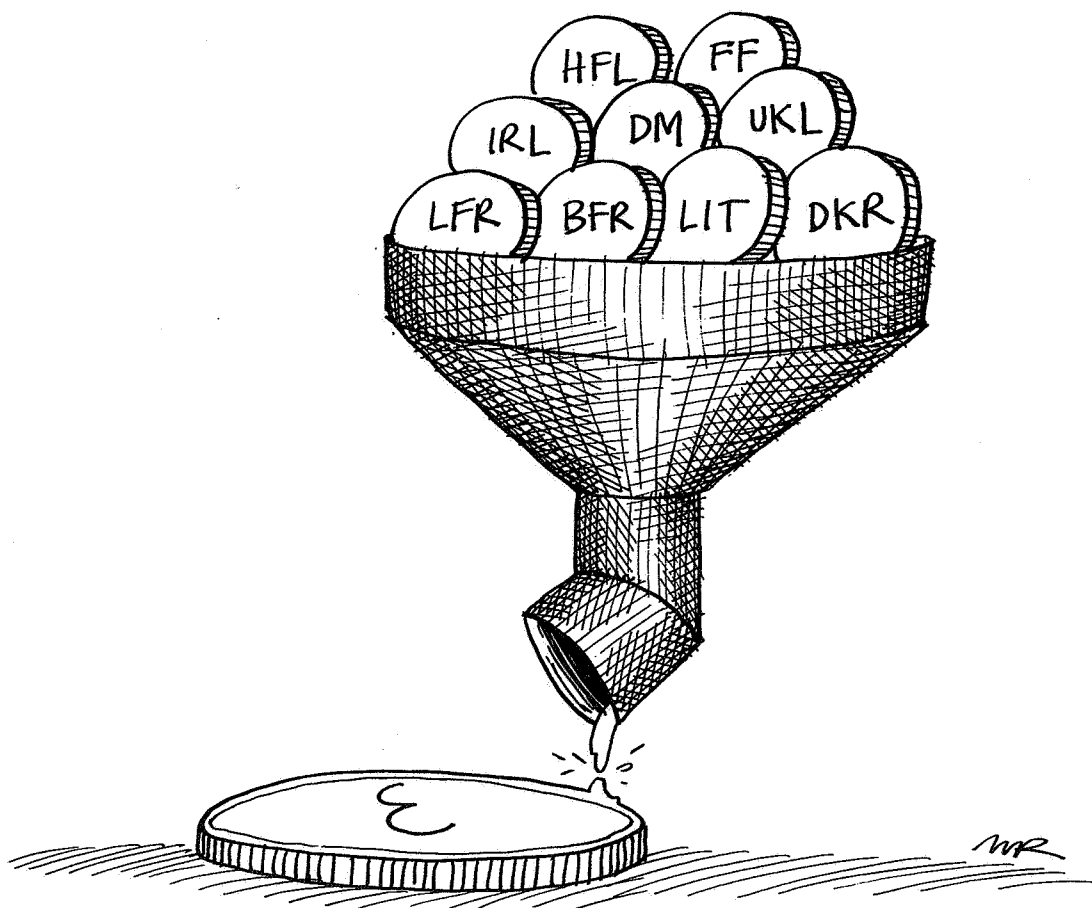


*The European Parliament has passed a resolution recommending that a symbol be devised for the ECU. One suggestion is a design based on the Greek epsilon.*

The architects of the EMS drew on differing sources in arriving at the name 'ECU'. For the then French President, Valéry Giscard d'Estaing, it was supposed to be reminiscent of the gold coin introduced by Louis IX (also known as Saint Louis) as early as the 13th century and subsequently circulated throughout Europe. The British and German representatives took the name from the initials of 'European currency unit'.

While the ECU as a unit has been given an official name, no designation has yet been found for the one hundredth part of the ECU. This will not pose a problem until such time as the ECU is issued for circulation in coin form or as a postage stamp.

## II. Nature of the ECU



The ECU is a basket-type currency. Each Member State of the Community is supposed to have a share in that basket that reflects its economic strength and to have included in it a specified quantity of its currency. The respective shares, or weights, were determined not only by reference to each country's gross domestic product, but also by reference to its participation in the Community's external trade and its quotas under the short-term monetary support system. Through inclusion of all Member States' currencies in the basket, it has been made clear that the ECU is intended to be more than a simple technical unit. Such a unit would more appropriately have been restricted to only a few currencies, making its value easy to calculate at any given moment. And it would probably have been an immutable, closed cur-



