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# PRESS RELEASE

**EUROPEAN COMMUNITY INFORMATION SERVICE**

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BACKGROUND INFORMATION

February 25, 1971

## EUROPEAN COMMUNITY AGREES TO START ECONOMIC AND MONETARY UNION

Council of Ministers Publishes Text of Resolution, Sets Up Medium-Term Aid Pool, and Adopts 1971-1975 Medium-Term Economic Policy Program

WASHINGTON, D.C., February 25 -- The European Common Market has taken a historic step towards furthering European integration by agreeing to start on a staged plan for full economic and monetary union of its six member states -- Belgium, France, Germany, Italy, Luxembourg, and the Netherlands -- to be achieved by the end of the decade.

The overall range of decisions taken by the European Communities Council of Ministers on February 9 basically consists of five elements. The Council agreed on the phased achievement of the economic and monetary union in the Community and also agreed to reinforce cooperation between the Central Banks of the member states and to strengthen coordination of the member states' short-term economic policies.

At the same meeting on February 9, the Council agreed to set up machinery for medium-term financial aid to member states facing balance-of-payments difficulties and adopted the third medium-term economic policy program, for the period 1971-1975.

### Economic and Monetary Union

The resolution on achieving economic and monetary union by stages expressed the member states' will to realize this union in ten years, starting from January 1, 1971; described the final stage of the union -- with the transfer of powers from the member states to the Community; defined the elements of the first three-year stage (1971-1973); and described the transition procedure between the first and later stages. (For details, see Resolution attached.)

The two key decisions assuring final agreement on starting the first stage of economic and monetary union were:

o a review, or safeguard clause, permitting abandonment after five years of automatic measures of monetary solidarity, such as financial commitments, if in the first three-year stage agreement has not been reached on the transition to the second stage of union.



o procedures for transition to the second stage, which will not be automatic or predetermined but decided upon when the time comes.

#### Central Bank Cooperation.

The Council adopted a decision to reinforce cooperation between the Central Banks of the Six stipulating that the member states were to coordinate their monetary and credit policies within general economic policy guidelines set by the Council of Ministers. The Central Banks were invited, within the limits of their competence and the framework of their own responsibilities:

- o to coordinate, within the Committee of Governors, their monetary and credit policies
- o to draw up general guidelines to be followed by each Bank, particularly for bank liquidity trends, credit allocation terms, and interest rate levels
- o to determine practical means for applying this procedure.

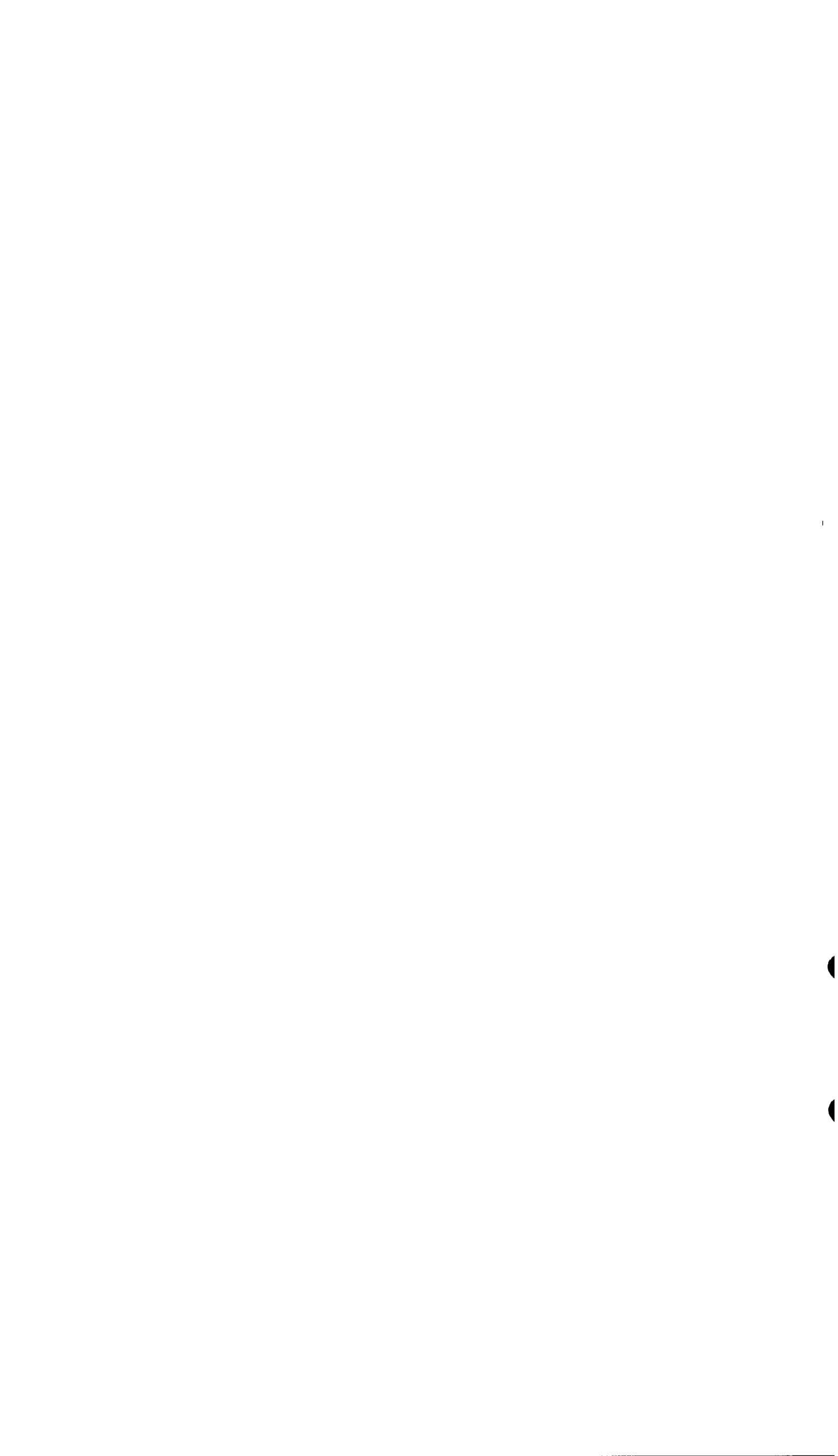
#### Coordination of Short-term Economic Policies

The decision of improving coordination of short-term economic policies reinforces the consultation procedures on national decisions and sets rigorous procedures for the joint examination of the national budgets.

The decision provides that the Council hold three meetings a year to examine the economic situation in the Community. On the basis of Commission proposals -- either by decisions, directives, or recommendations -- the Council will adopt guidelines for the short-term economic policy to be followed by the Community and by each member state to achieve harmonious economic development.

After an initial examination at the beginning of each year, to review the previous year's economic policy, a second examination would determine guidelines for the preliminary economic budgets. Quantitative guidelines for the following year's draft public budgets will be fixed before these budgets are finally adopted, and will deal with the scope and extent of balances and with methods of financing or using them.

After the last of these three meetings, the Council, on a proposal from the Commission and after consultation with the European Parliament, will adopt an annual report on the economic situation in the Community so that each member state can set its economic policy guidelines for the following year.



\$2-Billion Medium-Term Financial Aid

The Council agreed to set up machinery for medium-term financial aid. When a member state is faced with balance-of-payments difficulties or serious threats of such difficulties, it may resort to the machinery for mutual Community aid.

The granting of such credit will be decided by the Council acting by a qualified majority. The various member states may be called upon to contribute up to the following ceilings:

	<u>Millions of \$</u>	<u>Percentage of the Total</u>
Germany	600	30
Belgium-Luxembourg	200	10
France	600	30
Italy	400	20
Netherlands	<u>200</u>	<u>10</u>
TOTAL	<u>2,000</u>	<u>100</u>

The system will initially apply for four years, starting January 1, 1972, and be renewed automatically every five years thereafter.

The decision lays down the amount and terms of credit and also determines the economic policy commitments to be made by the receiving member state, taking particular account of the quantitative guidelines for medium-term economic policy. The Council may also decide on the possible mobilization of their debts by creditor states in similar difficulties.

Credits would be granted for between two and five years and financed by the participating states in proportion to their contributions not yet called upon. A member state claiming present or foreseeable balance-of-payments difficulties or persistent reduction of its reserves will be exempted on the basis of a declaration made by it, subject to examination within the Monetary Committee.

The decision also prescribes the conditions and procedures for anticipated reimbursement of debts, total or partial, transfer of a debt, and the mobilization of the debt of one or several states.

Third Medium-Term Economic Policy Program.

The third medium-term economic policy program contains compatible statistical outlines for the period 1971-1975 and defines the overall economic policies and the main structural projects which will have to be carried out at both national and Community level.



It outlines the need for a coherent Community strategy; the overall economic prospects; and the guide-lines for economic policy, by country and for the whole Community.

ANNEX

RESOLUTION OF THE COUNCIL  
AND OF THE REPRESENTATIVES OF THE GOVERNMENTS  
OF THE MEMBER STATES

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THE COUNCIL OF THE EUROPEAN COMMUNITIES AND THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES,

HAVING REGARD to the Final Communiqué of the Conference of Heads of State or Government held on December 1 and 2 at The Hague, and in particular to point 8 which expressed their wish to see the Community develop into an economic and monetary union through the implementation of a phased plan,

HAVING REGARD to the joint conclusions of the interim report of the Committee set up by a Council Decision of March 6, 1970 and placed under the chairmanship of Mr. Pierre WERNER, President and Minister of Finance of the Luxembourg Government, which were adopted by the Council at its 116th meeting on June 8-9, 1970,

NAMELY that:

- (1) the ultimate objective, as laid down by the Conference of Heads of State or Government, appears to be attainable within the present decade, provided that it receives permanent political support from the Governments;
- (2) economic and monetary union implies that the main economic policy decisions will be taken at Community level, and therefore that the necessary powers will be transferred from the national to Community level. This could eventually lead to the adoption of a single currency which will guarantee the irreversibility of the undertaking;
- (3) between the point of departure and the point of arrival, action will have to be taken simultaneously and progressively on a number of fronts. Some of these measures will necessitate amending the Treaty of Rome, and the preparatory work for this purpose ought to be successfully concluded right from the first stage. However, the present provisions already permit substantial progress to be made;
- (4) the first stage should begin on January 1, 1971 and be completed within a specified period; from the technical point of view, a period of three years appears appropriate. This stage is intended to render Community instruments more and more effective and to mark the beginning of the Community's identity within the international monetary system;
- (5) the first stage cannot be considered as an aim in itself; it cannot be dissociated from the overall process of economic and monetary integration. It should therefore be embarked upon with the determination to attain the final objective;
- (6) this first stage should include a strengthening of consultation procedures, by methods yet to be determined; the budgetary policy of the Member States should be conducted in the light of Community objectives; some degree of fiscal harmonization must be introduced; monetary and credit policies should be closely coordinated and the integration of financial market intensified;





- (7) the Community should progressively adopt common standpoints in regard to monetary relations with third countries and international organizations; in particular, it should not in exchange dealings between Member States, avail itself of any provisions that might render the international exchange system more flexible.

HAVING REGARD to the suggestions drawn up by that Committee in its final report and sharing the views expressed on the factors essential for the existence of an economic and monetary union and on the economic policy consequences implied by such a union,

AWARE of the profound political significance of the achievement of the economic and monetary union for the Community and for the Member States which comprise it,

DESIROUS of affirming the irreversible nature of the measures which the Heads of State or Government have decided to undertake with a view to establishing an economic and monetary union,

HAVING REGARD to the draft prepared by the Commission,

HAVING REGARD to the Opinion of the European Parliament,

HAVE ADOPTED THE FOLLOWING RESOLUTION:

- I. In order to bring about a satisfactory growth-rate, full employment and stability within the Community, to correct structural and regional imbalances therein and to strengthen the contribution of the latter to international economic and monetary cooperation, thereby achieving a Community of stability and growth, the Council and the Representatives of the Governments of the Member States express their political will to introduce, in the course of the next ten years, an economic and monetary union, in accordance with a phased plan commencing on January 1, 1971.

The measures to be carried out must be such that at the end of this process the Community shall:

1. constitute a zone within which persons, goods, services and capital will move freely and without distortion of competition, without, however, giving rise to structural or regional imbalances, and in conditions which will allow persons exercising economic activity to operate on a Community scale;
2. form an individual monetary unit within the international system, characterized by the total and irreversible convertibility of currencies, the elimination of fluctuation margins of rates of exchange and the irrevocable fixing of parity rates -- all of which are indispensable conditions for the creation of a single currency -- and including a Community organization of the Central Banks;
3. hold the powers and responsibilities in the economic and monetary field enabling its Institutions to organize the administration of the union. To this end, the required economic policy decisions shall be taken at Community level and the necessary powers shall be given to the Institutions of the Community.

Powers and responsibilities shall be distributed between the Institutions of the Communities, on the one hand, and the Member States, on the other hand, in accordance with the requirements for the cohesion of the union and the efficiency of Community action.

The Institutions of the Community shall be enabled to exercise their responsibilities with regard to economic and monetary matters with efficiency and speed.

The Community policies implemented within the framework of the economic and monetary union shall be subject to discussion and control by the European Parliament.

The Community organization of the Central Banks shall assist, within the context of its own responsibilities, in achieving the objectives of stability and growth of the Community.

The principles laid down above shall be applied to the following subjects:

- (1) the internal monetary and credit policy of the union;
- (2) monetary policy vis-a-vis the external world;
- (3) policy in respect of the unified capital market and movements of capital to and from third countries;
- (4) budgetary and fiscal policy as it affects the policy of stability and growth; as regards budgetary policy proper, the margins within which the main items of all the public budgets must be situated shall be determined at Community level, with particular reference to the variation in their sizes, the extent of the balances and the methods of financing and using the latter;
- (5) the structural and regional measures called for in the context of a Community policy possessing appropriate means, so that these, too, may contribute to the balanced development of the Community, in particular with a view to solving the most important problems.

II. As progress is made towards the final objective, Community instruments shall be created whenever they appear necessary in order to take over from, or supplement, the operation of national instruments.

In all fields, the measures to be undertaken shall be interdependent and complementary; in particular, the development of monetary unification should be based on parallel progress in harmonizing and subsequently unifying economic policies.

III. In order to achieve these objectives, the Council and the Representatives of the Member States have agreed to initiate, as from January 1, 1971, a number of measures to be carried out in the course of a first phase lasting three years.

1. The Council shall lay down, on a proposal from the Commission, provisions on the reinforcement of the coordination of short-term economic policies in such a way as to make this coordination genuinely effective, in particular by means of intensifying and generalizing compulsory prior consultations. This coordination of short-term economic policies shall take into account the guidelines of the medium-term economic policy programs.

To this end, the Council has agreed to adopt, either on a proposal from the Commission, which will have first consulted both sides of industry within the Economic and Social Committee, or by some other means, the broad outlines of economic policy at Community level and quantitative guidelines for the essential items of the public budgets.

In order to facilitate the coordination of economic policies, the Council, on a proposal of the Commission and the light of opinions from the Committees concerned, has agreed to take the measures required for progressive harmonization of the instruments of economic policy, and, in particular, to align the timetables of national budgetary procedure.

2. In order to accelerate the effective liberalization of movements of persons, goods, services and capital and the interpenetration of the economies, the Council, on a proposal of the Commission, shall, giving due weight to each, decide on measures concerning:
  - (i) the Community rules laying down the uniform base for the TVA (tax on the value-added) within the terms of the Council Decisions of April 21, 1970;
  - (ii) the harmonization of the scope and base of and procedures for levying excise duties, in particular those having an appreciable effect on trade;
  - (iii) the harmonization of certain types of tax which might have a direct effect on capital movements within the Community, and

in particular the harmonization of the tax system applicable to interest on fixed interest transferable securities and on dividends;

- (iv) further harmonization of the structure of company taxation;
- (v) the progressive extension of tax exemptions granted to private persons on crossing intra-Community frontiers.

Before the end of the first phase, the Council shall examine the studies undertaken and any proposals from the Commission regarding the alignment of TVA and excise duty rates.

3. In order to promote the free movement of capital, the Council, on a proposal of the Commission, shall:
  - (i) adopt a directive laying down procedures for progressive liberalization which will allow the issue of transferable securities on the financial market without any discrimination, and abolishing any differential treatment as regards placing transferable securities issued by residents of other Member States on the stock market;
  - (ii) lay down a procedure providing for progressive coordination of the policies of the Member States with regard to financial markets.
4. In order to reduce, by taking action in the regional and structural sphere, any tensions which might jeopardize the timely achievement of economic and monetary union, the Council shall decide, on a proposal of the Commission, on the measures required to provide an initial solution to the most urgent problems, due account being taken of the guidelines laid down by the third medium-term economic policy program, in particular by making available to the Community the appropriate means under the Treaties currently in force.
5. In order to strengthen coordination in the field of the monetary and credit policy, of the Member States, the Council has agreed that:
  - (i) compulsory prior consultations shall be intensified within the Monetary Committee and the Committee of Governors of Central Banks;
  - (ii) to the extent that their powers and their own responsibilities permit, the Central Banks are invited to coordinate their policies within the Committee of Governors of Central Banks, in conformity with the general economic policy guidelines to be defined by the Council;
  - (iii) the Monetary Committee and the Committee of Governors of Central Banks, acting in close collaboration, shall continue to work on the harmonization of the instruments of monetary policy.
6. The Council has agreed that the Community should progressively adopt common standpoints in regard to monetary relations with third countries and international organizations; in particular, it should not, in exchange dealings between Member States, avail itself of any provisions that might render the international exchange system more flexible.
7. The Council and the Member States invite the Central Banks of the Member States, from the beginning of the phase and by way of experiment, to keep fluctuations in the rates between Community currencies within margins narrower than those resulting from the application of the margins in force for the U.S. dollar, by means of concerted action vis-a-vis the dollar.

The Council has agreed that further measures may be taken as circumstances and the results of the harmonization of economic policies require. Such measures shall consist in the transition from a de facto system to a de jure system, in interventions in Community currencies and in a repeated narrowing of the fluctuation margins between Community currencies. The Committee of Governors of Central Banks shall report twice a year to the Council and to the

Commission on the operation of the concerted action by the Central Banks on the exchange markets and on the advisability of adopting new measures in this sphere.

8. The Council invites the Monetary Committee and the Committee of Governors of Central Banks to draw up, in close collaboration and by June 30, 1972, at the latest, a report on the organization, functions and statute of a European Monetary Cooperation Fund, to be integrated at a later stage into the Community organization of Central Banks provided for under paragraph I,2 above, in order to allow the Fund, in the light of the experience gained with respect to the reduction of margins and the convergence of economic policies, possibly to be set up during the first phase. They shall submit this report to the Council and to the Commission.
9. In order to promote the harmonious execution of the plan for economic and monetary union, and above all in order to provide the required parallelism between economic measures and monetary measures, the term of validity of the monetary provisions, i.e. III. 7 and 8, and the term of application of the machinery for medium-term financial aid shall each be of five years as from the beginning of the first phase. The provisions referred to above shall remain in force, once it has been agreed to move on to the second phase.

IV. The Council notes that the Commission is prepared to submit to it before May 1, 1973:

- (i) an assessment of the progress made during the first phase, due account being taken of the parallelism which must be observed between the coordination of economic policies and progress in the monetary field within the Community;
- (ii) a report drawn up in cooperation with the relevant Consultative Committees on the distribution of powers and responsibilities between the Community Institutions and the Member States as required for the smooth running of an economic and monetary union, particularly in the fields of short-term economic policy, currency and credit policy and budgetary policy.

The Council and, where necessary, the Representatives of the Governments of the Member States shall, on a proposal of the Commission and before the end of the first three-year phase, adopt the measures leading to the complete achievement of economic and monetary union after transition to the second phase: (i) on the basis of the existing provisions of the Treaty; or (ii) on the basis of Article 235; or (iii) on the basis of Article 236 of the Treaty.

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