

European BACKGROUND INFORMATION Community

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BACKGROUND NOTE

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THE EUROPEAN COUNCIL PROGRESSES TOWARDS MONETARY UNION

EC Commission President Roy Jenkins, in a July 7 joint press conference with German Chancellor Helmut Schmidt, said "we have put forward...a realistic scheme for the creation of a zone of monetary stability...backed by a fund of a very substantial scale. The total, some 44 billion EUA* would be in excess of the IMF, and on scale far greater than any other European scheme ever discussed."

This was the central issue at the European Council at Bremen, Germany on July 6 and 7. The Council is composed of the heads of government of the nine member states of the European Community: Belgium, Denmark, France, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany. They meet three times a year.

Significant progress was also made on energy.

Jenkins relaunched the debate on European monetary union on October 27, 1977 in a major address in Florence, Italy. See our press release No. 20, 1977. Following is the full text of the European Council's conclusions:

1. The Economic and Social Situation- The European Council states that in the face of the dangers resulting from the serious disruption of the world economy, especially since the end of 1973, the Community has come through a very testing time, proved its cohesion and thereby made a decisive contribution to the stabilization of the world economy. However, the situation within the Community is not yet satisfactory. Consequently, the European Council, meeting in Copenhagen in April 1978, instructed that a common strategy be evolved to overcome the unsatisfactory tendency of economic and social developments in the Community.

* The European UA equalled \$1.26 on July 5, 1978

The Community and the member states will closely coordinate their action with the other major industrial countries which are their partners, since the problems involved will be overcome better by means of close international cooperation extending beyond Europe, in which heed must also be paid to the developing countries' interests. The meeting of heads of state and of government of the seven major industrial nations in Bonn on July 16 and 17, 1978, at which the Community is to be represented by the President of the Council and the President of the Commission, will provide a good opportunity for this. The European Council has arrived at the conclusions set out below regarding the action to be taken by the Community and in the member states.

Economic Policy- The European Council has decided on a common approach in order to achieve a considerably higher rate of economic growth and thus reduce the level of unemployment in Europe by fighting inflation, establishing a greater measure of monetary stability, expanding international trade, achieving progress in the energy sector, reducing regional disparities and stimulating demand. In pursuing this course no new dangers must arise to threaten the economic balance. In particular, the effort to reduce inflation and disparities in cost and price trends between the individual countries must be continued.

A common approach by means of complementary measures will help to minimize the internal and external economic policy constraints of individual member states and increase the effectiveness of such measures.

All member states will take the necessary measures according to the room for manoeuvre under their respective economic policies. The scope available to individual member states depends, of course, on their different situations, notably the success of their efforts to fight inflation, their balance-of-payments situation, their foreign currency reserves, the size of their public sector deficits and the extent of their unused production capacities. Countries without inflation and balance-of-payments problems will do more to increase domestic demand, in particular investment demand and rate of economic growth. Countries with steeply rising prices will first concentrate in particular on undesirable inflationary developments. This coordinated approach in all areas of economic policy should help strengthen the confidence of investors and consumers in longer-term growth perspectives.

Monetary Policy- Following the discussion at Copenhagen on April 7 the European Council has discussed the attached scheme for the creation of a closer monetary cooperation (European monetary system) leading to a zone of monetary stability in Europe, which has been introduced by members of the European Council. (see annex) The European Council regards such a zone as a highly desirable objective. The European Council envisages a durable and effective scheme. It agreed to instruct the finance ministers at their meeting on July 24 to formulate the necessary guidelines for the competent Community bodies to elaborate by October 31 the provisions necessary for the functioning of such a scheme -- if necessary by amendment. There will be concurrent studies of the action needed to be taken to strengthen the economies of the less prosperous member countries in the context of such a scheme. Such measures will be essential if the zone of monetary stability is to succeed. Decisions can then be taken and commitments made at the European Council meeting on December 4 and 5. The heads of government of Belgium, Denmark, the Federal Republic of Germany, Luxembourg and the Netherlands state that the "snake" has not been and is not under discussion. They confirm that it will remain fully intact.

Measures to Promote Employment- The European Council confirms its view that improving the employment situation by means of increased growth is a crucial objective of the Community. It notes that the Community is already providing considerable assistance through the European Social Fund and the European Regional Fund.

It calls upon the Council of Ministers of Labor and Social Affairs to decide on measures to combat youth unemployment within the framework of the European Social Fund so that such measures can come into force on January 1, 1979.

Tripartite Conference with Both Sides of Industry- The European Council emphasizes the importance of tripartite conferences with both sides of industry and welcomes the decision to hold another conference with both sides of industry in the autumn, to consider, in accordance with the outcome of the previous conference, the relationship between investment, employment and competition, work sharing and employment in the services sector.

Energy- The European Council emphasizes that efforts to resolve long-term energy problems should be intensified at all levels. The primary objective is for all countries to reduce their dependence on oil imports. In this connection the Community adopts the following objectives for 1985:

- to reduce the Community's dependence on imported energy to 50%
- to limit net oil imports by the Community
- to reduce to 0.8 the ratio between the rate of increase in energy consumption and the rate of increase in gross domestic production.

The Community emphasizes the need for the other industrialized countries to set themselves similar objectives.

Particular importance is attached to better use of the Community's energy resources, exploration efforts and the development of new sources of energy. The contribution of nuclear energy alongside other forms of energy is vital and a matter of urgency for the Community. It is also important that work should continue on ecological safety and protection issues in order to take into account the particular need for some member states to find a solution to certain specific problems linked with the introduction or implementation of nuclear programs.

Community measures on energy, particularly in order to promote energy saving and to exploit all alternative sources of energy are complementary to the member states' considerable efforts. Apart from the new measures which it must take, the Community will in the future give special attention to the joint appraisal and the coordination of the individual member states' energy programs.

The European Council lays emphasis on the need for worldwide cooperation on energy and in particular indicates the willingness of the Community and the member states to assist the developing countries, in cooperation with other industrial countries, in surmounting their energy problems.

Common Market- The European Council is agreed that the safeguarding and development of the Common Market by further measures to remove trade barriers and distortions of competition are a permanent task of the Community.

International Trade- The European Council reaffirms its determination to strengthen the open world trading system through joint efforts. It emphasizes the outstanding importance it attaches to substantial and balanced results of the GATT multilateral trade negotiations. It calls upon all trading partners to make a constructive contribution to attaining this objective, in which the Community will play its part. The expansion of world trade, the improvement of the international division of labor and sustained economic growth are closely linked and are mutual prerequisites. The Community will take steps against protectionism in international trade and accordingly calls for increased international cooperation and consultation.

Structural Policy- The European Council concludes that preserving and improving the competitiveness of industry and increasing its innovativeness are important requirements for a higher level of economic growth and the creation of new jobs. Consequently, a greater readiness to undergo structural changes must be induced in firms and industries. Such changes must, however, take place under socially acceptable conditions. The Community is making its contribution to this by means of its financing instruments, which have recently been considerably extended. Where public intervention is justified in exceptional cases on specific economic and social grounds, the assistance provided must be for a limited period and designed, subject to the rules in the treaties of Rome, to facilitate structural adjustment.

Mediterranean Agriculture- The European Council considers that the decisions taken by the Council (Ministers of Agriculture) on May 12, 1978 constitute a contribution to solving the agricultural problems in the Community's Mediterranean regions. It noted with satisfaction that the Council (Agriculture) had decided to adopt a position by September 30, 1978 on the Commission proposals still outstanding.

The Council is of the opinion that due consideration must continue to be given to the special agricultural, structural and market problems in the Mediterranean regions and in other less favored regions.

Relations with the Developing Countries- The European Council is of the opinion that progress in the North/South Dialogue is essential for the solving of international economic problems and the safeguarding of world peace and stability. It reaffirms its will to strike a balance of interests between North and South even in difficult times. This requires the industrialized countries' markets to be open to products from the developing countries. Full integration of the developing countries into the world trade system represents a considerable contribution to this extension of world trade. At the same time the Community and the member states will continue and step up on a worldwide basis the development assistance which they provide.

Efforts to achieve constructive results in the current negotiations on a common fund and individual commodity agreements are to be continued. In the context, the stabilization of export earnings should receive further study.

The European Council regards the Lome Convention as an important part of North/South cooperation and looks forward to successful negotiations on its renewal. The European Council considers that the worldwide inter-connections between the economic activities of all concerned -- including the state-trading countries -- call for common action on a basis of joint responsibility. It continues to place its trust in a favorable climate of cooperation in the United Nations and emphasizes the Community's firm resolve to render North/South relations mutually advantageous by means of cooperation, partnership and readiness to play a greater part.

II. Safety at Sea, Prevention and Reduction of Pollution- The European Council has discussed the subject of safety at sea, prevention and reduction of pollution (Amoco Cadiz) as set out in the report from the Foreign Ministers' Council, dated June 29, 1978. It deems it necessary to take future measures to increase the safety of maritime traffic, taking into account the proposals of individual member states and the Commission. The European Council reaffirms the necessity to intensify their efforts to prevent and control pollution of the sea, especially by hydrocarbons.

III. The Middle East and Africa-

1. The European Council also examined the present situation in the Middle East. It expressed regret that, in spite of the efforts being made at present to achieve peace, progress in the negotiations remains very limited. It reaffirmed the principles set out in the declaration of the European Council dated June 29, 1977 as a basis for a peaceful and just solution to the conflict.
2. In view of the most recent, extremely disturbing developments in Lebanon, the Ministers of Foreign Affairs discussed this urgent problem and yesterday evening the Presidency issued on their behalf a declaration concerning the attitude of the nine governments. You will already be acquainted with this declaration. The German Ambassadors in Beirut, Amman, Damascus, Cairo and Tel Aviv were at the same time instructed, as the Presidency's representatives, to inform the governments in those capitals and the Arab League of that declaration. The German Ambassador in Beirut has already had an interview on the subject today with President Sarkis, who greatly welcomed the position of the nine.
3. The European Council discussed the situation in Africa and reaffirmed that the nine attach great importance to a policy based on encouraging the independence of African countries and continuing to make a major contribution to their economic needs. It expressed its support for the principle of a peaceful solution of their problems.

The Council recalled the strictly humanitarian character of the actions, limited in space and time, undertaken by certain members of the nine in Zaire. It noted with satisfaction the intention of the government of Zaire to take the political and economic measures required to ensure the peaceful progress of the whole of the people of Zaire.

The Council reaffirmed the need to ensure the early and peaceful accession of Namibia and Zimbabwe to independence on the basis of a negotiated and internationally acceptable outcome to negotiations. It expressed its full support for the efforts which certain member states are making, with others, towards this end. The Council reaffirmed its condemnation of apartheid and its determination to continue to press for change in South African policy.

Annex

1. In terms of exchange rate management the European monetary system (EMS) will be at least as strict as the "snake". In the initial stages of its operation and for a limited period of time member countries currently not participating in the snake may opt for somewhat wider margins around central rates. In principle, interventions will be in the currencies of participating countries. Changes in central rates will be subject to mutual consent. Non-member countries with particularly strong economic and financial ties with the Community may become associate members of the system. The European currency unit (ECU)--the ECU has the same definition as the European unit of account (EUA)--will be at the center of the system. In particular, it will be used as a means of settlement between EEC monetary authorities.
2. An initial supply of ECU's (for use among Community central banks) will be created against deposit of U.S. dollars and gold on the one hand (e.g. 20% of the stock currently held by member central banks) and member currencies on the other hand in an amount of a comparable order of magnitude.

The use of ECU's created against member currencies will be subject to conditions varying with the amount and the maturity. Due account will be given to the need for substantial short-term facilities (up to 1 year).

3. Participating countries will coordinate their exchange rate policies vis-a-vis third countries. To this end they will intensify the consultations in the appropriate bodies and between central banks participating in the scheme. Ways to coordinate dollar interventions should be sought which avoid simultaneous reverse interventions. Central banks buying dollars will deposit a fraction (say 20%) and receive ECU's in return. Likewise, central banks selling dollars will receive a fraction (say 20%) against ECU's.
4. Not later than two years after the start of the scheme, the existing arrangements and institutions will be consolidated in a European Monetary Fund--the EMF will take the place of the EMCF--European Monetary Cooperation Fund.
5. A system of closer monetary cooperation will only be successful if participating countries pursue policies conducive to greater stability at home and abroad. This applies to deficit and surplus countries alike.