

EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

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EUROPEAN COUNCIL MOVES TOWARD MONETARY, ECONOMIC COORDINATION

European Community heads of government meeting last week in Brussels for their final summit of 1977 approved Commission President Roy Jenkins' spirited call for new steps toward economic and monetary union. They also:

- * set up the European unit of account for the Community budget from 1 January, 1978,
- * devised a formula for repayment of a deficit caused by differing interpretations of how much Britain, Denmark and Ireland should contribute to Community funds,
- * approved in principle a new borrowing facility for the Commission to finance investments, with the loans to be handled by the European Investment Bank,
- * approved in principle the Commission proposal to set up a European Foundation and
- * accepted the suggestion of French President Valery Giscard d'Estaing to explore a European "legal territory" to combat terrorism.

Belgian Prime Minister Leo Tindemans, who presided at the meeting, called the session "very fruitful" and commented that the decisions made, particularly in the economic and monetary field, indicated a "strong convergence" among European leaders.

Commission President Jenkins, reporting this week to the European Parliament in Strasbourg on the Council's actions, said he was "considerably encouraged" by the reception given Commission proposals on economic and monetary union.

"Since I spoke in Florence on this subject in October," Jenkins told the Parliament, "I have heard some predictable jeremiads. I was told that my efforts to disinter what was described as a corpse were brave but unavailing. When the corpse showed signs of life, I was told it would soon be dead again. When it revealed itself alive and kicking, I was told that we had amputated its essential parts."

The European Council, said Jenkins, reacted as he had hoped it would -- approving the Commission proposal and asking for detailed studies and further discussion of the proposal in other Community institutions, such as the Parliament, the Economic and Social Committee and the Tripartite Conference, a yearly conclave of government, trade union and management leaders.

To further the objective of eventual economic and monetary union, the Council agreed to:

- * strengthen the coordination of national economic policies in a Community context,
- * strengthen the Community's monetary solidarity through short and medium-term credit mechanisms, and
- * develop the Community's solutions to structural problems, particularly in steel, textiles and shipbuilding.

The Council agreed to introduce the new European unit of account on January 1. The unit of account that had been used in previous budgets was based on pre-1972 International Monetary Fund parities that did not reflect the real economic and monetary situation. The new EUA will be a "basket" unit based on the current value of the nine EC currencies.

A political compromise on Article 131 of the Treaty of Accession for Britain, Denmark and Ireland allowed the Nine to adopt the 1978 budget using the new EUA. Since application for a ruling from the European Court of Justice would merely have continued a conflict over how to interpret the treaty article, the European leaders chose to abandon the idea of a uniform solution and offered instead a compromise under which each member state is to calculate its part of the budget according to its own interpretation of Article 131.

Since the diverse calculations will mean a shortfall of about 407 million EUA, the European heads of government decided that the Nine would share the shortfalls. Each will decide according to the more advantageous of formulas used for the EC budget, the value added tax, the 1976 gross domestic product or a mixture of the three.

Under this complicated formula, the EC budget, expected to be about \$11.8 EUA in 1978, will break down as follows:

	<u>BUDGET</u>	<u>SHORTFALL</u>	<u>TOTAL</u>
Germany	3,545.3m	121m	3,666.31
France	2,208	75.1	2,283.15
Britain	1,746.8	62.3	1,809.11
Italy	1,416.8	43.1	1,459.93
Netherlands	1,262.6	25.7	1,288.36
Belgium	866.6	19.4	886.05
Denmark	280.	9.9	289.99
Ireland	65.6	2.32	67.92
Luxembourg	14.7	.49	15.19
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	11,406.40	359.31	11,766.01

A remaining gap of 47.3 million EUA is to be covered, the Council said, by a solution to be worked out by the Council of Ministers.

The European Council did not meet the Commission's request for regional fund appropriations, but did agree to set aside 1.85 billion EUA for regional development over the next three years, with 580 million EUA in 1978, and the remainder likely to be 620 million EUA in 1979 and 650 million EUA in 1980. Of this total, 2 per cent will be earmarked for French overseas territories by France's special request.

On Giscard d'Estaing's suggestions for legal cooperation and the creation of a European legal territory, the European Council asked the Council of Ministers to examine the question in the context of political cooperation. The French president said he sought a mechanism under which extradition proceedings could be triggered automatically between any two EC countries when a suspect is wanted on charges for which the prison sentence in both countries is greater than five years.

Some political observers in Germany and the Netherlands questioned whether such a system would be accepted there, since neither nation has capital punishment and might resist extradition of criminals to nations that do have the death penalty.

The Council also instructed Commission President Jenkins to follow and intensify discussions with Japan on the balance of payments. It further reaffirmed its support of direct elections to the European Parliament in May/June 1978, but noted that the British government may have difficulty in meeting that deadline.