



1979-89: Ten years of the European Monetary System

FOUR LESSONS FOR THE SINGLE MARKET

The 10th anniversary of the European Monetary System (EMS) may be just one more anniversary to be celebrated in 1989; but it is both welcome and full of lessons for the future.

13 March 1979 saw the birth of the ecu an embryonic European currency, and the rapprochement between eight currencies — the Belgo-Luxembourg franc, the Danish crown, the German mark, the French franc, the Irish pound, the Italian lira and the Dutch guilder. Today, Europeans can open bank accounts in ecus and pay with ecu traveller's cheques, while the stability of the EMS no longer has to be demonstrated.

For Jacques Delors, President of the European Commission, the first 10 years of the EMS appear 'very instructive' for four reasons:

- **The primacy of the political over the technical:** 'If one had listened to the experts, the EMS would never have seen the light of day'. The birth of a monetary Europe — and, indeed, of Europe itself — was made possible because of a political will to look beyond the petty cash. Think of Paul-Henry Spaak who, during the drafting of the EEC Treaty succeeded in getting the Six to adopt a common external tariff by cutting short the discussions at expert level and systematically taking the average of the national tariffs.
- **The successful operation of a 'multi-speed' Europe:** Only the eight countries that were ready to take the plunge in 1979 participate fully in the EMS. This has not kept the others — Britain, Greece, Spain and Portugal — from full membership of the European Community. Besides, the liberalization of capital movements was also conceived on a similar basis: eight countries have undertaken to eliminate all exchange controls on 1 July 1990 (Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands and the UK), while the others will wait until the end of 1992 to do so.
- **The success of flexibility:** The EMS operates on the basis of a few rather simple rules; and it depends in large part on confidence between the countries that belong to it. These are also the essentials of the emergent single market.
- **Monetary cooperation has had a favourable influence on economic convergence.** 'Contrary to a widely held opinion', Jacques Delors points out, 'economic convergence was not a prior condition of monetary cooperation. On the contrary, monetary convergence has brought economic convergence in its wake'. This is a lesson which those who, even today, believe that it is impossible to make further progress in the monetary field, because of the wide differences in the economic situation of the Twelve, would do well to ponder on.

The EMS has already helped open the way to the completion of the single market. It must now evolve. After 1992, with freedom of movement for people, goods, services and capital well established, continued fluctuations in the currencies of the Member States, in relation to each other, could well represent the largest remaining obstacle among the Twelve. Jacques Delors is convinced of this. Let us now await the report of the 'Committee of Wise Men' of which he is President. The EC's Heads of State and/or Government should receive it by the end of April.

Decisions

■ You can take it with you

From 1 July 1989 Europeans will be able to move freely between European Community countries with their cameras, musical instruments, portable PCs and all the other tools of their trade. The regulation the EC Council of Ministers adopted on 27 February will also simplify the lives of those who travel between Community countries with goods or bulky equipment for temporary use. The Twelve in fact have decided to extend the present system of a Community carnet (which replaces the ATA international carnet). Hereafter only vehicles and luxury items (such as carpets, precious stones, fur coats and expensive jewellery) will continue to be subject to the more stringent procedures. The new system will also benefit cross-border artisans as well as painters and sculptors whose works are to be exhibited in another Member State.

■ Aid for areas hard-hit by industrial decline

Industrial regions in decline in nine European Community countries (the Twelve minus Greece, Ireland and Portugal), with a total population of more than 53 million, will receive approximately ECU 1 billion¹ this year from the Community budget towards their redevelopment in the context of the single market in 1992. The European Commission listed on 8 March the regions hit by unemployment which will be eligible for such aid, at least until the end of 1991. The Commission will revise the list after that date. Britain, whose eligible areas have a population of some 20 million, will get the lion's share, followed by France (10 million). The regions selected in Belgium have a population of some 2.2 million and those in Luxembourg around 140 000. The details of the aid will be drawn up in the coming months.

¹ ECU = UK £ 0.65 or IR £ 0.78.

■ Innovation and the single market

In order to encourage the spread and use of new technologies throughout the 12-nation European Community, the EC Council of Ministers gave the green light on 6 March 1989 to the main phase of the Sprint (Strategic programme for innovation and technology transfer) programme (1989-93). Based on the results of the pilot phase, running from 1984 to 1988, the main phase will see the development of European networks of specialists in technology transfers — business consultants, design experts, science parks, etc. — better information and a much greater exchange between the Twelve and the European Commission of their experiences. Thanks to a budget of ECU 90 million, as against only ECU 18.5 million for the experimental phase, Sprint will be in a position to finance concrete projects for improving technologies in use.

Initiatives

● A frontier-free yet secure Europe

Between now and the end of June the Twelve should have common procedures for dealing with the right of asylum and a common list of countries whose nationals will require a visa to enter the European Community. They should also come closer to coordinated extradition rules. Martin Bangemann, the Internal Market Commissioner, suggested to the coordinating group of national officials, who met for the first time on 22 February that they tackle these three subjects on a priority basis. The coordinating group, set up by the European summit at Rhodes last December, has been entrusted with the task of seeing to it that the elimination of border controls, envisaged for the end of 1992, in no way reduces the security of the Member States. Mr Bangemann takes the view that the coordinating group should come up with concrete solutions before deciding just which legal systems to employ. As for the eventual creation of a 'European FBI', proposed by several well-known personalities, the European Commissioner is prudent: he favours strengthening cooperation between national police forces.

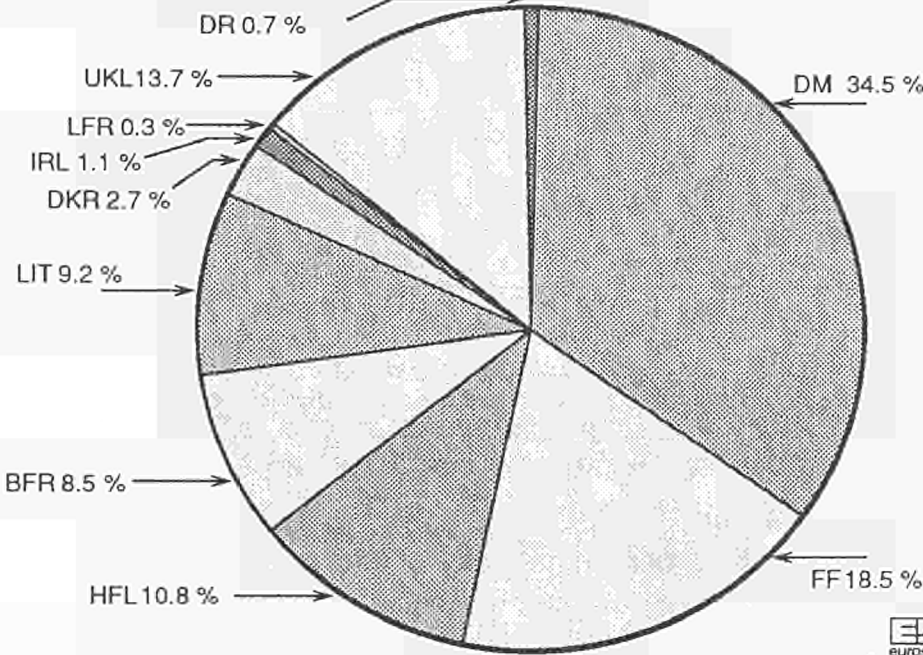
● Social rights in the Europe of 1992

In order to ensure that 1992 programme does not result in a loss of the social gains of Europeans, the European Community's Social and Economic Committee asked the European Commission on 22 February to prepare 'Community legislation' guaranteeing everyone a certain number of fundamental rights. Employers, trade unions, the self-employed and consumers are all represented on the Committee, which has consultative status. The 'laws' it is seeking would include all the social rights recognized in Western Europe by international conventions: weekly rest period; annual holidays; right to strike, etc. In addition, they would provide for the worker's right to information in the event of the reorganization or merger of companies. They would also prevent companies from taking advantage of the single market to get around national legislation on social matters. Thus a company providing temporary staff could not recruit Spanish workers for jobs in Germany but at Spanish wages. The Committee adopted its opinion, which had been sought by Commission President Jacques Delors, by 135 to 22, with 8 abstentions. But the Committee's 13 British members voted against it, so that problems may yet arise when the Twelve must adopt the necessary Community legislation.

● Learning more and better

Encourage a much larger number of young people to study scientific and technical subjects; include the study of three European languages in each basic school curriculum; create a European business degree along the lines of the American MBA and set up a European educational TV network to broadcast satellite educational programmes and promote life-long learning — these are among the practical recommendations made by 24 leading European companies to enable the Old World to remain competitive in the face of competition, especially from Asia, whose population is not ageing as is the European one. In a study published on 22 February, the 24 companies, including BAT Industries, Pilkington, Plessey and Waterford Glass, propose the launch of a European programme for the development of education aimed at meeting the needs of European companies.

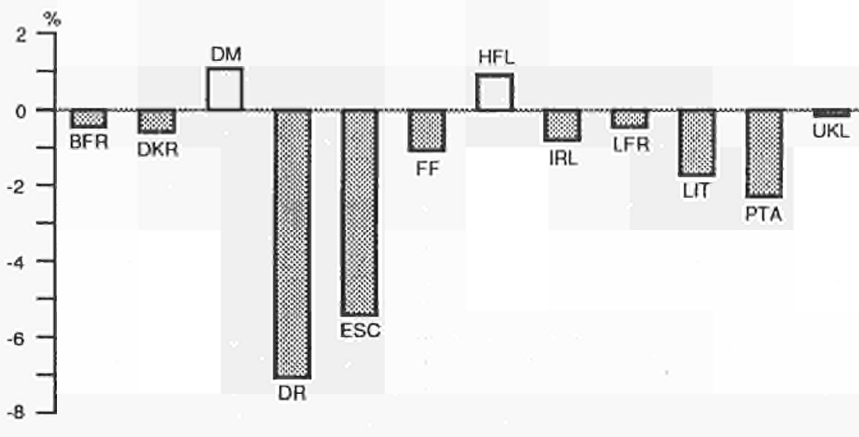
Composition of the ecu (currency amounts in February 1989, in %)



The EMS

The official ecu (European currency unit) is a means of payment between the central banks of the Member States which hold it as an official reserve. The ecu and the exchange-rate intervention mechanism, designed to maintain parities, are the two main instruments of the EMS.

Average annual variation in the rates of national currencies against the ecu 1979-88 (in %)

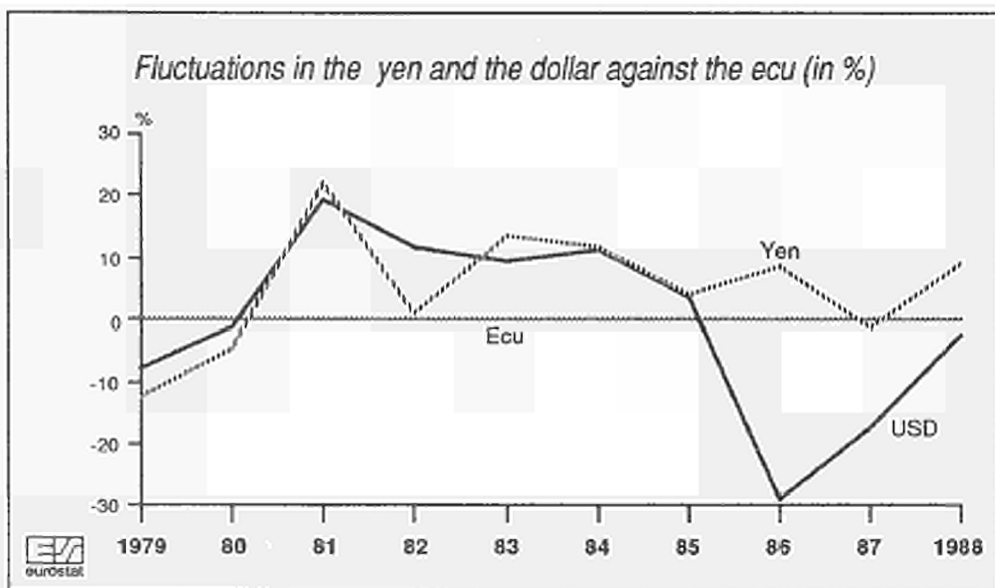


European currencies and the ecu

The currencies which participate in the EMS have fluctuated much less than those still outside it, as the EMS has, particularly over the last three years, shown its effectiveness and importance in providing monetary stability in Europe.

Exchange rates for the national currencies: ECU 1 = (annual average)

	BFR	DKR	DM	DR	ESC	FF	HFL	IRL	LFR	LIT	PTA	UKL
1979	40.2	7.21	2.51	50.8	67.0	5.82	2.75	0.67	40.2	1 138	92.0	0.65
1988	43.4	7.95	2.07	167.6	170.0	7.04	2.33	0.78	43.4	1 537	137.6	0.66



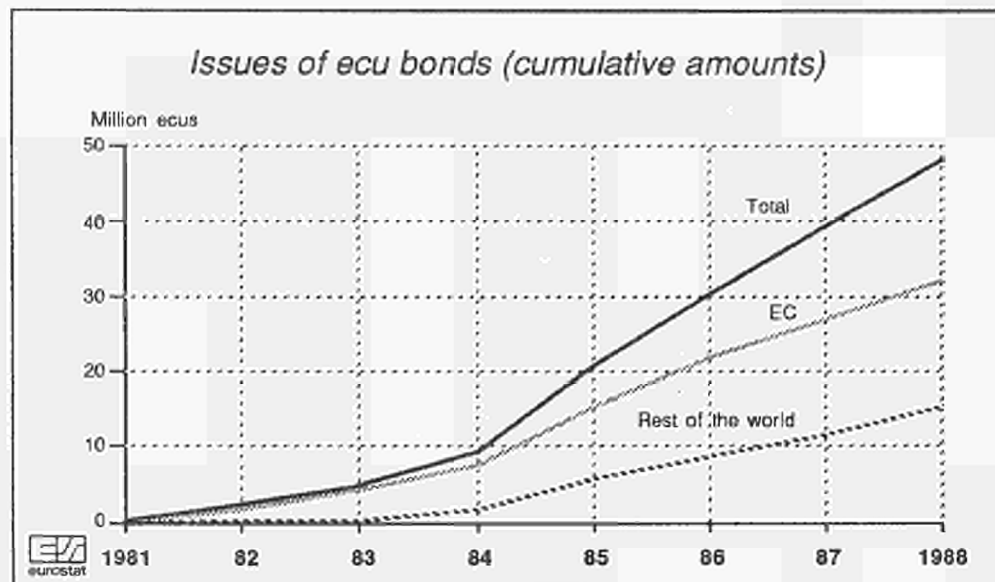
Ecu, Yen, Dollar

Value of the ecu: ECU 1 =

	1979	1985	1988
USD	1.37	0.76	1.18
Yen	300.47	180.56	151.46

During the period 1979-88, the dollar fluctuated greatly against the ecu. It reached its highest value in February 1985, but has since shown a downwards trend, bringing it virtually back to its 1979 level by February 1988.

The value of the yen, on the other hand, has undergone constant, but less dramatic, change.



Issues of ecu bonds

Issues of Ecu bonds (in million ecus)

	1984	1988
EC	7 742	32 344
Rest of the world	1 894	15 615
Total	9 636	47 953

Companies and financial institutions are increasingly issuing bonds in ecus to raise capital, or are investing in ecu. The advantage of the ecu to financiers both within and outside Europe is its relative stability compared with most national currencies.

BRIEFLY

● The British Government decided on 10 March to eliminate the distinction between UK and other passports at British ports and airports. Hereafter, nationals of all EC countries will use the same channels.

● Greece's economy minister set up a body at the end of February to provide information to all who are interested in '1992'.

● The regional government of Rhineland North-Westphalia, in the Federal Republic of Germany, decided on 2 March to set up a department of European Community affairs in every ministry, provide its officials European training and step up exchanges of officials with the European Community.

● The start of the next school year will see the opening of a fee-paying European school in Paris. Teaching will be in several languages, while more time will be given to cultural subjects and sport than is usually the case.

The children of European Community officials have their own schools, notably in Brussels and Luxembourg.

● The Federation of German Trade Unions (DGB) launched a training and information campaign at the beginning of March, with the aim of keeping both its members as well as members of workers' councils better informed on the single market. The campaign will include talks, seminars and exhibitions.

Eurobarometer survey

1992 means hope for 2 Europeans out of 3

The prospect of a single market in 1992 has aroused hopes in 2 Europeans out of 3 and fears in 1 of out 5. In all European Community countries those who are hopeful are in a majority, according to a poll conducted last autumn for the European Commission and published in mid-March. It shows that 3 Europeans out of 4 on average are aware of the 1992 programme, having read or heard about it. Two-thirds of them believe that 1992 'will change something' — and for nine-tenths of them, positively.

Most of those who were polled see benefits in the main concrete measures of the 1992 programme which effect their daily lives. Fair out of 5 welcome the possibility of being able to make payments anywhere in the 12-nation Community without restrictions; buying the products on sale the Community and freely exchanging one Community currency for another. Two out of 3 see an advantage in being able to buy a house or flat in another Community country and in the elimination of border controls.

Europeans expect '1992' to make a big difference in the social field also. More than nine-tenths of those who have an opinion in the matter favour Community rules in matters of health and safety at work and the mutual recognition of professional qualifications by the Twelve. More than 80% think that collective European conventions would be an advantage.

Seen from abroad

► The Swiss Parliament debates Europe

Faced with the emergence of the single market, Switzerland's federal Parliament, like the country's government, has opted for a negotiated solution, midway between accession to the European Community and isolationism. This was the outcome of a debate, held on 1 and 2 March on the subject of Switzerland's integration into Europe. It represented Parliament's response to both a Swiss Government report and President Jacques Delors' proposals. The Commission President's name was heard often in the course of the debate.

► Sweden adapts to the single market

A customs union, a framework agreement guaranteeing the free movement of people, goods, services, and capital between the European Community and the European Free Trade Association (EFTA) Austria, Finland, Iceland, Norway, Sweden, Switzerland is the answer of Sweden's prime minister, Ingvar Carlsson, to the problem that '1992' poses his country. It was given by him in the course of an interview published by the Swedish newspaper, *Svenska Dagbladet*, on 8 March. Stockholm meanwhile is adapting its laws to the programme of '300 measures' which the 12-nation European Community believes necessary to complete the single market. Prime Minister Carlsson plans to submit a balance sheet of the operation within a few months, a balance sheet which he believes will surprise many people.

► Austria hopes it can join

Austria will submit an application to join the European Community towards the middle of this year, the country's Vice-Chancellor and minister of foreign affairs, Alois Mock, said in Berne (Switzerland) on 9 March. Austria's regional governments, representing the *Länder*, have already come out in favour of the country's accession to the Community. Mr Mock hopes that entry negotiations could begin shortly before the end of 1993, so that Austria could join the EC towards 1995.

► Impatience in Budapest

'Hungary does not wish to stay outside the process leading to the realization of the single market in 1992', Matyas Szuros, Secretary of the Central Committee of the Hungarian Communist Party, with responsibility for foreign affairs, declared on 18 February in Budapest. He envisages for Hungary, 'at a suitable time, a kind of affiliation to the common market, similar to that which exists between the countries of the European Free Trade Association and the EEC'. For the present, the Hungarian authorities want to speed up the elimination of the quantitative restrictions on their exports to the Community, set for 1995 under a cooperation agreement concluded on 26 September 1988.

► Two Arab common markets in the making

Five north African countries (Algeria, Libya, Mauritania, Morocco and Tunisia) signed a Treaty setting up an Arab Maghreb Union in Marrakesh on 15 February. Its aim is the region's economic development. The next day, at a meeting in Baghdad, four Middle Eastern countries (Egypt, Iraq, Jordan and North Yemen) adopted the statutes of an Arab Cooperation Council, with the long-term aim of setting up a common market. The European Commissioner responsible for Mediterranean policy, Abel Matutes, declared in Tunis on 20 February that the Commission welcomed the efforts of the Arab countries at regional integration.

EIB: Lending through its global loans have benefited more than 5 200 SMEs

The European Investment Bank lent more than ECU 10 000 million in 1988, an increase of 30% over 1987. The sharp rise reflected the buoyant level of investments in the Member States, and the EIB's contribution to the rising demand for finance in anticipation of the completion of the single market in 1993. This contribution helped finance both the infrastructure needed for the healthy expansion of trade and projects designed to give European companies a keener competitive edge.

The sum total of the investments to which the EIB contributed in 1988 can be put at more than ECU 25 000 million, bearing in mind that it finances between 20 to 50% of the cost, depending on the project. This was slightly more than 3% of total gross fixed capital formation within the Community. Its direct effect on employment is put at 40 000 permanent jobs, a large proportion of which were with small and medium-sized enterprises (SMEs) financed out of global loans.

Of the ECU 2 900 million of EIB lending for the industrial sector, ECU 1 800 million took the form of credits for SMEs under on-going global loans, while ECU 1 100 million was in the form of individual loans to larger undertakings for investments in sectors ranging from aeronautical engineering to microelectronics and chemicals. The main purpose of these loans was to help modernize Community industry and strengthen its international competitiveness. But a number of projects in traditional areas also benefited from EIB lending. They included projects involving cooperation between companies from several Member States or helping companies in the new Member States adapt themselves to changed market conditions resulting from their country's accession to the Community.

The European Investment Bank stepped up its cooperation with specialist banks and other institutions in order to finance small and medium-sized enterprises through its global loans. A total of 5 232 investments were financed in this way, including 2 160 through leasing credit, for a total of ECU 1 800 million. As many as 3 153 SMEs in the Community's less-favoured regions received ECU 1 000 million and another 1 957 outside these regions received ECU 605 million. In the advanced technology sector, 42 smaller investment projects received a total of ECU 113 million, while 80 small projects aimed at environmental improvements and/or the rational use of energy received ECU 94 million.

What this means in fact is that since the European Year of SMEs in 1983 the European Investment Bank has provided some ECU 7 700 million, from its own resources and those of the New Community Instrument, for financing a total of 25 000 productive investment schemes implemented by small and medium-sized enterprises.

There are no application forms or other formalities when borrowing from the European Investment Bank. Contact with the EIB is direct and unhampered by any special rules. As regards small and medium-sized investments to be financed through global loans, the intermediary banks and institutions must be contacted directly.

A Community company policy: 'A step forward'

At the end of February 1989, the European Commission adopted a proposal for an EC company policy, aimed at providing a legal and budgetary basis for Community activities in this field. On a proposal from Mr Cardoso e Cunha, the Commissioner responsible for company policy, the Commission has invi-

ted the Council to adopt a decision regarding measures for improving the environment and development of companies, especially small and medium-sized enterprises (SMEs) in the Community. An overall budget of ECU 135 million will be needed for the period 1990-93, according to the Commission.

The measures envisaged cover the following areas, among others:

- (i) the elimination of the excessive administrative, financial and legal constraints that are an obstacle to the creation and development of SMEs;
- (ii) the supply of information to companies, especially SMEs, on the policies, regulations and activities, at both the Community and national level, which concern them, or could do so, together with help to them in this connection;
- (iii) encouraging companies, especially SMEs from different regions of the Community, to cooperate and form associations between themselves.

The Commission sets up a new Directorate-General

The European Commission has decided to set up a new Directorate-General to deal with company policy, trade, tourism and social economy. DG XXIII, in Community jargon, brings together the SME Task Force and the units handling trade and distribution (III-C-5), tourism (VII-A-4) and a new unit dealing with social economy.

EURO-Info, a concise information bulletin aimed especially at small and medium-sized enterprises, is available, free of charge, to all companies, organizations, associations and professional bodies that ask for it. EURO-Info is published 10 times a year, in all the Community languages.

Please write to Directorate-General XXIII (Company policy, trade tourism and social economy) at the following address: Mr Rudolf Schneider, 80, rue d'Arlon, B-1040 Brussels, Belgium.

Martin Bangemann: 'The European Community's industrial policy is neither a copy of Japan's MITI nor one of laissez-faire'

Commission Vice-President Martin Bangemann delivered an important speech at the symposium organized by the European Parliament, on the theme 'A strong Europe, a competitive industry', in Brussels on 7 March 1989. Here are some extracts from it:

'There is a widespread misunderstanding of the European Commission's concept of industrial policy. We do not want to copy MITI's Japanese model, with its quantified targets as regards market share and its important financial support for industry from public funds; but nor can we accept the completely free play of market forces. The road we envisage for European industry lies between these two extremes.'

'This approach implies the adoption of a genuinely European competition policy, an open trade policy and a greatly reinforced policy of research and development.'

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