

COUNCIL / COMMISSION  
OF THE EUROPEAN COMMUNITIES

**INTERIM REPORT ON  
THE ESTABLISHMENT BY STAGES OF  
ECONOMIC AND MONETARY UNION**

**«Werner Report»**

COUNCIL — COMMISSION  
of the European Communities

**The establishment by stages of economic  
and monetary union in the Community**

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# THE ESTABLISHMENT BY STAGES OF ECONOMIC AND MONETARY UNION IN THE COMMUNITY: INTERIM REPORT TO THE COUNCIL AND THE COMMISSION

## I. INTRODUCTION

In accordance with instructions issued by the Conference of Heads of State or Government held in The Hague on 1 and 2 December 1969 and with the terms of reference contained in a decision of the Council of Ministers dated 6 March 1970, the Working Party presents its first report.<sup>1 2</sup> It is an attempt to show what fundamental choices must be made if economic and monetary union is to be achieved, by stages, in the Community. The basis for the report has been an analysis of suggestions made by the Governments and the Commission's memorandum to the Council.

What follows is not a reflection of the separate and individual preferences of the members of the Working Party: the report tries to provide a joint reply despite the fact that on certain points opinions still differ. The ideas in it are put forward solely on the individual responsibility of the members of the Working Party.

No stage-by-stage plan can be worked out without a preliminary scrutiny of the present situation, so that the point of departure can be clearly defined and so that shared ideas as to the state of the economic and monetary union at the end of the stage-by-stage plan can be developed. Once the two extreme limits of the projects have been described, the report sets down the fundamental principles and certain concrete proposals on the basis of which the process which is to lead the Member States to economic and monetary union can be approached in a first stage. Subsequent studies carried out by the Working Party should provide a fuller picture of what is envisaged for the first stage and further material concerning the plan. In this way the Working Party's assignment will be completed in coming months.

## II. THE POINT OF DEPARTURE

Since the signing of the Treaty of Rome, the European Economic Community has completed a number of stages of the greatest importance on the road to its economic integration. Outstanding among these are the establishment of the customs union and the definition of a common agricultural policy.

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<sup>1</sup> The chairman of the Working Party is Pierre Werner, Prime Minister and Minister of Finance in the Government of the Grand Duchy of Luxembourg.

<sup>2</sup> See Annex 1, The Hague communiqué; Annex 2, Terms of reference of the Working Party; Annex 3, Composition of the Working Party.

However, one effect of integration is that general economic disequilibria in the member countries affect directly and quickly the overall development of the Community. Experience in recent years has shown clearly that these disequilibria are liable to undermine integration achieved in the fields of liberalization of the movement of goods, services and capital. This applies especially to the common agricultural market. There are still disparities between the member countries in respect of the achievement of growth and stability objectives, and there is still a danger that disequilibria may occur if economic policy is not effectively harmonized.

The growing interpenetration of the economies has weakened the independence of the short-term economic policies pursued in the member countries. It has become all the more difficult to implement economic policy because the loss of independence at national level has not been offset by the creation of Community policy. Here is clear evidence of shortcomings and disequilibrium in the process of building up the Common Market.

Past efforts have not been completely in vain but they have not led in fact to co-ordination or effective harmonization of the economic policies in the Community, although this is what the Treaty of Rome implies and what could have been achieved through the application of the basic clauses of the Treaty, notably the articles on economic and monetary policy.

The first two medium-term programmes failed to produce sufficiently harmonized quantitative objectives, although without these effective co-ordination is impossible. Studies of the economic situation in the Community have often led only to recommendations worded in very general terms, even when it was in the Community interest that more specific views be expressed. Broadly speaking, the consultation procedures have not produced the hoped for results, either because they have been merely formal in character or because the Member States have used escape clauses to nullify them.

Work to liberalize capital movements and to introduce the right of establishment for banks and financial institutions has not made enough progress. The reasons for this are the lack of adequate co-ordination of economic and monetary policies and special legal or other circumstances in the individual countries.

Arrangements to enable individuals to work in a Community country other than their own without restriction of any kind are not yet completely satisfactory and no real progress has been made in the harmonization of social policies.

In its external relations, particularly in international monetary relations, the Community has so far failed to assert itself adequately through the adoption of agreed positions. The reason for this has been differences of policy or of general approach, according to case.

Despite all this, producers, dealers and consumers have adapted to the new market conditions. Multinational companies have developed, and the Euro-currency and Euro-issue markets have emerged and have achieved a considerable scale of operations. Speculative movements of capital have assumed formidable proportions. These innovations, some of which are of value, are nevertheless making it more and more difficult for the Member States to control economic trends, at the very time when the growing interdependence of the industrialized economies is highlighting the problem of the individuality of the Community.

Well aware of these problems, the Commission laid before the Council on 12 February 1969 a memorandum stressing the need for progress in the co-ordination of economic policies and in the field of monetary solidarity.

The implementation of this memorandum could well lend new strength to efforts to co-ordinate and harmonize economic and monetary policy. It would, however, provide no more than the point of departure on the road to the creation of the economic and monetary union, which must be completed as soon as possible.

### III. THE ULTIMATE GOAL

The Working Party has not attempted to devise an ideal system in abstract terms. Its aim has been to single out the measures which must be adopted before an economic and monetary union can be complete. The union as described here represents a stage in a dynamic process which could well take a different form under the pressure of circumstances and of policy desiderata.

The economic and monetary union will provide an area within which goods and services, persons and capital can move unhindered and free of distortions of competition, without this creating structural or regional disequilibria.

Such a union should improve on a lasting basis the prosperity of the Community and strengthen the Community's contribution to international, economic and monetary equilibrium. Given the co-operation of unions, employers' federations and the various business and social organizations, it should, through the combined effect of market forces and of policies devised and implemented by the authorities, ensure the attainment of satisfactory growth, a high level of employment, stability, the narrowing of regional and social disparities and the protection of the environment.

Within an individualized monetary area, there must be currency convertibility, irrevocable currency parities, and complete freedom of capital movement; the exchange rate bands must be eliminated. Either the various national currencies could be maintained or a single Community currency could be created: from the technical point of view, there is very little in this, but psychological

and political considerations make a strong case for the adoption of a single currency; once this was created, it would be very difficult to revert to the old system.

Economic and monetary union cannot work smoothly and without strain unless certain responsibilities are shifted from the countries to the Community authorities. Such transfers of power would be kept down to the limits necessary to ensure the effectiveness of Community action; they are mainly those concerning the group of policies involved in the maintenance of general equilibrium. In addition, economic policy instruments would have to be harmonized in the various appropriate areas.

*Medium-term quantitative objectives*, mutually compatible and properly related to Common Market objectives, will have to be worked out for growth, employment, prices and external equilibrium. These objectives will be brought up to date each year on the basis of moving projections.

The broad outline of *short-term economic policy* must be agreed at Community level. Here it will be necessary to know what are the factors and pre-conditions governing the control of overall demand, notably through monetary policy and the budgets. For this purpose "normative", mutually compatible economic budgets must be established each year and their implementation supervised.

The main *monetary policy* decisions — on liquidity, interest rates, intervention on the exchanges and the management of the reserves — must be centralized. The Community must dispose of a full range of the necessary instruments, though the use to which these were put would not have to be uniform in all the countries. In monetary and financial relations with non-member countries and the international economic organizations, the Community must also have a common policy and common arrangements for representation.

In guiding the general development of the economy, *budgetary policy* is of great importance. Although at the beginning of the economic and monetary union the Community budget will certainly be bigger than it is now, its influence on economic trends will remain small in comparison with that of the Member States' budgets, the harmonized administration of which is fundamental to the cohesion of the union.

The limits within which the main budget aggregates should be fixed must be decided at Community level, having due regard to the economic situation and the structural peculiarities of each country. This must be done both for the annual budget and for planning arrangements covering several years. The key factor will be the determination of the size of the deficit or surplus and the decision as to how the deficit should be financed or the surpluses allocated. So that the authorities can adjust the trend promptly and effectively, instruments that can be handled on the basis of jointly-agreed directives should be provided.

In this field centralization for its own sake must be avoided. Authority must be transferred to the Community agencies only to the extent necessary for the smooth working of the union. Budgetary structure would be varied to fit individual requirements and would operate at several levels — the Community level, the national level, etc.

If distortions of competition are to be avoided, *taxation arrangements* will have to be harmonized to some extent. This applies in particular to the value-added tax, to taxes likely to affect capital movements and certain excise duties. While enabling the fiscal frontiers to be eliminated, measures to harmonize taxation must allow of enough elasticity for taxation policy to remain effective at the various levels.

Structural disparities could well be a dangerous threat to the achievement of overall economic equilibrium. Co-operation between the Community partners in the field of *structural policy* will help to overcome these difficulties, while at the same time allowing distortions of competition to be eliminated. Financial offsetting measures will make it easier to solve the key problems in this field. Structural and regional policies cannot be implemented solely under the national budgets. Environment problems — technical, financial, social — arising out of industrial growth and urban development should be dealt with at Community level.

The cohesion of the economic and monetary union cannot be ensured if incomes in the various member countries develop on lines diverging too widely. The pattern of income trends must be carefully monitored and discussed at Community level with the *participation of both sides of industry*. More generally, unions and managements should be closely associated in the preparation and execution of Community policy. This will help to ensure the success of undertakings embarked upon jointly.

As for *institutional reform*, an economic and monetary union cannot be created without the establishment or adaptation of a number of Community agencies, to which the powers now held by the national authorities will have to be transferred. These shifts of responsibility represent a process of fundamental political importance entailing the progressive development of political co-operation in the various fields.

The Working Party prefers not to submit detailed proposals at the present time as to the form the various Community agencies should take. It is, however, important that these agencies should be able to work effectively in compliance with democratic rules, and that they should have clearly defined responsibilities and an effective power of decision.

The reform of the institutions will require amendment of the Treaty of Rome, and the preparatory work here should be carried out during the first stage. However, the Treaty, as it now stands, already allows considerable progress to be made towards economic and monetary union.

The Working Party believes that, provided the Member States maintain the political attitude towards economic and monetary union, solemnly expressed at the Hague Conference, this objective can be achieved in the seventies.

#### IV. IMPLEMENTING THE STAGE-BY-STAGE PLAN: PRINCIPLES

When describing above the point of arrival, the Working Party was seeking to establish clearly and accurately the final goal to be achieved. There should be no ambiguity in this respect, for economic and monetary unification is an irreversible process which should only be set in train if there is a firm determination to carry it through to its conclusion by accepting all its economic and political implications.

This definitely does not mean that economic and monetary union can be achieved overnight. On the contrary, it must be gradually built up by continuing work begun to strengthen the co-ordination of economic policies and monetary co-operation.

Between the point of departure and the final goal, measures must be adopted under a set of related headings: the establishment of overall economic guidelines, the co-ordination of short-term economic policies through money and credit arrangements, through the budget and taxation and through incomes policy, the adoption of Community policies on structure, the elimination of exchange fluctuations between the Community currencies, greater stability in parity relationships, the harmonization of external monetary policy, the integration of the capital markets, etc. All this will require in the first place fuller co-ordination of national policies, then their harmonization through the adoption of agreed directives, and lastly the transfer of responsibilities from the national to the Community authorities. As progress is gradually made, Community instruments will have to be created to take over from or underpin the national instruments.

In all the fields, the measures to be taken are interdependent and will strengthen each other; in particular, the development of monetary unification must be closely related to adequate progress in the co-ordination, and later unification, of the economic policies.

While pursuing economic and monetary unification, the Community must assert its own economic and international policy objectives vis-à-vis the outside world. While adjusting internal structure, the Community must continue to take part, through its member countries or in its own right, in those measures to liberalize trade, to further economic and monetary co-operation and to help the developing countries which are agreed at world level. Here, the economic and monetary union will have served to enhance the international

division of labour and not to form a new autarchic bloc within the international economy.

The Hague communiqué states that the plan for achieving economic and monetary union by stages should be worked out "on the basis of the memorandum presented by the Commission on 12 February 1969." The Working Party therefore took the view that the measures recommended by this memorandum formed the points of departure for the whole process, and that accordingly the Council should agree by the end of 1970 on the two points still outstanding in the memorandum, i.e. the fixing of the quantitative objectives in the third medium-term programme and the establishment of medium-term financial assistance arrangements.

Starting from these principles, the Working Party has attempted to clarify the main measures to be contemplated during the first stage with a view to strengthening the habits of working together adopted by the national authorities and to setting up the necessary machinery. These measures will constitute the corner-stone of the undertaking and a manifestation of the political determination of the Member States to commit themselves, with no going back, along the road to economic and monetary union.

During the first stage, preparatory work on adapting and amplifying the Treaty must be completed, so that subsequently commitments of growing importance can be assumed and so that Community institutions and instruments can be mobilized to control economic development in the Community. In this way transition to the full economic and monetary union will be ensured.

## V. THE FIRST STAGE

The measures proposed for the first stage will, by themselves, require a major effort from the Member States and the Community. While all precipitate action must be avoided, a deadline must be set if the enterprise is to win credibility and to progress smoothly. From the technical point of view, the Working Party believes that a period of three years is the right length of time.

### *General arrangements*

Consultation procedures will be strengthened: in more and more cases consultation will be organized before any decision to be taken and will be compulsory, and the powers conferred on the Community institutions will be used fully. Consultation will cover medium-term economic policy, short-term economic policy, budgetary policy, monetary policy and the use of other economic policy instruments: it should lead to the formation of decisions in the Member States consonant with agreed attitudes.

The Working Party will discuss at a later date ways and means of ensuring that the consultations are effective.

In the field of medium-term economic policy, quantitative objectives for each member country would have to be fixed, in respect of growth, employment, prices and the external account. Expressed as "bands" (with maximum and minimum), they would have to be brought up to date at regular intervals to serve as a point of departure for moving projections.

Work to achieve these objectives will have to be supported by the co-ordination of short-term economic policy. Within the framework of Article 103, regular scrutinies of the current economic situation in the Community, and the establishment at Community level of compatible annual economic budgets and the implementation of an early warning system will have to be arranged.

The main guidelines of economic policy, especially of income policy, will be adopted after consultation of unions and employers' associations.

### *Budgets*

A good deal of work will have to be done on the co-ordination and harmonization of budget policy. In this connection, the greatest importance attaches to the methods chosen to finance deficits or utilize surpluses. In relation with the economic situation of each country, quantitative guidelines will be fixed for the main components of the national budgets, notably overall revenue and expenditure, for the distribution of expenditure between investment and consumption, and for the budget outturn — surplus or deficit — and its size.

To give these guidelines sufficient authority at political level, a new procedure will be established entailing preliminary discussion at Community level of the overall guidelines of the national budgets, then an examination of the main budget aggregates in the Council of Ministers, followed by a recommendation to be annexed to the draft budgets laid before the Member States' parliaments by the governments. This procedure would also be used for any important amendments to the budgets. In addition, the Council of Ministers should also monitor the implementation of the budgets.

With a view to facilitating these tasks, preliminary work on the harmonization and synchronization of national budget procedures should be undertaken without delay.

### *Taxation*

At the present time free competition among firms is still hampered in the Common Market by disparities between tax-law requirements in the different countries. In this connection, progress must be made on the harmonization of indirect taxes, of excise duties and of those direct taxes affecting appreciably capital movements,

## *Internal monetary and credit policy*

The interests of the Community and of its members demand that general guidelines should be worked out in common in respect of monetary and credit policy, especially with regard to liquidity, lending to the public and private sectors and interest rates. In this connection, incompatibilities between the monetary and credit policy instruments available to the member countries should be gradually ironed out.

Consultations between the monetary authorities will take place whenever a member country contemplates important domestic policy measures and whenever financial or monetary difficulties emerge in the Community. These consultations must lead to the adoption of opinions or recommendations. Measures must be taken to ensure the necessary degree of co-operation between the authorities responsible for general economic policy and the monetary authorities at Community level.

## *External monetary policy*

During the first stage consultation procedures on external monetary policy should be strengthened: this will give practical expression to the policy of solidarity among the member countries in the determination of their currency parities.

This consideration should also apply should the International Monetary Fund authorize wider bands around the parities. If necessary, the member countries should adopt the specific measures needed to maintain the fluctuations of intra-Community rates within their present confines. A more fully concerted monetary policy should also cover the granting and utilization of credit, including, for example, drawings on the International Monetary Fund and swap credits, the creation of new liquidity in the form of increased quotas or further development of the special drawing rights, and the foreign currency holdings of the banks. The first step should be taken towards the gradual establishment of EEC delegations to the IMF and the other international financial agencies.

Despite general agreement upon the points outlined above, certain options are still open.

(i) Certain members of the Working Party feel that whatever else is done the Community should also, in the first stage, be given an independent exchange system of a kind that would serve to assert the Community's personality in its dealings with the rest of the world. This system could be based on an *initial reduction in the permitted bands* between the member countries' currencies — the range of fluctuation is at present double that of the range of each of these currencies against the dollar. If the reduction is small it will not appreciably affect the flexibility of monetary policy instruments, while reducing the prefer-

ential treatment now accorded the dollar. This will constitute a first step along the road to a common external monetary policy.

These members advocate the establishment of an *exchange stabilization fund* to strengthen the cohesion of the member countries in the conduct of their monetary relations and to facilitate progress through the various stages of unification in harmonious equilibrium between monetary progress and economic progress. The details of the working of this fund are described, tentatively, in the note attached as Annex 4.

The fund will be a powerful adjunct to co-operation between central banks. It will help to harmonize their intervention policies on the exchange markets, and their policies towards their reserves. It will help to weaken the undue dependence of the member countries on the dollar by facilitating the settlement in Community currencies of payments disequilibria occurring within the Community and by encouraging the adoption of agreed attitudes in monetary relations with the United States. It would also supervise, directly and permanently, the member countries' external payments situations and the adoption of policies appropriate for the maintenance of equilibrium. After the first stage, progress made in aligning economic policies would enable the working procedures of the fund to be adapted to the reduction and to the elimination of exchange rate bands between Community currencies. By the end of the process of unification, the fund would already have enough experience to handle the unified exchange policy of the Community and would be ready for transformation into a common reserve fund.

Apart from the technical advantages, the creation of such a fund would have obvious value from the political and psychological points of view. It would reflect in tangible terms the intentions expressed at the Hague Conference, by giving the Community an effective weapon in the drive to ensure balanced development of the economic and monetary union.

Narrower bands between member countries' currencies require the use of appropriate techniques for intervention on the exchanges, whatever other arrangements are made. This task could be entrusted to the exchange stabilization fund. Pending the establishment of the fund, which could be set up in the second part of the first stage, a provisional technique would be used. It would consist in permanent and co-ordinated interventions by the central banks, the purpose of which would be to establish the weighted average "*European exchange rate*" in relation with the dollar within the internationally authorized bands and to maintain a narrow gap between the member countries' currencies by means of purchases or sales of these currencies by the various central banks concerned.

This arrangement would symbolize the determination of the member countries to achieve, when the time comes, monetary unity. It would establish, through the working of credit machinery comparable to that of the old EPU,

a common interest which could well encourage economic harmonization, and, lastly it would enable the countries to prepare for the possibility of the bands being widened in the international monetary system.

(ii) The other members of the Working Party feel that neither an institutional reduction of the bands nor the creation of an exchange stabilization fund are desirable in the first stage. In their opinion, important measures of Community monetary policy can only be contemplated when, as a result of effective progress in the harmonization of economic policy, certain conditions are fulfilled so that the equilibrium of the economy as a whole throughout the Community can be ensured.

These members also would like to see the early elimination of bands and the establishment of guaranteed and fixed exchange rates. They believe that guaranteed exchange rates, without bands, are an important objective of the economic and monetary union, but they feel that this aim can be achieved on a durable basis only with the support of a real equilibrium policy throughout the Community and that the key to the cohesion of the Community in the first stage lies in fuller harmonization of the economic policies. The convergence of economic policies will in itself curb variations in exchange rates between the European currencies.

These members are doubtful as to whether the establishment of an exchange stabilization fund during the first stage would be advisable, for they do not feel that this would be the best way of achieving the ultimate objective of a European central bank. There is no question that eventually the Community must have an autonomous central agency comparable to the United States Federal Reserve Board; they therefore feel that in the first stage preparations should be made for those changes in the Treaty which will be needed to make the establishment of this institution possible.

### *The capital market*

The liberalization of capital movements within the Common Market is now lagging behind that of the other factors of production.

Further measures are needed. In particular, a first step would be the setting of a liberalization ceiling for issues of securities by the residents of other member countries.

At the same time, there is a case for harmonization work in the more technical fields, particularly the regulations concerning financial intermediaries, stock exchange requirements, legal instruments for financial transactions, and incentives to saving. The right of establishment and the right to supply services freely should also be accorded to banks and other financial establishments.

Here, the member countries should carry out regular consultations on capital movements within the Community and with non-Community countries and take steps to co-ordinate national policies in this field.

### *The other fields*

It is essential that action begun in other fields should be continued. For example, more measures are needed to eliminate residual obstacles to intra-Community trade, to establish an inventory of aids and subsidies the harmonization of which is necessary to the free play of competition, on the alignment of criteria for the granting of subsidies designed to encourage certain regions or industries, on the implementation of a common commercial policy in accordance with the Treaty, and on the establishment and adoption of the statute for a European company.

## VI. CONCLUSIONS

The Working Party stresses that the time allowed for it to draft this first report was too short for it to reach agreement on all the aspects of the elaboration of a stage-by-stage plan.

The Working Party agreed that the point of departure must be found in the completion of the operations recommended in the Commission's memorandum to the Council of 12 February 1969. This means that the Council must act between now and the end of 1970 on the definition of quantitative medium-term guidelines and on the creation of medium-term financial assistance arrangements.

The final objective, fixed by the Conference of Heads of State or Government, can be reached during the present decade, providing the governments maintain constant political support.

Economic and monetary union means that the main economic policy decisions will be taken at Community level and therefore that the necessary powers will be transferred from the countries to the Community. The ultimate goal could be the adoption of a single currency, which would ensure that there was no going back on the decisions taken.

Between the point of departure and the final goal, a great deal must be done simultaneously and in various fields. Some measures entail amendment of the Treaty of Rome, and preparations for this should be completed during the first stage. None the less, the clauses as they now stand already allow of substantial progress.

The first stage should begin on 1 January 1971 and be completed by a specified time-limit; from the technical point of view, the Working Party feels that it should last three years. During this time, the Community instruments will be steadily developed and the Community will begin to acquire individuality of its own within the world monetary system.

The first stage cannot be considered as an end in itself; it is inseparable from the overall process of economic and monetary integration. A firm determination to reach the final goal must therefore be present at the outset.

In respect of the first stage, the Working Party unanimously recommends the strengthening of consultation procedures, though how this is to be done can be decided later. It also recommends that the Member States' budgetary policies be related to Community objectives, that taxation arrangements be harmonized to some extent, that money and credit policy be firmly co-ordinated and that the capital markets be more closely integrated.

The Community must gradually adopt an agreed position in monetary relations with non-member countries and international organizations; in particular, in exchange relations between the member countries, it should not take advantage of rules — if they are adopted — relaxing the present requirements in the international exchange system.

Whether, and if so, how, the Community should be given its own exchange system during the first stage are questions which remain unsettled. Certain members of the Working Party argue that the exchange rate bands between the Community currencies should be reduced, were it only to a limited extent. They feel that this objective could be achieved through the establishment of an exchange stabilization fund or by co-ordinated intervention of the central banks on the exchanges. The establishment of the fund would be of value in itself, even if the bands were not narrowed.

Other members feel that monetary solidarity should follow the harmonization of economic policies and situations and not be derived from specific monetary measures, which they feel would be both premature and too risky in the first stage.

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In conclusion, the Working Party suggests that the general principles set out above should be approved, that the fundamental decisions still outstanding should be examined and that the Council should provide the guidance needed for the Working Party to carry out further assignments.

## ANNEX 1

# FINAL COMMUNIQUÉ OF THE CONFERENCE OF HEADS OF STATE OR GOVERNMENT ON 1 AND 2 DECEMBER 1969 AT THE HAGUE

(2 December 1969)

1. On the initiative of the Government of the French Republic and at the invitation of the Netherlands Government, the Heads of State or Government and the Ministers of Foreign Affairs of the Member States of the European Communities met at The Hague on 1 and 2 December 1969. The Commission of the European Communities was invited to participate in the work of the Conference on the second day.
2. Now that the Common Market is about to enter upon its final stage, they considered that it was the duty of those who bear the highest political responsibility in each of the Member States to draw up a balance sheet of the work already accomplished, to show their determination to continue it and to define the broad lines for the future.
3. Looking back on the road that has been traversed, and finding that never before have independent States pushed their co-operation further, they were unanimous in their opinion that by reason of the progress made, the Community has now arrived at a turning point in its history. Over and above the technical and legal sides of the problems involved, the expiry of the transitional period at the end of the year has, therefore, acquired major political significance. Entry upon the final stage of the Common Market not only means confirming the irreversible nature of the work accomplished by the Communities, but also means paving the way for a united Europe capable of assuming its responsibilities in the world of tomorrow and of making a contribution commensurate with its traditions and its mission.
4. The Heads of State or Government therefore wish to reaffirm their belief in the political objectives which give the Community its full meaning and purpose, their determination to carry their undertaking through to the end, and their confidence in the final success of their efforts. Indeed, they have a common conviction that a Europe composed of States which, in spite of their different national characteristics, are united in their essential interests, assured of its internal cohesion, true to its friendly relations with outside countries, conscious of the role it has to play in promoting the relaxation of international tension and the *rapprochement* among all peoples, and first and foremost among those of the entire European continent, is indispensable if a mainspring of development, progress and culture, world equilibrium and peace is to be preserved.

The European Communities remain the original nucleus from which European unity has been developed and intensified. The entry of other countries of this continent to the Communities — in accordance with the provisions of the Treaties of Rome — would undoubtedly help the Communities to grow to dimensions more in conformity with the present state of world economy and technology. The creation of a special relationship with other European States which have expressed a desire to that effect would also contribute to this end. A development such as this would enable Europe to remain faithful to its traditions of being open to the world and increase its efforts on behalf of developing countries.

5. As regards the completion of the Communities, the Heads of State or Government reaffirmed the will of their governments to pass from the transitional period to the final stage of the European Community and, accordingly, to lay down a definitive financial arrangement for the common agricultural policy by the end of 1969.

They agreed progressively to replace, within the framework of this financial arrangement, the contributions of member countries by the Community's own resources, taking into account all the interests concerned, with the object of achieving in due course the integral financing of the Communities' budgets in accordance with the procedure provided for in Article 201 of the Treaty establishing the EEC and of strengthening the budgetary powers of the European Parliament.

The problem of the method of direct elections is still being studied by the Council of Ministers.

6. They asked the Governments to continue without delay, within the Council, the efforts already made to ensure a better control of the market by a policy of agricultural production making it possible to limit budgetary burdens.

7. The acceptance of a financial arrangement for the final stage does not exclude its adaptation by unanimous vote, in particular in the light of an enlarged Community and on condition that the principles of this arrangement are not infringed.

8. They reaffirmed their will to press forward with the further developments needed if the Community is to be strengthened and its development into an economic union promoted. They are of the opinion that the integration process should result in a Community of stability and growth. To this end they agreed that within the Council, on the basis of the memorandum presented by the Commission on 12 February 1969, and in close collaboration with the Commission, a plan in stages should be worked out during 1970 with a view to the creation of an economic and monetary union.

The development of monetary co-operation should be backed up by the harmonization of economic policies.

They agreed to arrange for the investigation of the possibility of setting up a European Reserve Fund as one ultimate result of pursuing a common economic and monetary policy.

9. As regards the technological activity of the Community, they reaffirmed their readiness to continue more intensively the activities of the Community with a view to co-ordinating and promoting industrial research and development in the principal advanced sectors, in particular by means of common programmes, and to supply the financial means for the purpose.

10. They further agreed on the necessity of making fresh efforts to work out in the near future a research programme for the European Atomic Energy Community designed in accordance with the exigencies of modern industrial management, and making it possible to ensure the most effective use of the Joint Research Centre.

11. They reaffirmed their interest in the establishment of a European university.

12. The Heads of State or Government acknowledge the desirability of reforming the Social Fund, within the framework of a closely concerted social policy.

13. They reaffirmed their agreement on the principle of the enlargement of the Community, as provided by Article 237 of the Treaty of Rome.

In so far as the applicant States accept the Treaties and their political objective, the decisions taken since the entry into force of the Treaties and the options made in the sphere of development, the Heads of State or Government have indicated their agreement to the opening of negotiations between the Community on the one hand and the applicant States on the other.

They agreed that the essential preparatory work for establishing a basis of negotiation could be undertaken as soon as practically and conveniently possible. By common consent, the preparations would take place in a most positive spirit.

14. As soon as negotiations with the applicant countries have been opened, discussions will be started with such other EFTA members as may request them on their position in relation to the EEC.

15. They instructed the Ministers of Foreign Affairs to study the best way of achieving progress in the matter of political unification, within the context of enlargement. The Ministers are to make proposals before the end of July 1970.

16. All the creative activities and the actions conducive to European growth decided upon here will be assured of a better future if the younger generation is closely associated with them. The Governments are resolved to endorse this and the Communities will make provision for it.

## ANNEX 2

# COUNCIL DECISION OF 6 MARCH 1970 RELATING TO PROCEDURE FOR ECONOMIC AND MONETARY COOPERATION

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

- (i) Wishing to implement as rapidly as possible the resolution concerning the economic and monetary union of the Community adopted by the Conference of Heads of State or Government in The Hague on 1 and 2 December 1969 (paragraph 8 of the communiqué),
- (ii) Noting the suggestions made by the Governments and in the Commission Memorandum to the Council relating to the preparation of a plan for the establishment by stages of an economic and monetary union,

DECIDES:

To invite the Chairmen of the Monetary Committee, of the Committee of Governors of the Central Banks, of the Medium-term Economic Policy Committee, of the Short-term Economic Policy Committee and of the Budget Policy Committee, and a Commission representative, to meet under the chairmanship of Mr. Pierre Werner to draft a report analysing the various suggestions and bringing out the fundamental policy choices to be made so that the economic and monetary union of the Community can be achieved by stages.

A first report will be referred to the Council and the Commission before the end of May 1970, so that the Council can discuss it.

Done in Brussels on 6 March 1970

by the Council

President

ANNEX 3

COMPOSITION OF THE WORKING PARTY

*Assistant experts*

Mr. P. WERNER Prime Minister of Luxembourg	Mr. J. SCHMITZ
Baron H. ANSIAUX Chairman of the Committee of Governors of Central Banks	Mr. J. MERTENS de WILMARS
Mr. G. BROUWERS Chairman of the Short-term Economic Policy Committee	Mr. A. LOOIJEN
Mr. B. CLAPPIER Chairman of the Monetary Committee	Mr. J.-M. BLOCH-LAINE
Mr. U. MOSCA Director-General for Economic and Finan- cial Affairs in the Commission	Mr. J.-C. MOREL
Mr. J.-B. SCHÖLLHORN Chairman of the Medium-term Economic Policy Committee	Mr. H. TIETMEYER
Mr. G. STAMMATI Chairman of the Budget Policy Committee	Mr. S. PALUMBO

*Secretary:* Mr. G. MORELLI

The Working Party held five meetings, on 20 March, 7 and 30 April, and 14 and 20 May 1970.

The assistant experts held three meetings, on 6, 8 and 18 May 1970.

## A EUROPEAN EXCHANGE STABILIZATION FUND

An economic and monetary union cannot be achieved without the instruments and institutions needed within the Community to establish fixed and irrevocable exchange rates between the member countries' currencies and to ensure the unity of the Community's monetary relations with the outside world. At the same time, economic trends and policies must increasingly converge, for their failure to do so would be a threat to Community equilibrium.

In this context, the present note suggests the institution of a European Exchange Stabilization Fund, so designed as to facilitate progress through the various stages of economic and monetary unification and to ensure that the conditions which must be met at the end of the process are in fact fulfilled.

During the first stage, the Fund's main task would be to help curb exchange rate fluctuations within European currencies, to strengthen the cohesion of the member countries in the administration of their reserves and to supervise the policies designed to adjust the member countries' payments balances.

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The present exchange arrangements leave the width of the bands between European currencies at double the range of fluctuation of the exchange rates of these currencies against the intervention currency. At present, the Community currencies are exchanged between themselves at rates fluctuating at up to 3%, whereas these fluctuations are confined to 1.5% for conversions of Community currencies into the dollar (that is to say 0.75% each side of parity). The dollar thus confers on its owner greater security, within the limit of the permitted area of fluctuation, than that enjoyed by the holder of any other currency.

With a view to economic and monetary union, exchange rate fluctuations between European currencies must be gradually tapered down in relation with the needs of, and the scope for, integration, and must no longer be determined in relation with margins deemed necessary vis-à-vis the dollar. In this connection, it is already accepted that the fluctuations of exchange rates between European currencies should not be affected by any widening of the bands applicable to the dollar. Even if the bands are not widened, it may well be desirable that the preferential treatment accorded the dollar in comparison with the Community currencies should be discontinued or at least modified during the first stage.

For this purpose, the Community must adopt new arrangements for intervention on the exchanges.

The establishment of special bands for Community currencies would mean that when the upper or lower limits of the bands were reached, intervention would take place. The dollar would thus cease to be the compulsory intermediary for all settlements, even between Community member countries.

The establishment of a European Exchange Stabilization Fund would facilitate intervention by obtaining the exchange needed for the deficit countries and by providing the surplus countries with the assurances needed concerning the assets they would be accumulating temporarily in Community currencies. Each member country would have an account with the Fund, and its assets or liabilities on this account would be denominated in units of account. The account would be settled from time to time by the transfer of reserves from the debtor countries to the creditor countries.

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Closer exchange relations between the member countries would force their central banks, whatever else is decided, to co-ordinate their dollar interventions, whether they also intervene in Community currencies at the same time or not.

Co-ordination would itself be facilitated if the Exchange Stabilization Fund assumed, through the central banks, responsibility for dollar interventions on the exchange market. As at present, each central bank would continue to act as regulator of the exchanges. However, the intervention rates should conform with the directives issued by the fund and the intervention balances would be treated by each central bank as a change in its assets or liabilities with the Fund and no longer as a variation in its own dollar assets. The accounts of each country with the Fund would therefore reflect not only their position in Community currencies but also their dollar position. The positions taken together would be equivalent, for each country, to the deficit or surplus on its payments balance, financed by the variation in official reserves.

The Fund would thus institute a new method of holding reserves, rather than pooling them. However, from two points of view, the Fund would enable a common policy for administering reserves to be got under way.

From the point of view of relations within the Community, the members of the Fund would have to decide how far its functioning should include mutual lending between the member countries: the contribution of liquidities available through the fund would be either negligible or appreciable depending on whether the accounts with the fund had to be settled in full at short intervals by transfers

of other reserve assets between member countries or whether they could be maintained over some time. The precedent of the European Payments Union gives examples of how settlements by transfer of reserves and the maintenance of debtor or creditor positions could be judiciously combined. The facilities created in this way could take the place of short-term monetary support machinery and medium-term financial support machinery, so that differing credit sources could not be used concurrently.

From the point of view of relations with the outside world, the Fund would help to assert the Community's personality by taking the decisions needed for the administration of the dollar assets accumulated on its own account through any surpluses earned by the Community. The cohesion of the member countries in the conduct of their external monetary policy would necessarily be strengthened by this.

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Through its very working, the Fund would always have information immediately available on the payments trends of each member country and of the Community as a whole: the position on the accounts opened for the member countries would show their external payments situations.

An organic link could be established between the working of the Fund and the Community procedures for the co-ordination of economic policy. The development of a consistently unbalanced position within the Fund would activate a Community consultation procedure enabling the situation of the country concerned to be analysed and opening the way, if necessary, to the adoption of appropriate measures, either by this country itself, or by the Community as a whole.

The sharing by the member countries of the rights and obligations connected with the working of the Fund would help to bring economic situations closer into line and encourage the maintenance of reasonably balanced positions within the Fund. To this extent, the establishment of the Fund could help facilitate the process of adjustment within the Community.

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Designed along these general lines, the European Exchange Stabilization Fund would have several advantages.

The establishment of the Fund would in itself symbolize the Community's right to monetary individuality. It would help to combat the undue dependence of exchange relations between the member countries on the dollar and would strengthen the Community's position in bilateral or multilateral monetary negotiations.

The Community would possess an instrument adapted to the needs imposed by progress made in its economic and monetary unification: the Fund would be in a position to supervise and encourage, on a permanent basis, work towards the achievement of economic equilibrium within the Community, while facilitating adaptation to temporary difficulties thanks to the use, as appropriate, of credit machinery adapted to the circumstances.

The machinery needed when economic and monetary unification was complete would be established from the very outset of the process and the experience needed for its working could be acquired gradually. The machinery of the Fund could be adapted easily to the gradual narrowing down of the fluctuation bands and to the pooling of a proportion of the reserves. At the ultimate point of arrival of economic and monetary union, the Fund would be the Community's instrument for the conduct of its exchange policy vis-à-vis the outside world.