

# COMMISSION OF THE EUROPEAN COMMUNITIES

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## WORK ON ECONOMIC AND MONETARY UNION

- Item 1: Draft Council Resolution on the implementation of the second stage of economic and monetary union in the Community
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(Submitted by the Commission to the Council)

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DRAFT  
COUNCIL RESOLUTION ON THE IMPLEMENTATION  
OF THE SECOND STAGE OF ECONOMIC  
AND MONETARY UNION IN THE COMMUNITY

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(submitted by the Commission to the Council)

DRAFT

Council Resolution on the implementation  
of the second stage of economic  
and monetary union in the Community

1. The Council of the European Communities,

Having regard to the final communiqué of the Conference of Heads of State or Government held on 19 and 20 October 1972, and in particular item 1 of the section on economic and monetary union expressing their desire to see the necessary decisions taken during 1973 to enable the Community to proceed to stage two of economic and monetary union on 1 January 1974, with a view to completion of union at latest by 31 December 1980,

Having regard to the draft from the Commission,

Having regard to the Opinion of the European Parliament,

HAS ADOPTED THIS RESOLUTION,

- I. A second stage of economic and monetary union shall begin on 1 January 1974 and be completed at the latest by 31 December 1976.

During this stage, priority objectives will be assigned to the Community:

- (i) inflation control,
- (ii) balanced and sustained expansion with as high a level of employment as possible,
- (iii) a fair distribution of the benefits of expansion, improvement of the quality of life, phasing down of social and regional imbalances within the Community,

(iv) creation of a European identity vis-à-vis third countries, a necessary condition for internal cohesion and development.

## II.

1. The Council believes that it is of the greatest importance that the economic and monetary policies conducted within the Community should be pursued along highly convergent lines and will adopt all necessary measures to achieve this;<sup>1</sup> it stresses the need for the Institutions of the Community to do everything in their power to ensure that the procedures are carried out efficiently and that the policies conducted are in line with the objectives set. To achieve this high degree of convergence in economic and monetary policies, the following action programme will be undertaken:

- strengthening of consultative procedures; the necessary measures will be taken to ensure that, from the beginning of the second stage, permanent consultation machinery is set up in <sup>the</sup> economic and monetary fields, so that proper prior consultations are held before any significant measures of economic and monetary policy are taken;<sup>1</sup>

- the introduction of moving five-year quantitative forecasts for reference in coordinating economic policies, and establishment of medium-term policy programmes providing the frameworks for Community policies<sup>1</sup>;

- the harmonization, extension and more coordinated use of the range of economic and monetary policy instruments available in the Member States; to this end, a directive on the promotion of stability, growth and full employment in the Community will be adopted before the end of 1973<sup>2</sup>.

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<sup>1</sup> See Council decision on the attainment of a high degree of convergence in the policies pursued by the Member States of the Community.

<sup>2</sup> See Council directive on the promotion of stability, growth and full employment in the Community.

- acquiring a more thorough knowledge of the problems connected with economic integration in Europe; to meet this need, an Institute of the European Communities for Economic Analysis and Research will be set up in the course of 1974 ;
- widening and improving basic information, for which a programme of harmonization and coordination of economic and financial statistics will have to be adopted by the Council during 1974 as part of an overall programme and implemented gradually during the second stage.

2. Coordination of the budgetary policies of the Member States is to be strengthened and the execution of public budgets to be examined regularly. Within this framework, the size of budget balances and the way they are financed or utilized must be closely supervised.

The guidelines for the budgets of public administrations will be laid down by reference to the medium-term forecasts for public finances. Measures (will have) to be taken for the progressive harmonization of the instruments of budgetary policy and of the methods of establishing budgets.

3. The Council considers that, during the second stage, greater coordination of economic and monetary policies and the implementation of the structural policies provided for should enable stable currency relationships, based on fixed but adjustable parities and excluding fluctuations beyond the agreed limits, to be established within the Community.

Every year, on the basis of a report addressed to the Council and the Commission by the Board of Governors of the European Monetary Cooperation Fund and on the basis of results obtained in the field of coordination of economic policies, the Council may decide, on proposals from the Commission, on further reductions of the maximum spread at any one time (at present 2.25%) between the currencies of the Community

The Council confirms that the elimination of the spread and the attainment of fixed parities constitute the final objective to be reached by 1980.

The new Community credit machinery must be integrated into the Monetary Cooperation Fund, which must receive contributions for its reserves from Member States. Thus, the settlement difficulties affecting the Community exchange system will be more easily overcome, the multilateral character of the system will be strengthened, and the role of the Fund as a monetary cooperation agency and the use of the European unit of account<sup>1</sup> will be developed. The link between the convergence of the economic policies and the grant of credit will be ensured by the fact that such grant is conditional beyond certain limits.

The first contribution, representing 10% of the reserves held by Member States on 31 December 1973, will be paid in at the beginning of the second stage.

Depending on circumstances and the degree of harmonization of economic policies, the Council, on a Commission proposal, shall decide, during the second stage, on the date and amount of the additional contributions.

4. From the beginning of the second stage, the machinery for prior consultations in case of changes in intra-Community exchange relationships will be reinforced.

5. The Council has agreed that, from the beginning of the second stage, the Member States of the Community, must, in their monetary relations with third countries and international organizations:

- pursue policies compatible with the proper functioning of the monetary union or with the adoption, between Member States of the Community, of interim agreements leading to the formation of a monetary union;
- refrain from availing themselves of measures adopted as part of the reform of the international monetary system to introduce greater flexibility to intra-Community monetary relations;
- adopt common positions in line with these principles and announce them through a single spokesman.

6. The Council observes that, as regards the liberalization of capital movements within the Community, no progress has been made since 1962; it also notes that, in the absence of a Community differentiation vis-à-vis third countries, the result of international monetary developments has been that a good deal of ground has been lost in this field in recent years, not only between the Community and third countries, but also between the Community Member States themselves.

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<sup>1</sup> See Regulation on the Monetary Cooperation Fund.

In the present situation, neither a high degree of freedom of capital within the Community nor a Community capital market can be introduced unless the Community is clearly distinguished from other countries. Such a distinction must be part of a system ensuring the common control of external movements of capital and must be linked to monetary cooperation arrangements based on compliance with the Community exchange system.

Accordingly, the Council believes that the Community must set up a common system for controlling external movements of capital, to be used when required. The Commission will, before 31 December 1974, submit proposals for establishing this system and for progressively attaining a high degree of freedom of movement of capital within the Community.

7. The Council attaches great importance to the aim of finding remedies to the structural and regional imbalances in the Community which could adversely affect the achievement of economic and monetary union. From this angle, and without prejudice to any measures which may be taken as part of more specific programmes, the Council has agreed to set up, before 31 December 1973, the European Regional Development Fund and the Regional Policy Committee. At the same time, it stresses the importance of making rapid progress in the coordination of the Member States' regional policies. During the second stage, the Council, acting on a Commission proposal, will decide on the creation of a European regional development company and on the establishment of a Community system of guarantees for investments in development areas.

In addition, the Council recognizes the importance of a concerted policy to channel a considerable portion of the new investments of undertakings into those areas of the Community with the lowest level of economic development.

8. In the field of social policy and employment, the Council will see to it that substantial progress is made which, quite apart from its own merits, will facilitate the process of economic and monetary integration.

As regards comparison and coordination of the social and employment policies, continued efforts will have to be made to make the options of the Member States more coherent. In order to improve and develop vocational readaptation facilities, the Council is asking the Member States to undertake to introduce a system for guaranteeing income during the training period. On a proposal from the Commission, the Council will decide on the details of a Community contribution aimed at facilitating the implementation of this system in the countries or regions which have the greatest difficulties.

9. As regards industry, the Council considers that during the second stage a major effort should be made to place industry throughout the Community on a uniform basis in order to achieve the requisite degree of consistency so that development may be balanced both in regional and in sectoral terms. To this end it attaches the highest importance to measures for eliminating barriers, in particular legal and tax barriers, to the free movement of goods, to joint ventures and cooperation between undertakings at European level, to the gradual and effective opening of public contracts and to the implementation of effective promotion or conversion measures concerning certain industries which face special problems.

The Member States will take the necessary measures to harmonize their fiscal, banking and stock exchange rules, and their regulations on the publication of company accounts which are the indispensable adjunct of the freedom of movement of capital within the Common Market, in order to promote the most rational use of savings in the Community and to achieve a territorially balanced distribution of investment.

In fiscal matters, the Council undertakes to give a final decision as quickly as possible on all the proposals for Directives so far presented by the Commission on VAT, excise duties and the tax rules applicable to



intra-Community mergers and to parent and subsidiary companies established in different Member States.

The Council also undertakes to give a decision before the end of 1974 on proposals from the Commission concerning:

- (a) the harmonization of withholding tax on bond income and dividends;
- (b) the harmonization of company tax schemes;
- (c) the harmonization of procedures for the collection and recovery of own resources deriving from VAT revenue;
- (d) increasing duty-free allowances for travellers.

The Council also undertakes to take measures, on proposals from the Commission, before 31 December 1976, with a view to removing tax frontiers, abolishing barriers to the freedom of movement of persons, goods, services and capital and approximating the conditions of competition between undertakings, consisting of

- (a) fixing the number of rates of VAT and drawing up common lists of goods and services subject to each rate;
- (b) harmonizing the basis of assessment for tax on company profits;
- (c) laying down common rules on income tax on workers in frontier regions and immigrant workers;
- (d) combating fraud and tax evasion.

III. The Council takes note of the Commission's intention to submit to it by the end of 1975 a report on the results achieved in connection with the establishment of the European union and to draw up new proposals for the completion of economic and monetary union.

Acting on a proposal from the Commission, the Council and, where appropriate, the Representatives of the Governments of the Member States shall adopt during 1976 the whole complex of measures enabling all the elements necessary for the operation of economic and monetary union, as scheduled for 1980 in the Council Resolution of 22 March 1971, to be established.

STABILITY, GROWTH AND FULL EMPLOYMENT IN  
THE COMMUNITY

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Proposal for a Council Directive

(Submitted by the Commission to the Council)

1. In each Member State, steady and balanced growth, the stability of the economy and full employment are permanent policy objectives. The measures being taken to introduce, by stages, an economic and monetary union have enhanced the importance of these tasks while adding a new dimension to the medium- and short-term economic policies which contribute to their realization. Progress towards economic integration and the orderly advance towards the final establishment of economic and monetary union depend on the conditions in which each Member State is able to pursue the three objectives. The growing interdependence of the economies of the Member States also means that any major measure of domestic economic policy and economic trends in each Member State will inevitably have repercussions, in some cases of appreciable importance, on the other members of the Community. Thus, achievement of the three key objectives depends on an interrelated set of measures which can succeed only if the economic and financial policies of the Member States are brought steadily closer in line.

2. In order to achieve a high degree of convergence of these policies, the Commission proposes to the Council that Community arrangements concerning coordination of economic and financial policies should be strengthened<sup>1</sup>. This would not, however, be possible if facilities were not available in each of the Member States enabling Community decisions to be implemented promptly and effectively.

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<sup>1</sup>See the proposal for a Council Decision concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States of the European Economic Community.

3. The Commission after consultation with the appropriate committees, submits the attached directive in order to make good this deficiency. The Commission feels that the following main conditions must be met if, by setting up suitable legal and institutional machinery, the Member States are to be in a position to implement decisions taken at Community level.

A. Appropriate methods of achieving stability, growth and full employment -- objectives assigned to the Member States and the Community as such by Articles 2 and 104 of the EEC Treaty -- will be defined in practical and balanced terms, in the guidelines for short- and medium-term economic policies adopted by the Council. Implementation of these policies in line with the guidelines will therefore constitute an obligation which the Member States may not disregard. In order to bring out more clearly the binding link with the Community's objectives, it is desirable that the Member States should refer to the guidelines adopted at Community level when enacting the most important decisions -- particularly budget decisions -- affecting economic and social developments.

B. It is evident that the pursuit of the objectives of stability, growth and full employment would be impossible without the active cooperation of the main economic and social interest groups.

Indeed, this is all the more true in that the three objectives are not in fact final goals but stages on the road to social aims of a higher order, such

as fair distribution of the national income, job security and not only the improvement of the material conditions of living but also cultural fulfilment and the promotion of social justice. Consequently, the industrial federations and the unions must be associated, in each Member State, as is already done in most cases, with the preparation of the economic policy guidelines".

- C. With regard to medium-term policy, the Member States must spell out in practical programmes covering the main areas of economic and social policy the arrangements they intend to use to achieve these objectives. With regard to the short-term, they must have instruments enabling them to act promptly and effectively both to spur on growth and to maintain stability.
  
- D. A last point is that the Member States must provide the Community institutions, particularly the Commission, with adequate information enabling the institutions to improve their understanding of essential problems connected with the economic policy guidelines and of the action to be taken, and enabling them to monitor the implementation of the guidelines.

Here it might prove useful that the national authorities should have the possibility of calling on Commission experts to give a Community slant to the technical preparation of certain decisions.

4. The Commission proposes that the Member States make the arrangements necessary to ensure that the requirements mentioned at section 3 above are met in the near future. Following the principle of Article 189 of the Treaty, the directive is essentially concerned with the results to be achieved, while leaving the national authorities free as to their choice of form and methods. It is evident that the measures taken by the Member States must be compatible with the provisions of the Treaties.

The Commission is well aware that the new arrangements referred to in the directive will necessitate measures of adaptation differing from one Member State to another. Certain Member States, possess, in the areas affected by the directive, a wide range of techniques and instruments, while the facilities available are a good deal less sophisticated in other Member States. The question arises as to whether all the procedures and instruments indicated by the Commission should not be available in each Community country, even if, at the present conjuncture, it would not be necessary to use them and if their use has never been contemplated so far. The Commission feels that it must reply to this question in the affirmative. The unforeseeable problems that can arise in connection with economic trends necessitate the availability of weapons that can be deployed promptly, even if some of them are sometimes not in fact used.

5. The implementation of some articles of the directive could raise legislative problems or have an impact on the institutional equilibrium within the Member States. Consequently, a few words are required concerning the scope of the Commission's proposals.

The main objective of Article 6 is to give certain budgetary policy instruments more flexibility by enabling certain legislative requirements concerning public expenditure and revenue to be temporarily amended through the delegation of power or through accelerated ratification procedures leading to their implementation within thirty days.

This article should neither hamper harmonization within the Community of certain taxation arrangements nor prejudice parliamentary procedures in the various Member States. However, it will be for the governments to propose, as appropriate, the improvements necessary for this objective to be achieved.

Article 9 takes account of the diversity of the relationships existing between the central government and the local authorities. The objective to be achieved is to ensure that the guidelines agreed by the Council for the Member States can, in fact, be supported by action at all levels of government.

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Because of the impact which the implementation of certain articles of the directive could have at legislative level, the Commission believes that the European Parliament must be consulted.



THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,  
and particularly Article 103 thereof;

Having regard to the proposal from the Commission;

Having regard to the opinion of the Parliament;

Whereas the implementation by stages of an economic and monetary union in  
the Community requires the implementation of convergent economic policies  
of which the key principles are the achievement of stability, growth and  
full employment in the Community;

Whereas procedures for coordinating economic policies have been organized,  
in this connection, at Community level, particularly within the framework  
of the Council's Decision of ...;

Whereas if it is to be in a position to respond to the requirements of such  
coordination and in particular in order to be able to pursue compatible objectives  
at Community level with regard to stability, growth and full employment, each  
Member State must possess a suitable interrelated set of economic policy  
instruments;

Whereas such instruments, promptly utilizable, must be available to the  
competent authorities of the Member States if they are to be able to supervise  
economic trend and keep these in line with the basic principles defined at  
Community level ; whereas this is therefore a measure appropriate to that  
purpose;

HAS ADOPTED THE PRESENT DIRECTIVE:

Article 1

With a view to the achievement of the objectives of stability, growth and full employment in the Community, each Member shall implement its short- and medium-term economic policy in accordance with the guidelines adopted by the Council pursuant to Decision No                      of                      <sup>1</sup>

Article 2

The Member States shall refer explicitly to the guidelines adopted by the Council when they take major measures of economic policy; Such reference shall be made, in particular, in the proposed budgets of governments. in the proposed budgets of governments.

Article 3

The Governments of the Member States shall confer with the representatives of the main economic and social interest groups on the economic policy guidelines.

Article 4

Each Member State shall establish economic forecasts and medium-term economic policy programmes stating the arrangements to be implemented, particularly in the budgetary, financial, structural and regional policy fields, to encourage a trend in conformity with the guidelines referred to in Article 1 above.

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<sup>1</sup> Council Decision concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States of the European Economic Community.

Article 5

The Member States shall adopt the laws or regulations needed to enable them to act promptly in the various fields coming under the policy of the monetary authorities, particularly the liquidity of the economy, banking liquidity, credit, and interest rates.

For this purpose, the Member States shall provide their monetary authorities, where such instruments and powers are not yet available to them, with the instruments and powers enabling them to carry out the following measures:

- (i) imposition or modification of reserve ratios applying to the liabilities of monetary institutions;
- (ii) imposition or modification of reserve ratios applying to the credit granted by the monetary institutions;
- (iii) pursuit of an open market policy with wide scope for action, including the use, as necessary, of short-, medium- and long-term securities;
- (iv) change in the rediscount ceilings with the central bank;
- (v) change in the various intervention rates of the monetary authorities;
- (vi) change in the borrowing and lending interest rates paid or charged by public credit agencies;
- (vii) imposition or modification of / <sup>condition</sup> for consumer credit, hire-purchase sales and mortgage credit;
- (viii) quantitative or qualitative credit control.

Article 6

Each Member State shall make the necessary arrangements to enable the government, in case of need, to adopt the following measures within days:

- (i) slowing down or speeding up the rate of public expenditure;
- (ii) adaptation, upwards or downwards, of the scales of taxation for personal income tax and corporate income tax and slowing down or speeding up collection of these taxes;
- (iii) temporary change in value added tax and excise duty rates;
- (iv) adjustment of taxation arrangements and subsidies concerning investments of undertakings and construction.

#### Article 7

Each Member State shall establish investment programmes covering a five-year period for the central administration and the local authorities, which shall be implemented according to the requirements of current economic activity, within the framework of budgetary arrangements. It shall review these programmes annually.

#### Article 8

Each Member State shall make the arrangements necessary to enable the government, without prior authorization, to sterilize temporarily with the central bank the yield of excess tax revenue or of loans, and to free these funds subsequently.

#### Article 9

The Member States shall ensure that the management of the finances of the local authorities contributes to the attainment of the objectives and to the implementation of the guidelines referred to in Article 1 above. For this purpose, as far as necessary, they shall provide themselves with the means needed to enable the indebtedness of the local authorities to be monitored.

Article 10

The Member States shall ensure the rapid collection of information essential to the working out and the verification of the guidelines adopted by the Council for the short- and medium-term economic policies and relating to the instruments implemented. They shall submit this information to the Commission as soon as it is available.

Article 11

The Member States shall make the necessary arrangements to comply with this directive within 12 months from the date of its notification. This period shall, however, be extended to two years in respect of the implementation of Articles 6 and 9.

Article 12

The present directive is addressed to the Member States.

Done at Brussels,

For the Council  
The President

PROPOSAL FOR A DECISION OF THE COUNCIL CONCERNING  
THE ACHIEVEMENT OF A HIGH DEGREE OF CONVERGENCE OF THE  
ECONOMIC POLICIES PURSUED BY THE MEMBER STATES  
OF THE EUROPEAN ECONOMIC COMMUNITY

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(submitted by the Commission to the Council)



Whereas monitoring of the implementation and the effects of the national economic policies is necessary for the maintenance of consistency as between these policies, so that any deviation from the guidelines adopted at Community level can be promptly corrected;

Whereas, in respect of currency exchange relations with the Community, the strengthened convergence of the economic policies must be accompanied, from the second stage of the economic and monetary union onwards, in addition to the lodging of reserve facilities with the EMCF, by specific and effective prior consultation machinery for all decisions of Member States relating to the conditions under which its currency is exchanged for the currencies of other Member States and of non-member countries;

HAS ADOPTED THIS DECISION:

Article 1

The Council shall set aside each month a specific day, determined in advance, for meetings on economic and monetary problems. In this framework, the Council shall hold three sessions each year devoted to examinations of the economic situation in the Community. On the basis of a communication from the Commission accompanied, as appropriate, by proposals, decisions, directives or recommendations, the Council shall adopt the economic policy guidelines to be pursued by the Community and in each Member State, with a view to achieving harmonious economic development.



Article 2

The first examination shall take place as soon as possible, in the first quarter of the year

On this occasion, upon a proposal from the Commission, the Council shall adapt the economic policy guidelines relating to the current year to the new requirements of economic development and shall establish a tentative outline of the measures to be implemented for the following year

The Commission's proposals shall be accompanied by a summary account of the economic policy pursued in the past year and by projections at constant prices and at current prices for a period of five years, covering the main macroeconomic variables and the expenditure and revenues of public departments and those of the Community budget.

Article 3

A second examination shall take place during the second quarter of the year. On this occasion the Council shall define mutually consistent guidelines for the main items in the preliminary economic budgets. In this framework, the quantitative guidelines for the draft public budgets for the following year shall be fixed before the budgets have been finally adopted, and shall cover, having due regard to changes in their volume, the nature (deficit or surplus) of the balances and the way such balances are financed or used. The guidelines relative to the draft public budgets shall not be published.

Article 4

The third examination shall be held towards the end of the third quarter of the year. On this occasion, the Council, on the basis of a Commission proposal, and after consulting the Parliament and the Economic and Social Committee, shall adopt an annual report on the economic situation in the Community and shall establish the guidelines to be followed by each Member State in its economic policy for the subsequent year.

Article 5

As soon as this annual report has been adopted by the Council, the Governments shall table it in their national parliaments, so that it can be taken into account in connection with discussions on the budgets

Article 6

On the basis of the preliminary draft prepared by the Economic Policy Committee, the Commission shall establish at regular intervals and at least once every five years a draft medium-term economic policy programme the purpose of which shall be, in the context of the economic and monetary union, to ensure the gradual convergence of overall economic and monetary policies and to facilitate and guide structural change.

The draft shall indicate those points on which it deviates from the Economic Policy Committee's preliminary draft.

The Commission shall submit the draft programme to the Council, which shall immediately refer it to the Parliament and the Economic and Social Committee for consultation purposes

The programme shall be adopted by the Council and the Governments of the Member States

The Council and the Governments of the Member States, in adopting the programme, shall express their intention of acting, in the field covered by the programme, in accordance with the guidelines set down in it

In parallel with the adoption of the programme, the Council shall, as appropriate, on a proposal from the Commission, adopt unanimously any decisions, directives or recommendations necessary to achieve the objectives fixed in the programme and to implement the facilities provided for therein

Article 7

A Member State may not

- (i) change the de jure or de facto parity or central rate of its currency or the intervention points notified for this currency to the European Monetary Cooperation Fund;

- (ii) suspend intervention at the intervention points;
- (iii) establish a new parity, a new central rate or resume intervention at the intervention points notified to the European Monetary Cooperation Fund;

without a consultation procedure having been followed as set out below: Any Member State contemplating any of the decisions referred to above shall request immediately the opening of a consultation procedure within the Monetary Committee. On this occasion the members of the Monetary Committee shall act with the status of Member States' representatives. The practical details of the consultation procedure shall be established by the Monetary Committee.

Any Member State or the Commission can request that the consultation procedure take place within the Council. The Member State concerned shall hold over any measure of implementation until such time as the Monetary Committee or the Council has adopted an opinion concerning the measure contemplated. This postponement shall no longer be compulsory 72 hours from the time the consultation procedure began.

Where, in their opinion, the common interest is endangered by the exchange rate policy pursued by a Member State, another Member State or the Commission can request a consultation procedure within the Monetary Committee and, if appropriate, within the Council. The consultation procedures provided for above shall be confidential.

#### Article 8

Permanent consultations shall be held in advance within the Standing Committee of the European Monetary Cooperation Fund<sup>1</sup> on the monetary and credit policies of the Member States, central banks, particularly with regard to the development of bank liquidity, the way in which credit is distributed, and interest rates.

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<sup>1</sup>See Council Regulation ...

Article 9

Regular and permanent consultations on the general economic policy measures envisaged by the Member States and on their conformity with the economic policy guidelines defined by the Council according to the procedure provided for in Articles 1 and 5 of the present Decision shall take place within the coordinating group referred to in Title I, paragraph 2, of the Resolution of the Council and of the Representatives of the Governments of the Member States of 21 March 1972.

In the above Resolution, the sentence at the end of the first subparagraph of paragraph 2 of Title I shall be replaced by the following:

"The chairman of the Economic Policy Committee and, of the Monetary Committee and the Director-General of the European Monetary Cooperation Fund shall, as appropriate, attend meetings of the group."

These consultation meetings must be held in advance and must cover all the significant measures being taken with a view to the convergence of economic policy within the Community.

For this purpose, the coordinating group shall meet at least once a fortnight.

Article 10

If, in the course of the consultation procedures referred to in Articles 8 and 9, it appears that any measure or decision contemplated in one or more Member States is the subject of serious reservation, a Member State or the Commission may request consultation within the Council, which must then meet within eight days.

Article 11

Where a Member State is pursuing economic, monetary or budgetary policies departing from the guidelines defined by the Council or entailing hazards of an economic nature for the Community as a whole, the Commission shall specify without delay those measures which it recommends that the State concerned should adopt to remedy this situation. The State concerned shall inform the Commission within a fortnight of receipt of this recommendation of the action it intends to take; it shall provide the Commission with all necessary information enabling it to assess the situation.

After analysing the situation of the Member State concerned, the Commission may request that an examination be held within Council, which shall meet within a fortnight and shall take a decision on the basis of any proposals which the Commission may submit.

Article 12

On the basis of a report submitted by the Commission, the Council shall examine once a year, at its meeting held in the first quarter, provided for in Article 2 above, the application of the present Decision and the conformity of the policies pursued with the objectives set. The Commission's report shall also be laid before the Parliament.

Article 13

The following decisions are repealed:

- (i) the Council Decision of 17 July 1969 relating to the coordination of the short-term economic policies of the Member States;
- (ii) the Council Decision of 16 February 1970 concerning the appropriate procedures for the consultation arrangements provided for in the Council Decision of 17 July 1969;
- (iii) The Council Decision of 22 March 1971 relating to the strengthening of the coordination of the short-term economic policies of the Member States of the Economic Community.

Article 14

This Decision is addressed to the Member States.

Done at Brussels,

For the Council

The President

PROPOSAL FOR A REGULATION AMENDING  
REGULATION (EEC) No907/73 OF THE  
COUNCIL OF 3 APRIL 1973 SETTING UP  
A EUROPEAN MONETARY COOPERATION FUND  
(submitted by the Commission to the Council)

Whereas the Fund should have its own capital, the income from which will allow it to cover its operating costs independently;

Whereas, henceforth, to ensure the essential strengthening of coordination of monetary and credit policies, prior consultations should assume a permanent nature;

Whereas, as regards the policies conducted by the central banks in this field, such permanent consultations could most naturally take place under the aegis of the European Monetary Cooperation Fund; whereas, for this purpose, a standing committee responsible to the Board of Governors should be set up;

Whereas Regulation (EEC) No 907/73, establishing the Fund, should be amended accordingly and whereas the said amendments are necessary if the Fund is to contribute to progress towards economic and monetary union and, thereby, to the achievement of the Community's aims;

HAS ADOPTED THIS REGULATION:

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,  
and in particular Article 235 thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament;

Having regard to the Opinion of the Economic and Social Committee;

Whereas the report submitted by the Commission on 27 June 1973 at the Council's request shows that, both to facilitate settlements within the Community exchange system and to ensure their complete multilateralization by developing the use of the European monetary unit of account, it seems necessary to start the process of progressive pooling of reserves in the European Monetary Cooperation Fund;

Whereas, on the other hand, short-term credit facilities able, if need be, to take over from very short-term financing, should be expanded to take account of increased needs arising out of the expansion of trade and the importance and volume of destabilizing capital movements;

Whereas short-term monetary support should not be renewed without a detailed review of the economic situation of the recipient Member State and, after six months, should be subject to a decision by the Board of Governors of the Fund; whereas, beyond twelve months, the Council itself should, upon a proposal from the Commission, be called upon to intervene;



9 February 1970 between the central banks of the Community establishing this mechanism bears the imprint of the thinking prevalent at the time it was concluded and which does not correspond to the current situation. Furthermore, owing to its basically bilateral nature, it has proved difficult to fit into an essentially multilateral Community system.

To achieve a satisfactory solution to the two major problems set out above, the Commission, in the proposed Regulation given below, has taken certain options regarding the provision of short-term intra-Community credit and the initiation of the pooling of reserves. It considers that the creation of an initial nucleus of joint reserves will help overcome the current difficulties regarding settlements. Even if temporary arrangements have to be contemplated for certain reserve assets such as gold or assets lodged with the IMF, the pooling will allow:

- (i) the development of the use of a European monetary unit of account, guaranteed by cover which will help to ensure its acceptability as a universal and permanent instrument of settlement within the Community;
- (ii) the more rational use of reserve assets which are currently frozen;
- (iii) the total multilateralization of Community credit, the granting of which will be the responsibility of the Board of Governors of the Fund.

The Commission is of the opinion that the credit system run by the Fund should help bring about a convergence of economic policies. Moreover, it sees a close link between the administration of the Community exchange system and the coordination of the monetary and credit policies conducted by the central banks. It therefore proposes that a standing committee be set up, within the Fund, reporting to the Board of Governors, to ensure concerted action that is essential in this field. In connection with this proposal, it has become necessary, in view of the increase in the duties and responsibilities assigned to the Fund, to give the latter an appropriate administrative structure. The Commission therefore considers that the statutes of the Fund should be amended and supplemented as proposed below.

## Explanatory memorandum

The measures relating to the European Monetary Cooperation Fund proposed by the Commission for the second stage of economic and monetary union concern three fields:

- (i) adjustment of credit arrangements;
- (ii) creation of an initial nucleus of common reserves;
- (iii) consultation on monetary policy.

The Commission considers that the functioning of the Community exchange system has run into difficulties owing to the impossibility of ensuring multilateral administration of the current arrangements concerning credit and settlements.

The difficulties regarding settlements, acknowledged in the Working Party report referred to in the Opinion addressed to the Council by the Committee of Governors of Central Banks in the European Economic Community and the Board of Governors of the European Monetary Cooperation Fund<sup>1</sup>, result in particular in restricting transfers made under intra-Community settlements to dollar assets alone; as far as other assets are concerned, the Fund has had to suspend for an indefinite period application of the rules agreed upon in this field.

These are, however, circumstantial obstacles which have aggravated fundamental defects inherent in the Community exchange system and which have been analysed in detail in the Commission report of 27 June 1973 on the adjustment of short-term monetary support arrangements and the conditions for progressive pooling of reserves<sup>2</sup>.

As far as credit mechanisms are concerned, it should be pointed out that procedure for granting very short-term financing has worked satisfactorily; their actual repayment, on the other hand, has met with the problems mentioned above. As regards short-term support, the agreement of

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<sup>1</sup>Cf. Preliminary Opinion of the Council on the Commission report on the adjustment of short-term monetary support and on conditions for a progressive pooling of reserves, introductory paragraph, and Annex to the Opinion, pages 1 and 2.

<sup>2</sup>Cf. Bulletin of the European Communities, supplement 12/73, page 4, paragraph 1, and Technical Annex, page 3, paragraphs 1 and 2.



Article 1

Articles 2 to 4 of Council Regulation No 907/73/EEC of 3 April 1973, establishing a European Monetary Cooperation Fund, shall be replaced by the following provisions:

Article 2

"

"

" Within the limits of its powers the Fund shall ensure the proper  
" functioning of the Community exchange system based on:

"

" - the maintenance, through interventions in Community currencies, of  
" the margins of fluctuation of the Community currencies against each  
" other within limits fixed in advance;

" - the use of a European monetary unit of account (E.M.U.A.);

" - the organization of the Community credit system;

" - the progressive pooling of the monetary reserves of the Member States.

"

Article 3

"

"

" Interventions on the exchange markets by the Central Banks of the  
" Member States in Community currencies shall be financed with the  
" Fund and shall be settled in E.M.U.A. Interventions of the Member States'  
" central banks on the exchanges in "third" currencies approved by the  
" Board of Governors of the Fund shall, save where otherwise decided by  
" the Board, be carried out for the account of the Fund and shall be  
" settled in E.M.U.A.

"

Article 4

"

"

" The unit of account, the value of which shall be governed by the  
" provisions of Article 6 of the Statutes of the Fund, shall be the  
" instrument of definitive settlement in monetary relations among the  
" Central Banks of the Member States of the Community, and between  
" the Central Banks and the Fund.

Article 6

" 1. In order to allow of interventions in Community currencies, every  
" Central Bank may make use of the Fund's very short-term financing  
" facilities, unrestricted as to amount. The Board of Governors of  
" the Fund shall make the necessary arrangements with the Central  
" Banks in order to ensure that such operations are successful. Such  
" monetary support from the Fund must be repaid on the last working  
" day of the month following the date on which the transactions were  
" concluded.

" 2. After the expiry of that time-limit, every debtor Central Bank  
" may obtain from the Fund short-term monetary support limited to  
" the following amounts:

	<u>in millions of E.M.U.A.</u>
" - Deutsche Bundesbank	2 400
" - Bank of England	2 400
" - Banque de France	2 400
" - Banca d'Italia	1 600
" - Banque Nationale de Belgique	800
" - Nederlandsche Bank	800
" - Danmarks National Bank	360
" - Central Bank of Ireland	140

" Short-term monetary support shall be granted for a period of  
" 3 months, renewable for a further 3-month period. In case of  
" renewal, a thorough examination of the economic situation of the  
" Member State concerned shall be carried out within the Monetary  
" Committee.

" The Board of Governors may, on conditions laid down by it, after  
" consulting the Monetary Committee, extend the period for which  
" credit has been granted for a further 6 months, limiting the  
" amount as indicated in paragraph 1 above.

" 3. The aggregate amount of short-term credit granted by the Fund shall  
" not exceed 7.2 thousand million E.M.U.A.

" 4. The Fund shall not grant credit for a period exceeding 12 months  
" or for amounts exceeding the quotas laid down in paragraph 2 above,  
" unless the Council, acting unanimously on a proposal from the  
" Commission, after consulting the Monetary Committee and the Board  
" of Governors of the Fund, as laid down the economic policy  
" conditions governing the granting of such credit.

" Article 7  
"

" The Board of Governors of the Fund shall lay down detailed  
" procedures for the application of Articles 2 to 6."

Article 2

The Statutes of the Fund annexed to Regulation No 907/73 EEC referred  
to above shall be replaced by the following text:

Article 1

" The Fund shall be directed and managed by a Board of Governors.  
" The members of the Board of Governors shall be the members of the  
" Committee of Governors of the Central Banks of the Member States  
" of the European Economic Community established by the Council  
" Decision<sup>1</sup> of 8 May 1964 on collaboration between the Central Banks  
" of the Member States of the European Economic Community.

" If unable to attend they may be represented by another member of  
" the governing body of their Central Bank.

" A member of the Luxembourg currency authorities shall sit on the  
" Board of Governors. He shall take part in decisions whenever the  
" rights and obligations of the Grand Duchy of Luxembourg are not  
" exercised by the National Bank of Belgium on behalf of the two  
" Member States of the Belgo-Luxembourg Economic Union.

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<sup>1</sup>OJ No 77, 21 May 1964, p. 1206/64.

" A member of the Commission shall take part in the proceedings of the  
" Board of Governors. He may appoint an alternate.

"

"

Article 2

"

" The Board of Governors shall, in order to achieve the aims of the Fund,  
" act in accordance with the general economic policy guidelines drawn up  
" under the Treaty by the Council and in accordance with such directives as  
" the Council may adopt acting unanimously on a proposal from the Commission.

"

" On 30 June and 31 December of each year, the Board of Governors shall draw  
" up a report on its activities for submission to the Council and the Commission.

"

"

Article 3

"

" The Board of Governors, shall represent the Fund. It shall decide on the  
" organization of the Fund, the powers which will be delegated and who may  
" commit the Fund vis-à-vis third parties.

"

" The Board of Governors shall appoint a Director-General who shall organize  
" the services of the Institution.

"

" The Director-General shall be responsible for the day-to-day administration  
" of the Fund and shall be empowered to represent the Fund vis-à-vis third  
" parties within the limits of his responsibilities.

"

" The Director-General shall participate, in a consultative capacity, in the  
" sessions of the Board of Governors of the Fund. He shall take the chair at  
" meetings of the Standing Committee referred to in Article 4 below.

"

" The Board of Governors may delegate to an agent the responsibility for the  
" execution of technical aspects of the Fund's operations.

Article 4

" A Standing Committee of the Fund is hereby set up, its members being appointed  
" by the Board of Governors, one from each Central Bank and one of Luxembourg  
" nationality. The Commission shall appoint a representative to the Committee.  
" The Committee members shall be persons having high-level monetary-policy  
" responsibilities. The Committee shall act under the authority of the Board  
" of Governors of the Fund. The Committee shall meet at least once a week at  
" the place of work of the Fund<sup>1</sup>.

" The Board of Governors may delegate all or part of its authority to the  
" Standing Committee on terms which it shall itself determine.

" The Standing Committee shall:

" (i) organize the concerted action necessary for the proper functioning of  
" the exchange system instituted in the Community;

" (ii) ensure regular prior consultation between the Central Banks of the  
" Member States concerning monetary and credit policy, in particular  
" as regards bank liquidity trends, credit distribution and interest  
" rates.

" (iii) put to the Board of Governors any suggestion or proposal which it  
" consider useful as regards guidelines for monetary and credit policy  
" and policy on the management of the exchange markets, in particular  
" where national measures are likely to give rise to difficulties in  
" other Member States of the Community.

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<sup>1</sup>See the Decision of the Representatives of the Member States on the provisional location of the European Monetary Cooperation Fund, 27 July 1973.



Article 5

" The Fund shall have a capital of 500 million E.M.U.A. This capital shall  
" consist of a contribution from each of the Central Banks in its national  
" currency, distributed on the following scale:

" Bundesbank	22.02 %	i.e.	110.1	million E.M.U.A.		
" Bank of England	22.02 %	i.e.	110.1	"	"	
" Banque de France	22.02 %	i.e.	110.1	"	"	
" Banca d'Italia	14.68 %	i.e.	73.4	"	"	
" Banque Nationale de Belgique	7.34 %	i.e.	36.7	"	"	
" Nederlandsche Bank	7.34 %	i.e.	36.7	"	"	
" Danmarks National Bank	3.3 %	i.e.	16.5	"	"	
" Central Bank of Ireland	1.28 %	i.e.	6.4	"	"	

" An initial tranche of 50 million E.M.U.A. shall be made available on  
" 1 January 1974. Thereafter the Board of Governors shall call up further  
" tranches as the Funds operations expand.

" Income from paid-up capital shall be used to cover the Funds operating  
" expenditure.

Article 6

" The Fund's operations in the currencies of the Member States shall be expressed  
" in a European monetary unit of account of a value of 0.88867088 grammes of  
" fine gold.

" When all the Member States alter the parity or the central rate of their  
" currency simultaneously in the same direction, the value of the unit of  
" account shall be changed automatically:

" - where the parities change in the same proportion: in the same direction  
" and by the same proportion as the changes in parities or in the central  
" rates;

" - where the parities change in different proportions: in the same direction  
" as the change and in the same proportion as the smallest change in parity or  
" central rate, unless the Council decided on a larger change. In such a case  
" the Council shall act within three days from that of the official announcement  
" by the first Member State to change the parity or central rate of its currency,  
" and in accordance with the procedure laid down in the fourth paragraph of  
" this Article.

"Simultaneous" changes shall mean changes in the parity or central rate of  
" the currencies of the Member States made within the three-day period referred  
" to above.

"Any other changes in the value of the unit of account shall be decided on  
" by the Council, acting unanimously on a proposal from the Commission after  
" consulting the Monetary Committee and the Board of Governors of the Fund.

#### Article 7

" In each of the Member States the Fund shall enjoy the most extensive  
" legal capacity accorded to legal persons under their laws. It may in  
" particular acquire or dispose of moveable or immovable property, open  
" accounts and conclude agreements with the Central Banks of the Member  
" States of the Community, receive and grant credit, invest the funds for  
" whose management it is responsible, recruit personnel and may be a party  
" to legal proceedings.

#### Article 8

" The Protocol on the Privileges and Immunities of the European Communities  
" shall apply to the Fund, the Board of Governors and the personnel of the  
" Fund.

#### Article 9

" The obligation of professional secrecy contained in Article 214 of the  
" Treaty shall apply to the members of the Board of Governors, the member of  
" the Commission

" sitting on the Board and his alternate, and to any other person engaged  
" in the activities of the Fund.

"

"

Article 10

"

" In the case of non-contractual liability, the provisions of Article 215  
" of the Treaty shall apply to damage or loss caused by the Fund or by its  
" servants in the performance of their duties.

"

"

Article 11

"

" The Board of Governors shall adopt the rules of procedure of the Fund.  
" These rules of procedure shall require the unanimous approval of the  
" Council, given after consulting the Commission."

Article 3

Articles 5 and 6 of Regulation (EEC) No 907/73 become Articles 8 and 9.

Article 4

This regulation shall enter into force on.....

This Regulation shall be binding in its entirety and directly applicable  
in all Member States.

Done at Brussels,

For the Council  
The President,

DRAFT

DECISION SETTING UP AN ECONOMIC POLICY COMMITTEE

(submitted by the Commission to the Council)

DRAFT

DECISION SETTING UP AN ECONOMIC POLICY COMMITTEE

Explanatory Memorandum

In the draft Council decision concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States of the EEC, the Commission proposed the institution, at the coordinating group on short-term economic policies, of a system of permanent consultation, and the setting up of a standing committee of the European Monetary Cooperation Fund, while maintaining the Monetary Committee's own responsibilities concerning prior consultations on changes in exchange rate relationships and the conditions in which these relationships are established, and on the grant of the credits available under the Community's exchange rate system.

The Commission proposes that the prior consultation tasks assigned to the Budgetary Policy Committee, the Short-term Economic Policy Committee and the Medium-term Economic Policy Committee under the Council Decision of 17 July 1969, supplemented by the Decision of 16 February 1970, should be eliminated, thereby giving these Committees the possibility of being more efficient in their role as instruments for reflection and the study of Community problems and as consultative bodies capable of delivering technical Opinions on specific problems.

However, the responsibilities of these Committees have been seen to overlap, which in the past often made it necessary to convene them simultaneously for Opinions on the same subjects. For the purpose of avoiding these drawbacks, the Commission proposes in this Draft Decision that the three Committees in question should be merged into a single Economic Policy Committee.

Provision is made for this Committee to be able to meet in full session, meaning attendance of four members from each Member State and the Commission, when it is to discuss matters of a general nature relating both to the field of budgetary and short-term economic policy and to the field of structural problems or problems connected with the medium-term programmes.

However, where it is a matter of discussing a specific problem falling into only one of the fields mentioned, the Committee would meet in restricted session, the presence in each delegation of the single competent member being considered to be sufficient.

In the Commission's view this reorganization of the Committees should make it possible to reduce the number of meetings while improving efficiency as compared with the present situation.

The Council of the European Communities,

Having regard to the Treaty establishing the European Economic Community,  
and in particular Article 145 thereof;

Having regard to the draft presented by the Commission;

Whereas coordination of short-term economic policies must take account of  
the jointly defined medium-term economic objectives;

Whereas budgetary policy must fit into the context of general economic policy;

Whereas the existence of three separate Committees operating in the field  
of general economic policy is therefore prejudicial to the efficient  
coordination of economic policies and has often led to overlapping of  
responsibilities and duplication of work;

Whereas it is therefore necessary to merge the activities of the Short-term  
Economic Policy Committee, the Budgetary Policy Committee and the Medium-  
term Economic Policy Committee into a single Economic Policy Committee;

HAS DECIDED AS FOLLOWS:

Article 1

To promote coordination of Member States' short- and medium-term economic  
policies an Economic Policy Committee, hereinafter called the "Committee",  
is hereby set up.

Article 2

The Committee shall exercise all the functions hitherto assigned to the  
Short-term Economic Policy Committee set up by the Council Decision of  
9 March 1960, the Budgetary Policy Committee set up by the Council Decision  
of 8 May 1964, and the Medium-term Economic Policy Committee set up by  
the Council Decision of 15 April 1964. The Committee shall, in particular

- assist in coordinating general economic policies and especially in holding the consultations between Member States and the Commission provided for under Article 103 of the Treaty,
- examine and compare Member States' budgetary policies and the way they are being implemented,
- prepare, in the light of all available information, the preliminary draft of the medium-term economic policy programme provided for under Article 6 of the Council Decision of ...,
- keep under review the medium-term economic policies of the Member States and examine whether they are compatible with the above programme,
- analyse the development of the economies in order to discover the reasons for any divergence from the programme.

### Article 3

The Committee shall consist of four representatives of the Commission and four representatives of each Member State. The members of the Committee appointed by the Member States shall be selected from among persons who in their countries participate in the formulation of short- and medium-term policy.

### Article 4

The Opinion of the Committee may be obtained by the Council or by the Commission. Moreover, the Committee may, on its own initiative, deliver Opinions or present reports whenever it considers this necessary for the proper fulfilment of its task.

### Article 5

The Committee may meet in restricted session, that is with only one member from each delegation present, for the purpose of dealing with specific problems in the fields of short-term economic policy, budgetary policy and medium-term economic policy.



Article 6

Proceedings of the Committee in full session shall be valid only if attended by at least one half of its members plus one member and by at least one member per delegation. When the Committee meets in restricted session, its proceedings shall be valid only if each delegation is represented by one member.

Article 7

The Committee shall elect its officers, consisting of one chairman and three vice-chairmen, for a non-renewable term of two years beginning on 1 January 1974. It shall adopt its own rules of procedure.

Secretarial services shall be provided for the Committee by the Commission.

Article 8

The following are repealed:

- (a) the Council Decision of 9 March 1960 on coordination of the conjunctural policies of the Member States<sup>1</sup>,
- (b) Council Decision No 64/247/EEC of 15 April 1964 setting up a Medium-term Economic Policy Committee<sup>2</sup>,
- (c) Council Decision No 64/299/EEC of 8 May 1964 on cooperation between the competent government departments of Member States in the field of budgetary policy<sup>3</sup>.

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<sup>1</sup>OJ of 9 March 1960, p. 764.

<sup>2</sup>OJ of 22 April 1964, p. 1031.

<sup>3</sup>OJ of 21 May 1964, p. 1205.