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**MR. TUGENDHAT CALLS ON GERMANY FOR ACTION IN MAKING THE ECU  
A RESERVE CURRENCY AND ON THE UNITED KINGDOM TO JOIN THE EMS**

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In a speech in Dublin, Mr. Christopher Tugendhat, Vice-President of the European Commission, calls on the Federal Republic of Germany to find ways of permitting the European currency unit (ECU) to emerge as a real reserve currency. He also repeats his call for the United Kingdom to join fully in the European Monetary System (EMS) and reveals that the Commission might be able to fund computer links between European stock exchanges.

Mr. Tugendhat makes the remarks in a speech on Friday night (October 21) to members of the Irish Stock Exchange in Dublin.

Here are some extracts from the speech:

**"THE EUROPEAN CURRENCY UNIT**

The ECU has now emerged as a significant currency for private investors. It is no longer merely an accounting unit for the big banks, or funny money in which governments can denominate their accounts. The volume of ECU deposits and credits has increased six-fold in two years. Moreover, so far this year the ECU has been the third major currency to be issued in the Eurobond markets, after the U.S. dollar and the Deutsche Mark. In most Member States, including the United Kingdom, the private individual can open an account in ECUs at his local bank. Moreover, an independent interest rate structure for the ECU is now emerging.

Yet the reaction of some Community Governments to the ECU, particularly the German Government, has sadly been very much less positive than the attitude taken by most private banks and investors.

For example, while a group of commercial banks, American as well as European, have set a target date of 1 January 1984 for the creation of a multilateral clearing system for the ECU, the German Government continues to refuse even to grant it the status of a foreign currency or to permit it to be used by German residents. I do not accept the argument that the ECU is in effect an indexation clause and I urge the German authorities to find ways of overcoming their objections.

Unless and until they do, the ECU will inevitably labour under a serious handicap because the German financial system will not be playing its full part. This, in turn, will considerably impede the development of the EMS as a whole.

#### British Membership of the EMS

One cannot mention the benefits of the EMS and its great potential as a pillar of the International Monetary System, without urging Britain to become a full member by joining the exchange rate mechanism. As I have often said before, the absence of sterling from the exchange rate arrangements denies British industry the chance of a more stable pound in the Community, to which it now sends 43% of its exports, and weakens Britain's influence in the overall management of the system.

It is also unsettling for other European currencies that the pound is in the ECU - whose stability it upsets as a result of its wide fluctuations - while Britain fails to participate in the intervention mechanisms which are designed both to avoid these fluctuations and to enable Europe to deal on a more equal basis with the United States and Japan.

Finally, it is very difficult to see how the EMS can be fully developed in the absence of what is after all one of Europe's major currencies.

I therefore welcome the call by Lord O'Brien, the former Governor of the Bank of England, and his colleagues on the House of Lords Committee on the European Community for full British participation in the EMS. The report, in which they put forward their case, comes at a time when the world may be poised for further instability in exchange rates, and deserves wide attention in the Community.

#### Links between stock exchanges

We are concentrating particularly on strengthening the links between national stock exchanges so that orders from clients can be carried out on the exchange offering the best terms at any given moment.

We have made it clear that our objective is not to establish a Community Stock Exchange but to link existing exchanges so as to put an end to the present compartmentalization. In the first stages this link-up might be confined to European shares on several exchanges. We are at present considering ways of achieving this aim in conjunction with the European Committee of stock exchanges.

We are prepared to consider granting limited financial assistance to get the link-up idea off the ground. Our help would be directed particularly to investment in the necessary data processing and information technology arrangements. The deliberations and consultations on how exactly to proceed are not yet complete, so I am not able to tell you exactly what the next steps will be. I can say now, however, that the Commission sees the key as being direct linkage between stock exchange floors and anything less than this is likely to be regarded as being insufficiently worthwhile to attract Community financing. My impression, from reports which I have received from the meeting of the Committee of stock exchanges at its assembly in Copenhagen in May 1983 is that this is also the view of the Committee."

**SPEECH BY MR. CHRISTOPHER TUGENDHAT, VICE-PRESIDENT OF  
THE COMMISSION OF THE EUROPEAN COMMUNITY, TO THE STOCK  
EXCHANGE, DUBLIN, FRIDAY 21 OCTOBER 1983**

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E.M.S. and Cooperation between Stock Exchanges

I am greatly honoured to address the Irish Stock Exchange and to follow no less than two Taoiseachs and one long-serving Minister of Finance in doing so. Dr Garret Fitzgerald, the present Taoiseach, Mr Jack Lynch and Mr Richie Ryan have all served their country in a distinguished way and have all played a central part in making Ireland a committed and constructive member of the European Community.

Today, I should like to discuss the European Monetary System and to outline the Commission's thinking on how to strengthen links between national Stock Markets. Ireland was a founder member of the E.M.S., a major decision for her since it led to a break in the long-standing link between the Punt and Sterling. In my remarks, I shall endeavour to suggest some ideas for the development of this unique system, and for using it to strengthen Europe's diplomatic muscle in international monetary negotiations.

/Let me begin by

- 2 -

Let me begin by surveying the record of the E.M.S. over the 4 1/2 years since it came into operation.

We can, of course, only evaluate the E.M.S. by the objectives which its founders set for it. These were, first, to establish a greater measure of monetary stability and second, the closer coordination of the economic policies of Member States, leading eventually to a convergence in their economic performances, and underlying these two, the ultimate objective of European integration.

On the first of these yardsticks - the stabilisation of exchange fluctuations - the E.M.S. has been a remarkable success. Violent fluctuations between the European currencies, which benefitted no one except possibly speculators, have to a large extent disappeared. Changes in parities have not only been far smoother than they were previously, but have also corresponded much more directly to real changes in the relative economic performance of Member States.

/This is particularly

- 3 -

This is particularly remarkable when we recall that the birth of the E.M.S. was followed by three of the most violent shocks experienced by the post-war economy. I refer to :

- The second Oil shock, during which Oil prices rose more than 50% in less than 6 months,
- The massive gyrations in U.S. monetary policy and in the value of the U.S. Dollar, and
- The most severe recession since the 1930s.

On the second of our yardsticks - coordination of economic policies between the Member States - the record of the E.M.S. has been more mixed.

On the positive side, most decisions on exchange rate changes have now become genuinely collective, with the result that they tend to involve several currencies rather than just one and to be accompanied by coordinated adjustment policies as well.

/The most striking

- 4 -

The most striking example of this was the realignment which took place in March of 1983: on this occasion it was quite clear that the need to take into account the requirements and objectives of other participants in the E.M.S. had a significant influence on the final relative positions of the currencies which were then most under pressure, namely the German Mark, the French Franc and the Belgian Franc. The establishment of the E.M.S., and the relative stability which it has brought about, to the great benefit of European industry, has also entailed the coordination of economic policy and with it some convergence of economic performance, because the limited range of exchange rate fluctuations allowed under the E.M.S. has directed the policy of weaker E.M.S. countries towards greater economic discipline, while permitting other countries to be more expansionary.

/ In addition

- 5 -

In addition, I would mention the Community loan facilities. The Community has recently provided France with balance of payments support in the form of a medium-term loan on condition of quantified targets of economic performance. Even if not directly connected to the workings of the E.M.S., this is an important Community facility to further the coordination of fiscal and monetary policies. Italy and Ireland also benefitted from this medium-term loan facility a few years ago. Moreover, these two countries received special financial assistance in the form of loans and specific E.M.S. interest rebates for structural investments upon joining the E.M.S.

/There is one further

- 6 -

There is one further point I should like to make on this subject. As a result of the successes of the E.M.S. protectionist pressures have been contained, at a time when they were in danger of eroding many of the accomplishments of the post-war economy.

Nobody can deny that these are major achievements. Nevertheless, coordination of monetary and fiscal policies within the Community has not been pursued with anything like the energy and persistence that is required. Some Member States have too readily seen changes in parities as a soft alternative to changes in policies. Although no Member State possesses complete sovereignty over its monetary policy, too few have framed their monetary policies with sufficient reference to those of their Community partners. This not only weakens the E.M.S. itself, but prevents Europe from making its full weight felt in the international monetary negotiations which, I believe, will loom large over the next decade.

/So with a view to



- 7 -

So with a view to the further strengthening of the E.M.S. I would like to make two particular points.

The first concerns the E.C.U. The E.C.U. has now emerged as a significant currency for private investors. It is no longer merely an accounting unit for the big banks, or funny money in which governments can denominate their accounts. The volume of E.C.U. deposits and credits has increased six-fold in two years. Moreover, so far this year the E.C.U. has been the third major currency to be issued in the Eurobond markets, after the U.S. Dollar and the Deutsche Mark. In most Member States, including the U.K., the private individual can open an account in E.C.U.s at his local bank. Moreover, an independent interest rate structure for the E.C.U. is now emerging.

Yet the reaction of some Community governments to the E.C.U., particularly the German Government, has sadly been very much less positive than the attitude taken by most private banks and investors.

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- 8 -

For example, while a group of commercial banks, American as well as European, have set a target date of 1 January 1984 for the creation of a multilateral clearing system for the E.C.U., the German Government continues to refuse even to grant it the status of a foreign currency or to permit it to be used by German residents. I do not accept the argument that the E.C.U. is in effect an indexation clause and I urge the German authorities to find ways of overcoming their objections.

Unless and until they do, the E.C.U. will inevitably labour under a serious handicap because the German financial system will not be playing its full part. This, in turn, will considerably impede the development of the E.M.S. as a whole.

/My second point

- 9 -

My second point on strengthening the E.M.S. concerns the United Kingdom.

One cannot mention the benefits of the E.M.S. and its great potential as a pillar of the International Monetary System, without urging Britain to become a full member by joining the exchange rate mechanism. As I have often said before, the absence of Sterling from the exchange rate arrangements denies British industry the chance of a more stable Pound in the Community, to which it now sends 43% of its exports, and weakens Britain's influence in the overall management of the System.

It is also unsettling for other European currencies that the Pound is in the E.C.U. - whose stability it upsets as a result of its wide fluctuations - while Britain fails to participate in the intervention mechanisms which are designed both to avoid these fluctuations and to enable Europe to deal on a more equal basis with the United States and Japan.

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- 10 -

Finally, it is very difficult to see how the E.M.S. can be fully developed in the absence of what is after all one of Europe's major currencies.

I therefore welcome the call by Lord O'Brien, the former Governor of the Bank of England, and his colleagues on the House of Lords Committee on the European Community for full British participation in the E.M.S. The Report, in which they put forward their case, comes at a time when the world may be poised for further instability in exchange rates, and deserves wide attention in the Community.

Before closing I should like to move on from the E.M.S. to say something about the Commission's thinking on how to carry the Community idea into the field with which our hosts this evening, the Stock Exchange, are concerned.

/We are concentrating

- 11 -

We are concentrating particularly on strengthening the links between national stock exchanges so that orders from clients can be carried out on the exchange offering the best terms at any given moment.

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/It is appropriate

- 13 -

It is appropriate that I should be making these remarks in Dublin at this time following the presentation by this Stock Exchange of the report for action by the Irish Government to stimulate the supply of equity capital to Irish companies. It would not be right for me to comment on the recommendations which are made but I note that there is one theme in them which echoes a consistent theme in the Commission's work on promoting the raising of capital through stock exchanges. This is an emphasis on the taxation aspects. In our communication on financial integration made last April, we stressed the importance of avoiding distortions to competition between exchanges and therefore, the necessity for the Council of Ministers to adopt the proposal for a directive on indirect taxation on transactions in securities. The object of this is to eliminate double taxation and to reduce the burden of taxes on such transactions generally. This should be a first step towards abolishing these indirect taxes. Here again I am happy to note that the Committee of European Stock Exchanges sees this as a priority. In their words, the concept of a successful European securities market may only be realized if the Member States lift or relax the present restrictions on national capital markets and contribute to a broader participation by investors through a well balanced and harmonized tax system.

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What conclusions are there for Ireland, this Stock Exchange and the Punt? My speech I think shows that the ideas being developed by this Exchange on the one hand and the Commission on the other have much in common. So far as the E.M.S. is concerned, Ireland I think understands as well as anyone the long-term value of the System, and the Irish Government has played a most constructive role in all discussions about the future of the E.M.S. from its inception.

But I should like to add an exhortation to the Irish authorities to those I have already in this speech delivered to the Germans and British. Exchange controls are contrary to the Treaty and require a derogation. This has of course been granted to Ireland. But I hope they are regarded as temporary and will be withdrawn as soon as circumstances permit.

/That said I think



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That said I think it is fair to say that the Punt has made a satisfactory start on the international money markets. It is true that it has fallen against Sterling which has I know caused problems, but that has at the same <sup>time</sup> increased Ireland's competitiveness in the British market. In relation to other full Members of the E.M.S., the Punt has only been devalued once, as part of the wider change in alignments on 21 March of this year. This realignment too has improved the competitiveness of Ireland in the Continental market of the Community.

Participation in the E.M.S. and the cooperation to which I look forward in the stock exchange field will, I believe, strengthen one of the most impressive features of Irish Membership of the Community: the skilful way in which she has used it to carve out for herself an increasingly active role on the world stage. The first decade of membership has seen a profound development in Ireland's presence in the political and commercial spheres of international diplomacy. I am confident that in the next decade we shall witness a growing Irish presence in the monetary sphere as well.

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