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THE COUNCIL**

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**Report to the European Council on the state of
preparation for Stage 3 of EMU, in particular the
external representation of the Community**

1. After several years of intense preparation, the European Union is ready to enter into Stage 3 of EMU on 1 January 1999. Eleven of its Member States will adopt the euro as their currency. Significant work has been accomplished in reaching convergence. The Ecofin Council has also developed, for approval by the Heads of State or Government, the framework for a well functioning economic and monetary union, including the Stability and Growth Pact and procedures for economic policy co-ordination (see annex). The outstanding topic where decisions remain to be taken concerns the external representation of the Community. At the Luxembourg European Council of December 1997, the Heads of State or Government gave an important impetus to this work, and in Cardiff, they asked "the Council to take the necessary measures to ensure the external representation of the euro area Member States in an effective manner".
2. In its work on external representation, the Council has benefited from substantial help of the Commission and the ESCB/ECB in their respective fields of competence. In particular, it has been seized with a Commission proposal on "the representation and position taking of the Community at international level in the context of Economic and Monetary Union".

3. The external representation in Stage 3 of EMU will imply changes in the current organisation of international fora. Therefore, third countries and institutions will need to be persuaded to accept the solutions proposed by the European Union. The Council considers that a pragmatic approach might be the most successful which could minimise the adaptation of current rules and practices provided, of course, that such an approach resulted in an outcome which recognised properly the role of the euro.
4. It follows from the Treaty that a distinction has to be made between the representation:
- of the Community at international level as regards issues of particular relevance to economic and monetary union (Article 109 § 4), and
 - on matters which do not belong to the Community competence, but on which it may be appropriate for Member States to express common understandings.
5. As regards the first indent of paragraph 4 - the representation of the Community at international level as regards issues of particular relevance to EMU - the Council believes that, while trying to reach early solutions pragmatically with international partners, these solutions should be further developed over time adhering to the following principles :
- the Community must speak with one voice;
 - the Community shall be represented at the Council / ministerial level and at the central banking level⁽¹⁾;
 - the Commission "will be involved in the Community external representation to the extent required to enable it to perform the role assigned to it by the Treaty".⁽²⁾

As regards the second indent - matters which do not belong to Community

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- (1) Article 6.1 of the ESCB/ECB Protocol says that "In the field of international cooperation involving the tasks to the ESCB, the ECB shall decide how the ESCB shall be represented". Article 6.3 adds : "Article(s) 6.1 (...) shall be without prejudice to Article 109(4) of (the) Treaty.
- (2) Par. 10, last sentence of the Luxembourg European Council Resolution

competence - the Council considered it useful to develop pragmatic solutions for the external representation.

6. In developing those pragmatic solutions, the Council concentrated its work on three important areas :

- representation at the G7 Finance Ministers' and Governors' Group;
- representation at the International Monetary Fund;
- composition of Ecofin delegations for missions to third countries.

1. Representation at the G7 Finance Ministers' and Governors' Group

7. Regarding the European Central Bank's participation in the representation of the Community at the G7 Finance Ministers' and Governors' Group, non European partners have already accepted that the President of the ECB attends meetings of the Group for the discussions which relate to EMU, eg. multilateral surveillance, exchange-rate issues, and for agreement of the relevant sections of the published Statement.

8. Regarding the representation of the Community at ministerial level on EMU issues, the Council agreed to suggest to the other G7 partners to have the President of Ecofin, or if the President came from a non euro area Member State, the President of the Euro 11 at the table. If the President came from a non G7 euro area state, he/she would attend in addition to the euro area Ecofin members already present.

In a transitional phase, one of the euro area ministers who are involved in the G7 Group on a permanent basis will, for the sake of greater continuity, provide support for the President of the Ecofin/Euro 11 on a rotating basis for a term of one year.

9. Regarding the Commission's participation in the representation of the Community, the Council agreed to suggest to the other G7 partners that a Commission representative shall be a member of the Community delegation in the capacity of providing assistance to the President of Ecofin/Euro 11.

10. In light of the decisions on the previous paragraphs, further consideration will be given to attendance at preparatory (Deputy) meetings. The Council agreed that as an integral part of Community representation at the G7 Group, there should be an informal preparation on EMU issues in the Euro 11 before meetings. The Council also outlined the need for an efficient communication network between its members.

To this end, the possibility to set up a modern network of communication tools (audio and video conferences) between the fifteen Economic and Finance Ministries, the European Commission, the ECB and the Secretariat of the Economic and Financial Committee will be studied and carried forward urgently. This of course cannot be used for adoption of any legally binding legislative acts.

11. Solutions found for the G7 Finance Ministers' and Governors' Group will provide a basis for finding solutions for other groupings.
12. The Council recognised that the G7 Group quite often will discuss international issues which go beyond the competence of the Community and beyond the particular interest of the 11 Euro area Member States, and concern all Member States. Even on these issues, which fall to Member State competence, it may be appropriate to formulate and present common understandings. The discussions and formulation of common understandings at recent Ecofin meetings on such topics as Russia and the international financial system might serve as a model. Those common understandings shall in any case be the basis of positions to be taken in the G7 Group and other groups.

2. Representation at the International Monetary Fund

13. The Council considers that pragmatic solutions for presenting issues of particular relevance to EMU may have to be sought which do not require a change in the Articles of Agreement of the IMF :

- a first necessary step has already been taken; the IMF Executive Board agreed to grant the ECB an observer position at that Board;

- secondly, the views of the European Community / EMU would be presented at the IMF Board by the relevant member of the Executive Director' office of the Member State holding the Euro 11 Presidency, assisted by a representative from the Commission.

3. Composition of Ecofin/Euro 11 delegations for missions to third countries

14. The composition of Ecofin/Euro 11 delegations for missions to third countries may vary with the circumstances and the objectives. It is the responsibility of the President of the Council/Euro 11 to make the necessary arrangements.

ANNEX

**Report to the European Council on economic
policy-co-ordination***The need for economic policy co-ordination*

1. The move to Stage 3 of Economic and Monetary Union will link the economies of the Member States adopting the euro more closely together. They will share a single monetary policy and a single exchange rate. Economic policies and wage determination, however, remain a national responsibility, subject to the provisions of Treaty Article 104c and the Stability and Growth Pact. To the extent that national economic developments have an impact on inflation prospects in the euro area, they will influence monetary conditions in that area. It is for this basic reason that the move to a single currency will require closer Community surveillance and co-ordination of economic policies among euro-area Member States. Moreover, close co-ordination should aim at an appropriate balance of the policy mix so to contribute to the achievement of the Community objectives set out in Treaty Article 2.

2. Economic and monetary interdependence with non-participating Member States will also be strong; they all participate in the single market. The need to ensure further convergence and a smooth functioning of the single market therefore requires all Member States to be included in the co-ordination of economic policies. Interdependence will be especially strong for those non euro-area Member States which will participate in the new exchange rate mechanism.

Agreement on economic policy co-ordination

3. The Council (Eco/Fin) recognised the need for enhanced co-ordination of national economic policies and considered the issue in detail in its report to the European Council meeting in Luxembourg in December 1997. The latter endorsed this report and issued a Resolution on, inter alia, economic policy co-ordination in stage 3 of EMU. In addition, the European Council meeting in Cardiff last June, considering that the full benefits of EMU and the European single market for all Europe's citizens can be achieved only by a strategy to promote employment through increased competitiveness and economic and social cohesion within a framework of macro-economic stability, set out the essential elements of the European Union's strategy for further economic reform to promote growth, prosperity, jobs and social inclusion and welcomed the determination of Member States to ensure effective co-ordination of their economic policies.

Areas for economic policy co-ordination

4. In the meantime, nearly all elements of economic policy co-ordination have been put in place and are being tried out. The arrangements are proving to be successful, particularly since the Council is embarking on a full-fledged annual co-ordination process. While respecting the principle of subsidiarity, it will give full attention to national economic developments and policies including wage policies with a view to their contribution to the achievement of the Community objectives. It will concentrate on those policies which have the potential to influence monetary and financial conditions throughout the euro area, the exchange rate of the euro, the smooth functioning of the internal market, and investment, employment and growth conditions in the Community.

This includes :

- close monitoring of macro-economic developments in Member States to ensure sustained convergence,

- close monitoring of exchange-rate developments of the euro and other EU currencies in the recognition that, in general, these should be seen as the outcome of all other economic policies,
- strengthened surveillance of budgetary positions and policies in accordance with the Treaty and the Stability and Growth Pact,
- the monitoring of nominal and real wage developments with reference to the broad economic policy guidelines,
- the close examination of national employment action plans (NAP's), dealing in particular with active labour market policy in accordance with the employment policy guidelines and the exchange of best practice,
- monitoring of Member States' structural policies in labour, product and services markets, as well as of cos and price trends, particularly insofar as they affect the chances of achieving sustained non-inflationary growth and job creation.

Modalities for economic policy co-ordination

5. The Council will apply the Treaty instruments for economic policy co-ordination fully and effectively. Its activity will centre on the broad economic policy guidelines, adopted in accordance with Article 103(2). They will be developed into an effective instrument for ensuring sustained convergence of Member States. Economic policies and developments in each Member State and in the Community will be closely monitored in the framework of multilateral surveillance according to Article 103(3), and measured against the broad economic policy guidelines.

If necessary, and according to Article 103(4), the Council will make recommendations to a Member State whenever its economic policies are not consistent with the broad economic policy guidelines or risk jeopardising the proper functioning of EMU.

6. In order to take account of the special needs of co(ordination for Member States participating in the euro area, the Euro 11 Group was created and has met in fruitful dialogue several times. In September 1998, also the non-participating Member States were invited in order to discuss matters of common concern.

7. The harmonious economic development of the Community in Stage 3 of EMU will also call for continuous and fruitful dialogue between the Council and the European Central Bank, involving the Commission and respecting all aspects of the independence of the ESCB. The Council and the Euro 11 Group have started such a dialogue and stand ready to engage in it further when needed.
8. In order to stimulate a fruitful dialogue and to inform them about the stability-oriented macro-economic policy framework, the European Social Partners were invited by the Ecofin Council for a regular exchange of views.

Implementing the new arrangements for economic policy co-ordination

9. In addition to the regular work on the broad economic policy guidelines, the Council stated this spring to closely review the national employment action plans. Guided by the Cardiff European Council, the Council will moreover establish a light procedure, under which Member States and the Commission will produce short reports at the end of the year, each within their areas of competence, on product and capital markets. While fully respecting subsidiarity, this procedure will help exchange best practice and complement the information already available in national employment action plans and stability/convergence programmes. It is being implemented for the first time this year.
10. In accordance with the 1 May declaration, this summer the Council looked closely into actual and prospective developments in Member States' budgetary policies. At present, the Council is examining the stability and convergence programmes with a view to their consistency with the broad economic policy guidelines and the requirements of the Stability and Growth Pact and the commitments of the Council's 1 May declaration.
11. The results of the analysis of these different reports should feed into the annual update of the broad economic policy guidelines and contribute to making them an effective instrument at the heart of the economic policy co-ordination process.

- 12. Continued efforts are necessary to implement the guidelines fully and to take appropriate account of the new policy environment upon the transition to stage 3 of EMU. The ambition to ensure effective co-ordination of economic policies will imply a more active involvement of all participants in this process, including the ministers meeting in the Euro 11 Group, the Council and the Heads of State or Government.

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