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EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street Northwest, Suite 707, Washington D.C. 20037 • Telephone: (202) 296-5131

BACKGROUND INFORMATION

SEPTEMBER 14, 1971

TEXT OF CONCLUSIONS OF THE EUROPEAN COMMUNITIES' COUNCIL OF MINISTERS MEETING (ON THE EFFECTS OF THE UNITED STATES' NEW ECONOMIC MEASURES) AT A MEETING OF FINANCE MINISTERS OF THE SIX IN BRUSSELS ON SEPTEMBER 13, 1971

WASHINGTON, D.C., Sept. 14 -- Following is an unofficial translation of the main conclusions reached by the Finance Ministers of the six Common Market countries at their Council of Ministers meeting held yesterday in Brussels. The Ministers met to consider a common position with respect to recent U.S. trade and monetary measures.

I. The Council of the European Communities has again examined the problems arising from the measures taken by the United States on August 15, 1971.

The Council feels that the basic problem is one of the reconstruction of the international economic and monetary order, based on the institutions that have administered it so far (IMF and GATT), and one which would take into account the needs of developing countries.

The Council considers it necessary for Community countries to take a common position in close cooperation with applicant countries (Great Britain, Ireland, Denmark, and Norway).

The Council, after taking note of the work of the Monetary Committee of the European Communities and the Governors of the Central Banks as well as the communication of the Commission addressed to the Council on September 9, agreed that a common position by the Community (within the Group of Ten and the IMF) should be based on the following principles:

A) The reforms to be carried out within the international monetary system

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must respect the principle of fixed parities which should be adjusted as soon as it becomes apparent that they are no longer realistic. Such a system is necessary for the orderly transaction and expansion of trade, in which the Community, as the most important trading unit, is particularly interested.

Satisfactory international payments relations based upon such principles will only be possible if differentiated realignment is introduced in parity relations between currencies of industrialized countries. Such a realignment should include the currencies of all countries concerned, including the dollar. It should be implemented in such a way as to take into account fair distribution of adjustment burdens with regard to the economic situation and the foreseeable development of the countries concerned.

B) The correct functioning of the international monetary system thus reformed would require measures affecting the international movement of capital. These measures could consist of a limited increase in fluctuation bands in order to compensate for the consequences of interest rate differences and also of appropriate measures to discourage short-term capital movements.

C) International reserve assets will continue to depend upon gold, and to an increasing degree, upon a collectively and internationally created-and-managed reserve system. This calls for the adaptation and the development of the special drawing rights system in connection with a gradual decrease in the importance of national currencies as reserve assets.

D) The new international payments balance can only be maintained if, in the future, all countries or associations of countries respect, without fail, the obligations and constraints involved in the adjustment process of the balance of payments and if they implement appropriate internal policies.

E) Within the framework of the reformed international monetary system, the authority and range of action of the IMF must be reinforced in all fields of competence. The member states should endeavor to adopt common positions within this institution.

Taking into consideration that the functioning of the IMF has become more difficult because of recent events, the Council feels that it is indispensable for this institution to be able to pursue its regular activities through internal arrangements relating to transactions of the main currencies used by the Fund. The pursuit of this activity is not only of interest to industrialized countries but even more so to developing countries. Moreover, it is indispensable to the

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proper functioning of a specific Community exchange system.

II. The Council has also examined the developments of the exchange markets within the Community.

It has noted that the functioning of these markets has so far not been seriously upset, and expresses satisfaction that cooperation has sprung up among the Central Banks of the Community, which it would like to see continued.

The Council acknowledged that if the present monetary difficulties go on too long, they would undoubtedly endanger the proper functioning of the Community, in particular the common agricultural policy. The Council has asked the Commission to prepare a special report on the consequences of the present situation as far as the functioning of the agricultural common market is concerned. It re-affirmed the mandate given to the Monetary Committee and to the Governors of Central Banks on August 19, 1971, to set forth as soon as possible a solution to assure the stability of exchange rates among Community countries.

III. The Council stressed the seriousness of the U.S. decision to impose a ten per cent surtax on imports and to grant tax advantages in favor of internal investment and on exports. Such measures prevent the formation of realistic exchange rates. They also are an obstacle to the readjustment of parities. Furthermore, they can provoke serious disturbances in international trade. Thus, the Council requests that these measures be rescinded.

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