'European Monetary System clarified', from Luxemburger Wort (6 December 1978)

Caption: On 6 December 1978, the daily newspaper Luxemburger Wort reports on the outcome of the Brussels European Council of 4 and 5 December 1978 at the end of which the Nine decide to implement the European Monetary System (EMS) as of 1 January 1979.

Source: Luxemburger Wort. Für Wahrheit und Recht. 06.12.1978, n° 279; 131e année. Luxembourg: Imprimerie Saint-Paul. "Europäisches Währungssystem geklärt", auteur:Theis, Fons , p. 1.

URL:
http://www.cvce.eu/obj/european_monetary_system_clarified_from_luxemburger_wort_6_december_1978-en-3f15e1eb-8e1b-4797-b67d-97019193d9cf.html

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European Monetary System clarified

Participation of Italy and Ireland still undecided — United Kingdom to remain outside for the time being

— from our Editor, Fons Theis (currently in Brussels) —

The Heads of State or Government of the European Community finally reached agreement on Tuesday on the principles of the European Monetary System in respect of which President Giscard d'Estaing and Federal Chancellor Helmut Schmidt have been the prime movers. Community integration has consequently made important progress along the road to more stable economic and, above all, monetary conditions. Expectations with regard to who would be taking part were not fulfilled, however. As has been generally expected, the United Kingdom will remain outside for the time being, despite the fact that the British Prime Minister has made a positive contribution to the establishment of the procedures for the system. Italy and Ireland have been given two days to think about whether to join. It remains totally uncertain whether they will take the decisive step in view of the inadequate offer made to these countries with regard to the transfer of financial resources to strengthen the economy.

The way in which the system will work was largely clarified on Monday night and during the first few hours of yesterday's meeting. It became apparent that there was a large measure of agreement, but discussions became unexpectedly protracted when talk turned in particular to the transfer of resources within the Community. It very soon became clear that, while the participants were willing to press ahead in the monetary sphere, they were less prepared to make commitments on financial compensatory payments. The high expectations of Italy and Ireland were quickly quashed. France in particular adopted a highly restrictive position, the French President stubbornly refusing to sanction the requested boost to the Regional Fund. He did so not for directly pertinent reasons but because he did not want to create the impression that, by increasing resources, he was giving in to a demand from the European Parliament.

All that remained on the table as possible assistance were exhausting the Ortoli Facility and additional loans from the European Investment Bank amounting to one thousand million units of account at a rate of interest reduced by 3 % for a period of five years, the idea being that Ireland and Italy would share these in a proportion of one to two. This proposal is particularly fraught with difficulties, however, because these funds, given the non-participation of the United Kingdom, can be financed only through national budgets, not through the Community budget, and it is necessary to establish an allocation scheme for this purpose.

Same margin of fluctuation as in the snake

From 1 January, the date on which the system enters into force, but with a wider group of participants, the currencies of the participating countries will move up or down within a 2.25 % margin of fluctuation.

Italy was granted a maximum band of 6 % in either direction, while France and Ireland, which did not take part in the snake system, have decided to maintain the narrow margin.

The individual currencies will enter the system at a central rate fixed on a particular key date.

It will then be possible for changes to be made to these central rates only following joint agreement in the Community bodies responsible.

The Heads of State or Government assume that the currencies represented to date in the snake will join the system at their current central rate.

No revaluation or devaluation — and this warning was addressed to the market — will be made.

A new artificial unit of currency, the ecu, which the French understand to be a term of their own recalling a unit of currency from the Middle Ages while others understand it to be an acronym formed from 'European Currency Unit', will take over the function of both a reference quantity and a common denominator in the intervention and credit mechanisms as well as an indicator in reaching what is referred to as the divergence threshold and as a means of payment in adjusting balances between the national banks. In a similar way to the basket of currencies in the present-day unit of account, it is made up of the participating currencies in a weighted ratio. According to the agreement reached by the Heads of State or Government, the weighting can be amended within five years or on request, if the weight of a currency has changed by a quarter.

Although the United Kingdom is not yet a member of the system, the British currency is included in the basket of currencies. Unlike the other currencies, however, whose fluctuations are entered on a daily basis, its parity is fixed, in order to limit its effects on the system.

If one or other currency goes beyond the upper or lower margin of the band, the competent authority, in the specific case the national bank concerned, is obliged to intervene to maintain parity within the system.

On the other hand, if a currency crosses what is known as the divergence threshold, which serves as an indicator and amounts to three quarters of the width of the band, around 1.7 %, it is expected that the competent authorities will take action. The means at their disposal are diversified intervention in the market with various currencies, internal monetary policy measures, a change in central rates or, as the agreement has it, other economic policy measures.

If, on the other hand, 'in the event of particular circumstances' it does not take action, the justification for such lack of action must be notified to the partners. This information is passed, initially, between the individual central banks. If necessary, the consultation can also be transferred to Community level, including the Council of Finance Ministers.

As is only to be expected, non-members do not take part either in the intervention or in the system of the divergence threshold. They are, however, involved in the consultation in relation to the divergence threshold if the mechanism takes effect at Community level.

The system of the divergence threshold may be subject to a revision within six months.

In certain circumstances this could also provide the United Kingdom politically with a springboard to enter the system.

A structured credit system

Very short-term credit, as a deterrent to speculation, is unlimited. The time limit for adjusting balances was extended in comparison with the present snake system from 30 to 45 days from the end of the month.

The distribution of the funds available between short-term and medium-term assistance — 20 % of dollar reserves and 20 % of gold probably to be valued at an average close to the market value — amounting to a total of ECU 25 000 million was still not clear yesterday evening.

The lenders were aspiring to as great a shift as possible to medium-term funds, because releasing these funds is tied to particular conditions, while the potential clients want to retain as free a hand as possible.

The very short-term facilities remain reserved solely for the participating countries. Outsiders may, however, enjoy short-term and medium-term assistance to the extent that they have done so to date.

Open to non-member countries

Association with the Monetary System is open to European countries which are not Member States, above all Switzerland, Austria, Norway and Sweden.

It will be a matter for the German Presidency to notify potential candidates of this possibility. If it wishes to do so, Norway can already enter into formal negotiations as a current member of the snake.

National parliamentary allowances for MEPs

It is reported that the directly elected Members of the European Parliament will not be paid from the Community coffers. We have learnt that the Heads of State or Government have agreed that each Member State will fix the level of parliamentary allowances and that these allowances will be paid from the particular national budgets concerned. This decision will undoubtedly cause some consternation because of the differing treatment of MEPs, particularly since their dependence is additionally emphasised by the payment being made from the national budget.

Three Wise Men appointed

Following a proposal from the French President, the European Council has appointed Three Wise Men to review how the Community institutions work. The former French Vice-President of the European Commission, Robert Marjolin, the former Dutch Prime Minister, Bernard Biesheuvel, and the British Trade Secretary who resigned a few weeks ago, Edmund Dell, were selected.

Ready to tie up the GATT package

The European Community is in principle prepared to conclude the Geneva negotiations on the reduction of customs duties and barriers to trade and tie up a complete package. The European Council has made it quite clear, however, that the agreement cannot be entered into until the United States has given a binding assurance that European exports to the USA will not be subject to countervailing duties.