Committee of Governors of the
Central Banks of the Member States
of the European Economic Community

Secretariat

28th February 1991

Confidential

Summary note on the Intergovernmental Conference:
Meeting of Ministers and personal representatives,
held in Brussels on 25th and 26th February 1991

The meeting of Ministers (taking place in the afternoon of 25th February) focused on four main issues which had emerged in the preparatory discussions of the personal representatives: the principles and objectives of EMU; guidelines relating to multilateral surveillance and economic policy; excessive budget deficits and fiscal discipline; and introduction of a new Community facility for financial assistance. The purpose of the Ministers' review of these questions was to provide political guidance to the work of the personal representatives. The "non-papers" on the Articles relating to these four issues (Articles 2 to 4a and 102a to 104a), which had been prepared by the Presidency, served as background information to the Ministers' discussions but were not the subject of a detailed review. However, all speakers expressed their appreciation for the skilful drafting of the non-papers which were generally regarded as a very useful basis for future work. The non-papers will ultimately be turned into a reference text for the establishment of a draft Treaty on EMU.

The Ministers' statements on the four issues basically reflected the positions taken by their personal representatives at the preparatory meetings (see the Summary notes on the IGC dated 31st January and 20th February). As regards the objectives and principles of EMU there was a broad agreement that the Community should be based on free and competitive markets and that sound fiscal and monetary policies should be pursued. Several speakers stressed the objective of economic and social cohesion and the need for due regard to environmental concerns. However, beyond this the emphasis on particular aspects differed: Germany advocated the embodiment of "ordnungspolitische" principles in the Treaty and a clear design of a final objective of EMU, with monetary and economic integration forming part of a wider concept of political union involving the transfer of national sovereignty. The Netherlands stressed that EMU was not an end in itself but should promote social cohesion and the attainment of ecological objectives; the ESCB should be independent and not be set up at the beginning of Stage Two; economic policies should be the responsibility of Member States but be closely co-ordinated. France emphasised that economic and monetary policy should be balanced, involving a dialogue between the relevant institutions and organs when assessing and formulating such policies; there should be guidelines for economic policies. Greece pointed to the need for a balanced development in the Community and the removal of underlying causes of divergences. The United Kingdom reiterated its reservation to a single monetary policy but agreed to participate actively and constructively in the discussions. It supported the objectives of non-inflationary growth and the need for sound monetary and fiscal policies which, in an environment of open markets, should lead to economic convergence. Italy and Portugal broadly agreed with the Presidency's draft text on Articles 2a and 3a. Denmark emphasised the objective of stimulating a high level of employment. Ireland, too, stressed the need for high overall employment (i.e. the avoidance of regional unemployment) and to bring about structural changes with a minimum of economic and social costs. Spain supported the French proposals for achieving convergence and well-balanced growth.

On the question of guidelines, several speakers (United Kingdom, Germany, Netherlands) emphasised, in accordance with the principle of subsidiarity, the responsibility of Member States for economic policy, although in a framework of strengthened co-ordination. Other speakers (in particular France, Italy, Ireland) supported a system of guidelines in addition to a more short-term multilateral surveillance exercise. Views continued to differ on a possible role of the European Council in the setting of broad economic policy guidelines.

As far as excessive budget deficits were concerned, virtually all speakers favoured a set of criteria but opinions continued to differ as to whether these criteria should be mentioned in the Treaty (as suggested by Germany and the Netherlands) or in secondary Community legislation (most other countries). There was broad agreement that criteria should serve as indicators only and that they should be applied flexibly in what should be basically a judgmental assessment by the ECOFIN Council. In addition to the golden rule and debt/GDP ratios, also the level of savings (Italy) and infrastructure requirements (Greece) were mentioned as relevant indicators for the evaluation of a country's budgetary position. Belgium pointed out that the assessment of deficits should also be considered in the light of measures for tax harmonisation. All Ministers also emphasised the importance of fiscal discipline and several speakers supported sanctions in the case of non-compliance with recommendations for remedial action. The United Kingdom and Ireland pointed to practical problems in applying symmetrical sanctions.

With regard to a new Community facility for financial assistance, the United Kingdom, the Netherlands and (perhaps to a lesser degree) Germany were not in favour of such a mechanism. All other speakers welcomed the idea of setting up a solidarity facility which could be used if shocks created severe problems beyond the control of the authorities of an individual Member State. Portugal stressed that a substitute for the present Article 108 (balance of payments financing) was needed and Italy argued that the case for a support facility would be stronger the more rigorous the provisions for fiscal discipline, although Article 235 of the present Treaty would essentially be sufficient to deal with exceptional situations and shocks.

The President of the Commission noted at the end of the discussions that the views on budget deficits were now perhaps less divergent than in the past and that economic union should not be regarded simply as a matter of fiscal policy but involved also common R&D policies, the establishment of a sound industrial structure and cohesion among Member States. With regard to the Community facility for financial assistance, he pointed out that the Commission had made this proposal for two reasons: firstly, a technical one, i.e. to deal with asymmetric external shocks and, secondly, a political one, i.e. to facilitate the search for a political consensus in the final discussion on the Treaty on EMU.

The Chairman, in his concluding remarks, noted that the thrust of the Presidency's non-paper on principles and objectives had been welcomed and that the non-paper dealing with the other issues had not triggered great controversy. On the whole, reasonable progress had been made.

The meeting of personal representatives was devoted to a first exchange of views on Treaty Articles dealing with Monetary Union using as a basis for discussion primarily the working document of the Commission (Articles 105 to 106b) and the French proposal for a draft Treaty (Articles 2-1 to 2-4). During the meeting the German delegation, too, circulated a proposal for a draft Treaty on EMU and several other representatives submitted proposals for amendment to, or new versions of, the relevant Articles in the Commission document.

The very lively debate focused on the following major issues: Where should a definition of Monetary Union be given in the Treaty? What would be an appropriate simplified procedure for amending certain Articles and which Articles would this be? Which provisions stated in the ESCB Statute should go into the Treaty? How should the principle of independence be formulated in the Treaty and the Statute? Which tasks should be listed in the Treaty? Views on all of these questions differed considerably and no consensus is yet discernible.

As regards the first question - the definition of Monetary Union - there were two basic questions. Firstly, should the definition of Monetary Union be given only at the beginning of the Treaty (Art. 2a and 3a), or only at the beginning of the Monetary Union Chapter (Art. 105), or possibly in both places? A number of speakers favoured Art. 105, a few were indifferent and one representative strongly advocated setting out the definition at the beginning of the Treaty. Several speakers also indicated that whatever solution might be adopted, there should be a similar treatment for the definition of Economic Union. The second basic question related to the contents of the definition. No clear view emerged but three elements were mentioned by most speakers: the irrevocable fixing of exchange rates; the introduction of a single currency; and the establishment of the ESCB in charge of the single monetary policy.

The second major issue - the appropriate simplified amendment procedure - was triggered by a review of draft Article 106 in the Commission's document and Article 2-2 in the French proposal, which both made reference to such a procedure. Two fundamental questions arose in the discussions. Firstly, which procedure should be followed. The Commission's draft suggests in Article 106.3 that the Council may act by a qualified majority at the request of the ESCB after consulting the Commission and the European Parliament. The French proposal suggests in Article 2-2.3 that the

Council may amend Articles after consulting the Commission and the European Parliament. In this context it was confirmed by the legal service of the Commission that the Statute, when annexed as a protocol to the Treaty, would have the same legal status as the Treaty and that therefore all amendments, in the absence of a simplified procedure, would have to be made in accordance with Article 236 of the Treaty. It was, however, also pointed out that a simplified amendment procedure was legally possible (although it would be unusual for Treaty changes) and if such a procedure was adopted, it would be in the spirit of the Treaty that any revision of specific Articles was subject to a unanimous decision by the Council of Ministers (an example of a simplified amendment procedure is found in the EIB Protocol where a change in the capital shares requires a unanimous decision by the Board of Governors, i.e. Ministers). While it was recognised that under the Treaty of Rome the Commission has the right of initiative (with the decision being taken by the Council), most speakers felt that this procedure would not be appropriate in the case of Statute Articles. Instead, the ESCB should be involved in the process. However, beyond this fairly general agreement, views differed considerably: some representatives wished to give the right of initiative solely to the ESCB (reference was made to the procedure of Article 188 according to which amendments to the provisions of Title III of its Statute can be made by the Court of Justice), others suggested the ESCB and individual Member States and/or the Council and/or the Commission. The right of initiative should also be seen in the light of the possible majorities required for a Council decision. One view was that in case of the ESCB's exclusive right of initiative a qualified Council majority would be appropriate. In addition, it was emphasised that such a procedure would ensure that the Council could reject, but not change the ESCB's proposal for amendment. Another view was that in any case the Council should decide only unanimously. A third view was that the legal procedure of the Treaty should be maintained, i.e. the Commission would have the right of initiative, but that the ESCB should be able to express its opinion. If the ESCB agreed, the Council should act by qualified majority, if the ESCB disagreed, the Council should act unanimously. Finally, some speakers emphasised that any solution which would give the ESCB a veto right to amendments proposed by the Council or Member States would not be acceptable. There was also the question by which majority the governing bodies of the ESCB should decide when requesting, or expressing an opinion on, amendments of certain Articles of the Statute.

The second basic issue in the context of the simplified amendment procedure was the list of specific Articles to which the procedure would apply. Indeed, several speakers stressed that their view of the procedure would be determined by the extent of this list. The Chairman felt that it would be extremely helpful for the future discussion if the Committee of Governors would express its view on the appropriate procedure and if it established a positive list of Articles subject to simplified amendment.

The discussion on what should go into the Treaty was relatively brief (although some views were repeated in the context of the review of Article 106b, the basic tasks of the ESCB). Some speakers wished to see only the most essential features of the System reflected in the Treaty but others felt that for political reasons and in order to explain Monetary Union to parliaments, it would be necessary to describe in some detail the objectives, tasks, instruments and organisational structure of the ESCB in the Treaty itself.

The discussion of the the fourth major issue - the embodiment of the principle of independence in the Treaty and the Statute - was prompted by Article 106a.2 of the Commission's document and Article 2-3.2 of the French proposal. The proposed text of the Commission is rather close to Article 7 in the draft Statute and differences were said not to reflect substance but only an alignment of the wording with that of Article 157 of the Treaty (ensuring the independence of the Commission). While all representatives strongly endorsed the principle of independence, two main questions were discussed with regard to the precise formulation: firstly, was it necessary and appropriate to make reference to the independence of the institutions as well as the members of their governing bodies, or would personal independence not be sufficient? Secondly, would a formulation saying that "the Community and the Member States shall not seek to influence the ECB..." not impede the necessary inter-institutional dialogue and should it therefore not be omitted? One proposal was to replace this wording by a sentence saying that "the Community and the Member States shall respect the principle of independence". Another proposal was to follow precisely Article 7 of the draft Statute, but to introduce after ..."seek or take any instruction from the Community institution", the words "and other organs" in order to include the European Council, should it be given a role in the setting of broad policy guidelines. Another idea was to open the Article on independence with a reference to the institutional provisions to be laid down in Article 109 ("without prejudice to Article 109 the Community and the Member States should not seek to influence..."). There was agreement that any reference to national legislation ensuring independence should be dealt with in the transitional provisions.

In the context of Article 106a of the Commission's draft there was also a brief discussion on the need for the proposed third paragraph. There was broad agreement that Article 104, prohibiting the provision of monetary financing to the public sector, was sufficient and that no further reference to this principle was required in Article 106a. However, the discussion also brought up the question of whether national central banks could provide to governments short-term overdraft facilities on commercial terms. Some representatives seemed to consider this not to be part of monetary financing while others strongly rejected this idea. The issue will be taken up again when the personal representatives have a second round of discussion on Article 104.

The fifth major issue - <u>the basic tasks of the ESCB to be included in the Treaty</u> - was examined on the understanding that there would be a separate discussion of the external monetary policy. Nonetheless, one representative indicated that the transfer of reserves to the ECB would raise a number of problems which needed to be thoroughly analysed. As far as the other tasks were concerned, views differed considerably on what should be mentioned in the Treaty. Some representatives who wished to limit the chapter on Monetary Union to its most essential features, favoured the inclusion of what they considered the important tasks and rejected the idea of listing instruments in the Treaty. Other representatives advocated a rather exhaustive catalogue of tasks, drawing together various tasks and functions mentioned in different parts of the draft Statute. It also remained open whether the Treaty (and, presumably, the Statute) should refer to payment systems and banking supervision: one representative pointed to the wide difference in the division of responsibilities between governments and national central banks in these fields and felt that clarification about the future assignment of such tasks was needed. One representative mentioned that the tasks should allow for association with third countries. In the context of these discussions, there was also an exchange of views on the status of the draft Statute prepared by the

Governors. While the Presidency proposed to use it as a basic reference document for the discussion of the relevant Treaty Articles, two representatives expressed their reservations. Although acknowledging that it was a useful document, the Statute should be treated on an equal footing with other documents prepared by the Commission and the Monetary Committee. Other representatives, however, did not share this view and argued that there should be no fundamental debate on the Governors' proposal but that it should be accepted like the Delors Report as a basic reference document. This would not rule out a review of the draft Statute. Indeed,the Chairman announced that such a review would take place in the working party and he invited the Committee of Governors to finalise the draft Statute as quickly as possible.

The next meeting of the personal representatives will take place on 12th March 1991; the main agenda item is the completion of the review of the Monetary Union chapter with particular emphasis on external monetary policy.

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