

Secretariat

SUMMARY NOTE ON THE INTERGOVERNMENTAL CONFERENCE:

MEETING OF PERSONAL REPRESENTATIVES

HELD IN BRUSSELS ON 1st OCTOBER 1991

The meeting was devoted primarily to a review of revised draft Treaty Articles 109 F and G (transitional provisions, document UEM/70/91) and 109 (exchange rate policy and international representation, document UEM/71/91). There was also a brief exchange of views on draft Articles 105 to 108 (the monetary policy chapter of the Treaty, document UEM/66/91).

I. THE TRANSITIONAL PROVISIONS

The Chairman explained that in order to take into account the political agreement reached at the informal ECOFIN meeting, Articles 109 F and G had been revised in three important respects: the convergence criteria and, especially, the observation period, had been amended in order to reflect the Ministers' wish that the criteria should not be applied too rigidly; the decision-making procedure had been brought in line with the consensus reached on the sequence of decisions; and the idea of an "Assembly" as a body in which central banks of countries with derogations and the ECB would co-operate had been introduced into the text.

Although not all representatives felt that the revised draft texts fully reflected the spirit of Apeldoorn and notwithstanding the fact that views on certain aspects differed (with many of the reservations having already been expressed at earlier meetings), the tone of the discussions was conciliatory and the large majority of speakers felt that the texts provided a good basis for an agreement.

In the context of Article 109 F the discussions centred mainly on para. 1 (the criteria for assessing convergence) and the decision-making

procedure for establishing whether it would be appropriate for the Community to enter into Stage Three (paras. 2-4).

As regards the convergence criteria views ranged from the text being on the verge of diluting the criteria to not giving sufficient recognition of the judgmental character of the assessment of the entry conditions. The following main points were made:

Firstly, most speakers felt that the description of the observation period in terms of "a reasonable period of time" was too vague. There was a clear preference for deleting altogether the reference to the observation period in the Treaty, but to specify the (two-year) period in a document laying down the precise criteria. Whether this should be in the form of a protocol or in secondary Community legislation remained controversial.

Secondly, views were divided as to whether the achievement of a high degree of price stability should be measured against the best performing Member State or Member States. Those who favoured the plural (because a single country's performance could easily be distorted by special factors, such as a reduction in indirect taxes) generally preferred a reference to the three best performing Member States.

Thirdly, many representatives were in favour of deleting the reference to "no devaluation" in the context of the exchange rate criterion. One proposal was to replace "without devaluing against any other Member State currency" by "without major tensions".

Fourthly, not all representatives were happy with the inclusion of interest rates as a convergence criterion. However, it seems that a more general wording such as "the durability of convergence ... should also be reflected in interest rates" would be acceptable.

Fifthly, proposals to include other criteria (sustainable current-account position, adequate social and economic cohesion) did not find widespread support. However, it was not ruled out that these criteria might serve as auxiliary criteria in the assessment of convergence.

As regards the decision-making procedure outlined in para. 2-4 of Article 109 F, the proposed structure was generally welcomed although views differed on the precise roles of the Council of Ministers and the European Council. Not all speakers agreed with the idea that the Council of Ministers should take a formal decision on its recommendations to the European Council. In the view of these representatives, the Council of

Ministers should only draw up conclusions and/or present a full assessment of each Member State's situation. Among the representatives who supported the idea of a decision by the Council of Ministers, many objected to a prior proposal from the Commission. Several speakers supported a qualified majority defined by a positive vote of at least eight Member States. As far as the involvement of the European Council in the decision-making process was concerned, some speakers wished to give it a more prominent and decisive role. One representative emphasised that there should be a clear political decision by unanimity.

Finally, all speakers agreed that in the event that no conclusion on the date of the start of Stage Three could be reached by the European Council (para. 4 of Article 109 F), the procedure for assessing the appropriateness for entering Stage Three should be repeated more frequently than once every two years (e.g. "once a year" or "at least once every two years").

The draft text of Article 109 G which attempts to incorporate the principles of no arbitrary lock-out (in para. 2) and no coercion (in para. 7) was generally welcomed. However, one representative felt that the Articles still differentiated in an unacceptable way between Member States. The discussion focused primarily on the status of Member States which would not take part initially in the locking of exchange rates. The following main issues were raised:

Firstly, there was broad agreement that a review of the situation in Member States with derogations should take place more frequently than once every two years. Moreover, a Member State with derogations should at any time have the right to make a proposal for the abrogation of the derogations granted to it. Several speakers emphasised that the procedure for latecomers to enter Stage Three should be exactly the same as for the initial participants and that in particular also the European Council should be involved in this procedure.

Secondly, the draft text of the no coercion provision raised the question of whether a country able but not willing to participate would be a Member State with derogations. One speaker objected to this and argued that it should be clearly stated in the Treaty that a voluntarily not participating Member State should be under no obligation to participate later. By contrast, one speaker emphasised that a Treaty ratified by all twelve parliaments should not allow for an additional decision-making

process after the European Council had assessed the appropriateness for entering Stage Three. Instead, a country unwilling to participate should have already consulted its parliament prior to the European Council's assessment and, in case the Member State was unwilling to participate, it should be considered a Member State with derogations in accordance with para. 2 of Article 109 G.

In the context of the no-coercion provision the Chairman explained that the six-month period for a decision on whether or not to participate (para. 7 of Article 109 G) was intended for the purely technical reason of giving Member States sufficient time to consult their parliaments or, where needed, to call a referendum.

Thirdly, one speaker objected to a decision-making procedure (in the framework of Article 109 G - as well as Article 109 F) which would give the Commission the right of proposal. The reason was to ensure an efficient decision-making process which would not be assured if, following an amendment to the Commission's proposal, unanimity would be required in the Council of Ministers.

Finally, the idea of an "Assembly" comprising the Governors of the central banks of the Member States with derogations and the President and Vice President of the ECB met with a mixed reaction. While virtually all speakers felt that - if such an Assembly were created - all central bank Governors should be represented in this body, views differed on the need for a special body. Several speakers strongly endorsed the idea of a clear institutional division inside the ECB between those who accepted the obligations stemming from a single monetary policy and those who retained national monetary sovereignty. Other representatives favoured an approach under which the voting rights of Member States with derogations would be suspended with respect to certain decisions but which would ensure that all Member States were represented, at least as observers, in the decision-making body of the ECB.

## II. EXCHANGE RATE POLICY AND INTERNATIONAL REPRESENTATION

The Chairman explained that the new draft of Article 109 (especially paras. 1 and 2) mirrored closely the suggestion which Minister Kok had made in Apeldoorn and which had been regarded at the informal ECOFIN as a basis for further work and compromise. The proposed

text was welcomed by all speakers who felt that it was well balanced and that it would bring the Member States close to an agreement on the difficult question of exchange rate policy. The following main points were raised in the discussion:

Firstly, the wording "a regime of exchange rate agreements of the Community currency vis-à-vis other currencies" was considered unclear. The Chairman explained that the intention had been to describe with this wording any type of legal agreement in contrast to other forms of not legally binding exchange rate arrangements. A better formulation expressing the legal character of the exchange rate regime referred to in para. 1 of Article 109 will be introduced into the revised text. No clear view emerged as to who should have the right of initiative for a decision by the Council of Ministers on the Community's exchange rate regime.

Secondly, no voting will be required with respect to guidelines for exchange rate policy (para. 2 of Article 109) since the issuance of such guidelines is not considered to constitute a legal act. Some editorial changes were proposed for this part of Article 109.

Thirdly, one speaker felt that Article 109 should also make provision for a situation where the Community had adopted a parity with wide fluctuation margins vis-à-vis third currencies. In this case guidance on the exchange rate policy would be needed.

Finally, views differed about the majority requirements (qualified majority or unanimity) for decisions on international representation (paras. 3 and 4 of Article 109). One speaker felt that the decisions on international representation should be discussed by the European Council.

### III. THE MONETARY POLICY CHAPTER OF THE TREATY

The Chairman explained that the presentation of the monetary policy chapter had been changed in the draft Treaty Articles 105 to 108, the main idea being to include in a systemic manner all basic provisions relating to the ESCB also in the Treaty, but to leave the internal organisation of the ESCB in the Statute. There was only a very brief exchange of views on these Articles which focused on the following issues:

Firstly, regarding the tasks of the ESCB (Article 105.2) several speakers objected to linking monetary policy to Articles 2A and 3A of the

Treaty (especially since the contents of these two Articles had not yet been agreed). One speaker disagreed with the task "to hold and manage the official foreign exchange reserves of the Member States" because it would imply the transfer of all foreign exchange reserves presently held by governments to the central bank. However, the government would need at least a part of such funds to make foreign payments. One speaker expressed a reservation about the task "to ensure the smooth operation of the systems of payments" because it could imply too much interference with private sector operated payment systems; he proposed to replace "to ensure" by "to promote".

Secondly, the simplified amendment procedure in Article 106, para. 5 (mirroring Article 41 of the Statute) gave rise to two comments: one speaker favoured a Council of Ministers decision on the basis of unanimity. Another representative proposed to act by qualified majority provided the decision was supported by the ECB, but otherwise act by unanimity.

Thirdly, the majority of representatives seemed to support the Presidency's proposal to empower the Council of Ministers with the right to issue the regulations concerning the issue of coins within the Member States (Article 108, para. 3). Some speakers pointed out that the volume and denomination of coins needed to be regulated. One speaker felt that the Treaty should contain detailed provisions governing the Community's monetary order.

The Articles discussed by the personal representatives have now been forwarded to the recently established Working Group which, apart from examining specific technical issues, will amend the Articles in the light of the views expressed at the meeting of the personal representatives.

The next IGC meetings will take place on 7th October 1991 (at the level of Ministers) and 8th October (at the level of personal representatives).

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