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DOCUMENTS "COM"

COM (78)308

Vol. 1978/9025

COM(78) 302 final.
Bruxelles, le 29 June 1978.

COMMISSION
DES
COMMUNAUTES EUROPEENNES

Secrétariat général

NEGOTIATIONS FOR THE ACCESSION OF GREECE

Proposals

on

the application of certain acts of Community secondary legislation
relating to the economic and financial fields

FORTROLIGT VERTROUWELIJK RISERVATISSIMO CONFIDENTIAL VERTRAULICH CONFIDENTIEL

(Communication from the Commission to the Council)

COM(78) 302 final.

INTRODUCTION

1. This communication deals with various substantive problems which have emerged from the examination of Community secondary legislation on economic and financial matters and in the case of which it has been recognized with the Greek Delegation that a solution should be sought in the negotiations.

2. The following points are involved:

   (i) relations between the drachma and the European unit of account;
   (ii) whether Greece will have to bear a share of the guarantee obligations relating to loans accorded before its accession;
   (iii) application of the Council Directive on stability, growth and full employment in the Community.

   On these three points the Commission is formulating specific proposals for joint negotiating positions.

3. On two of the three points dealt with in this communication the Commission proposes specific solutions not calling for either a temporary derogation or even transitional arrangements.

   On one point only is a temporary derogation proposed. The Commission would stress that the maximum duration of that derogation must be dictated by the criteria and guidelines applying to the sectoral proposals at the current stage of the accession negotiations with Greece as defined by the Council on 17 October 1977[1] and elaborated upon on 10 November 1977 at the ninth session of the Conference[2] at Deputy level. These criteria and guidelines were also referred to in Part I of the Commission communication on trade in industrial products within the enlarged Community[3].

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[1] CONF-GR 49/77

[2] CONF-GR 55/77

[3] COM (78) 21 of 25 January 1978

I. EUROPEAN UNIT OF ACCOUNT

When the secondary legislation on the European unit of account was being examined the Greek Delegation indicated that it considered that the problem of the inclusion of the drachma in the EUA basket was a question which had political overtones and therefore a substantive matter to be dealt with in the negotiations.

In the report[1] on secondary legislation relating to the economic and financial fields the Commission made some remarks on certain difficulties in connection with the inclusion of the drachma in the EUA basket; it is now in a position to formulate a proposal on this point.

The Commission considers that the problem of the unit of account in the context of Greece's accession must be seen from two angles:

- relations between the drachma and the EUA;
- the future of the EUA.

A. – Relations between the drachma and the European unit of account

(i) On the basis of the concepts used for establishing the present EUA the Commission considers that the drachma's contribution to the basket would not exceed 2%; a 5% change in the value of the drachma would therefore affect the value of the EUA in the various currencies by only 0.1%. The inclusion or non-inclusion of the drachma in the EUA would therefore have only a minimal influence on Greece's rights and commitments in EUA;

[1] COM (77) 664 final.

and so whatever the drachma's position vis-à-vis the EUA basket Greece will not be in a more or a less favoured position. In particular, if the drachma were not included in the basket this would not have any real negative effect for Greece.

(ii) The method for calculating the value of the unit of account in the various national currencies varies according to whether Member State or non-Member State currencies are involved.

The value of the unit of account in the national currency of a Member State is calculated by applying to each fixed amount of national currency in the basket the official exchange rate prevailing on the market of the currency concerned.

For instance, the calculation is currently made in Frankfurt for the Deutsch mark, in Copenhagen for the Danish krone and in Paris for the French france.

The value of the unit of account in the national currency of a non-Member State is calculated by applying to the value of the unit of account calculated on the Brussels market the exchange rate for the currency in question on the Brussels market.

At present the value of the EUA in drachma, although not published officially, is calculated on the basis of the exchange rates prevailing in Athens.

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All EUA transaction, whether within the Community administrative framework or in the financial, banking or commercial fields, may therefore be effected with regard to Greece according to a practice similar to that of the Member States. Extension of Community secondary legislation on this point, which will authorize equality of treatment of the Greek State and Greek nationals vis-à-vis EUA transactions, is therefore already assured.

It would, however, be a mistake to think that on this point the introduction of the drachma into the EUA would be unlikely to pose any problems because, while the value of the drachma would be calculated according to a system similar to that in force in the Member States the drachma is not officially quoted on the Community exchange markets. From the angle of taking account of the drachma in the EUA on the other markets therefore this constitutes a technical obstacle which must not be overlooked, especially as the Athens exchange market is not a real exchange market in the technical sense of the term.

B. The future of the European unit of account

The recently created European unit of account is the first step towards a zone of monetary stability in Europe.

The European unit of account is being introduced in Community activities only progressively, sector by sector. **But it is not yet used systematically in all these sectors of activity.**

To ensure the future of the EUA therefore means above all ultimately using it in all fields of Community activity but also encouraging its use outside those fields, particularly for banking and financial operations.

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This is why the Commission feels that the consequences for the very future of the European unit of account of rapidly including the drachma in the EUA basket must be examined. As this examination must take account of the general prospects of the current enlargement exercise its scope becomes even wider.

To include the currency of each new Member State in turn would mean successively creating a number of units of account - in other words it would go against the present objective of replacing all units of account by a single one; this would lead to discontinuity, which can only discourage the use, desirable though it is, of the EUA in long-term transactions such as multiannual contracts or issues of loans in EUA.

Moreover, at the level of adaptation of the EUA it is likely that the inclusion at different dates of further currencies might each time entail long and difficult discussions, which will be a source of uncertainty for business.

Commission proposal

The Commission is aware of the political significance which the rapid inclusion of the drachma in the EUA basket may have for Greece. It also feels that it would be in the very interests of the enlarged Community to have a unit of account whose composition is as stable as possible and whose existence will thus be recognized by everyone, with the result that it could be used operationally on the market.

This is why the Commission proposes that the drachma should not be included in the EUA basket as soon as Greece accedes. This problem could be seen rather in the general context of the possible need to rebalance all the constituents of the EUA basket and to take account of the possible accession of another two new Member States. Such a solution would respect the legitimate interests of Greece, while preserving the process of establishing

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the EUA as an operational instrument.

It is the Commission's view, however, that this problem of including the drachma in the EUA basket will also be solved before the end of the maximum period for the application of the transitional measures or temporary derogations to be instituted for the various fields of the negotiations.

II. GREECE'S SHARE OF THE GUARANTEE OBLIGATIONS RELATING TO LOANS ACCORDED BEFORE ITS ACCESSION

Council Regulation No. 398/75 of 17 February 1975 implementing Council Regulation (EEC) No.397/75 concerning Community loans lays down the conditions under which the Community is entitled to receive from the other Member States the necessary foreign exchange if the debtor Member States finds itself unable to make payment on one or more due dates.

In its Eighth Report on the examination of Community secondary legislation (Acts relating to the economic and financial fields)[1] the Commission stated that from the internal standpoint of the enlarged Community Greece should participate in the guarantee system. It added that it could, nevertheless, be necessary, in view of the contracts already concluded between the Community as at present constituted and suppliers of funds, to take account of information brought to the attention of the market and investors and hence to maintain the breakdown set out in Regulation No.398/75.

Commission proposal

The Commission wishes to confirm this point of view for the reasons stated above. Consequently, it proposes that for Community loans issued before the accession of Greece and guaranteed by the Member States of the Community when they were issued, Greece should not be associated with that guarantee.

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[1] COM (77) 664 final

Once Greece has acceded it will, however, have to participate in guaranteeing any new Community loan made after the date of accession.

In order to do this, it will be necessary to revise the present scale for allocating the guarantee among Member States: the Commission will be presenting a proposal on this matter at a later date.

The Commission therefore proposes that Regulations 397/75 and 398/75 should be amended as follows:

i. Greece should be brought into the guarantee system on the same terms as the present Member States;

ii. there should be a clause providing for the maintenance of the present quotas for allocating the guarantee in respect of loan contracts concluded before the date of accession.

III. APPLICATION OF THE COUNCIL DIRECTIVE ON STABILITY, GROWTH AND FULL EMPLOYMENT IN THE COMMUNITY

The Council Directive of 18 February 1974 (74/121/EEC) on stability, growth and full employment in the Community[1] stipulates that each Member State must possess an adequate set of economic policy instruments.

To this end, Article 9 of the Directive specifies that the Member States should confer upon their monetary authorities instruments and powers to enable them in particular to have recourse to an open market policy.

Greece does not at present possess the latter instrument: that is why, in its Eighth Report on the examination of Community secondary legislation (Acts relating to the economic and financial fields)[2] the Commission stated that there remained the question of whether the act of accession should stipulate a time-limit so as to oblige the Greek authorities to take the necessary measures quickly.

Commission proposal

The Commission considers, in the light of the statements made by the Greek Delegation to the effect that a monetary and capital market could be developed rapidly, that the act of accession must make provision for a temporary derogation in respect of the introduction of the open market policy.

The duration of this derogation remains to be determined: it must, however, fit in harmoniously with the measures to be taken in the economic and financial fields.

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[1] OJ L 63 5.3.74, p.19

[2] COM (77) 664 final.