



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 01.07.1998
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Recommendation for a

COUNCIL DECISION

**concerning exchange rate matters
relating to the CFA franc and the Comorian franc**

(presented by the Commission)

**Recommendation for a Council Decision concerning exchange rate matters
relating to the CFA franc and the Comorian franc**

EXPLANATORY MEMORANDUM

France has concluded several agreements concerning exchange rate matters with the UEMOA (Union économique et monétaire ouest-africaine), the CEMAC (Communauté économique et monétaire de l'Afrique Centrale) and with the Comores¹.

The existence of a common currency in this area, which is a consequence of the agreement of France and the CFA zone countries, is a major complement to the Community's development policy. It is in line with its effort to enhance regional co-operation and growth through deeper economic interdependency and solidarity, e.g. in the UEMOA. As such, it increases the efficiency of the Community's significant support for the participant countries, whether in the form of national indicative programmes, structural adjustment support or regional funds.

The use of a common currency is of course a monetary matter. But, in this particular case, it encompasses a true development dimension, through complementing the Community's development strategy aiming at achieving growth, poverty alleviation and integration in the world economy through regional integration.

As from 1 January 1999, the Community will have the exclusive competence for monetary and exchange rate matters in the Member States adopting the euro. Any agreement with third countries concerning monetary or foreign exchange rate matters needs to reflect this allocation of competence. Therefore, the Community must decide on the future of these agreements. For this purpose, the Commission is presenting a draft Council Decision which allows France to maintain the present agreements concerning exchange rate matters relating to the CFA franc (issued by the Banque Centrale des Etats de l'Afrique de l'Ouest and the Banque des Etats de l'Afrique Centrale) and the Comorian franc (issued by the Banque Centrale des Comores).

¹ Convention de coopération monétaire du 23 novembre 1972 entre les Etats membres de la Banque des Etats de l'Afrique centrale (BEAC) et la République française, as amended; Convention de compte d'opérations du 13 mars 1973 entre le ministre de l'Economie et des Finances de la République Française et le Président du Conseil de l'administration de la Banque des Etats de l'Afrique Centrale, as amended; Accord de coopération du 4 décembre 1973 entre la République française et les Républiques membres de l'union monétaire ouest-africaine, as amended; Convention de compte d'opérations du 4 décembre 1973 entre le ministre de l'Economie et des Finances de la République Française et le Président du conseil des ministres de l'Union monétaire ouest-africaine, as amended; Accord de coopération monétaire du 23 novembre 1979 entre la République française et la République fédérale islamique des Comores, as amended; Convention de compte d'opérations du 23 novembre 1979 entre le ministre de l'Economie et des Finances de la République Française et le ministre des Finances, de l'Economie et du Plan de la République fédérale des Comores, as amended.

I. General considerations

Article 109 (3) of the Treaty stipulates that "By way of derogation from Article 228, where agreements concerning monetary or foreign exchange regime matters need to be negotiated by the Community with one or more States or international organizations, the Council, acting by a qualified majority, on a recommendation from the Commission and after consulting the ECB, shall decide the arrangements for the negotiations and for the conclusion of such agreements."

The existing agreements between France and the UEMOA (Union économique et monétaire ouest-africaine), the CEMAC (Communauté économique et monétaire de l'Afrique Centrale) and with the Comores include a fixed parity of the CFA franc and the Comorian franc against the French franc, for which the euro will be substituted as from 1 January 1999.

These agreements are unlikely to have any material effect on the conduct of the single monetary and exchange rate policy of the euro area. The guarantee of convertibility for the CFA franc and the Comorian franc is based on a budgetary commitment of the French Treasury. Each of the central banks participating in the agreements (Banque Centrale des Etats de l'Afrique de l'Ouest, Banque des Etats de l'Afrique Centrale et Banque Centrale des Comores) holds an operation account with the French treasury which provides, in principle, an unlimited overdraft facility to the respective central bank. At the same time, these central banks are obliged to hold a large part (in principle at least 65%) of their foreign assets in their operation account.

The Banque de France which will be, as from 1 January 1999, an integral part of the European System of Central Banks has no obligation to guarantee the convertibility of the CFA franc and the Comorian franc. The continuation of the present agreements should therefore not stand in the way of a smooth functioning of EMU.

II. Comments on the articles

Article 1

This article reflects the fact that the agreements between France and UEMOA (Union économique et monétaire ouest-africaine), CEMAC (Communauté économique et monétaire de l'Afrique Centrale) and the Comores concerning exchange rate matters fall in the competence of the Community as from the date of the introduction of the euro. The article provides that France may continue the present agreements.

Article 2

This article provides that France and the African signatories to the agreements shall keep the sole responsibility for the implementation of the agreements concluded between France and the UEMOA, the CEMAC and the Comores. The article does not address any modifications of such agreements.

Article 3

This article provides that France shall keep the Commission and the Economic and Financial Committee informed on a regular basis about the implementation of the agreements. The degree of regularity should be such, that any developments which might have an impact on the smooth functioning of the single monetary and exchange rate policy are reported in good time.

In case of changes of the parity between the French franc and the CFA and Comorian francs, France has to inform in advance the Economic and Financial Committee.

Article 4

Article 4 and 5 set rules for any future changes of the agreements between France, the UEMOA, CEMAC and the Comores. A distinction is drawn between changes which modify the nature or scope of the agreements and those which do not. Article 4 deals with the latter type of changes. In such cases, France may agree to changes after having informed the Commission and the Economic and Financial Committee.

By delegating to France the competence to negotiate and to agree such changes to the existing agreements, the Council makes use of its power to decide the arrangements for the negotiation and for the conclusion of agreements concerning monetary or foreign exchange regime matters.

Article 5

This article refers to possible future changes of the agreements between France, the UEMOA, the CEMAC and the Comores which change the scope or nature of the present agreements.

France is required to submit such plans to the Commission and the Economic and Financial Committee. The Commission shall submit to the Council a recommendation for a decision. In accordance with Article 109 (3), the ECB will be consulted before any Council decision.

All changes which go beyond technical changes and which constitute changes of the nature or scope of these agreements will therefore have to be approved by the Council. This applies to any modification of the composition of countries which are parties to the agreements, and to any modification of the principle of free convertibility at a fixed parity between the euro and the CFA and Comorian francs, which is guaranteed by a budgetary commitment of the French Treasury.

Article 6 and 7

This article ensures that the decision addressed to France will be applicable as from the first day of the third stage of Economic and Monetary Union, i.e. as from 1 January 1999. This is also the first day on which Article 109 (3) is applicable.

**Recommendation for a Council Decision [] of ...
concerning exchange rate matters relating to the CFA Franc
and the Comorian Franc**

The Council of the European Union,

Having regard to the Treaty establishing the European Community, and in particular Article 109 (3) thereof,

Having regard to the recommendation from the Commission,

Having regard to the opinion of the European Central Bank,

- (1) Whereas according to Council regulation (EC) No 974/98 of 3 May 1998¹ the euro will be substituted as from 1 January 1999 for the currency of each participating Member State at the conversion rate;
- (2) Whereas the Community will have the competence for monetary and exchange rate matters in the Member States adopting the euro as from the same date;
- (3) Whereas the Council is to determine the appropriate arrangements for the negotiation and conclusion of agreements concerning monetary or foreign exchange regime matters;
- (4) Whereas France has concluded several agreements with the UEMOA (Union économique et monétaire ouest-africaine), the CEMAC (Communauté économique et monétaire de l'Afrique Centrale) and with the Comores which are intended to

¹ OJ L 139, 11.5.1998, p.1

guarantee the convertibility of the CFA and Comorian francs into the French franc at a fixed parity²;

- (5) Whereas the euro will be substituted for the French franc on 1 January 1999;
- (6) Whereas the convertibility of the CFA and Comorian francs is guaranteed by a budgetary commitment of the French authorities; whereas the French authorities have given the assurance that the agreements with the UEMOA, the CEMAC and with the Comores have no substantial financial implications for France;
- (7) Whereas these agreements are unlikely to have any material effect on the monetary and exchange rate policy of the euro area; whereas in their present form and state of implementation these agreements therefore are unlikely to present any obstacle to a smooth functioning of Economic and Monetary Union;
- (8) Whereas France and the African signatories to the agreements are willing to continue the present agreements after the substitution of the euro for the French franc; whereas it is appropriate that France may continue the present agreements after the substitution of the euro for the French franc and that France and the African signatories to the agreements implement them under their sole responsibility;
- (9) Whereas it is necessary for the Community to be informed on a regular basis about the implementation and envisaged modifications of the agreements;
- (10) Whereas it is necessary to involve the competent Community bodies before making any changes to the nature or scope of the present agreements; whereas this applies to the membership of the agreements and to the principle of free convertibility at a fixed parity between the euro and the CFA and Comorian francs, convertibility being guaranteed by a budgetary commitment of the French Treasury;

² Convention de coopération monétaire du 23 novembre 1972 entre les Etats membres de la Banque des Etats de l'Afrique centrale (BEAC) et la République française, as amended; Convention de compte d'opérations du 13 mars 1973 entre le ministre de l'Economie et des Finances de la République Française et le Président du Conseil de l'administration de la Banque des Etats de l'Afrique Centrale, as amended; Accord de coopération du 4 décembre 1973 entre la République française et les Républiques membres de l'union monétaire ouest-africaine, as amended; Convention de compte d'opérations du 4 décembre 1973 entre le ministre de l'Economie et des Finances de la République Française et le Président du conseil des ministres de l'Union monétaire ouest-africaine, as amended; Accord de coopération monétaire du 23 novembre 1979 entre la République française et la République fédérale islamique des Comores, as amended; Convention de compte d'opérations du 23 novembre 1979 entre le ministre de l'Economie et des Finances de la République Française et le ministre des Finances, de l'Economie et du Plan de la République fédérale des Comores, as amended.

(11) Whereas Member States may conclude international agreements, without prejudice to Community competence and Community agreements as regards economic and monetary union,

HAS ADOPTED THIS DECISION:

Article 1

Upon the substitution of the euro for the French franc, France may continue its present agreements concerning exchange rate matters with the UEMOA (Union économique et monétaire ouest-africaine), the CEMAC (Communauté économique et monétaire de l'Afrique Centrale) and with the Comores.

Article 2

France and the African signatories to the agreements shall keep the sole responsibility for the implementation of these agreements.

Article 3

The competent French authorities shall keep the Commission, the European Central Bank and the Economic and Financial Committee informed on a regular basis about the implementation of the agreements. The French authorities shall inform the Economic and Financial Committee prior to changes of the parity between the euro and the CFA or Comorian franc.

Article 4

France may negotiate and conclude modifications to the present agreements to the extent that the nature or scope of the agreements are not changed. It shall inform in advance the Commission and the Economic and Financial Committee of such changes.

Article 5

Any plans to change the nature or scope of these agreements shall be submitted by France to the Commission and the Economic and Financial Committee. Such plans require the approval of the Council on the basis of a recommendation from the Commission and after consultation of the European Central Bank.

Article 6

This decision shall apply as from 1 January 1999.

Article 7

This decision is addressed to France.

Done at Brussels,

For the Council

The President

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