
Use of Euro in Affiliated Countries and Territories Outside the EU

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INTRODUCTION

If Denmark's adoption of the euro is endorsed by the referendum in Denmark on 28 September 2000 it will be necessary to consider the currency arrangements for the Faroe Islands and Greenland. Today they both use the Danish krone as their currency¹. The Faroe Islands and Greenland are part of the Kingdom of Denmark, but are not members of the EU.

Some of the present euro area member states have close economic relations with small states or territories which by tradition have used the present euro area member state's currency (e.g. the French franc) as their currency, but which are not members of the EU. The framework for the foreign-exchange cooperation between the euro area member states and these small states and territories after the introduction of the euro is set out in a number of EU decisions which are outlined in the following.

A common feature of the EU decisions is that all of the small states and territories in question will have the opportunity to preserve the currency association to the euro area member state by using the euro as their currency. There is every indication that they will avail of this opportunity. However, the more detailed legal arrangements between the individual euro area member states and the associated small states and territories remain to be clarified.

Finally, the article describes two EU decisions on the currency relations between France and the CFA zone and the Comoro Islands, and Portugal and Cape Verde after the two EU member states' introduction of the euro.

¹ The Faroe Islands use the Danish coin series, but have their own series of banknotes in units of 1 króna. The banknotes can be exchanged for Danish banknotes in the ratio 1:1.

MONACO, SAN MARINO AND VATICAN CITY

Monaco, San Marino and Vatican City have the formal status of independent states which are not members of the EU. However, the three small states have very close relations with France (Monaco) and Italy (San Marino and Vatican City) and via conventions have concluded agreements on the use of the currency of their large neighbouring country.

By tradition the Principality of Monaco has used the French franc as its currency, i.e. banknotes and coins denominated in French francs are legal tender. Monaco also has its own coin series and these coins are not legal tender outside Monaco. Similarly, banknotes and coins denominated in Italian lire have traditionally been used in the Republic of San Marino and Vatican City, while both these countries have also issued their own coins, which are legal tender in Italy on a par with Italian lire.

On the introduction of the euro on 1 January 1999 the competence to conclude currency arrangements with third countries or territories outside the EU was transferred from national level in France and Italy to EU level (i.e. the Council of Ministers). On 31 December 1998 the Council of Ministers therefore adopted three decisions on the monetary relations with the three small states¹. The three decisions set out the overall framework for the currency association. At the same time the EU authorises respectively France and Italy to negotiate and conclude agreements on behalf of the EU with the three small states. The European Commission and the European Central Bank, ECB, will be involved in the negotiations and the agreements will be submitted for consultation to the Economic and Financial Committee of the EU, EFC. The European Commission as well as the ECB and the EFC may require the agreements to be submitted to the Council of Ministers.

In the three Council decisions Monaco, San Marino and Vatican City are declared to be entitled to use the euro as their official currency and to give euro banknotes and coins the status of legal tender. The three states are subject to the obligation not to issue any banknotes, coins or monetary surrogates of any kind until the conditions for such issuance have been agreed with the EU. Furthermore, the three countries are subject to the obligation to introduce the EU rules on euro banknotes and coins and to cooperate closely with the EU in the fight against counterfeiting. Finally, credit institutions in the three countries are given access to the payment systems of the euro area on terms subject to ap-

¹ Council decisions of 31 December 1998 on the position to be taken by the Community regarding an agreement concerning the monetary relations with respectively the Principality of Monaco, the Republic of San Marino and Vatican City (1999/96-98/EC), *Official Journal* No. L 30 of 4 February 1999, p. 31-36.

proval by the ECB. Furthermore, the EU decision concerning Monaco, which has the largest financial sector among the three states, also states the opportunity to impose requirements on financial institutions concerning minimum reserves and statistical reporting to the ECB.

As stated, the detailed agreements between France and Monaco and between Italy and San Marino and Vatican City remain to be finalised, presumably because it is not found strictly necessary to finalise the details until euro banknotes and coins are introduced in 2002.

SAINT-PIERRE-ET-MIQUELON AND MAYOTTE

Two small islands off the east coast of Canada (Saint-Pierre and Miquelon) and a small island north of Madagascar (Mayotte) are part of the Republic of France and hitherto have used the French franc as their currency, with French banknotes and coins as the only legal tender. The islands are formally designated as "French territorial communities". They are not members of the EU, in contrast to e.g. the French overseas departments to which the EU Treaty fully applies. On the other hand, the three islands are among the EU's associated overseas countries and territories.

The special conditions for Saint-Pierre-et-Miquelon and Mayotte have required the clarification of their monetary arrangements after the introduction of the euro in France. The Council decision of 31 December 1998 sets out the framework for these monetary arrangements¹.

According to the Council decision the euro will be introduced as the currency of the three islands and as from 1 January 2002 France will grant legal tender status on the islands to banknotes and coins denominated in euro. The ECB and the national central banks (in practice Banque de France) may carry out the monetary functions and operations of the Eurosystem on the three islands. After consultation with the European Commission and the ECB France shall ensure that those elements of Community law which are or will be necessary for the functioning of Economic and Monetary Union (EMU) are applied in Saint-Pierre-et-Miquelon and Mayotte.

The Council decision should be interpreted to indicate that in reality the euro area is expanded to include Saint-Pierre-et-Miquelon and Mayotte. The ECB and the Eurosystem take over the central-bank duties, although in practice the central-bank functions are undertaken by Banque de France on behalf of the Eurosystem. Via its own legislation

¹ Council decision of 31 December 1998 concerning the monetary arrangements in the French territorial communities of Saint Pierre-et-Miquelon and Mayotte (1999/95/EC), *Official Journal* No. L 30 of 4 February 1999, p. 29-30.

France shall ensure that all relevant Treaty provisions on EMU also apply on the three islands, even though the latter are not directly covered by the EU Treaty.

The details of the arrangements with Saint-Pierre-et-Miquelon and Mayotte also remain to be finalised – including the necessary amendments to French legislation.

OTHER FOREIGN-EXCHANGE ARRANGEMENTS WITH THE EURO AREA

The introduction of the euro in France and Portugal and the transfer of competence in monetary and foreign-exchange issues from national to EU level have also required the clarification of these two member states' continuing currency relations with respectively the CFA zone and the Comoros and Cape Verde.

The CFA zone consists of two groups of countries, 6 in Central Africa and 8 in West Africa. Each of the two groups in Africa has its own economic and monetary union with a common central bank, and the currency in both groups of countries is the CFA franc, which is convertible at a fixed parity to the French franc. The CFA zone is also subject to common multilateral surveillance and convergence criteria for government budgets. The Comoros have their own central bank and their currency is the Comorian franc, which is also convertible to the French franc at a fixed parity.

Cape Verde has its own central bank and its currency, the Cape Verde escudo, is convertible to the Portuguese escudo at a fixed parity.

The EU Council of Ministers has adopted two decisions¹ authorising France and Portugal to continue their existing agreements on currency arrangements with respectively the CFA zone and the Comoros and Cape Verde. France and Portugal and their cooperation partners retain the sole responsibility for implementation of these agreements. No new agreements will thus be concluded on behalf of the EU. The fixed conversion rate against the French franc and the Portuguese escudo, which will both be replaced by the euro, shall be guaranteed solely via the national government budgets of respectively France and Portugal. Finally, the two member states shall keep the European Commission, the ECB and the EFC informed of any changes in the parity and of minor adjustments to the agreements. Any plans for major amendments (to the extent that the nature and scope of the agreement are affected) shall be submitted for approval by the EU Council of Ministers.

¹ Council decision of 23 November 1998 concerning exchange rate matters relating to the CFA Franc and the Comorian Franc (98/683/EC), *Official Journal* No. L 320 of 28 November 1998, p. 58-59 and Council decision of 21 December 1998 on exchange rate matters relating to the Cape Verde escudo (98/744/EC), *Official Journal* No. L 358 of 31 December 1998, p.111-112.

There are many other examples of countries which have linked their currency either to the euro or to one of the national currencies in the euro area, such as the D-mark. However, these are purely unilateral currency arrangements which do not impose obligations on the ECB or euro area member states, irrespective of whether the regime is a "currency board" or a more traditional fixed-exchange-rate arrangement. It was therefore not necessary to set out Council decisions on such arrangements.

THE FAROE ISLANDS AND GREENLAND

If Denmark decides to adopt the euro, as stated in the introduction, the currency arrangements for the Faroe Islands and Greenland will have to be considered.

The above presentation of Council decisions describes how such issues, which have varying degrees of similarity with the relations between Denmark and the Faroe Islands and Greenland, have been handled for the present euro area member states and their cooperation partners.

With regard to the Faroe Islands and Greenland it should be noted that Protocol no. 22 to the EU Treaty stipulates that the provisions of Article 14 of the Statute of the European System of Central Banks and the European Central Bank have no influence on Danmarks Nationalbank's right to carry out its existing tasks concerning the parts of the Kingdom of Denmark which are not part of the Community. The aforementioned Article 14 contains provisions on the national central banks, including their opportunities to carry out functions which are not set out in the Statute.