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EURO CONVERSION

House Bill 5835
Sponsor: Rep. Andrew Richner
Committee: Commerce

Complete to 5-11-98

A SUMMARY OF HOUSE BILL 5835 AS INTRODUCED 5-7-98

House Bill 5835 would create a new act to be called the Euro Conversion Act. The act would apply to a contract, security, or instrument entered into or issued before, on, or after the effective date of the bill.

The bill would define the "ECU" or "European currency unit" to mean the currency basket that is from time to time used as the unit of account of the European Union as defined in European Council Regulation No. 3320/94. The bill specifies that reference to ECU in a contract, security, or instrument without defining ECU is presumed to be a reference to this currency basket, although under the bill that presumption would be rebuttable by showing that it is contrary to the intention of the parties.

House Bill 5835 specifies that a euro would be a commercially reasonable substitution and substantial equivalent if the medium of payment of a contract, security, or instrument is a currency that has been substituted or replaced by the euro, and also if a medium of payment of a contract is the ECU. In both instances, the euro could be used in determining the value of that currency, or tendered at the conversion rate specified by the Council of European Union. The tendering of money under that contract could be made in either euros or the currency originally designated by the contract, if that currency remained legal tender at the time of performance.

House Bill 5835 specifies conditions that would not excuse performance under a contract or give any party to a contract the right unilaterally to alter or terminate a contract, security, or instrument. When an agreement between parties would conflict with provisions of the bill, the agreement to the contract would control. The bill would apply to all contracts, securities, and instruments, including contracts with respect to commercial transactions, and would not be displaced by any other law of the state. In a circumstance of currency alteration other than the introduction of the euro, the bill would not create a negative inference or negative presumption regarding the validity or enforceability of a contract, security, or instrument.

House Bill 5835 also would define "introduction of the euro" and "euro." "Euro" would mean the currency of participating member states of the European Union that adopt a single currency in accordance with the treaty of European Union signed February 7, 1992.

[According to information from the New York Times, The New Yorker magazine, and others, beginning January 1, 1999, eleven of the fifteen nations that form the European Union will adopt a single European currency called the euro, a new currency created four years ago by the twelve founding members of the European Union (EU) who described their intent in a document called the Maastricht Treaty, ratified in 1992. Under the new system and single currency, monetary policy will be set by a central bank located in Frankfurt, Germany. The bank's forerunner, the European Monetary Institute, is already in place and employs about 400 economists, statisticians, and computer experts whose task it is to set up the structure for the new central bank and eventually to monitor the money supply, in a manner similar to the Federal Reserve Board in the United States. The Monetary Institute will be legally converted to a bank in January 1999. The national currencies of the 11 countries will remain in circulation for three more years to allow an orderly transition and rate of exchange, and will be entirely replaced by euros in 2002.

Of the current 15 member nations in the EU, 11 have decided to adopt a unitary currency. Three of the 15-- Denmark, Great Britain, and Sweden--are waiting to see whether the euro makes sense for their economies. One member nation, Greece, did not meet all the economic indicators, and will not take part.

The European Union was formally called the European Community, established in 1967 with the merger of three separate trade and energy organizations originally created to rebuild Europe's devastated economies after World War II. Currently there are 15 members of the European Union: Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Sweden. (Norway was offered membership but declined to participate.) Ten other countries have made application to join--Cyprus, Estonia, Hungary, Latvia, Malta, Poland, Romania, Slovakia, Switzerland, and Turkey--and the EU is expected to include at least twenty countries within the coming decade. In fact, six of the 10 applicant countries already are called associate members: Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia.

Decision-making in the European Union is divided between supranational European institutions (the European Commission and the European Parliament, which are both administered by the EU) and governments of the member states, which send ministers to the Council of Ministers. The Court of Justice serves as the final arbiter in legal matters or disputes among EU institutions or between EU institutions and member states.

Organizationally, the European Union's executive branch is called the European Commission, which makes policy proposals and presents them to the Council of Ministers. The Council of Ministers is the main lawmaking body of the EU, although it cannot draft legislation. Instead it accepts, rejects, or requests proposals from the commission. The European <u>Council</u> referenced in House Bill 5835 became an official part of the European Union in 1987. The council meets in summit meetings at least once every six months, the meetings convened by the country holding the presidency of the Council of Ministers. These summit meetings include the top leaders of the member states, and began in 1975.]

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■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.