



Brussels, 5.12.2018
COM(2018) 796 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL (EURO SUMMIT), THE COUNCIL,
THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Towards a stronger international role of the euro

1. INTRODUCTION: THE EURO AS A SYMBOL OF UNITY, SOVEREIGNTY AND STABILITY

The 2017 Rome Declaration¹, agreed on the occasion of the 60th anniversary of the Treaty of Rome, stated that a stronger European Union was a necessity. The EU Leaders emphasised in particular that the EU should become a stronger global actor. It must be better able to withstand global shocks, shape global events and be better equipped to shoulder international responsibilities.

In his State of the Union Address of September 2018, President Juncker highlighted the strategic importance of the euro in this context and called on action to make it play its full role on the global scene: *“[By] next year, we should also address the international role of the euro. The euro is 20 years young and has already come a long way – despite its critics. It is now the second most used currency in the world with 60 countries linking their currencies to the euro in one way or another. But we must do more to allow our single currency to play its full role on the international scene.”*

In its twenty years of existence, the euro has become a mark of Europe’s economic strength and a symbol of Europe in the world. 340 million European citizens use euro banknotes and coins every day across the euro area’s 19 Member States. Europeans identify the euro as one of the main symbols of the European Union². Ten years after the financial crisis shook the world, the architecture of Europe’s Economic and Monetary Union has been significantly reinforced and public support for the euro stands at new highs.³ With time, the practical benefits of the euro are also becoming more visible: stable prices, lower transaction costs for citizens and businesses, more transparent and competitive markets and increased intra-EU and international trade. With its single currency, the Union remains the most integrated economic area in the world offering an investment friendly environment.

Historically global developments have always played a role in further economic and monetary integration within Europe, including the move towards a single currency. Due to the currency market turbulences in the late 1960s, the Heads of State or Government of the European Communities at the time requested the Council to draw up a plan for closer monetary integration. The resulting Werner Report⁴, published in 1970, delivered an ambitious plan to achieve Economic and Monetary Union. The Werner Report was based on the assumption that exchange rates to the US dollar would remain stable. However, on 13 August 1971, President Nixon of the United States of America decided to suspend the US dollar’s convertibility into gold, thereby ending unilaterally the fixed exchange rate system that had existed since the Second World War.

¹ [Rome Declaration](#) of the Leaders of 27 Member States and of the European Council, the European Parliament and the European Commission.

² Standard Eurobarometer 89: <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/STANDARD/surveyKy/2180>

³ Flash Eurobarometer 473: Overall support for our single currency has returned to its highest level. 74 % of citizens across the euro area say that the euro is good for the EU, according to the latest Eurobarometer survey. https://ec.europa.eu/info/news/eurobarometer-2018-nov-20_en

⁴ http://ec.europa.eu/economy_finance/publications/pages/publication6142_en.pdf

At that point, **Europe had to decide to take its destiny in its own hands and advance on the path towards a single currency, which started with exchange rate mechanisms⁵ and was finally achieved on 1 January 1999.** This has gone hand-in-hand with the definition of a common economic governance framework through which Member States coordinate their policies and assume joint responsibilities.

Since its launch 20 years ago, the euro has been the second most important international currency:

- As a **safe store of value**, the euro represents around 20 % of international reserves of foreign central banks.
- Businesses and foreign Governments use the euro for **issuing debt**. By the end of 2017, more than 20 % of debt issuance on international markets was denominated in euros.
- The euro has become a widely accepted currency for **international payments**. About 36 % of the value of international transactions were invoiced or settled in euros in 2017, compared to about 40 % for the US dollar.
- **Around 60 countries⁶ in the world are either using, will use or link their currency to the euro.** The euro is the main currency of reference for most European Economic Area countries, as well as smaller neighbourhood countries, and the African CFA⁷ zone (14 countries). The adoption of the euro by further European Union Member States, a Treaty obligation (except for Denmark and the United Kingdom), will contribute to increase the weight of the single currency.

However, the international use of the euro has not yet returned to the situation where it was before the financial crisis⁸. For instance, the volume of euro-denominated foreign debt issuance reached a peak at 40 % before the crisis (in 2007) and now stands just above 20 %, similar to its share in 1999.

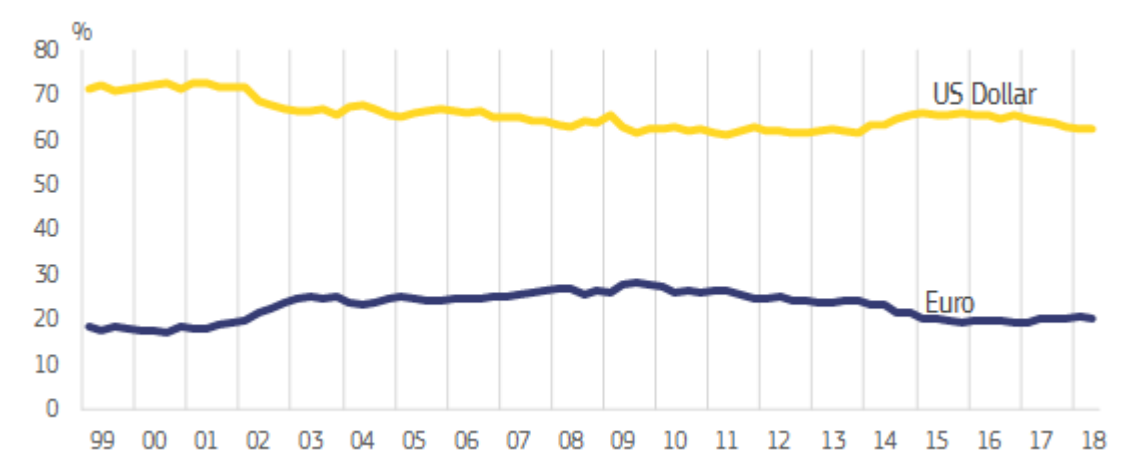
⁵ For the history of the euro (including the 'snake-in-the-tunnel' and the Exchange Rate Mechanism ERM) see: https://ec.europa.eu/info/about-european-commission/euro/history-euro/history-euro_en

⁶ Including dependent territories.

⁷ CFA franc is the name of two currencies used in parts of West and Central African countries which are guaranteed by the French treasury and pegged to the euro.

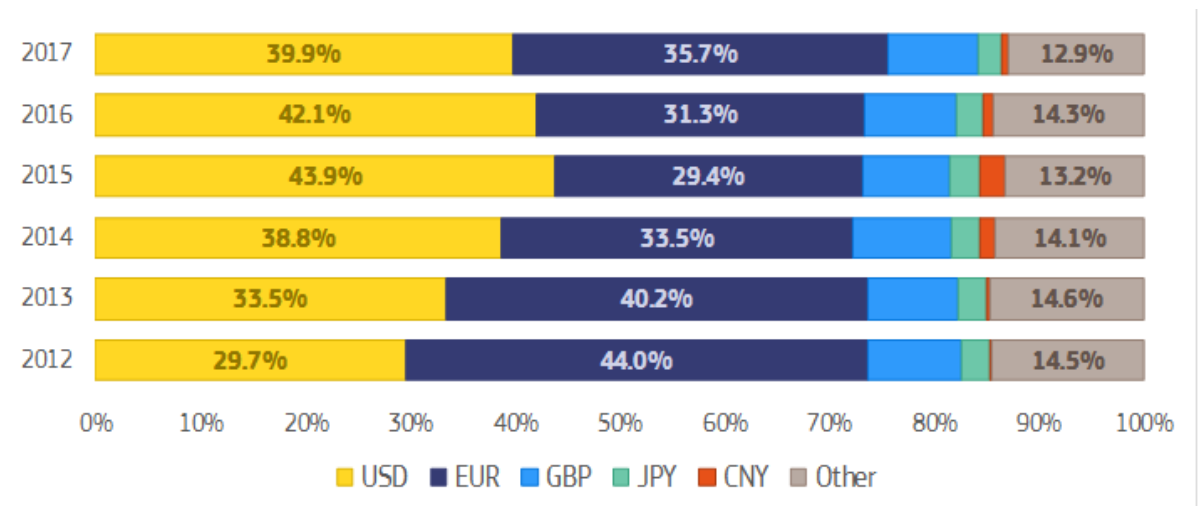
⁸ European Central Bank – The international role of the euro, June 2018.
<https://www.ecb.europa.eu/pub/pdf/ire/ecb.ire201806.en.pdf>

Graph 1: Currency composition of global foreign exchange reserves



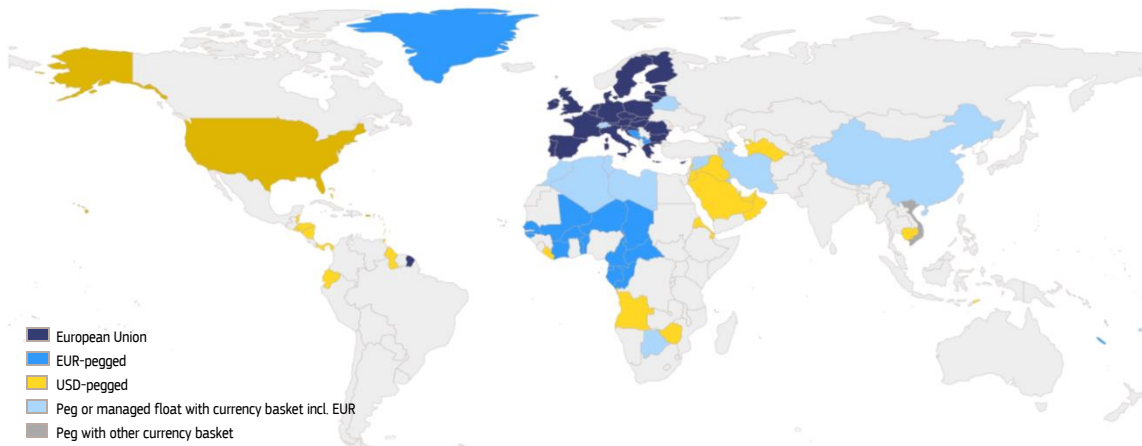
Source: Commission calculations based on IMF

Graph 2: Currency composition of global payments



Source: SWIFT

Graph 3: Countries using or linking their currency to the euro



Source: Data based on IMF and ECB

In the wake of the crisis, Europe has taken determined action to increasingly make the euro a source of economic protection and empowerment. Building on the vision set out in the [Five Presidents' Report](#)⁹ of June 2015 and further developed in the Reflection Papers on the [Deepening of the Economic and Monetary Union](#)¹⁰ and the [Future of EU Finances](#)¹¹, published in spring 2017, the Commission set out a roadmap for deepening the Economic and Monetary Union¹². Strengthening the international role of the euro is both the logical continuation of and a new frontier in this overall agenda, developed over the past four years. This is not a new issue: the international role of the euro has been subject to discussions since its inception, but there has never been a more suitable moment to take this forward.

Supported by the further strengthening of Europe's Economic and Monetary Union, there is scope for the euro to develop further its global role and achieve its full potential, reflecting the euro area's political, economic and financial weight. The currency of choice of citizens, business and markets across the world is not static and depends on historic reasons, liquidity considerations and policy choices. The international role of individual currencies has shifted over the past centuries, with the US dollar emerging as the main global currency only after the Second World War, due to the United States' economic strength, its developed financial system and stability.

Recent global trends, the emergence of new economic powers along with the development of new technologies, are supporting a potential shift towards a more diversified and multipolar system of several global currencies. For instance, while the Chinese renminbi is not yet an international currency that could challenge the position of the dollar or indeed the euro, its international use is an important element of China's reform agenda. This is reinforced by the increasing capacity of Chinese importers and exporters to make and accept payments in their own currency. At the same time, recent extraterritorial unilateral actions by third country jurisdictions like in the case of re-imposed sanctions on Iran¹³, together with recent challenges to the international rules-based governance and trade, are a wake-up call regarding Europe's economic and monetary sovereignty.

⁹ https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

¹⁰ https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en

¹¹ https://ec.europa.eu/commission/publications/reflection-paper-future-eu-finances_en

¹² https://ec.europa.eu/commission/publications/completing-europes-economic-and-monetary-union-factsheets_en

¹³ On 8 May 2018, the United States decided to withdraw from the Joint Comprehensive Plan of Action and unilaterally reinstate all previously lifted sanctions against Iran, which entered into force in two stages, on 7 August and 5 November. The European Union has reaffirmed its commitment to the nuclear deal and taken forward a number of measures to maintain economic links with Iran, including the activation of the Blocking Statute, which seeks to mitigate the extraterritorial effects of U.S. sanctions on EU businesses.

2. THE CASE FOR AN INCREASED INTERNATIONAL ROLE OF THE EURO

The strengthening of the euro's international role should be conceived as part of Europe's broader commitment to an open, multilateral and rules-based global economy. It would help improve the resilience of the international financial system, providing market operators across the globe with additional choice and making the international economy less vulnerable to shocks linked to the strong reliance of many sectors on a single currency.

At the same time, it can bring tangible benefits "at home": it would allow the European Union to enhance the protection of its citizens and businesses, to uphold its values and to promote its interests in shaping global affairs according to rule-based multilateralism. In particular, the euro should continue to facilitate and expand Europe's responsible trade agenda, allowing European companies to trade without disruptions all over the world to the benefit of Europe's economy, while at the same time safeguarding the European social and regulatory model at home.

The decision to use a currency is ultimately made by market participants and there are good reasons why economic actors might wish to invest and hedge in different currencies. The objective is not to interfere in commercial freedom or limit choice, but rather to expand the choice for market participants by ensuring that the euro represents a strong and reliable alternative in all relevant ways.

BOX 1: Benefits of an increased international use of the euro

A wider global use of the euro can be beneficial in several ways:

- **Lower cost and lower risk of trading internationally for European businesses.** Trading in euro rather than in a foreign currency will remove the exchange risk and other currency related costs especially for small and medium-sized European businesses.
- **Additional choice for market operators across the globe.**
- **Lower interest rates paid by European households, businesses and Member States.** A more attractive euro as a safe store of value reduces the interest rate (or return) demanded by investors.
- **More reliable access to finance for European businesses and governments,** even in periods of external financial instability, as European financial markets would become deeper, more liquid and integrated.
- **Stronger autonomy of European consumers and businesses,** allowing them to pay or receive payments for their international trade, and finance themselves with reduced exposure to legal actions taken by third country jurisdictions, like extraterritorial sanctions.
- **Improved resilience of the international financial system and economy,** making them less vulnerable to exchange rate shocks.

The benefits attached to a wider use of an international currency come with increased global responsibilities, in line with central banks' respective mandates. Although the benefits of a stronger international role of the euro outweigh the possible challenges, its consequences would have to be carefully calibrated, for example in relation to the balance of payments for the euro area vis-à-vis the rest of the world.

There are still several factors holding back a stronger international use of the euro and Europe's financial sovereignty:

- **The Bretton Woods system established the US dollar as the global international reserve currency after the Second World War**, effectively replacing the pound sterling as the main global currency. In parallel, the US dollar has also become the standard currency of commodities trades and the predominant currency for derivative operations¹⁴. Once a currency emerges as the incumbent standard, its network effects make it even more attractive, as its wider use allows to conduct further complex financial market operations with higher liquidity¹⁵. This hampers the emergence of alternative reserve currencies.
- **The cost of using the US dollar in certain transactions remains lower than the cost of using the euro, partly as a consequence of the role of the US dollar as the incumbent standard**. Thanks to the higher liquidity of the US dollar, many money market¹⁶ operations become less costly by using the dollar as a currency vehicle compared to the direct use of the euro.
- **The euro is a much younger currency and its structures need to be further developed and completed**. Further steps are necessary to complete the Economic and Monetary Union architecture, which underpins the single currency.
- **Some of the most relevant global financial market infrastructures focus primarily on non-euro currencies and/or are located outside the euro area and the Union**. The international financial system and markets largely and increasingly rely on connected platforms for trading, clearing and payment settlement. A number of these platforms are located outside the euro area or are operated by non-European companies for historical reasons and liquidity considerations, and hence are potentially more exposed to third-country influence.

Several policy avenues could boost the attractiveness of the euro, increase the share of payments made in euro in strategic sectors and further strengthen European economic and financial sovereignty domestically as well as abroad. The main avenues are outlined below.

3. COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION AS A FOUNDATION FOR A STRONG INTERNATIONAL ROLE OF THE EURO

International currencies must be backed by large, stable and efficiently functioning economies and financial systems that are attractive to international users and investors. While the international role of the euro is mainly driven by market forces, sound national fiscal and growth-enhancing policies, a healthy financial sector and the respect of the EU's economic and fiscal framework, provide the foundation for and are essential to the credibility of Europe's single currency.

¹⁴ Financial instruments whose value depends on the value of other underlying variables.

¹⁵ Increased means to conduct transactions due to a larger market.

¹⁶ Markets where financial instruments with high liquidity and very short maturities are traded.

Delivering an even more stable and resilient economic and financial framework can help raise the euro's attractiveness globally. Europe could reinforce the international role of the euro by making it even more compelling as a means of trade payment and trustworthy investment currency. **This means first and foremost completing the Economic and Monetary Union, Banking Union and Capital Markets Union to deliver sustained growth and provide for enhanced resilience to adverse shocks.** In particular, a complete Banking Union¹⁷ would provide for stronger and better supervised banks providing an even more resilient banking sector in Europe and increasing confidence in the EU financial sector and the single currency. A deepened Capital Markets Union¹⁸ would provide more diversified and liquid financial markets and would deliver increased private-sector risk sharing. This in turn would mobilise capital and channel it to more companies, including small and medium-sized enterprises, and infrastructure projects. Deeper and more integrated capital markets will provide businesses with a greater choice of funding at lower costs, offer new opportunities for savers and investors and make the financial system more resilient, thus increasing the attractiveness of the euro. The use of the euro for money laundering or terrorist financing purposes is also prevented and prosecuted in an effective manner.

The Commission has made several key proposals to the co-legislators to complete the Banking Union and deliver Capital Markets Union, which are still pending final adoption. In particular, finalising the backstop to the Single Resolution Fund (to be able to manage even a large banking crisis) and the European Deposit Insurance Scheme (to provide an even stronger and more uniform degree of deposit insurance) would reinforce financial stability by further reducing exposure of banks to their national sovereigns, while the Commission's proposed banking package and non performing loans package would further reduce risks in the banking sector.

Increasing the available pool of euro-denominated assets with a higher credit rating contributes to the development of the European financial sector and enhances the global relevance of EU financial regulation as well as EU-based payment systems. The Commission's proposal¹⁹ on Sovereign Bond Backed Securities, to be issued by the private sector, would be one possibility of increasing the available amount of euro-denominated assets with a high credit rating and a high level of attractiveness for international investors. Such assets would therefore increase the liquidity in euro, which is one important feature where the euro is at a disadvantage in global markets compared to the US dollar.

In the context of preparing the Union's next Multiannual Financial Framework²⁰, the Commission has made proposals to further strengthen the performance and resilience of the euro area economies with dedicated budgetary instruments, as well as proposals supporting non-euro countries wishing to join the euro. The proposed European Investment Stabilisation Function²¹ would allow for a better absorption of large asymmetric shocks in the euro area, which would in turn increase investor

¹⁷ Third Progress Report on the reduction of non-performing loans and further risk reduction in the Banking Union – COM (2018) 766 final of 28 November 2018.

¹⁸ COM(2018) 767 final of 28 November 2018.

¹⁹ COM(2018) 339 final of 24 May 2018.

²⁰ COM(2018) 322 final of 2 May 2018.

²¹ COM(2018) 387 final of 31 May 2018.

confidence in the euro. In parallel, the **Reform Support Programme**²² should improve the implementation of structural reforms, which are crucial to enhance cohesion and competitiveness, raise productivity, and foster the resilience of economic and social structures in all Member States. The Reform Support Programme includes a **Convergence Facility**, with the aim of helping non-euro area Member States on their way to joining the euro.

A greater international role also presupposes adequate institutional capacity and a more unified representation to coordinate positions and speak with one voice. Building on the role already played by the European Central Bank, the Eurogroup and the Commission, which are defined in the EU Treaties, several Commission proposals represent further steps in this direction. In December 2017, the Commission presented a proposal to establish a European Monetary Fund, anchored within the European Union's legal framework and built on the well-established structure and governance of the European Stability Mechanism. Moreover, the Commission proposal²³ to improve the external representation of the euro area in international financial organisations is meant to help strengthening the euro area stance in the international arena and make sure that its voice is clearly communicated globally. By combining existing functions at EU level and bringing together closely linked policy instruments, the position of a European Minister of Economy and Finance would help to create new synergies and thus improve the overall coherence and effectiveness of EU economic policy-making over time, including the capacity to speak with one voice on euro matters.

4. FURTHER INITIATIVES TO DEVELOP THE INTERNATIONAL ROLE OF THE EURO

This Communication also sets out initiatives developing the international role of the euro in three different dimensions: in the European financial sector (to ensure deep and complete financial markets denominated in euros), in the international financial sector (where an increased role of the euro would be beneficial to global financial stability) and in key strategic sectors where the euro could further develop its role (for example in the areas of energy, commodities and aircraft manufacturing).

4.1. Additional measures to foster a deep European financial sector

Increasing the attractiveness of the euro will increase its use, which will in turn make it even more attractive. This can create a virtuous spiral.

Additional and more targeted measures within the Banking Union and the Capital Markets Union support the financial sovereignty of the euro area. Financial markets and infrastructures in the euro area play an integral role in offering opportunities to enhance the international role of the euro. They do so by providing dependable and stable financial services and transaction opportunities. The scale and autonomy of euro-denominated services depends on whether market participants find them cost-effective, easy and safe for the conduct of their international business and to store their value reserves in euros. Consequently, measures that enhance stability and liquidity, and widen the range of financial services denominated in euro, strengthen the international role of the euro. Moreover, in the context of a reinforced role of the euro, the EU should continue to advance its regulatory agenda in areas like the fight against money

²² COM(2018) 391 final of 31 May 2018.

²³ COM(2015) 602 final of 21 October 2015.

laundering²⁴ and terrorist financing²⁵. Stringent supervision of financial transactions contributes to global security, integrity of the financial system and sustainable growth.

The following targeted measures would not only make the euro more attractive to use, they would also make the euro area more resilient with regard to outside influence:

First, the Commission seeks to widen the use of the euro by strengthening the liquidity and resilience of European market infrastructures. With the overarching objective of reducing systemic risk, the European Market Infrastructure Regulation²⁶ introduced the obligation for market participants to clear²⁷ certain financial contracts (e.g. over-the-counter derivatives contracts, such as derivatives providing insurance against interest rate changes) via dedicated market infrastructures²⁸. Importantly, this has created liquid clearing markets for euro denominated products which are accessible to all counterparties. Well-developed market infrastructures for clearing provide market participants with readily available and efficient insurance against future changes of interest or exchange rates in their commercial transactions. The broad availability of such euro-denominated markets will therefore support the attractiveness of the euro for such transactions. **Subject to the determination procedure envisaged in the above-mentioned Regulation and the conditions set out therein, in order to promote liquid and efficient central clearing solutions, the Commission could extend the scope of derivative contracts covered by the clearing obligation.** Moreover, the Commission could consider extending the use of clearing services to a wider range of counterparties.

Secondly, the Commission aims to further improve the efficiency of euro area financial markets, by ensuring a reliable framework for the production of a full range of trustworthy interest rate benchmarks²⁹. Market participants use interest rate benchmarks as reference in many contracts and financial products. The EU Benchmark Regulation³⁰ requires financial benchmarks in the EU and euro area to be more transparent and reliable. **The full implementation of this Regulation should therefore help increase the attractiveness of trading and pricing euro-denominated instruments³¹.** The Commission will facilitate further coordination and cooperation across market segments, benchmark administrators, contributing banks, national competent authorities and the European Central Bank.

²⁴ COM(2018) 645 final of 12 September 2018.

²⁵ COM(2018) 640 final of 12 September 2018.

²⁶ Regulation (EU) 2012/648, OJ L 201, 27.7.2012, p.1.

²⁷ Matching buy and sell orders.

²⁸ Central clearing counterparties.

²⁹ Reference rates are provided in many financial contracts, for instance those indexed to variable interest rates, to value balance sheet items and to price derivatives such as forward contracts, options and swaps.

³⁰ Regulation (EU) 2016/1011, OJ L 171, 29.6.2016 p.1.

³¹ In particular this would apply to money markets (markets where financial instruments with high liquidity and very short maturities are traded). Market participants use the money market for borrowing and lending in the short term, i.e. up to one year.

Thirdly, the Commission supports a fully integrated instant payment system in the EU, to reduce the risks and the vulnerabilities in retail payment systems and to increase the autonomy of existing payment solutions. EU citizens rely on a small number of global providers when making cross-border card and online payments. As clearing even of intra-European payments often takes place outside the EU, disruption for technical, economic and legal reasons that may originate from outside the EU exposes the retail payment system to unnecessary vulnerabilities. Moreover, the market dominance of few international card schemes raises questions from a governance perspective, as it significantly reduces the influence of European payment service providers on developments in major part of the retail payments market. An EU-wide cross-border instant payment solution would complement current card schemes, reducing the risk of external disruption and making the EU more efficient but also more autonomous. The introduction of euro instant payments also offers opportunities for the development of efficient new retail payment solutions also for cross-border payments, which can bring benefits to European citizens, businesses and banks. EU-wide standards for euro instant payments have already been laid down in the SEPA (single euro payments area) Instant Credit Transfer scheme launched in November 2017. In November 2018, the European Central Bank launched its Target Instant Payment Settlement (TIPS) system, facilitating cross-border instant payments in the EU. **The Commission will explore measures in order to facilitate the cross-border use of payment solutions developed in individual Member States. It will further support work in the Euro Retail Payments Board (under the auspices of the European Central Bank) to ensure the interoperability of existing instant payment solutions. The Commission will also work with relevant stakeholders on a joint commitment to ensure the wide availability of instant payment services for customers, including for cross-border payments. The Commission will take stock of the progress achieved in its review of the Payment Account Directive, which is due in 2019.**

Fourthly, the Commission will explore the possibility to develop further the role of the euro in foreign exchange markets. Trading in foreign exchange market takes place via so-called currency pairs, for example the euro and the dollar or the euro and the Japanese yen. Today, all of the most liquid currency pairs involve the US dollar (including the euro/US dollar, which is the most liquid pair). Trades involving the euro and currencies other than the US dollar generally go through the US dollar ("triangulation"). One of the reasons is that the US dollar is being widely used as the global reserve currency, underpinned by a highly developed and liquid government bond market. It would be worthwhile to explore the reasons for the current situation and whether market liquidity for particular currency pairs of the euro and currencies other than the US dollar could be further developed. Furthermore, large market makers³² play a key role in the foreign exchange markets and euro area banks could further develop their role in such market-making activities. **The Commission will launch a targeted consultation with financial market actors to identify potential obstacles and incentives with a view to enhancing the role of the euro in the foreign exchange market.**

³² A company always ready to buy or sell a financial asset at an openly quoted price on a long-term basis.

4.2. Initiatives linked to the international financial sector

The international role played by the euro to safeguard global financial stability could be expanded progressively. The cooperation between Central Banks to safeguard financial stability helps to ensure that European companies can trade all over the world. In the aftermath of the financial crisis, the European Central Bank engaged with its counterparts to preserve financial stability and avoid disruptions in the world economy, for instance, with the establishment of a number of currency swap lines³³ as a foreign liquidity backstop in case of market impairments, in line with its mandate. This practice has been beneficial for the global trading of European companies.

In order to lead by example, European bodies and mechanisms should be encouraged to increase their share of debt denominated in euro. European-level entities have been issuing debt for many years, largely in euro but also in foreign currencies, notably to provide project financing (the European Investment Bank Group) or financial assistance to Member States (the European Financial Stability Facility, the European Stability Mechanism). The issuances by these EU-level bodies have attracted global investors, including during the crisis, and have increased the level of euro denominated high-quality assets.

Europe could further develop its economic diplomacy by engaging with global partners to promote the use of the euro in payments and as a reserve currency. Europe is an important geo-political actor, exercising economic influence in the world³⁴. Engaging diplomatically with international partners to encourage the use of the euro and advance Europe's position on how the global financial architecture should develop, would help reinforcing the international role of the euro.

The Commission together with Member States and relevant EU bodies will engage with global partners for an increased use of the euro. High-level commercial missions, where the importance of the euro is stressed to business delegations, could be considered. Given that the latest developments in emerging market economies may have raised the appetite for diversification in terms of foreign currency-denominated debt exposure, some of these actions could focus on an increase of foreign debt issuances denominated in euro.

Finally, the External Investment Plan³⁵ was adopted in September 2017 to help boost investment in partner countries in Africa and the European Neighbourhood, including via the provision of technical assistance to authorities and businesses. Technical support could be used to improve the access of developing countries to the

³³ A currency swap line is an agreement between two central banks to exchange their respective currencies. By preserving access to foreign liquidity in adverse circumstances, swap lines make it safer to do business with other parts of the world. In 2011, the ECB, along with the Bank of England, the Bank of Canada, the Bank of Japan, the Federal Reserve and the Swiss National Bank, set up a network of swap lines enabling the participating central banks to obtain currency from each other. In 2013 the ECB established a currency swap agreement with China.

³⁴ As an example, the European Union and its Member States continue to be the world's leading provider of Official Development Assistance with an overall amount of EUR 75.7 billion in 2017. In the context of the External Investment Plan, an initial EU input of EUR 4.1 billion is expected to leverage EUR 44 billion of investment. In the next programming period the EU could provide financial support to third countries for a total of EUR 123 billion in third countries, if the Commission proposals are adopted.

³⁵ https://ec.europa.eu/commission/eu-external-investment-plan/what-eus-external-investment-plan_en

euro payment system, for instance in order to comply with the EU anti-money laundering legislation, and to facilitate trade linkages.

4.3. Further steps to increase the use of the euro in key strategic sectors: energy, commodities and transport sector

Despite the significant share of the euro in international payments, there is still scope to expand its use in key strategic sectors. In spite of their position as large buyers as well as major producers, European businesses still trade in US dollar in key strategic markets, often even between themselves. This exposes businesses to currency risks and political risks, such as international sanctions that directly affect dollar denominated transactions.

In the energy sector, over 80 % of Europe's energy imports are priced and paid for in US dollar, despite supplies coming mainly from Russia, the Middle East and Africa and the EU being the world's largest energy importer. The EU's annual energy import bill averaged EUR 300 billion over the last 5 years. More than 93 % of the traded volumes in the domain of energy are accounted for by oil, where currently all contracts are dollar-denominated. For natural gas, about 70 % of EU imports are referenced in US dollar. Gas contracts traded on the EU gas hubs are denominated in euro.

In the case of raw materials (metals and minerals) and food commodity markets, the situation is similar. Europe consumes about 10 % of global raw materials and is a major importer. Nevertheless, the majority of raw materials are traded on global exchanges in US dollar. This also applies to highly standardised food commodity markets, such as grains, oilseeds and sugar. Europe is an important exporter of soft wheat, sugar and olive oil but the use of the euro is mainly limited to intra-EU trade.

In the transport sector, for example a recent study³⁶ concludes that nearly all invoicing in the aircraft manufacturing sector is done in US dollar, even within the euro area. More than half of Airbus' revenues are denominated in US dollar with approximately 60 % of such currency exposure "naturally hedged"³⁷ by US dollar-denominated costs. The remainder of costs is incurred primarily in euro.

There are several factors explaining the marginal use of the euro in key sectors, including historical inertia, network effects and liquidity reasons. For instance, there is a lack of euro-denominated benchmarks for international trading in both oil and commodities³⁸. The commodities markets have been dominated by the US dollar because of the earlier development of the Chicago and New York exchanges. As regards aircraft manufacturing, fuel prices quoted in dollar influence the currency used in the entire value chain. Moreover, the aircraft market, including insurance and maintenance, is a global market that does not allow regional price differentiation.

³⁶ JRC study: <http://publications.jrc.ec.europa.eu/repository/bitstream/JRC96913/lbna27754enn.pdf>

³⁷ A natural hedge is the reduction in risk by institutions that are exposed to large swings in exchange rates by exploiting their normal operating procedures. This can include receiving income in another country and currency while incurring expenses in that same currency.

³⁸ In the oil sector, the first price benchmarks for the physical market were developed in the late 1980s by major oil companies and price reporting agencies using US dollar to facilitate global transactions and comparisons across different crude grades.

The Commission intends to present in the coming months several targeted initiatives in strategic sectors:

- **A Commission Recommendation is adopted today in order to promote a wider use of the euro in international energy agreements and transactions.** The Commission recommends that the euro should be used for contracts concluded within the framework of intergovernmental energy agreements between Member States and third countries. A wider use of the euro in energy-related transactions by European market participants and companies providing financial services is also recommended. In addition, **the Commission will launch a consultation and invite stakeholders to express their views on the market potential for a broader use of euro-denominated transactions in the areas of oil, refined products and gas.** In particular, the consultation will gather feedback on the need to set-up euro-denominated crude oil reference contracts and reinforce contracts on refined products. The consultation will also gather stakeholders' views on the expansion of the use of euro-denominated gas contracts.
- **In the sector of raw materials (metals and minerals) and food commodities, the Commission will engage in a broad consultation with stakeholders in order to identify ways of increasing trading in euro, especially in the context of transactions at exchanges located in Europe and direct transactions between European companies.** A general European Commodities Summit is planned for 2020 to continue the discussions with all main actors. In addition, the Commission will continue with a market-oriented Common Agricultural Policy, allowing the development of international trade in agricultural commodities to develop further. The Commission will also favour the recourse to futures markets and contracts in euro (e.g. through awareness raising and training) and increased market transparency for agricultural and food commodities in euro³⁹.
- **A consultation will be launched to investigate possible actions to promote the use of the euro by transport sector manufacturers (aircraft, maritime and railways).** The consultation will explore in a more detail the reasons why the euro is not used for many of the most relevant international transactions and will help identifying conditions that would enable the promotion of the euro in transactions with European businesses.

The Commission will carry out these different work streams in parallel and report on progress by summer 2019.

³⁹ An increasing number of price references expressed in euro are now published through the EU market observatories since they were established in 2014 (while in the past, most information available to traders was expressed in US dollars). This will be further consolidated with the proposal ensuring more market transparency, planned for adoption in 2019.

5. CONCLUSION

Building on the Roadmap for the completion of Europe's Economic and Monetary Union, there is scope for the euro to develop further its global role, so that it is more commensurate to the euro area's political, economic and financial weight. This will allow the EU to better protect its citizens and businesses, uphold its values and promote its interests. It will also make the international economy less vulnerable to shocks linked to a single dominant currency and support a balanced, rules-based international political and economic order.

The Commission invites EU Leaders to discuss the international role of the euro at the December European Council and the Euro Summit, as part of their discussion on the completion of Europe's Economic and Monetary Union. Strengthening the international role of the euro will require the further strengthening of the structures of the Economic and Monetary Union, including through the adoption of all pending proposals for completion of the Banking Union and decisive progress on the Capital Markets Union.

In addition, the Commission will pursue the targeted initiatives set out above and encourages all relevant actors and stakeholders to take an active role in this process.