

Airbus, 18 December 2018

Steering brief

Scene setter

You will meet [REDACTED], and [REDACTED] at Airbus, to discuss informally the international role of the euro, [REDACTED]

[REDACTED] This meeting takes place in the wake of the adoption by the Commission of a Communication with a number of proposals to increase the international role of the euro.

Communication on the International role of the euro

Following the announcement by President Juncker in his latest State of the Union Address in September, the Commission issued on 5 December a Communication entitled 'Towards a stronger international role of the euro'¹. The Communication outlines the evolution of the euro at international level since its creation, the benefits and challenges of increasing its international role to conclude with policy suggestions covering systemic elements and targeted initiatives.

The **Communication** proposes a package of policy actions:

1. It underlines the need to first complete the Economic and Monetary Union, the Banking Union and the Capital Markets Union since a more stable and resilient economic and financial framework can help raise the euro's attractiveness globally;
2. It suggests taking measures to foster a deep European financial sector. These include: (i) Possible extension of the scope of derivative contracts covered by the clearing obligation and use of clearing services to a wider range of counterparties; (ii) Measures to ensure a reliable framework for the production of a full range of interest rate benchmarks; (iii) Measures to support a fully integrated instant payment system in the EU; (iv) Exploring the possibility to develop further the role of the euro in foreign exchange markets.
3. It proposes initiatives linked to the international financial sector including a call for increasing the share of debt denominated in euro by European bodies and mechanisms like the European Investment Bank and the European Stability Mechanism/ European Financial Stability Facility, a further development of the EU's economic diplomacy and stronger engagement with global partners.
4. It puts forth several targeted initiatives in strategic sectors: A Recommendation to promote the wider use of the euro in international energy agreements and transactions and a number of consultations with stakeholders in order to identify ways of increasing trading in euro in the sector of raw materials (metals and minerals) and food commodities and the transport sector (aircraft, maritime and railways).

The Communication identifies that **nearly all invoicing in the aircraft sector is in US dollars even within the euro area**. The Commission indicates in the Communication its intention to further study the issue.

¹ COM(2018) 796 final.

A 2016 study published by the Joint Research Centre on the use of the euro in International Trade carried out with the aeronautical industry through the AeroSpace and Defence Industries Association of Europe (ASD) indicated that firms are satisfied with the use of the US dollar and do not see much interest to change this. More precisely, the study indicates that most clients' revenues and costs (mainly fuel) are predominantly in US dollars. If European aircraft companies invoiced more in euro, they would push exchange rate risk to their clients, which they consider not possible from a commercial perspective in a market with mainly US competitors.

The study also revealed that firms concerned are satisfied with the availability of hedging instruments which enable them to address efficiently the risk related to the exchange rate.

The remainder of cost is incurred primarily in euro, and to a lesser extent, in pounds sterling. However, the hedging instruments might not be available to small and medium-sized enterprises, which may pose a problem to these companies.

The main concern in the study for the aeronautical industry relates to the use of the US dollar in "sensitive countries" (e.g. Iran, Russia), as transactions made in dollars must be compliant with the US law and banks may be reluctant to clear transactions made with 'sensitive countries' due to the uncertainty on sanction regimes.

Airbus' position



Objectives

- Explain why the role of the euro should be strengthened.
- Ask Airbus what would be needed to change their position;

Line to take

- As announced by President Juncker in his State of the Union address, the time is ripe to push for an increased role of the euro on the international level. The euro is the second most used currency in the world with about 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 a more important role on the international scene.
- The Commission proposal is not a response to unilateral decisions by any country but matches the objective of reinforcing our economic and financial sovereignty. The world is changing, there are new economic powers and the global governance system has been weakening over the past years. The current trade tensions exacerbate the existential threat to a rules based multilateral trade system that we defend and damage growth prospects for the global economy.

- There are clear benefits of an increased role of the euro and also stronger responsibilities attached to it. For instance, European businesses would benefit from lower costs and more robust access to funding even in periods of market tensions. We would also be able to better protect our citizens and businesses from unilateral decisions by some third countries.
- At the same time, greater use of the euro abroad renders the conduct of economic policies more complex. We can and must overcome these complexities to reap the benefits from a stronger global currency.
- For that purpose the Commission proposes to take concrete actions to render the euro more attractive to market participants, who ultimately decide which currency to use in their operations.
- Completing the architecture of the Economic and Monetary Union, in particular the Capital Markets Union and the Banking Union and taking relevant steps as concerns the Fiscal and Economic Union, are necessary to overcome remaining vulnerabilities and reinforce Europe's economic and financial sovereignty.
- Confidence in the value of the euro is ensured by the predictability and credibility of our monetary and economic policies, as well as through the medium- and long-term growth prospects for the euro area.
- By improving economic resilience and boosting growth potential, initiatives seeking to deepen the Economic and Monetary Union can support the attractiveness of the euro to international investors. We hope we have the full **support of Airbus** on this important project. We must work together to help overcome national red lines.
- We understand that there are several factors explaining the **marginal use of the euro in key sectors, such as the aircraft industry**. Since fuel prices are quoted in dollars, this influences 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.
- Our intention is to launch a **consultation to investigate possible actions** to promote the use of the euro by **transport** sector manufacturers. The consultation will explore in 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.
- I understand that there is an industry reluctance to move away from the use of US dollars but we also know that the use of the euro has some clear advantages.
- When we did a survey through our Joint Research Center in 2015/2016, we found that:
 - transactions in US dollars made with some countries may create uncertainty due to the sanction regimes (e.g. Iran, Russia);
 - invoicing is made in US dollars even for transactions within the euro area with European clients. Would it not make sense to extend the use of the euro in parts of the value chain, which are purely European?
- The Commission wants to identify all possible options to improve the use of the euro in aircraft sales. In this respect, I very much welcome your input, and would like to hear your views on the kind of actions (incentives, regulations or other) that might be needed.

Contact – briefing coordination: