The European Agenda:
Preparing for the Next Millennium

Prepared remarks by
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According to my dictionary, an "emu" is a large flightless fast-running Australian bird and a "euro" a large reddish Australian kangaroo. After this week-end, we can add to the dictionary that the euro is a large European currency that is ready to fly ...

It is a pleasure to be in Washington so soon after the exciting events that took place over the week-end in Brussels, and I want to thank the Economic Strategy Institute, and in particular Mr. Clyde Prestowitz, for organising this conference.

Globalisation is a fact. Europe is ready to accept its challenges and preparing to exploit its opportunities. But it takes two to tango. In many areas, Europe and the United States have a shared interest to work together on the basis of a strong transatlantic partnership.

The key events of particular relevance to globalisation that are unfolding in Europe are threefold:

the introduction of the single currency, the euro, as of January 1, 1999

fostering structural changes by further liberalising the EU's internal market, and finally

preparing for the most spectacular enlargement in the EU's history.

Let me start with the euro.

Last week-end, the European Heads of State and Government nominated the 11 Member States that will participate in the euro as of the 1st of January 1999.

This means that exchange rates between the participating currencies will be irrevocably fixed between each other and relative to the euro. From this date onwards, the euro will be our single currency and be used in the banking system, in wholesale financial and capital markets and can be used by the private sector.

The clear legal principles which underlie the introduction of the euro rule out any speculation in currencies of the participating countries in the three-year transition period that will run until the 1st of January 2002, when bank notes and coins in euro will be introduced. During that period, the Deutsche Mark, for instance, is a subdivision of the euro very much as the dime is a subdivision of the dollar.

The euro will change the economic landscape, in Europe and abroad.
The future euro zone is roughly comparable in size and economic weight to the United States. It will cover 300 million inhabitants and account for almost 20% of world GDP and of world trade - comparable to the United States.

The euro zone is designed to have a high degree of stability. The European Central Bank will guarantee inflation between 0 and 2%. The Member States participating in the euro have committed themselves to a high degree of fiscal discipline.

The stability performance of the euro zone countries is already a fact, with average inflation well below 2% and estimated fiscal deficits in 1998 of 2.4%, set to go down to 2% in 1999. This has helped putting economic growth back on track: having climbed to 2.5% in 1997, growth is expected to increase to a healthy 3% this year for the euro zone. Next year, it will increase again.

The introduction of the euro will have a globally positive economic impact.

It will contribute to spurring economic growth, and will therefore indirectly stimulate job creation. The euro is therefore helpful for job creation, rather than the contrary as is sometimes suggested. We should however not be complacent: the euro will not solve Europe's structural unemployment problems as such, which we are tackling at the same time.

The euro will also have a profound microeconomic effect on the functioning of Europe's internal market. It removes transaction costs and completely eliminates currency fluctuations and currency risk. This facilitates trade, investment and travel in the euro zone, and will drive prices downwards through greater competition.

The potential for these benefits is illustrated by the simple fact that more than 60% of our trade is between ourselves.

In the financial sector, the potentially positive impact of the euro is especially large. The combined volume of bonds, stocks and bank assets in the euro zone is already almost as high as in the United States, so future opportunities are enormous:

For instance, stock market capitalisation in the euro zone at the end of 1997 was only 44% of GDP compared to 139% in the United States.
Another typical example with large potential is the market for venture capital, where the stock market capitalisation of venture capital markets in Europe is still only 1% of that on the NASDAQ market.

The big unknown is the euro's international impact. Will it become a truly international currency? Performing the role of unit of account? Means of payment and reserve currency?

According to some estimates, the euro's share in trade invoicing could rise to 35% of world trade.

The introduction of the euro also is likely to lead to portfolio shifts in the reserves of central banks. According to some estimates, some giving the euro a share of 25% or more of global foreign exchange reserves in the medium-term. Similar effects can be expected for the euro's role in private portfolios.

What will the euro mean for the International Monetary System? Several people qualify the introduction of the euro as the most important change in the International Monetary System since the breakdown of the Bretton Woods system in 1971. Some indicators point in the direction of a shared monetary leadership for the euro and the dollar, such as:

the decoupling of long-term interest rates between the United States and Europe, or

the role of "safe haven" which both the dollar and European currencies have played in the Asian crisis.

In this context, a stable euro alongside the dollar can play a useful role as a catalyst for the development of trade and investment world-wide.

Ladies and Gentlemen,

This brings me to the wider significance of the introduction of the euro.

Let me be clear: I see the introduction of the euro as the most important step since the Treaty of Rome was signed in 1957.

with the euro, Europe's single market will be strengthened irrevocably
with the euro, economic fundamentals in Europe will be healthier than they have been for three decades.

with the euro, our integration process will receive an immeasurable boost in new areas of policy.

The euro also has important benefits for Americans:

First of all, the euro will soon be here and it will be in very good shape. US business should urgently start preparing for it.

Secondly, the euro, as a stable currency, will be beneficial for the economic, financial, monetary and, ultimately, peaceful political integration of the European continent.

Thirdly, a successful euro is good for the United States: it facilitates business, it creates opportunities for American companies and provides stability on the European Continent.

Finally, some people believe that the euro might become a threat for the dollar. Let me assure you, that is not our intention. We are not seeking protectionism or a game of competitive devaluations. The euro will re-inforce the global system of trade, capital and investment.

Ladies and Gentlemen,

I already indicated to you the importance of the euro for our internal market process. But globalisation goes further. While the European single market has already created huge advantages in terms of growth and jobs, we can do better. This is why we launched a Single Market Action Plan with the goal of achieving significant progress by 1 January 1999. Let me cite three major issues:

First, the further liberalisation of the network industries

- telecommunications – growing by 8% per year –, electricity – where 50% of national markets will be opened up to competition by the end of the century –, gas and postal services
Second, the creation of an environment which is conducive to innovation and to a wide diffusion of new technologies, such as the protection of intellectual property rights, the promotion of collaboration between businesses and higher education institutions and the encouragement of cross-border collaboration.

Lastly, the information society, which opens up millions of new opportunities and challenges. I am confident that we are starting to see emerge in Europe the information industry dynamics that have driven the United States economy for the last few years.

These steps towards globalisation also matter in view of another historic process: that of the European Union's enlargement to the East.

The Union has grown from Six to Fifteen Member States since its inception in 1957, but the historic decision taken by the European Council in Luxembourg last December opened the doors for a further enlargement, the most ambitious ever, from fifteen to twenty six or more. Just over a month ago, on 30 and 31 March the accession process and negotiations were formally launched.

I should emphasise the opportunities offered to the United States by the enlarged European Union that will eventually cover 480 million people.

It will increase the size of the single market and simplify and enhance access to the current candidate countries.

The potential benefits of this process, also for US companies, are enormous:

The US currently accounts for 20% of the EU’s trade with the rest of the world but only between 2 and 10% for the candidate countries. Over 50% of the stock of foreign FDI in the EU comes from the US, some $46 bn in 1995. For the candidate countries, the US FDI in 1995 was less than $1.5 bn.

Secondly, where there is currently a single trade regime for the EU and a different regime for each of the candidates, the latter will be subsumed into the former. The average weighted industrial tariff levels of the candidate countries are in general higher than the 3.6%
average for the EU. Thus, in most cases, accession will lead to US firms facing lower tariffs in the new member countries than before.

Finally, the same rules covering national treatment which apply in the existing EU will also apply in the acceding countries. This will bring substantial benefits to US operators who have established themselves in the EU.

The enlarged European Union is and will remain fully committed to the multilateral trading system as embodied in the rules of the WTO. We consider this is one of the main pillars of the globalisation process. This is why the European Union is looking for a new, comprehensive round of WTO trade negotiations.

The WTO Ministerial meeting taking place in two weeks time should pave the way for a decision in 1999 to launch negotiations in 2000. There is strong support for a new round and the Ministerial should harness this, so that a new round can be launched at the start of the new Millenium.

The European Union and the United States bear a major responsibility for the world trading system. Our two-way trade is traditionally strong and balanced, exceeding more than 100 billion dollars either way, and our overall trade and investment relationship exceeds one trillion dollars. But we can do more bilaterally to facilitate trade:

removing red tape in terms of double testing or double certification, or by bringing our regulatory systems closer together.

Bilateral successes should however not obscure the need to make progress in the multilateral context.

But, Ladies and Gentlemen,

Globalisation goes further, much further, than trade and investment alone.

Let me cite four examples where the co-operation between the European Union and the United States should be deepened.

The first is information technology, and especially electronic commerce. It is estimated that, by the year 2000, 200 billion dollars worth of business will take place over the Internet. This is 1000 times the 1995 figure. The Internet is borderless. As with other global issues, we have to sit together and see how we can avoid chaos and
confusion without handcuffing electronic commerce.

A second issue concerns the Asian crisis.

Europe and the US will have to absorb more Asian exports. This may lead to protectionist pressures. That is why the European Union and the Asian countries agreed a "trade and investment pledge" to keep markets open at the ASEM Summit one month ago in London. We hope that this pledge can be taken up and endorsed by all at the G8 Summit in Birmingham in 10 days time.

The lack of transparency and weakness of financial systems in Asia have demonstrated the need to pay attention to issues such as good governance.

I would like to extend this line of reasoning, and this is my third point, to the way in which we approach development and the Third World.

We increasingly believe that trade, private investment and development co-operation are the closely interrelated tools needed for improved management of global issues such as environment, health, sustainable development and poverty reduction.

This is why in our approach to development we want to involve all parties, public and private.

Sustainable development brings me to my fourth, and last issue concerning globalisation where I see a clear scope for EU-US co-operation, and that is the issue of climate change.

Climate change is the biggest single environmental challenge facing us. Kyoto was a historic step forward. The industrial nations, as major emitters of greenhouse gases, have a special responsibility in ensuring that Kyoto commitments are met.

At the Birmingham G8 Summit, we will therefore discuss how we can take this process so as to achieve real progress at the next Climate Change meeting in Buenos Aires in November.

Signing the Kyoto Protocol within the next year is the first step; the EU already did so last week.

Secondly, we should all immediately make significant reductions in greenhouse gas emissions. National domestic measures should be the main means of meeting
commitments. We, the EU and US have to take the lead if we want to bring in others.

We will discuss at Birmingham how we can best ensure that flexibility mechanisms such as emissions-trading and the clean development mechanism can deliver real additional reductions, over and beyond national action.

If we want to mitigate the adverse effects of climate change effectively, we will need action on a truly global scale, involving, over time, the developing countries. How best to do this is another major issue for Birmingham. The key word here is differentiation. We should expect the more advanced countries to take on legally binding commitments sooner than the less developed ones.

The United States and the European Union must lead the way now. Our children will not forgive us if we fail to do this.

Ladies and Gentlemen,

The European Union and the United States have enormous responsibilities. Our actions will contribute to shaping the international business environment at the Start of the Millennium.

I was proud to co-sign the New Transatlantic Agenda with President Clinton in 1995. We have accomplished a good deal by working together on each of the NTA’s elements. Our common efforts in the former Yugoslavia, in the Middle East and on economic liberalisation, and the successful Trans Atlantic Business Dialogue (TABD) are but a few examples.

As our joint commitment shows, we share many values and principles. We should therefore not work at cross-purposes but pool our ideas and resources. Fortunately, we agree more than we disagree.

Globalisation poses opportunities and challenges many of which can successfully be met, but only if we work together.

This is what the European Commission which I preside stands for. The forthcoming meeting between President Clinton, Prime Minister Blair and myself on 18th May will mark the next chapter in our Transatlantic Partnership and in
our efforts to jointly pave the way for the 21st century.

I thank you for your attention.

HIS EXCELENCY JACQUES SANTER is president of the European Commission. Prior to assuming this post, he was a governor of the European Bank for Reconstruction and Development from 1991 to 1994, a governor of the International Monetary Fund from 1989 to 1994, chairman of the European People’s Party from 1987 to 1990, and a governor of the World Bank from 1984 to 1989. For six months during both 1985 and 1991, he held the presidency of the European Council. From 1989 to 1994, President Santer served as prime minister, minister of state, minister for the Treasury, and minister for cultural affairs in Luxembourg, while from 1984 to 1989 he was prime minister, minister of state, and minister of finance. He was minister of finance, labour and social security from 1979 to 1984, and was a member of the European Parliament from 1975 to 1979. Prior to that, he was an alderman of the City of Luxembourg, a member of Parliament, and held various posts in the Christian Social Party. President Santer began his career as a barrister at the Court of Appeal in Luxembourg. He holds a Doctor of Law and Certificate of the Institute d’Etudes Politiques, Paris.