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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Delegations will find attached document SWD(2019) 600 final.

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**COMMISSION STAFF WORKING DOCUMENT**

**Strengthening the International Role of the Euro**

*Results of the Consultations*

## I. Introduction

Following the publication of a Communication on the international role of the euro and the related Commission Recommendation on the role of the euro in the field of energy in December 2018, the Euro Summit encouraged the Commission to continue working towards developing the international use of the euro.

The euro is twenty years 'young', the world's second currency and has remained strong even during the worst moments of the financial and sovereign debt crises. During the same period, the global order has become more multi-polar with new economic powers, institutions and technologies emerging and existing powers repositioning themselves.

Since December 2018, the Commission has engaged in active consultations with market participants, public and private, in order to achieve a better understanding of the determinants of the attractiveness of the euro in the global arena. The Commission ran, in the first quarter of the year 2019, public consultations to determine potential obstacles to a broader use of the euro. Such consultations are critical to understand what obstacles market participants face in using the euro in their business transactions. The purpose of this Staff Working Document is to take stock of consultations and dialogues with different stakeholders. It provides an update on initiatives to develop the international use of the euro, market feedback on the prominence of the euro in global trade, elaborates on the need for coordinated action, and raises specific sector considerations. This document also presents the summary of responses from the sectoral targeted consultations.

The consultations confirm that:

- There is broad support for increasing the international role of the euro;
- The euro clearly stands out as the only candidate that has all the necessary attributes of a global currency that market participants could use as an alternative to the US dollar;
- There is potential to further increase the share of euro-denominated transactions in energy commodities, in particular in the sector of natural gas;
- There is recognition that the EU, through the euro, can reinforce its economic sovereignty and play a more important global role to benefit EU business and consumers and also contribute to international financial stability.

Market participants called on policymakers in EU and Member States to complete the Economic and Monetary Union, Capital Markets Union and Banking Union. Strong foundations of the Economic and Monetary Union are necessary to sustain the euro in the global arena. At the same time, it is important to continue working on flanking measures that can render markets more efficient and allow sovereigns to manage potential actions by third country jurisdictions.

## II. Initiatives to develop the international use of the euro

Strengthening the international use of the euro requires a combination of mutually reinforcing actions. These include financing, trade and regulatory aspects as the various sectors interrelate with each other. Therefore, the Commission Communication had highlighted that any policy action should take a holistic view on areas that matter to market participants when deciding on their currency of choice. This requires coordinated efforts at different levels (EU, Member States, sectors).

Some of these measures that require the engagement of the Commission, the Member States, other EU institutions, in particular the ECB, as well as market participants are already considered to render the euro more attractive to market participants:

1) **Completing the Economic and Monetary Union, the Capital Markets Union and the Banking Union.** Reforms to strengthen the resilience and stability of the euro area are necessary for the euro to become more attractive internationally. The resilience and stability of the EMU as well as deep and liquid euro denominated capital markets supported by further financial market integration are necessary for the euro to become more attractive internationally. More developed and integrated banking and capital markets are necessary to ensure that financing flows into the real economy in an efficient manner. Moreover, it also develops cross-border risk sharing. Among the consulted participants, the ECB has been particularly supportive to this policy action.

2) **Supporting the role of the euro in the international financial sector.**

The Commission has made progress on a series of targeted measures in the international financial sector presented in the December 2018 Communication that would make the euro more attractive and more resilient:

- *Strengthening the resilience and liquidity of European market infrastructure.* The Commission is working with the European Securities and Markets Authority to assess a possible extension of the range of credit and interest rate derivatives subject to clearing, with a view to enhancing the use of euro denominated markets. Second, the Regulation on European Markets Infrastructure has been amended to give a more prominent role to the European Securities and Markets Authority and to make sure that third-country central counterparties can access European markets on the basis of clear rules.
- *Increasing the reliability and stability of interest rate benchmarks.* The supervision of benchmarks will be substantially enhanced as of 1 January 2022 following recent legislative changes agreed by the co-legislators. The European Securities and Markets Authority will become the competent authority for authorising and supervising administrators of major interest rate benchmarks designated as “critical” by the Commission. The changes will increase the stability and reliability of important benchmarks for the euro such as the Euribor, Eonia, or their substitutes.

- *Increasing the autonomy of existing payment solutions.* The Commission with the Member States is in the process of identifying the barriers and finding solutions for the usability of instant payments throughout the EU.

3) **Maximizing the impact of European economic diplomacy through regular exchanges with relevant third parties and stakeholders to identify concrete policy actions of mutual interest.** A broader use of the euro is an important priority for respondents to the recent consultations. Similarly, several non-EU countries have also expressed a strong interest in fostering global currency diversification to better manage global economic and financial stability risks. It is important to deepen these exchanges in view of identifying more concrete policy actions.

### **III. Market Feedback: The prominence of the euro in global trade and specific sector considerations**

The public consultations in the different fields, conducted by several services of the Commission in the first quarter of 2019 gave an overview over the use of the Euro and other currencies in different sectors:

- **foreign exchange markets**
- **energy (oil, refined products and gas)**
- **raw materials (metals and minerals)**
- **agricultural commodities**
- **transport sector** (aircraft, maritime and railways)

Overall, the consultations confirm that businesses already deal with many currencies and are well versed with the management of currency risks. Hedging tools are widely available and businesses believe that they have access to expertise in developing and deploying hedging strategies. Nevertheless, the US dollar remains the predominant currency for many sectors and a greater use of the euro would only be practically and administratively beneficial if and when financial products, benchmarks and supply chains either adapt to the euro or are denominated in euros. If the financing costs (interest rates) in the euro remain low, there is a tangible financial benefit for all market participants. While preserving the autonomy for market participants to transact in the currency of their choice, euro-area policy makers have to work closely with domestic and international market participants at multiple levels to provide a strong, credible alternative to the US dollar.

Market participants raised a number of potential hindrances to a broader use of the euro in their respective markets:

**Tradition, inertia and ease of use:** The US dollar prevails out of tradition. Businesses find it easier to continue using it in the absence of a collective change of behaviour. This is strongly the case for the upstream ‘oil’ industry where market participants are reluctant to switch to another currency as oil benchmarks are denominated in US dollars and all oil derivative products depend on these benchmarks. Some businesses believe that the market is increasingly aware of the benefits of an alternative currency.

**Legal systems, regulation and accounting rules:** In some cases, (the parent of) a company is located in a jurisdiction where the legal or the accounting framework encourages obligations to be settled or fulfilled in US dollar units, these corporations prefer to use the US dollar. This was particularly stressed by respondents to the consultation from the energy sector.

**Market power:** The trading partners often impose their preferred currency when they have a stronger bargaining position (for instance, they can find alternatives in the preferred currencies). This is especially the case for the food and agricultural sector as well as the rail industry where the latter usually invoices in the buyer’s currency.

**US dollar denominated sectors:** Some sectors, from the manufacturing of a product to its exploitation, are dominated by the US dollar. This is the case for aviation where airline expenditure, including aircraft purchase, is in the US dollar. In a global and highly competitive market such as aircraft trade, adding exchange risk is not an option for European aircraft manufacturers when their direct competitors are selling in US dollar. Aircraft manufacturers have nevertheless identified some cases where their customers may have interest in concluding a transaction in euros. This could be increased if financing in the euro would be more easily available. A targeted approach to allow the euro to develop further, in particular in the energy sector, would also help as energy accounts form a large share of the aircraft sector's manufacturing and operational costs.

**Availability of euro denominated financial instruments and market indicators:** According to participants to the consultations, there is a lack of euro denominated benchmarks in sectors such as 'energy' and 'raw materials'. Moreover, even where there are euro quotations such as in the foreign exchange market, liquidity tends to be lower in euros than in US dollars.

Respondents across consultations provided a broadly similar or complementary picture, albeit a disparity of opinions emerged between "end users" (typically non-financial corporations) and financial institutions that mainly provide services to those companies. End users support changes that would incentivise a greater use of the euro in their sectors. The size of the respondents also yielded different opinions as large actors tend to be more complacent (and reluctant to change) than smaller ones who support areas of improvement.

Nonetheless, respondents have stressed that the use of the euro can be supported, on a voluntary basis by market participants, provided co-ordinated accompanying actions are undertaken by different actors at various institutional and governmental levels.

#### **IV. Need for coordinated action**

Overall, there is strong support for the package of measures proposed by the Commission Communication in December 2018. It emerges from the consultations that the promotion of the international use of the euro requires coordinated action at three levels: the EU level, the Member States level and market participants.

*Completing the Banking Union and the Capital Market Union*, a shared responsibility of Member States and the EU is critical to any future developments of the euro according to many respondents across the various sectors. There is a widespread expectation that progress must and will be made in these areas. Actors at all levels should support measures that reinforce market trust / confidence in the euro.

In addition, further *Inter-Governmental Agreements* encouraging the use of the euro in certain sectors such as 'energy' are expected to increase the use of the euro. European Union and Member States, as well as provide political support for the increased role of

the euro in energy transactions. should lead by example. It was suggested in the framework of the energy consultation that the European Investment Bank, European Bank for Reconstruction and Development and European credit institutions should take into account the objective of increasing the role of the euro in their energy transactions when carrying out operations in the field of energy. The dialogue with European bodies and mechanisms should be developed further to explore options to strengthen the share of their debt denominated in euros.

Respondents made a number of further concrete proposals:

- In terms of *combating inertia and changing the current market organisation*, which together deter currency diversification, respondents stressed the relevance of using **European economic diplomacy<sup>1</sup> for engaging** with third countries and international market participants both at Member States and EU level to promote the use of the euro in trade contracts. Promotional actions are also considered helpful.
- *Increasing the supply of financial market products denominated in euros*. For instance, **developing euro benchmarks** in oil markets would also have positive spillovers to the aircraft and maritime sectors. Some participants considered that platforms trading euro denominated instruments would be helpful in offering euro-hedging tools to cover currency and commodities associated risks.
- Respondents also referred to the need to **increase the available pool of euro-denominated assets with a higher credit rating**. The Commission's proposal 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 quality and a high level of attractiveness for international investors. Such assets would therefore increase the liquidity in the euro, which is one important feature where the euro is at a disadvantage in global markets compared to the US dollar. Feedback from financial market participants indicates that deep and liquid bond markets generally have a beneficial impact on the liquidity of a currency. Several respondents considered that the creation of a euro area safe asset was particularly relevant in this respect. In their view, the euro is at a disadvantage compared to the US dollar, since investors need to take into account multiple sovereign risks and insolvency frameworks. The US experience shows that a stronger euro in the international sphere would require a more ample and homogenous supply of safe assets.
- *In terms of enhancing euro liquidity and availability*, **improvements in the institutional functioning of (financial aspects of) markets** could be beneficial. The emergence of euro benchmarks and derivatives contracts for pricing and hedging in markets such as 'oil' and 'raw materials', which would avoid reverting to the US dollar, could accompany market participants wishing to use the euro. Some respondents also considered that financial institutions should be more willing to provide euro denominated **financing**. This is particularly relevant for the aircraft industry where leasing companies often refuse to use the euro and funding banks

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<sup>1</sup> The concept of European economic diplomacy has a broader sense and is continually evolving

charge a premium for any euro financing. The collateral in aircraft financing is based on dollar denominated second hand values. Valuation in other currencies creates additional risks for financing companies. In the shipping industry, it was also noted that the financing of ship purchases was mostly in US dollars. In this context, it has been suggested that the Commission could take a leading role in bringing together all actors involved in expert round-table discussions, facilitating the consideration of concrete measures for increasing the usage of the euro in the respective sectors.

- *More incentives, less restrictions*: Financial institutions (liquidity providers, funding banks and other large market actors) need **incentives to use the euro more widely**. Several respondents outlined this aspect, especially in the ‘market liquidity’ and ‘energy’ consultations. In terms of institutional design, some actors, especially in the financial markets and energy sectors, have proposed to lighten (or prevent new) excessive regulation related to higher collateral coverage, which would negatively affect (through high capital requirements) the willingness or ability of lenders to fund in euros. Certain EU regulatory aspects could disadvantage euro area institutions compared to their counterparts in other parts of the world.

## V. Further Consultations and dialogue

- Finally, it is important for the Commission to organise **further exchanges and consultations with market participants and third countries** with a view to exploring policy options. The Commission in consultation with the European External Action Service (EEAS) should deepen structured dialogues, including targeted technical events, with non-EU countries. Moreover, development aid as well as technical assistance should be considered to increase the usage of the euro in projects financed by the EU. In the implementation of the EU external cooperation, the Commission systematically uses the EUR. For instance, financial instruments such as the EFSD Guarantee and EU blending facilities, are always denominated in EUR and the Commission encourages (and supports) local currency financing wherever appropriate and feasible.

## Sector-specific opportunities and considerations

The sector consultations have also revealed sector specific considerations. The following are some examples:

### *Foreign exchange markets:*

- Continue to contribute to liquidity of foreign exchange markets so that market participants are able to efficiently trade the euro vis-à-vis other currencies in sufficiently large quantities, over sufficiently short time periods, without a significant effect on the price of those securities and so that markets in the euro are liquid enough to facilitate investment and economic growth.

- Create regulatory conditions that maximize the liquidity of currency pairs with the euro that are traded in different foreign exchange markets (spot markets, forward markets, futures markets, etc.).

*Non-energy, non –agricultural raw materials (metals and minerals):*

- Create a euro denominated quotation that the market participants can use directly without converting from other currencies.

- Establish additional EU metals exchanges so that the use of euro denominated quotes and benchmarks can be further facilitated.

- Engage in international dialogue with EU partner countries with the aim to increase the acceptance of payments in euros.

*Energy (Oil, natural gas):*

In the oil sector:

- Expand ongoing discussions with participants in the downstream market, including actors from the sectors of motor fuels, heating, petrochemical products, fertilizers, etc.
- Explore ways to strengthen the role of the euro with transport and shipping companies.
- Engage further with Price Reporting Agencies (PRAs) and commodity exchanges to discuss the feasibility of establishing additional euro-denominated price benchmarks for refined petroleum products.

In the natural gas sector:

- Engage with EU Price Reporting Agencies and commodity exchanges to explore options for facilitating the emergence of euro-denominated global reference

*Agricultural and food commodities*

- Consolidate market transparency activities and favour the emergence of price benchmarks expressed in euro.
- Assess the possibilities of integrating the use of the euro in Economic Diplomacy activities and promotion campaigns of EU agri-food products.
- Engage with financial institutions to explore additional forms of settlements denominated in euro;
- Enhance access to and the uptake of risk management tools in agri-food trade.

*Aircraft Manufacturing Sector*

- Bring all relevant actors (aircraft manufacturers, supply chain and banks providing aircraft funding) together to identify a way to make funding in euros possible without 'de-facto penalties'.
- Encourage banks to develop an asset valuation, for collateral purposes in euros.

- Provide financing instruments in the euro that are competitive with those denominated in the US dollar.
- Engage with leasing companies and banks to determine what type of euro financial products can be developed, in order to encourage aircraft manufacturers and airlines to increase the usage of the euro.

## SUMMARY RESULTS OF TARGETED CONSULTATIONS

The summary results of the **targeted consultations** are presented in this report as follows:

### Consultation on market liquidity and the use of the euro in foreign exchange markets

#### I. Methodology

The target group for this consultation was financial institutions that play a key role in foreign exchange markets and companies with a significant foreign exchange presence. Overall, sixty-one responses were received to the consultation:

- 58 organisations
- 3 individuals
- 1 administration

There were 39 unique responses from financial institutions.

#### Number of responses by type of respondent

Type of respondent	Number of responses
Bank	29
Industry organization	10
Exchange, trading platform or similar	3
Insurance company, pension fund or similar	2
Investment fund or similar	2
Other financial institution	3
Other	9
No answer	3

#### Location of financial institution respondents' headquarters

France	4
Germany	8
Italy	2
Netherlands	3
Spain	3
Switzerland	3
UK	6
USA	8
Other	4

#### II. Results

The US dollar, as the global reserve currency, is the most widely traded currency in foreign exchange markets. The euro comes some way behind, but is still ahead of

other major currencies. The most widely traded currency pair is the USD-EUR. The dominant role of the US dollar in foreign exchange markets is to some extent a reflection of its wider use as an invoicing currency for international trade in goods and services and for international investment flows.

### **Liquidity in foreign exchange markets**

Market liquidity refers to the ability to trade securities in sufficiently large quantities, over sufficiently short time periods, without a significant effect on the price of those securities. Regarding market liquidity in foreign exchange markets, respondents to the consultation overwhelmingly said that currency markets are typically highly liquid, notwithstanding occasional episodes of illiquidity and high volatility. Several mentioned that market liquidity depends on an efficient market infrastructure and on having a balanced “ecosystem” of liquidity providers and liquidity takers. The rise of non-bank liquidity providers was mentioned as one important change that has occurred in recent years, and that has had a notable impact on liquidity provision, especially in spot markets. Another factor mentioned in terms of market ecosystem is the 'electronification' of markets, which can be seen in the rise of algorithmic trading, including high-frequency trading. Some respondents said that new regulations had decreased the incentive for market makers to provide liquidity.

Respondents were divided as to whether specific measures to address impediments to market liquidity were really needed. Some said that European markets and the euro-area’s financial ecosystem would benefit from euro area banks playing a greater role as liquidity providers. The need to have a light regulatory framework for multilateral trading platforms was stressed, as was the importance of avoiding regulatory fragmentation and treating different liquidity providers in a similar manner. Finally, the further integration of national financial systems within the euro area was also emphasized.

### **The costs of hedging in the euro compared to other currencies**

The cost of hedging in the euro was generally considered to be about the same as in US dollars, although over one-third of respondents thought that hedging in the euro was costlier. When asked to compare the cost of hedging in the euro with that of other major non-US dollar currencies, respondents thought that the cost of hedging in the euro was lower. The comparison currencies were the Japanese yen, the British pound, and the Swiss franc.

### **The listing and efficient promotion of currency pairs on exchanges**

Respondents overwhelmingly thought that exchanges were listing sufficient currency pairs. For the relevant instruments, exchanges and/or market makers were efficiently promoting euro currency pairs against major currencies. A majority of respondents felt that the same was also true against exotic currencies.

## **The role of the euro and euro area banks in foreign exchange markets**

Most respondents felt that the euro plays a role in global foreign exchange markets that is commensurate with the size of the euro area economy; although a large minority felt that its current role is less than expected given the size of the euro area economy.

## **The market liquidity of currency pairs and exchange rate triangulation**

As noted above, foreign exchange markets are generally considered to be among the most liquid of financial markets. Despite this, trades between particular pairs of currencies often involve a process of “triangulation”, i.e. one currency is first exchanged against the US dollar and then into the second currency. The prevailing thinking is that this reflects the US dollar’s predominant role in global currency markets, as the major reserve currency. Nevertheless, it is essential to better understand the functioning of foreign exchange markets and, in particular, how triangulation works and whether it is efficient, or whether it is, in part, due to reduced market liquidity for trades between particular currency pairs.

About two-fifths of respondents felt that triangulation when trading the euro is used as extensively as for other major currencies, but close to one-third thought that it was more extensive than for other major currencies, while one-fifth thought that it was used less when trading the euro. This difference of view could reflect differences in trading practices among different institutions. Regarding the cost implications of triangulation, most respondents considered that triangulation only raises costs modestly for euro area companies, if at all.

## **Access to exchange rate prices and hedging instruments**

Respondents consider that major companies in the euro area had adequate access to exchange rate prices and to hedging instruments to cover currency and interest rate risk. Many participants argued that the market for hedging products is very developed and that several different types of hedging instruments were available. Others mentioned that company size was a factor, with larger companies having easier access to hedging instruments.

## **Factors that could support a greater role for the euro in foreign exchange markets**

When asked which factors could support a greater role for the euro in foreign currency markets, respondents cited several elements, but especially the following:

- Improved political and economic stability in the euro area,
- The further deepening and integration of European financial markets, by completing Banking Union and Capital Markets Union (CMU) and creating a large pool of European safe assets,
- The increased use of the euro as a trade invoicing currency.

Respondents were also asked to name other factors that could be relevant for the role of the euro in foreign exchange markets. A common theme in the responses was regulation. In the view of some respondents, the increase in capital and collateral requirements is a key factor determining the costs of banks' foreign exchange business, and has reduced the ability of banks to deliver liquidity to the market. Some respondents highlighted that certain parts of the EU regulatory framework could disadvantage EU institutions compared to their counterparts in other parts of the world. Other factors that were mentioned were the increasing role of non-bank market makers in foreign exchange markets, the growing importance of 'electronification' in markets and the rise of algorithmic trading, and the frequency of flash crashes.

### **III. Further considerations**

The following avenues could be considered further:

- Support further the deepening and integration of EU financial markets and of the EMU architecture, through completing the Banking Union, the Capital Markets Union and through fostering the development of safe assets.
- Support efforts to boost the role of the euro as an invoicing currency for international flows of goods and services and international investment flows, as this would be reflected in a greater role for the euro in currency markets.
- Investigate the reasons behind episodes of volatility and reduced market liquidity, as well as changes in the ecosystem of foreign exchange markets (increasing 'electronification' and the rise of new players) and the role of regulation.
- Understand better why triangulation occurs, for which currency pairs, and whether it could have an impact on the costs of smaller companies.

## Consultation on the use of the euro in the energy field

### I. Methodology

The Commission consulted stakeholders *via* dozen bilateral discussions, a workshop on 14 February with some 60 attendants with Member States, a separate dedicated questionnaire addressed to Central Stockholding Entities set up by the Member States under Directive 2009/119/EC (CSEs).

More broadly, it carried out an online consultation to which there were 37 responses. 34 respondents are EU-based. They come from various sectors:

Type of respondent	Number of responses
Commodity exchanges	3
Price Reporting Agencies	2
Downstream players	5
Midstream players	3
Upstream oil and gas player	1
Financial service provider	1
Trade associations	6

### II. Results

Overall, the majority of stakeholders showed **clear interest** in a wider use of the euro. For instance, a majority of respondents to the online consultation agree that a stronger role of the euro in international transactions would bring about **benefits** in the form of:

- lower costs and risks of trading internationally for EU businesses,
- stronger autonomy of EU consumers and businesses and
- reduced exposure to legal actions taken by third country jurisdictions.

However, stakeholders strongly emphasised that a shift from the US dollar to the euro should be **market-driven** and that EU authorities should not constrain or restrict in any way the freedom of private operators to choose their transaction currency.

Stakeholders also emphasised that, for the Commission's efforts to strengthen the role of the euro to be successful, it would have to obtain clear political support from Member States; this would increase the leverage of EU companies in their negotiations with their non-EU trading partners

From a sectoral point of view, the main conclusions of the consultation activities in the field of Energy can be summarised as follow:

- In the **oil sector**, the short-term prospects of the euro taking a more prominent role are more promising in downstream than in upstream markets, as the upstream crude oil market is globalized, highly efficient and highly liquid. On whether the EU should encourage the launch of a **euro-denominated benchmark for crude oil**, respondents have mixed views on both the feasibility and the relevance of such a benchmark.

- Respondents were more optimistic about the potential for the euro in the **natural gas** sector, especially as the improving liquidity of gas hubs in the EU already presents a robust starting point. The majority of respondents agreed that a hub-based, euro-denominated benchmark would eventually emerge as the main reference of the EU gas market, although ensuring that the EU benchmark also becomes the global reference is less certain. Some stakeholders argued that the EU should consider measures incentivising buyers and sellers of Liquefied Natural gas (LNG) to increase euro-denominated transactions.
- Respondents underline that the **EU Emissions Trading System (ETS)** is already a successful euro-denominated benchmark that is used globally. This also ensures a strong volume of euro-denominated transactions in a product that incentivises a shift away from carbon.

Many respondents stressed that advancing toward the **completion of the Banking Union and the Capital Markets Union** would support strengthening the role of the euro in energy transactions.

A large majority of respondents saw **euro-denominated lending and financial tools as available but insufficient**. A number of them called for the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and other European credit institutions to take into account the objective of strengthening the international role of the euro more when carrying out their operations.

A number of respondents emphasise that the **current financial regulatory framework** does not sufficiently take into account the specificities of energy trading and thus prevents the development of new products and further liquidity of existing energy derivative markets.

### **III. Further considerations**

The following avenues could be further considered:

- In the **oil sector**:
  - Expand ongoing discussions with participants in the downstream market, including actors from the sectors of motor fuels, heating, petrochemical products, fertilizers, etc;
  - Contact transport and shipping companies, even though shipping companies prefer to invoice their users in one single currency (often the US dollar). EU airlines could be a more promising avenue to explore since their incomes are largely euro-denominated. Discussions will also be engaged with freight and insurance companies,
  - Engage further with Price Reporting Agencies (PRAs) to discuss the feasibility of establishing euro-denominated price benchmarks for refined petroleum products.

- In the **natural gas sector**:
  - Engage with Price Reporting Agencies and commodity exchanges to explore options for facilitating the emergence of euro-denominated global reference.
  - Reflect further on options for enhancing the role of the euro in the emerging hydrogen market.
  
- Regarding the **EU Emission Trading Scheme**:
  - Continue promoting emissions trading schemes as a way to reach the Paris Agreement's targets, and working at further integrating Emission Trading Scheme markets to improve their liquidity.
- Regarding the **financing of energy projects in euro**:
  - Engage further in discussions with the EIB, the EBRD and other European credit institutions so that they better take into account the objective of strengthening the international role of the euro in energy transactions when carrying their operations.
  - Assess whether insufficient euro-denominated settlements in contracts relating to projects and financial transactions in the field of energy is a determining deterrent for a wider use of the euro.
- Regarding the **financial markets**:
  - Assess the impact of MiFID II's (Markets Instruments Financial Directive) position limits regime and MiFIR's (Markets Instruments Financial Regulation) pre-trade transparency rules on new and emerging contracts linked to energy commodities.
  - Analyse whether reporting requirements could be mainstreamed without weakening them.
- Vis-à-vis **non-EU energy suppliers**:
  - Target countries that represent the bulk of EU's energy imports when promoting its model clause.

**Consultation on the role of the euro in non-energy, non –agricultural raw materials: metals and minerals**

**I. Methodology**

Participation in this consultation was promoted in the raw materials community through information shared with relevant Commission expert groups (the European Innovation Partnership on Raw Materials, Raw Materials Supply Group, Forest-based Industries expert group and the Energy Intensive Industries Sherpa Group),

Respondents were asked to identify:

- Barriers to trade in raw materials in euro (making the distinction between commodities exchange and in direct transactions between EU companies);
- Actions to increase the trade of raw materials in euro (at EU level, at country level, at company level and at financial institutions level).

Twenty responses were received in total. Most of the respondents were private companies (11 responses) followed by business associations (2), national and regional authorities (2), research institutes and university (3) and others (2).

	Number of respondents
<b>Business association</b>	<b>2</b>
<b>Private company</b>	<b>11</b>
<b>National authority</b>	<b>1</b>
<b>Research institute</b>	<b>2</b>
<b>University</b>	<b>1</b>
<b>Network of regional and/or local authority</b>	<b>1</b>
<b>Other</b>	<b>2</b>
<b>TOTAL</b>	<b>20</b>

Most respondents come from Europe originating from 11 Member States (Bulgaria, Germany, Greece, Spain, France, Italy Austria, Poland, Portugal, Finland, and Sweden). Only three come from outside Europe. Their activities broadly cover different activities along the industrial value chain including raw materials extraction and processing but recycling and waste management. Responses were also received from the trading and banking sectors.

Raw materials that the respondents work on or have experience with were metals, industrial minerals, aggregates, precious metals, glass, ceramics, lead, silver and gold.

## II. Results

### Barriers to trade in raw materials in euro

The main barrier to trading in euro on international commodity exchanges relates to the fact that trading in US dollars is an established and long-standing business practice. Entry barriers for emergence of a new trading currency are high. In global intra company trade, lack of direct price quotations in euro makes it easier to use dollar quotation than converting it to the euro, with the need to hedge against the currency risk. The respondents pointed out that trading in the euro is highly unlikely when one of the parties comes from outside the EU, while some trade between European companies is conducted in euro.

### III. Proposed actions that would increase trading raw materials in the euro

Respondents most often referred to the following two actions that would increase trading in euro in the raw materials sector:

- Establishing daily price reference in euro (a quotation that the market participants can use directly without converting from other currencies).
- Establishing of EU-based exchange (EU Metal Exchange).

Respondents see the actions of financial institutions, Member States and the EU as key in advancing these actions. Some suggest that the financial sector quotation-setting role could incentivise companies to use the euro in their global transactions and provide them with an alternative to the US dollar.

However, the responses also pointed out that these actions are difficult to implement as the US dollar is so well established in raw materials trading. Moreover, entry barriers for a new currency are high, the marketplace is global and EU is a price-taker on international raw materials markets as it has a relatively low share of world production. As such the conditions for emergence of euro as a new trading currency are still to be met.

Additional elements mentioned in the survey include the importance of international dialogue with EU partner countries aiming to increase the acceptance of payments in euros and the support of monetary policy actors, including the ECB, in creating trust in the market for trading in euro.

## **I. Methodology**

73 stakeholders responded to the survey. These included 39 producers and 24 traders/professional organisations active in the agri-food sector. Two commodity exchanges responded to the survey and shared their views in more detail in position papers.

Concerning the country where the head office of the respondent is located the results show a large number of replies from Portugal (24 or 33%), followed by France (12), Germany (8), Belgium (7), the Netherlands (7), Italy (4) and Spain (3). Only one answer each was submitted from Bulgaria, Denmark, Greece, Poland, Romania and the UK. While there were no replies from the other Member States, 2 responses were received from the USA.

As for the size of the enterprises the distribution is remarkable even with broadly equal number of replies coming from large (250 or more employees), medium-sized (50-250), small (10-49) as well as micro enterprises.

Most of the respondents (42%) are active in trade (including wholesale, retail and imports), while 20% represent agricultural producers and 23% food processing.

Concerning the main product types, 27% of the respondents represented the fruit and vegetables sector, while 21% represented the grains sector.

## **II. Results**

### *Structure of exports/imports and the use of the euro*

When goods destined to a client in the euro area, a significant share of the sales (86%) is settled in euros. The same also applies to purchases made (80%) from suppliers based in the euro area. However, only about 60% of the replies indicated that the settlement was in euros (i.e. over 75% of the business), when clients are based in the EU but not in the euro area.

Concerning trade with clients outside the EU, the euro plays a limited role (i.e. less than 25% of the business) in particular in trade with Asia and the Americas.

### *Reasons for using a currency other than the euro*

Respondents indicated two main reasons when they use a currency other than the euro:

- The trade partner imposes another currency,

- The international common references and benchmarks published by Price Reporting Agencies for the area concerned (i.e. selling to or buying from) are expressed in another currency.

In order to cover their price / exchange rate risks, a large majority (71% of the relevant answers) indicated that they use private risk management tools, in particular future contracts denominated in euro.

#### *Factors supporting or hampering the use of the euro*

A majority of respondents (70%) consider that the role of the euro in agri-food markets is generally satisfactory although a significant proportion of these respondents consider that some improvement can still be achieved. Generally, it is up to a decision by buyers, sellers or a multinational group to whether use or not the euro. Some consider that the situation is a result of tradition or inertia. A significant minority (24%) of respondents consider the absence of benchmark prices expressed in euro to be a driver of lower use of the euro. A small number of respondents also cite exchange rate risks and insufficient hedging tools.

Respondents concur in seeing benefits of a higher use of the euro in agri-food trade, with over half of the respondents seeing potential for reducing risks in international trade and lowering transaction costs. 30% of respondents also see potentially that a stronger use of the euro would reduce the interference of countries not concerned by the commercial transactions at stake. Respondents however do not expect that more use of the euro will protect them from price volatility on agri-food markets or would place them in a stronger position vis-à-vis their competitors. A large share of respondents does not see any potential drawback to more use of the euro. The main drawbacks cited by undertakings are the possible fragmentation of their client base (euro-denominated, non-euro-denominated) and the potential loss of clients.

### **III. Reflection on next steps**

40% of respondents consider that the EU is best placed to promote the use of the euro on agri-food markets, 15% consider the Member States or the private sector. 30% of respondents consider the most effective would be to have a combination of actions by different actors.

Concerning beneficial measures, establishing/re-enforcing price benchmarks expressed in the euro seems to be the most promising idea for a majority of respondents. More than half also support measures related to economic diplomacy, high-level commercial missions and/or promotion of EU agri-food products. A significant minority of respondents also consider that the development of hedging tools denominated in euros and/or training of agri-food stakeholders to use those tools would be beneficial. In particular, two major financial sector operators - the main futures contracts providers for

agricultural commodity products - highlighted the importance of developing European futures contracts. In this respect, they stressed the importance of agricultural benchmark prices that could be used to create cash-settled futures contracts.

One of the stakeholders clearly referred to the Commission's and Member States' role in enhancing the collection, publication, and dissemination of euro-denominated agricultural commodity benchmark prices. Another stakeholder stressed the importance of creation of the EU level platform on risk management providing forum for farmers, public authorities and other stakeholders to exchange experiences and best practices. Better information and education on risk management instruments would further facilitate the use of futures contracts. A significant number of respondents (15%) did not propose any particular measure. Some respondents proposed specific measures out of the menu proposed in the questionnaire, namely the establishment of credit lines in euros to the countries where the EU is exporting (like the United States do).

#### **IV. Further considerations**

- Building upon the increased market orientation of the Common Agricultural Policy (CAP), assess the possibilities of integrating the use of the Euro in Economic Diplomacy activities such as High Level Trade Missions and promotion campaigns;
- Engage with financial institutions to explore additional forms of settlements denominated in euro that can be developed to encourage a higher use of the euro in transactions within the agri-food sector;
- Consolidate market transparency activities, consistently quoting prices in euro and favouring the emergence of benchmarks expressed in the euro;
- In the context of the reform of the Common Agricultural Policy, enhance access to and the uptake of risk management tools, for example with sharing best practises, more training available to farmers and other operators, and further improvement of risk management instruments.

## **I. Methodology**

The targeted consultation elicited 12 responses:

<b>Respondent</b>	<b>Number of Respondents</b>
<b>Airlines</b>	2
<b>Aircraft manufacturers</b>	2
<b>Suppliers of components</b>	3
<b>Associations</b>	3
<b>Banks</b>	2
<b>Total</b>	12

The use of the US dollar is widely spread in the aviation sector for legacy reasons as well as due to global practices and inertia. Aircraft and equipment manufacturers sell their products in US dollar to customers (airlines, lessors, corporate, OEM, etc.). These customers incur most of their operating costs, especially fuel, in US dollar. The second-hand and leasing markets are also in US dollar. The most frequently used financial instruments are also denominated in US dollar.

## **II. Results**

### *The trade of aircraft*

The main European aircraft manufacturers have responded to the consultation, covering a wide spectrum of products (airliners, regional turbo prop and business jet manufacturers) and customers (airlines, lessors and corporate customers). Aircraft manufacturers share the view that, because aircraft trade is a global and highly competitive business, they have to price their products and negotiate sales contracts in US dollar. In some cases, around 8% of the exposure for the large commercial aircraft and a marginal number of regional aircraft European customers, transactions may be concluded in the euro.

Aircraft manufacturers hedge the related currency exchange risk through financial instruments as well as through commercial practices (sourcing in US dollar). They have developed substantial in-house financial capabilities to hedge the exchange risk. Manufacturers consider that there is room for increasing the use of the euro, in particular at the level of invoicing, when there is a common interest for both parties (natural currency hedge, lower volatility and interest rate, etc.). This may be the case, especially for airlines with a substantial euro cash flow.

There is, however, a disincentive in using the euro as banks ask for currency protection clauses. For asset-based financing, if the underlying asset is primarily valued and traded in dollars, exposures in euros entail a currency risk and can increase the purchase cost of the aircraft. Appropriate and affordable funding in the euro should therefore be developed.

Promoting the use of the euro will also require overcoming a US dollar mind-set within the sector as airlines seem generally satisfied with the current situation; many sales and purchases are carried out outside the European Union in any case.

#### *The aircraft supply chain*

The aircraft equipment sector is a global and highly competitive sector also dominated by the US dollar. As costs are incurred mainly in domestic currencies, large suppliers have developed in-house expertise to carry out the currency hedging needed to bridge the difference between inputs and outputs. Banks provide affordable hedging as liquidity in forward contracts with the US dollar / euro / GBP etc. remains ample.

The aircraft manufacturer imposes the currency effectively used throughout the supply chain. In turn, first-tier suppliers also impose the use of the US dollar on their own suppliers. One first-tier supplier indicated, for instance, that about a third of its aeronautics purchases in the euro area are denominated in US dollar. First-tier suppliers acknowledge that a wider adoption of the euro could decrease their US dollar hedging needs. However, the consultation shows little appetite from large suppliers to increase the use of the euro, as they are active on a global US dollar dominated market.

#### *Conclusions of the aircraft supply chain*

The US dollar dominates the aviation sector and there is only limited room for changing this situation. Aircraft manufacturers have identified the possibility to promote the use of the euro when beneficial to all parties (i.e. mainly when their customers are airlines with most of their revenues in euro) and express their support to further actions to promote it.

The main action identified would be to bring all actors (aircraft manufacturers, supply chain and banks providing aircraft funding) together to identify a way to make funding in euros possible without penalties. Banks should be encouraged to develop an asset valuation market that performs aircraft analysis in euro and provide competitive financing instruments in euro. Promoting the use of the euro in related sectors like energy would also help. Overall, strong, sustained political will would be required.

#### *Bank responses*

The position of the US dollar is a reflection of the flows in the aircraft market. A first possible consideration could be to encourage the use of the euro where the euro area is a significant consumer and/or production hub. This is certainly the case for the aircraft sector with Airbus as an important participant. Nevertheless, the fact that there may be a potential interest in using the euro in any given sector is not sufficient to ensure a large-scale rollout of the euro on the international scene: additional macro-economic tools remain indispensable. Choosing the euro for a given sector must be assessed in the light of the entire value chain.

The increased usage of the euro in the cost components (production materials, etc.) could thus result in a virtuous circle fostering a change in practices in a sector that is strategic for the competitiveness of the European Union. However, it must be stressed that this cost-based reasoning leads to a step-by-step progression up the value chain to its “ultimate” upstream component: the commodity (metal, crude oil, etc.). Some respondents proposed that one can efforts on a selection of commodities, which would be similar to China’s strategy with the development of metal indices. The forex market involving the euro is liquid, resulting in relatively low hedging costs, so that the hedging costs of forex transactions are not in themselves alone likely to encourage players to

change their practice. Rather, the maturities of financing and hedging contracts should be an important factor. Economic stability, market liquidity and a political will are all important ingredients to make this work.

### **III. Further considerations**

- Engage with leasing companies and banks to determine what euro products can be developed to encourage aircraft manufacturers and airlines to expand the use of the euro.
- Work in parallel on upstream materials: crude oil, metals and minerals
- Enhance Political diplomacy to protect the global financial system from disruptions resulting from financial crises or trade conflicts .

**I. Methodology**

In total, there were 13 responses. From this, 8 responses came from the rail sector with 4 responses from operators and 4 from rail manufacturers. The maritime sector contributed 3 responses: one response each from shipbuilding, marine and offshore equipment, shipping operations. One response came from the logistics sector, and one from banking (Société Générale). While contributions from the maritime sector were fewer, it is important to note that the position paper submitted by the bank Société Générale<sup>2</sup> discussed the maritime sector in detail.

	<b>Number of respondents</b>
<b>Rail operator</b>	4
<b>Rail equipment manufacturing</b>	4
<b>Shipbuilding and repair</b>	1
<b>Marine and Offshore Equipment</b>	1
<b>Shipping operations</b>	1
<b>Logistics</b>	1
<b>Banking</b>	1
<b>TOTAL</b>	<b>13</b>

In terms of the country of registration of the respondents, the results show a relatively balanced geographical distribution although only stakeholders from 10 Member States were represented.

Most of the respondents were large companies (8 out of 13), and there was 1 medium, 3 small and 1 micro company.

**II. Results for the rail sector**

**Rail operators** in the sample include one firm from the euro area, which generates most of its trade with other euro area countries. The other firms are based in countries outside the euro area and reported much lower shares of trade with euro area partners.

Data from **rail manufacturers** was less complete; only two respondents provided information on the currency split of their trade activities. From these, the share of trade within the euro area was generally lower.

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<sup>2</sup> Société Générale is mentioned by name because it asked the Commission to publish its position paper. Other large companies that responded asked for anonymity.

### *Use of the euro or other currencies*

Respondents from the **rail-manufacturing sector** stated that the most used currency in the sector was the euro, though one added that trade with the US is always and only done in the US dollars. Manufacturers confirmed that the euro was the most frequently used currency in their transactions. Moreover, one added that the euro was the standard currency outside the euro area as well. One firm mentioned that 90% of their exports were denominated in euros, and another one responded that around 8-10% of their trade was in US dollars.

According to one respondent, the buyers of rail rolling stock are usually large state-owned enterprises, and invoices are usually requested in the buyer's currency. This is true both inside and outside the EU. When selling outside the EU, it is generally easier to invoice a project in euro when a customer receives an export credit from a euro area Member State.

Rail operators reported that the main currency in their sector was the euro, although two operators outside the euro area use their national currencies as their own main currency at company level. The operators generally use their national currencies; however, one operator outside the euro area also uses the euro as its own main currency. Two extra-euro area operators pay for most of their exports/imports in euros, while another one also uses the euro but to a lesser extent.

### *Reasons for using a currency other than the euro*

In rail manufacturing, one producer mentioned that customers based in the Middle East favour the use of the US dollar given the role of US dollar denominated oil and gas in their economies. In addition, two manufacturers mentioned that they use the US dollar and the renminbi for legal and regulatory reasons (for instance, one of them explained that the US public authorities would not accept other currencies).

Rail manufacturers and operators confirmed that the currency used is determined by the buyer's location. As a result, euro area countries use the euro; non-euro area countries mostly use their own national currencies. An operator from the euro area uses another currency when that is the currency of the partner.

### *Factors supporting the use of the euro*

All respondents from the rail sector (manufacturers and operators) found the use of the euro advantageous. The reasons cited include lower currency exchange related costs (exchange fees, accounting costs) and the elimination of foreign exchange risk.

### *What should change to promote the use of the euro?*

One large rail (equipment) manufacturer did not see much room to increase the share of the euro in their business. Another manufacturer responded that there would be less

exchange rate volatility, while another one stressed the need for stronger support from financial institutions (services and products in euro).

### **III. Results for the maritime and logistics sector**

The only maritime company that responded to the consultation was a shipping company, which reported most of its exports and imports within the euro area.

#### *Use of the euro or other currencies*

Two manufacturers (shipbuilding, marine and offshore equipment) responded that the euro was the main currency in their sector, and also in their activities. One manufacturer added that it invoiced in US dollar and renminbi for regulatory and accounting reasons in the case of certain government contracts. A shipping company responded that the main currency in the sector was the US dollar, but the company mostly used the euro in its transactions. This firm also added that a relevant share of the EUR invoice had an underlying US dollar amount. However, Société Générale a large European credit institution mentioned that transactions involving the financing of ship purchases were mainly carried out in US dollars. In addition, a logistics company mentioned that global long-distance maritime freight transport was payable in US dollars, though the firm itself was using the euro as its main currency.

#### *Reasons for using a currency other than the euro*

Société Générale explained that the shipping market is very open, particularly for oil tankers, which operate in different parts of the world. The users of these cargo ships are numerous and are located in different regions. Operators prefer to invoice their users in one single currency rather than having to manage different payment currencies. This reference currency is the US dollar to the extent that the operators have costs in US dollars mainly. This is because in the case of tankers and container ships, one of the major costs is fuel oil, which is always invoiced in US dollars.

#### *Factors supporting the use of the euro*

Two maritime companies considered the use of the euro highly advantageous for them. The main advantage is that it allows them to avoid the exchange rate risks especially if their operating costs and revenue are in euros.

### **IV. Further considerations**

The low number of responses to the consultation (13 in total) does not allow for definitive actions; the results nevertheless provide incisive indications.

In the rail sector, the use of the euro seems rather widespread especially in the euro area. Local currency pricing seems to be standard in this sector, which may also explain why one respondent did not see much room to increase the share of the euro in their trade. Other manufacturers mentioned lower exchange rate volatility and better availability of financial market products as factors that could boost the use of the euro.

In the maritime sector, some respondents stated that they use the euro as their main currency. However, the consultation results also indicate that for global long-distance maritime shipping, the dominant currency is the US dollar. The financing of the purchase of large ships is carried out in US dollars, and global service providers prefer to use one single currency not least because of a high share of their costs is fuel oil, also invoiced in US dollars.

Possible future action in areas such as improving the availability of financial market products, or euro benchmarks in oil markets could help to promote the use of the euro also in rail and maritime activities.