THE EUROPEAN UNION

Mario Monti

I have today, for the third time, the privilege of addressing a Trilateral Commission Plenary Meeting on the European Union. A flashback on the two previous occasions may facilitate our common reflection on where the EU is going today and how it might contribute effectively to Trilateral cooperation and the governance of globalisation in the post-September 11th world.

The first occasion was the Tokyo Plenary in 1988. The EU had announced its plan to achieve a single-market by 1992. A mix of scepticism and concern prevailed among our North American and Japanese friends. Could such an ambitious plan be, really, implemented? If it were implemented wouldn't that present the rest of the world with a dangerously closed, "fortress Europe"? In retrospect, there is wide agreement that the Single Market has been, to a large extent, implemented; that non-European businesses are being among the main beneficiaries, and I should add, among the cleverest players in that Single Market; and that regional integration in Europe has proved to be a building-block, not a stumbling block of a multinational order.

The second occasion I had was here in Washington in 1993. The EU had adopted, one year earlier, the Treaty of Maastricht to introduce the single currency in due course. Yet, even the timid precursor to the single currency, the European monetary system of fixed exchange rates, had broken up. Scepticism again prevailed among North Americans and Japanese, and I should add, many Europeans. "Maastricht is dead," was the wisdom of the day. I ventured to state that contrary to appearances, precisely the bad crisis of 1992 would fortify the determination of Europe to achieve the single currency. I don't know how many in the audience I convinced at the time. Certainly not many would have bet that a few years later, almost all the Europeans in this room today would have the same currency in their pocket. In ten years Europe has engaged in a structural revolution. It now has a single market, a single currency. It is much more similar in nature, with due deference to the important remaining differences, to the United States of America.

I think it is important to bring home one point. Each stage in the construction of Europe tends to be met with scepticism abroad, with frustration and some self-flagellation within Europe, and then, eventually, it tends to succeed. Perhaps this combination of external scepticism and internal hyper-criticism is itself a help in facing each new challenge with a healthy attitude.

And indeed, new challenges are on the plate of the European Union as we meet today. Without, I am afraid, any exaggeration, we can call them the reunification of Europe, the re-foundation of Europe, the transformation of Europe into a more effective actor in global governance. Will this take decades? I am afraid not. This will make or break in, say, three years.

The reunification of Europe -- sometimes called "enlargement" -- after years of preparation is expected to materialize for a number of countries by 2004. As to the re-foundation of Europe, it will take place through a two-stage process: the Convention, with a Philadelphia flavour that is revealing of our deeply rooted admiration for America and her history; then, an inter-governmental conference, to arrive, again, possibly by 2004, at a new Treaty, perhaps a constitution, through a deep involvement this time not just of governments, but also of parliaments and civil societies of present and future Member States.

What about a transformation of Europe into a more effective actor in global governance? We feel this perhaps as an ambition, certainly as a special responsibility for Europe. Why? Simply because Europe, if we think of it, for all its great weaknesses and shortcomings, is the most advanced model around in terms of governed globalisation -- though at the regional level. Before September 11th, and even more so
afterwards, it is widely felt that globalisation has to proceed through a twin process: integration of markets, largely driven by business, and some integration or coordination of public policies, to help globalisation be accepted and sustainable. This is exactly the intuition that led the fathers of the Community in the fifties in the Treaty of Rome to integrate markets by dismantling obstacles, but at the same time to coordinate some public policies to make market integration functioning. That is why multilateralism and policy-coordination are not considered a luxury by Europeans. They are in the genes of the European Union.

But is the European Union today in a position forcefully to work for the same approach at the global level? Yes and no, depending on whether, internally, it has the power to decide and speak with one voice. So far, this is the case in three areas where the Union has supranational powers, two of them since the fifties, through the Commission: trade policy and competition policy. Since, much more recently -- through the European Central Bank -- a third such area is that of monetary policy. Where it is able to act united, Europe is not only more respected, but is also, it seems to me, a welcome partner, in particular in the Trilateral context. Let us see this in regard, specifically, to the U.S., and in a highly schematic manner.

**Trade:** There may of course be, there are indeed, unwelcome trade tensions. And we are particularly concerned by the recent unjustified restrictive measures on steel, and appropriate action within the rules of the WTO is being taken. At the same time, it should be clear that the accumulation of the various areas of dispute amount to some two to three percent of our trade flows. Beside these bilateral disputes which are disturbing enough, by and large the European Union has been a convinced promoter of the GATT and the WTO trade negotiations; and a big supporter of U.S. efforts when U.S. efforts have gone, as they normally have, in those directions.

**Competition:** We have a very solid bilateral cooperation between the European Commission and the two U.S. anti-trust agencies, the Justice Department and the Federal Trade Commission. This has allowed convergence on hundreds of cases, with one exception last year, on a merger that may have been noticed by part of the audience. And that one divergence has, if anything, induced both parties to even deeper efforts of cooperation. There is a deep cooperation also in the area of the fight against international cartels in all the areas of anti-trust. That would hardly be possible if Washington had to cooperate with 15 national competition authorities in Europe individually.

In addition, working very closely together with my two colleagues in Washington, and also with those in Canada and Japan, we have set in motion very recently the beginning of a global process of anti-trust cooperation. Last fall, two embryonically important things happened in the Doha WTO Declaration. For the first time the objective was set to have a negotiation on key principles of competition: transparency, non-discrimination, due process. And we also announced an initiative called the ICN, The International Competition Network, bringing together potentially all the competition agencies in the world. There are already ongoing, concrete, working projects. One, of interest to many of you here, is how to make the process of multinational mergers less costly, speedier and less liable to insecurity in its outcome.

**Monetary policy:** I believe that there are many signs that having a single currency helps coordinating internationally. Take but one of these signs: the hours and the days following September 11th. There, a joint approach in terms of liquidity management was, I believe, easier to reach than would have been the case with a disparate number of national central banks in Europe.

Now, the European Convention is an historic opportunity, and I am delighted that it is presided by President Valéry Giscard d’Estaing.

The Convention has the extremely important and difficult task of recreating, on a new basis, a consensus on the European project. It must, in my view, be guided by the need to have Europe play its full role in the
governance of globalisation. What the Convention has to do, in my view, has to be discovered in Washington and in Tokyo more than in Brussels and Strasbourg: to have Europe play its full role in the governance of globalisation as an international responsibility, and also to help its own citizens to live a more positively handled globalisation.

This effort may well imply granting some more competences at the level of the European Union -- a Union which is, of course, not an equally effective player when it comes to foreign and security policy (a mathematical consequence of its own internal decision-making rules, or lack thereof), and at the same time a Union that redefines, refocuses its core activities in a global context. I also believe that we might well see some greater powers to discharge certain responsibility in a more united manner; and the devolution of many non-core activities to the level of the Member States, or of the regions -- many activities that could be conducted as well or better, closer to citizens.

Following are highlights of Mario Monti's comments during the lively debate which followed his opening remarks:

- On labour market rigidities:

Labour markets, which are of crucial importance in our structures today, are left largely to the Member States, but through a rather incisive peer-review process which is making it increasingly embarrassing for those national governments which are not fighting rigidities to continue not to fight them. And good progress has been achieved. I agree that, particularly in the bloc of the largest continental countries in Europe, much remains to be done.

- On product and capital markets:

There, a huge progress has been achieved, largely through the impulsion coming from Brussels, and the liberalization and competition policies. This is especially true of the telecom sector; and also of electricity, where progress was somewhat delayed -- and yet at Barcelona recently a date was set for the complete liberalization of electricity for industrial users. Contrary to what I would have wished, a date has not been set for the complete liberalization to domestic users. That will come hopefully after the French elections. And I will stop here. The weaponry of competition policy is, indeed, fully utilized from Brussels. There is no intention to devolve -- other than aspects which can be devolved -- the key aspects of competition policy to the national governments.

Let me further point out that, in 2001, whereas the international attention may have been captured by one particular case of prohibited merger, the key pillars of our action in competition policy have been two. First, a vastly enhanced fight against cartels -- we fined ten cartels for a total of 62 companies representing $1.8 billion Euros -- vastly more than in previous history. Second, the tough fight against illegal state aids. This is our daily business with the governments of our Member States. In 2001, it has thus been finally possible to eradicate from the German system the guarantees of the state to public banks. These actions must be put back at the centre of the picture.

- On the harmonization of taxation systems in the EU:

The Union has found equilibrium now on the following proposition: We need not harmonize taxation across the board. It's neither necessary nor, indeed, possible, at least with the present set-up requiring unanimity in decisions. A middle-of-the-course way will have to be pursued. There are aspects of taxation where probably never, ever, will any harmonization be needed, like personal income taxation. At the other extreme there are aspects which are crucial for the good operation of the single market, like VAT and excise taxes -- and, I would add, taxation on cars. There, a good degree of harmonization would be
welcome. It is very difficult to achieve, pending the unanimity requirement -- one more topic for the deliberations of the Convention.

Then comes an intermediate area, important enough, of corporate taxation, affecting mobile factors. There, the position that has been defined and that is being implemented is that we should not aim at harmonizing the rates. We should not, for example, prevent a Member State that is skilful enough to have a very low corporate tax rate, from holding to it. But we should fight, and we are fighting, preferential tax schemes, e.g., a country applying to companies coming from abroad a preferential rate relative to domestic companies. That is more or less the state of the art.

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