

Guy Quaden: Models of co-operation in an enlarged EU

Introductory speech by Guy Quaden, Governor of the National Bank of Belgium, at the IRR-NBB-colloquium in Brussels on 28 January 2003.

* * *

Ladies and Gentlemen,

I am very pleased and proud to welcome you all at the National Bank of Belgium. I would like to bring you back in time for a while, to the summer of 1993. Most Belgian people surely remember the decease of King Baudouin on Saturday, 31st of July. However, in my memories the same weekend is also connected to some other, also rather dramatic, events that took place in Brussels. At the time, I was a member of the Monetary Committee of the European Community and I remember very well that the European Monetary System got into severe problems in July 1993. Friday 30th of July has been recorded as "black Friday" in the history of the Banque de France because of the huge interventions needed to support the French franc on the exchange markets that day. The situation made it necessary to call an urgent meeting of the EU finance ministers and the central bank governors and their closest collaborators.

We met on Sunday afternoon the 1st of August here in Brussels in Centre Borchette while thousands of Belgians queued before the Royal Palace to pay their last respects to the King. We all were convinced that we had to find a solution to the crisis before the opening of the exchange markets on Monday morning. The negotiations -under the newly started Belgian presidency- were very tough. France wanted the German mark to leave the EMS but that was of course unacceptable, not only for Germany.

Only after midnight, a couple of hours before the opening of the Tokyo market, we could reach an agreement. It was decided to open up the fluctuation margins of the exchange rate mechanism to 15 percent above and under the central parities. In less than one year, we had lived 6 realignments plus the opening up of the margins!

Today recalling these events may seem like telling heroic stories from ancient times. We can only imagine what kind of currency tensions the bursting of the ICT bubble, the terrorist attacks of IX-XI [*"nine-eleven"*] and the current geopolitical and economic stance in general would have brought to the Western European countries, if we hadn't got the euro.

It will be obvious to you now why the National Bank of Belgium is in favour of European Integration. We are rather convinced that integration and stability are highly correlated and we believe that this applies not only to monetary policy but also to for instance foreign policy.

Our trust in European integration is one of the reasons why we at the National Bank of Belgium are very happy that we got the opportunity to organise the colloquium of today in close co-operation with the Royal Institute for International Relations. A second reason is that we feel like naturally related to the European construction. Belgium is indeed one of the six founding fathers of the European Union and Brussels hosts the main headquarters of the European institutions. At several occasions the National Bank of Belgium provided the link between the European central banks and the European institutions, for instance on the 31st of December 1998, when the ECOFIN-ministers met in the Consilium building in order to fix the irrevocable conversion rates of the euro. It can't be surprising that we are - maybe more than our colleagues are - keen on the institutional aspects of the European integration.

Today's colloquium is set against the background of the European Convention and the imminent enlargement of the Union. The topic we would like to discuss today is the controversial idea of flexibility. Is it right that we need more flexibility than provided for by the Nice Treaty, if we want the larger and more heterogeneous Union to function effectively? In the very near future we will indeed be confronted with two challenges when it comes to European integration.

One is that the EU is going to expand to an important extent. Next year the number of citizens in the EU will increase by 20 %. Second challenge is that part of the Member States want to deepen the integration, but probably only part of them ! I am surely not against the establishment of a larger free trade zone in Europe, in particular as a Central bank governor. But, as a citizen, my ambition for Europe is higher.

What instruments do we need to be able to reconcile expansion and deepening ? Can I recall to you that the former Belgian Prime-Minister Leo Tindemans argued already in 1975 - more than a quarter of a century ago - in his "report on the European Union" in favour of flexibility as a means of deepening the integration process, particularly for monetary policy.

It seems that there is nothing new under the sun. And indeed, models of flexible co-operation have already been used in European integration in the past. We can think of the Schengen Accords agreed in 1985 but originally kept outside the Treaty because only 5 Member States were ready to implement them at the time. Second example is the Social Charter, that was negotiated together with the Maastricht Treaty, but that was not acceptable at the time for the British Government.

A third example of flexibility brings me back to my own business. As you surely know only 12 out of the 15 current Member States have until now adopted the single currency. According to the Treaty, Member States that have not yet adopted the euro are called "Member States with a derogation". Two categories can be distinguished. The UK and Denmark make up one category : these Member States got respectively an opt-in and an opt-out. The second category consists of the Member States that can't adopt the euro because they do not yet comply with the well-known convergence criteria. Only Sweden is currently in this position, but very soon a number of new Member States will join Sweden, having the vocation - and even the legal obligation - to adopt the euro at the right moment.

It is very obvious that the Member States of the euro area are more advanced in economic integration than the others are. So, this is clearly a case of "closer co-operation", which has taken shape in the creation of a forum where the ECOFIN-ministers of the euro area can discuss the economic situation in the world, in the European Community and in the euro area, and its consequences for economic policy making. This forum is, as you know, called the "Eurogroup" and I'm sure that Minister Reynders will tell you everything about it after lunch. So to us, central bankers, closer co-operation or models of flexible integration is not some kind of theoretical exercise, we live with it constantly.

Ladies and gentlemen,

My feeling is that the Royal Institute and the National Bank have chosen for the colloquium of today a topic that is very much alive in the ongoing debate about the future institutional framework of European integration. The fact that we could find a series of utmost distinguished speakers ready to discuss this topic today with you, is a further demonstration of its importance.