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NOTE

from: General Secretariat of the Council
to: Delegations

Subject: Plenary Session of the European Parliament: **Joint Debate - Member States in the euro area ("two-pack")**

In their opening remarks, Mr Gauzès (EPP, FR), rapporteur for the rules dealing with countries in significant financial trouble, reiterated the need for a stronger mandate, and suggested postponing the vote on the legislative resolutions in order to aim for a first reading agreement, whilst Ms Ferreira (S&D, PT), rapporteur for the text which stepped up budgetary reporting requirements for all euro area Member States, called for a balanced approach which would combine fiscal discipline and austerity with incentives for investment, growth and job creation.

On behalf of the Council, Ms Vestager, Danish Deputy Prime Minister and Minister for Economic and Interior Affairs, referred to the Council's readiness to initiate trilogue negotiations with the European Parliament and the Commission¹, whilst Commissioner Rehn underlined the importance of the legislative proposals, welcomed the swift agreement in the Council on the adoption of a negotiating mandate, and warned against further delays, hoping that the European Parliament would soon move from discussions to negotiations².

¹ Ms Vestager's opening remarks can be found in annex I.

² Commissioner Rehn's opening remarks can be found in annex II.

Mr Deutch (EPP, HU), rapporteur for the opinion of the Employment and Social Affairs Committee (EMPL) on the Ferreira report considered it extremely important that the Union's budgetary policy should be fully in line with the European Union's 2020 strategy to create new jobs and growth.

For the political groups, the following speakers took the floor:

- Ms Thyssen (EPP, NL) called for the swift endorsement of both reports, adding that a link had been established between austerity, economic stability, jobs and growth. She rejected the idea of growth based on taking on additional debt, and explained that her group would vote in the same way as it had done in the ECON committee.
- Mr Swoboda (S&D, AT) hoped for a broad consensus in tomorrow's vote to convey a strong message to Heads of State or Government. He agreed on the need for debt reduction and proposed lowering interest rates on debt, stimulating investment and envisaging Eurobonds.
- Mr Giegold (Greens/EFA, DE) asked the EPP group to support the amendment put forward by the S&D group and recommended the creation of a redemption fund.
- Mr Eppink (ECR, BE) suggested introducing a provision allowing Member States to exit the euro area. He informed the European Parliament that the ECR would abstain on the Gauzès report and vote against the Ferreira report.
- Mr Terho (EFD, FI) rejected any measures which brought Europe closer to a federal state.
- Mr Klute (GUE/NGL, DE) considered the European Semester exercise undemocratic, opposed sanctions, and rejected the current approach based solely on austerity. He supported instead the creation of a redemption fund and measures to stimulate growth and job creation
- Mr Madlener (NI, NL) referred to the latest events in Spain and to the different treatment it had received compared to Greece, Ireland and Portugal. He questioned the impact this could have on the public perception of the European Union.

In the subsequent debate most individual contributions broadly reflected the statements made by the representatives of the individual groups, which focused more specifically on the need to strengthen the foundations of the euro area, (Ms Wortmann-Kool (EPP, NL) and Mr Feio (EPP, PT)); the rejection of a redemption fund and of growth based on additional debt, (Mr Ferber (EPP, DE) and Ms Kukovič (EPP, SI)); the need to balance sustainable finances with the pooling of debt, fiscal convergence and additional investment, (Mr Sánchez Presedo (S&D, ES), Mr Lamberts (Greens/EFA, BE) and Ms Goulard (ALDE, FR)); and the lack of democratic legitimacy and accountability in the economic governance exercise, (Mr Le Pen (NI, FR) and Mr Murphy (GUE/NGL, IE)). Mr Mauro (EPP, IT) announced that the Italian EPP delegation would vote in favour of both reports. Mr Hoang Ngoc (S&D, FR) cautioned against giving the Commission a monopoly in the area of economic governance, and proposed a right of veto for the European Parliament. Ms Zuber (GUE/NGL, PT) asked how Member States could reduce their debt while in recession.

In their closing remarks, Mr Rehn mentioned the need to determine the key stages on the path towards full economic union with a view to the European Council meeting in mid-June, whilst Ms Vestager defended budget consolidation and sustainable public finances as a sound foundation for growth. She thanked Mr Swoboda for his readiness to start trilogue negotiations, called for unity and consensus building to promote confidence in Europe's political leadership and underlined the particular need in difficult times to demonstrate the effectiveness of the Community method. She looked forward to the forthcoming negotiations between the European Parliament, the Commission and the Council.

Speech by Ms Vestager, Danish Deputy Prime Minister and Minister for Economic and Interior Affairs

Mr President, I am grateful for this opportunity to participate in this debate on the two proposals so fluently expressed by the rapporteurs, which are intended to strengthen economic governance of the euro area.

The purpose of the discussion this morning and, of course, of the vote tomorrow, is to establish Parliament's position in view of upcoming trilogues. I would like to thank in particular Ms Ferreira and Mr Gauzès for their dedicated work; we have talked a number of times about their work on these issues and their contribution to establishing Parliament's positions on the text put forward by the Commission.

The Council is keenly awaiting the outcome of your deliberations and looks forward to a constructive trilogue. You will be aware that the Danish Presidency steered discussions in the Council to a rapid conclusion, so that already by 21 February we were able to adopt a general approach in Council on both these proposals. The general approach of the Council is to close the original proposals of the Commission which we believe to be an important contribution to ensuring sound and sustainable public finance in the euro area and thereby also to growth and employment, with those two things being two sides of the same coin.

The proposed regulation on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability will ensure that surveillance of those Member States under a financial assistance programme or, of course, facing threats of financial instability, is robust, follows clear procedures and is embedded in EU law.

The proposed regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of the Member States in the euro area will require these countries to present their draft budgetary plans, which will enable the Commission to assess whether the budgetary plans are in accordance with budgetary objectives.

The regulation also proposes closer monitoring and reporting requirements for euro area countries in an excessive deficit procedure. I should add that I remain confident that we will reach an agreement which is acceptable to the Council and Parliament in the end. The two proposals will make an important contribution to further strengthening of the economic governance framework within the euro area and we are ready to start a trilogue as soon as Parliament is ready.

However, I would like to recall, and I should of course do that very briefly, the context in which we are discussing these two proposals. We are all only too well aware of the persistent financial and economic crisis which continues to impact across Europe, and also beyond European borders, despite the reins applied and measures taken after 2010. But having said that, I still think it is important to realise that much has been achieved. We have strengthened economic governance and policy coordination within the framework of the European semester.

The 'six-pack' – and I consider this a major achievement by the Council and Parliament, with very close cooperation on very difficult files – has strengthened the rules of the Stability and Growth Pact and created a new macroeconomic imbalances procedure. We have set up rescue mechanisms such as the EFSM, the EFS and the ESM, and used these facilities to support vulnerable Member States. We have strengthened financial supervision through a European systemic risk board and strengthened the role of the European supervisory authorities.

As an absolutely crucial part of the EU crisis management strategy, the Council and Parliament are taking major steps on stronger financial regulations. We have agreed, or are in the process of agreeing, on a number of financial regulation files, including new capital requirements of banks, rules on markets for financial derivatives, rules on short selling and credit default swaps, hedge funds and credit rating agencies. Further proposals which will contribute to better regulation of the financial markets are in the pipeline, such as the proposal for an EU framework for bank recovery and resolutions.

Finally, and hand in hand with our efforts on stronger economic governance and financial regulation, we are working on promoting stronger growth and job creation, with this being done through reforms, initiatives at both national level and European level. However, it is clear that further work is required. The current economic problems have revealed the need for an ever closer policy coordination and decisive action from the Council and Parliament.

Mr President, it is against this background that honourable Members will be discussing today the 'two-pack' proposals which, although only a part of the overall picture, will nevertheless play a key role in the overall strengthening of the coordination of economic policies. Much is at stake, and I therefore have strong hopes that, following your debate today and your vote tomorrow, we can make rapid progress towards reaching an overall agreement.

I can assure you of the Danish Presidency's commitment to this dossier. I also know that, as we are almost at the end of our presidency term, the incoming Cyprus Presidency is equally determined to adopt these proposals as quickly as possible. I look forward very much to your discussion and thank you for your attention.

Speech by Mr Rehn, Commissioner for Economic and Monetary Affairs

Mr President, let me first of all thank the rapporteurs, Mr Gauzès and Ms Ferreira, for their very important work and the Presidency and Minister Margrethe Vestager for their excellent and very effective cooperation on these important files.

I also want to thank the Committee on Economic and Monetary Affairs for a very substantive and, may I say, constructive economic dialogue yesterday evening in which we discussed the European Semester as well as our strategy for sustainable growth and job creation, and also discussed issues like the recent decision of the euro area to provide a credit line for the restructuring of the Spanish banking sector. We will continue this discussion tomorrow, both in the morning and afternoon, so today we will focus on the two-pack, which is a very important discussion and decision indeed.

Let me say a few words about the context of this debate. At the summit later this month – as President Barroso will explain in more detail tomorrow – the Heads of State or Government will discuss the next phase of deepening the economic union. They will discuss possibilities such as a growth compact, a financial union and a fiscal union.

So we are, yet again, witnessing a potentially defining moment for Europe's deeper integration. And once again, this Commission and this Parliament have a special and joint responsibility – a unique responsibility – to prove that the Community method can be and will be at the centre of the next chapter in the making of Europe.

I have little doubt that the Treaty on Stability, Coordination and Governance will be ratified by at least 12 euro area Member States and will thus enter into force. The legislation which is the subject of our debate today has a profound significance in relation to that treaty. That is why it is so important.

The first draft regulation, which is the subject of Mr Gauzès's report, aims at providing more robust and coherent ways of dealing with vulnerable Member States and Member States under a programme, including enhanced economic and budgetary surveillance. I fully agree with Mr Gauzès that prevention is always much better than correction and this regulation was needed in the past two and a half years, even before that.

The second draft regulation, which is dealt with in Ms Ferreira's report, aims at establishing a common timeline and common rules to allow for real active prior or ex-ante monitoring and assessment of the national budgets of euro area Member States. This regulation was needed during the past 12 years because, once again, prevention is always better than correction, as we have learned the hard way.

These proposals, submitted to you on 23 November by the Commission, decisively informed and shaped the subsequent discussions that led to the new Fiscal Compact Treaty. Moreover, the authors of the new treaty explicitly required that certain provisions of the treaty should be achieved through the EU's normal secondary legislation. They welcomed these specific legislative proposals and clearly saw them as an essential supplement to the treaty itself.

And, of course, the authors of the treaty set out the goal that all provisions of the treaty should be incorporated into the legal framework of the EU by 2018 at the latest. So the adoption of this legislation is a vital first step in ensuring that the articulation between the Fiscal Compact Treaty and the EU Treaties is done correctly and will set a positive precedent for the future.

This means that, as co-legislator, you have a choice: either to move forward in a timely way or to delay and create a legal grey area. If the treaty enters into force before this two-pack, we will be confronted with very difficult legal challenges.

What concerns me most is the political signal that such a scenario would send: no legal acrobatics would enable us to hide the fact that we had failed to live up to our political responsibilities, because Member States would be subject to intergovernmental treaty obligations which had not been translated into EU secondary legislation as planned. Frankly, this would be very bad for the credibility of both the EU Treaty and the Community method.

We have to acknowledge that, in this respect, the Council has moved quickly. It agreed its mandate to negotiate on these texts within weeks of the signature of the treaty in February. As a former Member of this House, I understand and deeply respect the principles of democratic scrutiny, which means that this House cannot always be as agile as the Council. But I think – and I say this with respect – that after almost seven months for discussion, this should now be the moment to move forward from discussion to negotiation and then to decision.

The Council's negotiating mandate will surely provide us with challenges in the negotiations. I have studied Mr Gauzès's and Ms Ferreira's reports. It is already clear that the mandate that you will give to the Economic Affairs Committee will also provide us with some challenges. However, my team and I are ready to roll up our sleeves, get down to serious work with this House and the Council, and get this legislation enacted so that we can move forward. It is in our joint interest not to be institutionally overtaken by yet another intergovernmental agreement.