

**COSAC Chairpersons' meeting, Dublin
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Speech by Vice-President Maroš Šefčovič

The future of Europe: towards a genuine Economic and Monetary Union

Chairman, parliamentarians, colleagues, friends

Thank you very much for inviting me to join you here at your meeting in this prestigious Castle which bears the weight of Irish (and European) history. It is also where, ten years ago, the new Member States were officially welcomed, which remains for me one of the most cherished moments of my diplomatic career.

As I've said many times already since the start of the Irish Presidency, I am sure that the experience and dedication of the Presidency team will help us achieve real results for Europe. This is your seventh time already, and seven is a lucky number, so I am sure it will be successful! For it to be that, we also need the support and commitment of parliamentarians – both national and European – and that is why it is so important that we are all here together

today to discuss no less a topic than the future of the Economic and Monetary Union, as well as the political issues that will inevitably have to be addressed in parallel.

Confident as I am that we will see tangible results under the Irish Presidency, there is of course no quick fix to our current crisis. Over the last five years, the EU has faced serious challenges that have affected not only governments, EU institutions or businesses but also inevitably its 500m citizens. I think Minister Hogan discussed this very clearly this morning.

When EMU was first developed, certain common economic policies were agreed by all, with rules clearly set out for all to follow. However, some Member States ignored them or bent them. Instead of keeping public finances under control, they instead accumulated large private and public debts, structural reforms were postponed, leading to loss of competitiveness and macroeconomic imbalances.

Under the impetus of the Commission, we put in place the Europe 2020 strategy, designed to encourage the necessary structural reforms to create real economic growth and jobs. The problem, however, was that the success of Europe 2020 depends on one main prerequisite – a

well-functioning EMU! It became clear that we needed a serious overhaul of the economic governance of EMU, one that better reflected the interdependence of our economies over the last few years, what the economic developments in one country could do to the state of the EU economy as a whole. So that is what we did – bringing in new measures such as the six-pack and the two-pack, improving our economic governance, the European Stability Mechanism, the biggest financial firewall in the world, or more recently, the single supervisory mechanism for banks. Let's be honest, these proposals would have been unthinkable one, two or three years ago – a clear indication of how far we have gone. But we need to continue to set the firm foundations for a stronger, deeper and more effective Economic and Monetary union to ensure that Europe never sees another crisis on this scale again. These measures help build confidence with the financial markets and allow us to move beyond crisis management mode. We are now better equipped to focus on the key issue of creating jobs and growth, and I think it's fair to say that as a result of these measures we've seen the financial markets calm down, we've seen a restoration of trust in the EU: trust in the Single Market, the potential driver of so much growth; trust in the euro itself; trust in our economy; trust in our ability to take the big decisions that are needed and to make them work; trust in the legitimacy of EU action.

The latest Eurobarometer survey of public opinion across the EU from December 2012 makes interesting reading when it comes to this issue of trust: the polls show that while trust in the European Union has increased since spring 2012, at only 33% this could hardly be described as a ringing endorsement.

To reverse the trend, we need to go back to basics – to deal with the fundamental issues facing Europe's citizens, businesses and governments. We need to act collectively, to find long-lasting solutions to the crisis; to address the concerns of citizens: unemployment, the economic situation, rising prices, government debt, health and social security). To overcome the lack of trust, we need also to set out a clear vision of and path for what needs to be done to ensure deeper EMU. All of which needs to be supported by clear commitment from both EU and national institutions.

This is the main reason the Commission proposed its Blueprint for deeper EMU published last November. The aim of the blueprint was to marry the ambitious proposals for action with a

realistic timetable, at the same time assessing what means would be necessary to achieve the goals – what can be done under the current framework and what would require Treaty change.

We were pleased to see that the European Council meeting in December 2012, discussed the proposal from the four presidents put forward by President Van Rompuy, which focused on the things that we suggest can be done in the immediate and short term, such as *ex ante* coordination of major national reforms; contractual arrangements between the Member States and the EU institutions; and solidarity mechanisms at EU level to support the implementation of reforms. These are a solid basis on which to start, but we will clearly need to go further.

The Blueprint

It is clear that genuine economic and monetary union can only be achieved if all 27 (soon to be 28) EU Member States are on board. But not all of us want to move at the same pace, not all of us are members of the euro zone, so we need to allow them to progress faster towards deeper cooperation.

The blueprint, with its roadmap of actions necessary in the short-, medium- and long term to bring about a genuine EMU, is designed to balance both these needs. More than that – and this of course is a key issue for you as representatives of the people – it also proposes measures to ensure greater democratic legitimacy and accountability throughout the whole process.

During the Irish Presidency semester, we propose to focus what is already on the table.

We believe **immediate priority** should be given to implementing and enforcing the measures we have already agreed on economic governance (such as the six-pack), as well as the rapid adoption of the current Commission proposals such as the two-pack and the Single Supervisory Mechanism.

Just as importantly, we also need a rapid agreement on a new long-term investment budget for the EU – the Multiannual Financial Framework. If we have big ambitions, we have to have a budget to match them. We have to have plans for financing them. We have to show that we want to invest in our regions, in research, in our networks. I am not so optimistic, but I feel there is a positive momentum gathering and I hope that the European Council will find some

common ground next month. But I also hope that if they do, it will be a deal that is good enough for the European Parliament to support. Let's not forget that what was on the table in December was already €20bn below the current budget level. But now we have more countries, more competences. The EU is different now than it was seven years ago, and it will be very different again in 2020. So I hope that any deal will be acceptable to the European Parliament – this would send a strong signal to citizens.

Moving on to the **short-term**, we envisage the creation of an instrument – the competitiveness and convergence instrument – to improve overall economic policy coordination through closer dialogue with Member States, and their national parliaments, with the aim of encouraging stronger ownership of reforms which should make them more effective. To do this, we are proposing contractual arrangements with Member States – an obligation on their part to do what they say they will do, matched by a guarantee of EU funding to facilitate the implementation of important structural reforms. The aim is to help Member States through structural reforms, to help them absorb the economic shocks that are especially prevalent in the first stages of these reforms.

We hope also that Member States and businesses will use the new possibility to benefit from the potential of the EIB. Work on increased capital is completed, as is the work on project bonds. I hope these new opportunities will be used and the financing channelled to areas where it can help create more growth and jobs, especially for young people.

Finally, as regards short-term proposals, we will also suggest the creation of a Single Resolution Mechanism to deal with banks in difficulties.

As for the **medium-term** (by which I mean 18 months to 5 years), the blueprint envisages moving towards a degree of budgetary integration – or putting it another way, sharing of sovereignty. These include a European right for a closer examination of national budgets in line with European commitments and the creation of a proper fiscal capacity for the EMU to support the implementation of policy choices resulting from the deeper coordination. Some of these elements will require amending the Treaties, and therefore will only happen after the 2014 European Parliaments elections.

This also applies to the proposal for a European Redemption Fund which is put forward as a means of reducing public debt significantly exceeding the criteria set out in the Stability and Growth Pact. We also propose eurobills as a means of fostering further integration of euro area financial markets. These options would also require changes to the Treaty.

Finally, **in the long-term** (more than 5 years), the European Union should move towards a full banking union, a full fiscal union and a full economic union. Based on the progressive pooling of sovereignty, it should be possible to create an autonomous euro-area fiscal capacity that will help Member States absorb asymmetric shocks.

We also believe that once this deeply integrated economic and fiscal governance framework is in place, it should be possible to allow the common issuance of public debt based on that fiscal capacity, which would enhance the functioning of the markets and the conduct of monetary policy.

Democratic legitimacy and accountability

Now, of course, I know that a lot of these suggestions will not be to everyone's taste; certainly at least in some Member States, the talk is rather of repatriation of powers and a looser union rather than the deeper integration we believe is necessary.

For the Commission, this is the only viable route to take, but nonetheless, we have to recognise that the gap between what we believe needs to be done and the public perception of the role of the EU is widening rather than narrowing. That is why it is essential that whatever we do is shown to have complete democratic legitimacy and full accountability to the citizens of Europe

With this in mind, it's obvious that we cannot talk about Economic and Monetary Union without mentioning the necessary parallel development of a political union, with reinforced democratic legitimacy and accountability. To this end, we need to deepen the democratic fabric of our multi-level system. We need to substantially reinforce the role of parliaments at both national and European level and we have to improve EU democratic accountability and legitimacy. Rather than imposing its own point of view, the Commission's aim is to allow for a "shared ownership" of the debate and the measures to be taken to enhance the democratic

dimension of the new EU economic governance architecture. To a very large extent, we are moving into uncharted territory. On the one hand, we have to respect the Treaties, but on the other, we are moving into new areas of cooperation and depths of integration that we have never seen before.

As a starting point for this shared debate, the European Commission proposes that any work on democratic legitimacy be based on two basic principles:

First, we need to ensure that accountability for decisions taken falls precisely at the level where that decision is made, whilst also taking due account of the level where the decision has an impact.

Second, in deepening economic and monetary integration, we must ensure that the level of democratic legitimacy remains commensurate with the degree of transfer of powers from Member States to the European level.

As the blueprint clearly states, National Parliaments will always have a crucial role to play in holding your respective Member States to account for the decisions they take not only within the European Council and the Council but also for those they take regarding national fiscal and economic policies, especially as European level coordination of these policies becomes increasingly important.

But more than that, national parliaments also have a vital role to play in bridging the so-called 'democratic gap' between 'Europe' and its citizens. This is not only because you of course will have to endorse that change when adapting your national legislation, but also because, as the representatives of European citizens, you have a vital role in explaining and debating the change with your constituents.

This is why the Commission is committed to stepping up dialogue with national parliaments on Annual Growth Surveys and Country-Specific Recommendations. The dialogue on the AGS is of particular importance since it guarantees NPs' ownership at the start of the cycle. It would provide an opportunity for national parliaments to feed in their views (through MS, or directly via the political dialogue with the Commission) in view of the Spring European

Council. An enhanced ownership from the outset would also encourage national parliaments to get more involved at the national level before adoption of the National Reform Programmes and Stability and Convergence Programmes.

Direct contacts between the Commission and National Parliaments could intensify after the Country Specific Recommendations are adopted, to enable National Parliaments to play a defining role in the crucial juncture between the European and the national Semester, i.e. the second half of the year during which budgets and reform programmes are proposed by governments and adopted by national parliaments. The Commission could thus be given the opportunity to explain its position to the national parliaments concerned. To this end, I will continue to promote and encourage visits to national parliaments by not only my fellow Commissioners but also, as positive recent experience has shown, by senior officials in charge of economic governance issues.

In the blueprint, we also propose that contractual arrangements be introduced between the Commission and Member States for the delivery of major structural reforms. These contracts would have to be based on full domestic and European ownership and accountability – and I

stress the word 'domestic' here. Approval of reform agreements by national parliaments would therefore be essential. The contractual arrangements would mean that **both** governments and the Commission would be accountable, respectively, to national parliaments and the European Parliament for the content and implementation of their duties under the agreements.

Role of the EP

As the blueprint also clearly emphasises, the European Parliament has the primary role of ensuring democratic accountability and scrutiny at European level. Further economic integration should therefore result in commensurate involvement and direct participation of the European Parliament.

For example, it could already be possible to involve the European Parliament at key moments of the European Semester, such as prior to European Council discussions of the Commission's Annual Growth Survey or ahead of the adoption by the Council of the country-specific recommendations (CSRs). Another practical measure is the Economic Dialogue set up as part of the Six Pack which provides for discussions and channels between the European

Parliament, on the one hand, and the Council, the Member States, the Commission, the European Council and the Eurogroup on the other hand. The European Parliament should also be regularly involved in the preparation and implementation of the adjustment programmes concerning Member States receiving financial assistance, as foreseen in the two-pack legislation.

In those areas where Treaty change is likely, there are several measures proposed to ensure stronger democratic accountability by the European Parliament. These include introducing co-decision on the integrated guidelines and on the proposed new power allowing the Commission to require a closer, deeper look at national budget making. We also suggest increasing democratic accountability over the ECB as far as it acts as banking supervisor.

Parliamentary coordination

With these different but complementary roles, it's clear that you, as national and European parliamentarians, will need to talk to each far more as economic governance becomes more deeply integrated and national decisions have wider implications across Europe.

Interdependencies of decisions go hand-in-hand with intensified inter-parliamentary cooperation. That's why we welcome the initiative taken by the European Parliament to organise a parliamentary week of the European semester. The Commission will take an active part in this forum – I myself will participate in the closing debate on Wednesday.

This interparliamentary cooperation is of utmost importance. It does not replace but complements the accountability channels which I have just sketched out. Protocol 1 of the Treaty and Article 13 of the Fiscal compact provide the relevant tools for such cooperation and it is now for the parliaments to put these provisions into practice. Proposals are already taking shape on this – be it the Gauzès report which I already had the opportunity to discuss with the French National Assembly, the working paper from Speakers of the Parliaments of the Founding Member States, or the work launched in COSAC. I very much welcome these contributions and the debates that will follow on this basis. Whatever the ultimate shape of this inter-parliamentary cooperation, the Commission stands ready to offer its assistance and participate in such fora.

Conclusion

I want to make it clear that the Commission's blueprint is just the start of the discussion on the future round of European integration. We will follow our roadmap to the end of the Irish Presidency. By June 2013, President van Rompuy and the European Commission will put forward proposals for ex ante coordination of reforms, on the social dimension of EMU, a feasibility study on bilateral contracts between Member States and the Commission and how the solidarity mechanism would feature as a part on any future deeper EMU. All these are possible under the current Treaties, but others will require Treaty change. So by the autumn of this year we will also come forward with a vision for what is needed for the second and third stage of banking union, where Treaty change will be needed. It's clear that this will also bring a need for new democratic legitimacy. The upcoming 2014 elections will help in that endeavour, all the more so if each European Political Party succeeds in presenting its own candidate for the post of President of the Commission. Thus not only national parliaments but also European Political Parties are key actors to help reconnect citizens with European politics and institutions.

Thank you for your attention