

“SOLIDARITY THAT UNITES” AND “COOPERATION THAT STRENGTHENS”

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0 ur President António Vitorino takes a stand on the main issues of the European council of the 19th and 20th of December 2013, in an interview covering banking union, structural reforms, the social dimension of the EMU and European defence.

1. The European Council's agenda includes a number of major decisions on the banking union project: what can we reasonably expect in that connection?

I think that it is essential, first and foremost, for the European Council to highlight the political dimension of the banking union project. What the project is about is supervising banks better, under the aegis of the ECB; ensuring that the banks themselves contribute to their own rescue if the need arises, rather than that the burden fall on the taxpayer; and acting in such a way that the interest rates granted to businesses and to private individuals recover some kind of uniformity, given that the current differentials lead to unfair competition. It is crucial to highlight these three complementary political guidelines because they are the sort of thing that can attract the support of the citizens; otherwise, the citizens get the impression that the “banking union” is going to benefit banks alone...

On this basis, the European Council needs to thrash out a clear agreement on the future European bank resolution mechanism, thanks to the important progress made at recent “Ecofin” council meetings. The member states already agreed on the establishment of a single resolution fund financed primarily by a contribution from the banks. The fact that this fund requires a new “intergovernmental” treaty to set it up is not a major obstacle.

They also need to agree on the way decisions will be reached, and I find that a source of somewhat greater concern. The system currently taking shape provides for the establishment of a “resolution committee” comprising national representatives, and with the power to propose that the fund intervene to save banks in deep water. The Commission, of course, will have the power to either accept or reject the committee's proposals, but if it rejects a proposal, the decision will move over to the “Ecofin” council. Accurately defining

the procedure for activating the fund, including where voting rights in the “Ecofin” council are concerned, is thus, without any doubt, one of the really important issues at stake in the upcoming European Council.

Also, it is necessary to specify what is going to happen between now and when the single resolution fund has been fully financed, because it is expected to reach the target sum of 55 billion euro only by 2026. In principle, the banks would have to be aided by national bank resolution funds, which can be supported by other countries' funds, but the specific modalities for this mutualisation of effort has yet to be defined. It is probably an issue that needs to be addressed at the “Ecofin” council level.

In the short term, the European Council, for its part, has to answer another question, concerning funding for the “public safety net” that the member state have decided to set up in the event the single fund proves insufficient. This, because at this time there is no agreement regarding the fact that it could be fuelled by the European Stability Mechanism. Thus it is necessary either to confirm this option or, failing that, to find another one.

2. This European Council is also going to have to take a more concrete stance on the social dimension of the EMU: what are the issues primarily at stake, in your view?

The current recession is having a dramatic social impact, especially on the periphery of the euro area and among young people. The EU is not responsible for the recession, of course, and the struggle against unemployment is not one of its direct areas of intervention; but it cannot afford to sit idly by simply watching a situation that flies in the face of its objectives, in particular the objective of an economy aspiring to full employment and promoting progress and social

inclusion. Its doing something is even more important if we consider that if it does nothing, it is in danger of being perceived solely as a harbinger of austerity or as a union that rescues banks but has no time to spare for the unemployed.

In the light of all this, the EU has adopted a series of measures designed to combat unemployment among young people, in particular with a package worth 6 billion euro for 2014/2015 and with the establishment of a "European Youth Guarantee". The European Council needs first and foremost to make sure that these policy decisions spawn concrete actions in the very short term.

By the same token, it is only logical that countries sharing the same currency should be able to pursue deeper cooperation in the social sphere. In particular, it is crucial to ensure that social imbalances are taken on board more effectively in the economic governance of the EU than they have been over the past few years.

Thus boosting the "EMU's social dimension" demands that the heads of state and government adopt new social indicators for assessing policies pursued at the national level, whether it be in the context of a specific follow-up table or of building social and employment indicators into the alert mechanism used to detect macro-economic imbalances. It also demands that they decide the "Eurogroup" should devote greater attention both to taking on board the conclusions reached by employment and social affairs ministers and to taking social indicators into consideration. And lastly, it demands a boost to the role played by the social partners, especially in the framework of the European semester, in order to extend social dialogue to embrace the full range of social and economic issues rather than merely those issues that concern employment and social protection.

In the medium term, it is also necessary to provide the EMU with an anti-cyclical stabilisation mechanism capable of helping countries in the euro area to absorb cyclical shocks and thus to curb recourse to "domestic social devaluation", which comes at a very high price for the EU, including from a political standpoint. This notion is crucial to improve the functioning of the common currency, and thus it would be for the best if it were to be included on the European agenda as of right now.

3 – Do you think that the European Council should embrace the notion of "contractual arrangements" and financial aid for countries committing to structural reform?

The debate on "contractual arrangements" is useful, in some ways, because it prompts a call for the creation of a financial aid mechanism concerning the euro area, which could be the embryo of a future "fiscal capacity". Having said that, though, the contractual arrangement proposal the way it has been formulated today raises a number of questions which demand more convincing answers.

First of all, there is ambiguity regarding the countries addressed by this proposal. If we envisage contracts accompanied by financial support, the key question is this: To what countries should we offer the chance of signing them? In logical terms, the first candidates should be the countries worst hit by the crisis, because they have virtually no fiscal room for manoeuvre for implementing reforms. But that does not sound to me like the position backed by the Commission or by the Council, a position which explicitly bans countries under programme from having access to this new instrument.

In more specifically political terms, I believe that it is crucial, above all, for there to be a clear distinction between the contracts envisaged and the rationale underpinning the macro-economic adjustment programmes thrashed out with the Troika. As with those contracts, so with these contracts, too, the idea at this stage is that their implementation be scrupulously monitored by the Commission and that financial aid be served up in instalments on the basis of a strict timetable of reforms. In acting in the manner of the IMF and alongside it, the EU has of course very boldly stepped into the financial markets' shoes in order to help countries in danger; yet this has done it tremendous damage and the signing of "contractual arrangements", which would be perceived as coercive, could do it even greater harm. Thus it is necessary for these contracts to be pegged to a positive objective – and that positive objective is to improve the way the EMU works by helping its member states to fulfil the common goals in the field of competitiveness – rather than to some kind of punitive rationale.

In any event, I recommend reviving the idea of a "super cohesion fund" put forward by Jacques Delors on the basis of this positive philosophical approach. This, because the Cohesion Fund was set up to make it easier for certain countries to join the euro by funding projects with a European dimension (in the fields of the environment and of transportation). What we need today is a new cohesion fund for those countries which

are already members of the monetary union but which appear to be prey to a competitiveness gap as destabilising for them as it is for the euro area as a whole. The purpose of this fund would be to finance projects designed to narrow that gap, in particular in the field of education and of training or R&D; it should be available to all countries in a tight spot that need European co-funding in order to address their difficulties. Just as happens with the structural funds, so here too, co-funding would be based on targets and programmes devised in common, and it would be subject to regular European monitoring, but it would not be perceived as a coercive measure. I prefer "solidarity that unites", in other words Jacques Delors' Europe, to the Europe of the Troika, and I truly hope that the European Council will too.

4. Should the European Council send out specific signals to countries currently under programme, some of which are due to return to the markets in 2014?

Ireland has just left the EU and IMF aid programme, in fact it is going to be the first country under programme to make a full return to the markets, because it has voluntarily decided not to resort to the precautionary credit line that the EU offered it in view of that return.

Ireland is not necessarily a role model to emulate because its situation is specific, but it is a good example, on two counts. On the one hand, it reminds us that the Troika's action is only temporary and that countries under programme are intended to recover the sovereignty that their excessive dependence on the money markets caused them to lose. And on the other hand, it shows that all these painful adjustment efforts can pay off in the end, even though the Irish prime minister has pointed out that they still need to be pursued. This is unquestionably the dual message that the upcoming European Council should send out.

Portugal's aid programme also falls due in 2014 and the Portuguese Government wishes to avoid having to ask for a second aid plan. It is probably going to have to negotiate a precautionary programme next spring, along with a review of the terms governing its debt's sustainability. For this new programme and the conditionality that will inevitably accompany it to be acceptable to the Portuguese people, the EU is probably going to have to display greater solidarity by agreeing to reschedule Portugal's debt and to cut interest rates.

5. This European Council is devoted to the issue of European defence. What decisions and conclusions do you expect from it?

The Europeans have waited for eight years to put "European defence" back on the European Council's agenda, while the EU, its neighbourhood and the broader global balances have all fallen prey to serious upheavals in the recent period. It is imperative for this debate to be conducted at the highest political level because it concerns the member states' strategic, diplomatic and industrial choices.

The first issue is that the Europeans must get organised to shoulder the new responsibility accruing to them from the United States' strategic reorientation towards the Pacific, and that entails ensuring the stabilisation of their close, or even slightly less close, neighbourhood. Europe's territorial security has been basically handled to date by NATO and by the Europeans' commitment to that organisation, but most of the new and widespread risks and threats to which the people of Europe are exposed need to be addressed outside the EU borders. Instability on the perimeter of the EU, especially to the south, requires greater strategic foresight and greater rapid reaction capability in the face of challenges that range from the fight against terrorism to the securitisation of sea lanes. The Europeans are going to have to be prepared to manage increasingly complex crises involving different levels of local, regional and global issues - this is the case in Syria, for instance - which can justify external military operations.

Trying to turn the EU into a global player in the field of defence would be too far removed both from its real capabilities and from its citizens' aspirations, but it is necessary at the very least to act to safeguard the Europeans' strategic autonomy. The European Council must therefore support the much-trumpeted efforts to bring our military capability up to strength with the construction of European drones, the preparation of a "single sky" project establishing clear standards for incorporating those drones into the Twenty-Eight's airspace, and the launch of initiatives in the fields of cyber-defence and of in-flight refuelling, or of European Commission support for research into new civilian and military dual-use capabilities.

It is only by resorting to the "cooperation that strengthens", even in small circles, that the Europeans will succeed in making good the lag that they have built up. So this means greater differentiation, given that not many member states have a sufficiently substantial defence industry or budget comparable with those of France or the United Kingdom.

6. In your view, what are the main obstacles standing in the way of a strengthening of European defence, and what are the right ways and means to overcome those obstacles?

Bolstering the Europeans' military capability entails, first and foremost, boosting cooperation in the field of defence equipment procurement, which accounted for only 20% of overall defence spending as recently as in 2011.

Where external operations are concerned, the "Athena" mechanism allows us today to share management of the common costs incurred by member states, for instance in the Balkans; but the time has come to go even further than that by setting up a European support fund to directly finance a proportion of those external operations, along the lines of the system already in force for humanitarian aid.

"Pooling and sharing" also need to play a greater role in the manufacturing sphere, which is excessively fragmented within the EU as things stand today, with thirteen companies building aeroplanes, ten producing missiles, nine manufacturing military vehicles and eight building warships... This fragmentation leads to a duplication of effort in the development and manufacturing stages, to a [waste of money](#), and to the multiplication of equipment standards which also impinges on the adoption of common systems for logistical support and for military interoperability. Thus it is in our interest to work for more widespread integration in the Defence Technological and Industrial Base in such a way as to strengthen Europe's industries over their external competitors and to keep jobs here in Europe. This naturally demands that we go beyond the priority afforded to simply saving jobs in individual member

states, difficult though that may be; but the creation of "EADS", for instance, shows that it has been possible to do so in the past: we simply need a new momentum in that direction.

Europe's leaders will prove that they have taken the measure of the challenges if they engage in a debate on the [strategic interests of the Twenty-eight](#). They will only be able both to define the kind of external operations that they need to be prepared to face, and to improve their crisis management capability, if they ensure that the shared interests they agree to defend are easier to perceive. So I call on the European Council to entrust those who will be appointed after the European elections in 2014 to run the EU's institutions, with a mandate to draft a new "European security strategy" on the basis of a public debate capable of mobilising the citizens of Europe and of strengthening their sense of sharing a common destiny.

In order to make bold decisions and to strengthen the EU's strategic autonomy, Europe's leaders indeed need to fire their fellow citizens' enthusiasm more effectively, because while those citizens are aware that strength lies in unity, they are also concerned by the economic situation as a whole and they sometimes appear to wish to handle their own security, yet without having to put up with the constraints that that entails. Without a new "narrative" on the use of force capable of explaining afresh the place of defence in Europe's strategic posture, the stages following on from the European Council meeting in December will spawn only minor adjustments, without marking the reawakening that Europe so badly needs.

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