

Interview with António Vitorino
on the occasion of the European Council meeting
on 8-9 December 2011

1 - What do you think of the way the crisis currently impacting the euro zone has been handled, and of the responses that the European heads of state and government and the European institutions have come up with to date?

Like most observers, I note that the EU's responses always head in the right direction, but that they are often both insufficient and belated. It is possible to understand the reasons underlying this "strategy", but that does not mean that one has to approve of it!

I understand the difficulties involved in thrashing out political compromises at the European level as we tackle a crisis of unprecedented breadth. The governance of the "EMU" is currently being broadly redefined and the member states and citizens have to take the time to debate the changes required. The in-depth structural reform movement now under way in many countries is also going to take time to implement, of course, and it is going to take even longer for its results to show.

In terms of effectiveness, however, we cannot help but highlight the fact that the responses provided to date have proven incapable of containing either the crisis itself or the contagion that it spreads. The upshot of this, unfortunately, is that the crisis has deteriorated and that we have reached the "25th hour"... The "small steps" technique does not seem to be working very well. We need responses that are both comprehensive and massive, and that is where people are expecting the upcoming European Council meeting to perform.

I would add that what is missing at this stage is a growth-related response – which is even more necessary in view of the stringency and belt-tightening on which we have embarked. Only if we maintain a decent growth level, if we manage to motivate people with the prospect of a better future, will we be able to ensure that the adjustments under way are successful. All of the elements in a new "Delors package" are on the table for 2012: a fresh boost to the internal market; the adoption of a new financial framework; and funding for major European infrastructures, including the launch of "project bonds".

At this juncture the heads of state and government must take these elements on board with greater conviction in the context of a European growth strategy perceived and promoted as such. Also, this growth objective must be better integrated with the efforts being made to coordinate national economic policies, including when the time comes to revise the treaties, because the "coordination" efforts' sole aim cannot be merely to organise stringency in every sphere and for everyone.

2 – What is your position on what are currently the most controversial proposals, in particular the issue of "eurobonds" and more massive intervention on the ECB's part?

First of all, I would say that anyone seeking a miracle solution to the crisis is making a mistake. There is no magic formula! The response to this crisis demands a combination of a whole range of instruments capable of mutually bolstering one another and of striking a good balance between national action and European intervention.

Some of these instruments have already been used before now: plans for putting national public finances back on the rails, bilateral or multilateral aid (EFSF), conventional and non-conventional operations on the ECB's part, the recapitalisation of the banking industry, and so on. We must squeeze the best we can of their combined use, and at the same time, we must attempt to amplify their impact both now, in the emergency, and over the longer term.

Hitherto the ECB has played a crucial role through its initiatives in support of the European banking industry and its operations on the secondary bond market. I am sure that it is going to pursue its action, and even to intervene with yet greater determination in order to preserve the stability of Europe's financial system. It must do so without acting in breach of the treaties and without jeopardising the credibility of its future action. This makes it impossible to envisage assigning it a role as the lender of last resort at this stage. But there are other ways of bolstering its action while honouring the treaties. For instance, the capacity for intervention of both the EFSF and the European Stability Mechanism might be strengthened by exploring the possibility of allowing the ECB to extend a credit line to them, whether directly or indirectly.

The idea of issuing "eurobonds" is based on the notion that European countries' debts must be underwritten in a collective, solidarity-based manner binding them to one another. The Commission has recently proposed three major options, the pros and cons of which need to be carefully analysed. One thing appears to be certain: If the member states wish to regain market confidence and to confirm that they are in earnest when they claim to want to fight for the euro zone's stability, then they cannot reject the longer-term prospect of pooling their debts, even if that pooling is only partial and whether it kicks in above or below the 60% of GDP threshold. I note that few member states, including Germany, oppose the idea outright, that it is in fact merely a matter of timing. It may well prove easier to pool the debts after the rescue action now being undertaken has begun to restore calm and serenity, and after the member states currently in difficulty have shown their determination to implement important structural reforms. But it is unquestionably a crucial way forward for the future.

3 – What is your view regarding the prospect of greater EU involvement in tracking structural reforms, and more specifically, the prospect of far closer European monitoring of member states' budgets?

Even if the EU were not asking anything of them, the member states would have no option but to get their public accounts back into shape, because otherwise they would continue to have trouble finding funds on the markets at reasonable interest rates. These national action plans are crucial in order to restore confidence, as shown by investors' positive response to the plan that Mario Monti has just submitted.

In the face of this debt crisis, the EU and its member states have displayed solidarity with countries in difficulty, but in return they have voiced the need for broader European monitoring of national economic policies through a number of different vectors: the European semester, a reform of the stability pact, a "Euro Plus Pact" and so on. The basic belief is that the weakness of the "EMU's"

economic pillar has facilitated the development of budget and macro-economic imbalances which are hard to sustain, and that it is therefore necessary to strengthen that pillar. How should this be done?

As Tommaso Padoa-Schioppa used to say, a system in which "the judges are the same people as those in the dock" cannot possibly work. That seems to me to rule out *ipso facto* any only intergovernmental tracking of national policies. But then, I am also sceptical of an increased role for the Court of Justice, which does not seem to me to be properly equipped to assess the impact of national economic and budget decisions.

Thus we must turn towards the Commission because it has both the independence and the expertise necessary to ensure that the common ground rules are complied with, on condition that it is endowed with the power to do so. And sure enough, the recent reform of the stability pact provides for just that, given that the Commission will be able, in particular, to levy a penalty on states that build up excessive deficits unless it is prevented from doing so by a qualified majority of Council members. Yet it is worthwhile pointing out that this will not endow the Commission with the ability to determine the content of public policies or of the fiscal decisions favoured by member states, but simply to call on them to alter that content in the event they exceed the deficit and debt thresholds established by common agreement.

I would add that organised participation on the part of national parliaments must also become part and parcel of the EMU's new architecture. This is in fact a primary condition for the legitimacy of European decision-making processes when they concern the use of national budgets, and on a broader level, when they concern the coordination of national economic policies.

4 - Do you think it is advisable to change the European treaties?

A revision of the treaties is already under way in connection with the implementation of the "European Stability Mechanism" – and indeed the system could do with fine-tuning, particularly with a view to introducing decision-making by a qualified majority, as Herman Van Rompuy has suggested. But at this juncture I think that it is essential to go beyond that, if only because it is, to some extent, the "price we have to pay" to maintain the balance between European solidarity and national responsibilities.

This, because the increase in European solidarity recently authorised is not totally in line either with the spirit of the Maastricht Treaty or, in particular, with that of the stability pact. What they envisaged was that each country should tackle its own difficulties if it failed to comply with the common discipline. The strengthening of the stability pact has already been enacted at the legislative level, but it seems to be very important, especially for Germany, that there is a will to build this strengthening into the treaties – particularly at a time when increased solidarity is still necessary.

Naturally, this revision of the treaties would not resolve the current crisis because any amendments adopted would not be able to come into force until 2012 at the earliest. But setting it in motion must encourage us to expand the EU's solidarity efforts, which are crucial if we are to emerge from the crisis. Also, the revision offers excellent leverage for proving that the Europeans' commitment to their shared rules is a long-term political reality in which investors can have confidence.

Yet the important thing is to properly define the sphere in which the treaties are to be revised. There has been a great deal of talk about a "minor revision", but at the same time some fairly sweeping proposals have been put forward, for instance by the German CDU. A Franco-German compromise appears to have taken shape in favour of a revision that is both limited and rapid. My experience

prompts me to point out that the broader the mandate, the better the chances of thrashing out compromises capable of satisfying all of the players; but it is also true that a broader mandate can lead to longer and more convoluted negotiations... In fact, it might even be necessary to move forward in two phases.

The most important point is that this revision must be conducted by all of the EU's 27 member states. From a legal standpoint, as laid down in Article 136 and in Protocol n°14, that is the only level at which such a revision can be conducted. But it is equally crucial from a political standpoint, given that the "EMU" is not an "enhanced cooperation" but it concerns all of the member states.

Of course, that does not mean that we should not attempt, in the context of this revision, as in the context of the present treaties, to deepen our efforts for integration by affording priority to the euro zone level. A great deal of work needs to be done, in particular, on improving the way in which national competitiveness strategies are implemented and tracked, because without them it will be impossible to resolve the EMU's major underlying problems. But it is important that this process should be conducted in accordance with a rationale that does not exclude those countries which have not yet adopted the euro, and within the institutional and political framework of the EU as a whole.

5 – The European Council is also scheduled to discuss the progress being made in the implementation of the broad European guidelines in the energy field: what are the main short- and medium-term priorities in this field, in your view?

The European Council held on 4 February 2011 established several important goals in connection with the implementation of a common energy policy. I like to think that this echoed the political input provided by Notre Europe in favour of a "European Energy Community". The initiative now has to be put into concrete practice, because a number of crucial steps have yet to be taken.

In the short term, in other words from now to 2014, the EU and its member states first have to finalise the implementation of a deregulated and integrated European energy market, which has been too long in the making. To achieve this, the member states have to get into line with the most recent legislative packages adopted. The other priority consists of integrating the markets by building the missing interconnections, which are also a crucial tool in ensuring the practical application of the principle of energy solidarity in Europe as proclaimed in the Lisbon Treaty. Financial resources have been insufficient to date so the EU needs to resort to innovative ways of funding, in particular through the "Connecting Europe Facility" and infrastructure project bonds.

The EU must also start to pull its weight on the international stage by developing an external energy policy that is both common and consistent with its internal market. The Commission's recent proposals must be implemented without delay, whether we are talking about supply contract transparency or about negotiating a framework agreement with the central Asian countries in order to allow the "Southern Corridor" to exist.

In the medium term, the real challenge lies in adapting our energy systems to ensure our transition towards a sustainable society with a very low carbon output. The EU and its member states have to achieve the goals laid down for 2020, particularly in the field of energy efficiency over which numerous uncertainties still loom. The Durban Conference shows us how difficult it is to thrash out a global agreement for the struggle against climate change. The European energy industry's contribution to achieving Europe's target of reducing CO₂ emissions by 80-95% by 2050 compared to 1990 levels is all the more necessary in view of that context, even if it will not be sufficient on its own.