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INTERVIEW WITH LUCINDA CREIGHTON¹²

"It is sometimes easier to lead a successful Presidency as a small Member State"

How would you describe the broad evolution of the Irish debate on Europe, from the referendum on accession to the referendum on the Lisbon Treaty?

If you bring it back to when we first joined the EEC, in 1973, and on into the 1970s and 1980s, there was almost unbridled enthusiasm for Europe in Ireland. But I am not sure that it was a very well thought out enthusiasm. We were a very poor country, we wanted to be anything but the United Kingdom, and we wanted to be part of that project which was moving forward.

In the 1990s and into the 2000s Ireland's relationship with Europe became much more critical and questioning. People also began feeling a lot more confused about where the European project was going. I think this is a Europe-wide phenomenon. It has to do with the so-called 'democratic deficit', the fact that while European decision-making has a deep impact on our lives, people have a serious lack of understanding about how the European institutions work, how they are legitimised. Although we vote for it, the European Parliament is completely remote from citizens. It is not a scant knowledge of how the institutions work: there is no knowledge of how they work – and I don't mean that in a condescending or negative way about the public...

So you see nothing specifically Irish to that European 'fatigue'?

If you wanted to be very cynical, you could say that it is the money drying up – that there are less funds coming from Europe and therefore we are not as enthusiastic about it. I do not agree with that. Take a look at countries that are currently receiving significant amounts of cohesion funding, and you will find several where support for the European project is alarmingly low – the Czech Republic is one example, and they only joined in 2004. So in my view the

¹². This interview was conducted at her office at the Department of the Taoiseach, Dublin.

concerns that have developed over the last decade are not unique to Ireland. One of the problems I am very conscious of, and again I think you find similar trends throughout all the Member States, has to do with the domestic handling of European affairs: when we have a success, when something deriving from European policy has a positive impact, the national government tries to take all the credit for it. But when things go wrong, we blame Europe.

Ireland hardly receives any cohesion funds anymore and is likely to become a net contributor of the EU budget. How do the Irish feel about that?

We are resigned to that: after forty years of membership, that is fair enough.

Would you say that the current debt crisis rekindles Irish worries regarding the balance of power between small and large Member States in the EU?

Yes, and it is not just between big and small states, because Irish people currently identify with Italy and Spain. It is this idea of the North versus the South, the creditors versus the debtors.

One creditor in particular seems to focus much of the public resentment...

Yes, unfortunately, at the moment it all focuses on Germany and on Chancellor Merkel in particular. It is quite disturbing how negative the views about Germany are. There is a sense that those of us who are in a bailout programme or in a precarious situation – that is Spain, Italy, Greece, Portugal, Ireland, even France to some extent – are being harangued and almost beaten up by Germany. That is the perception propagated by our media on a daily basis, therefore it is really worrying.

Do you think that this polarisation between debtors and creditors could undermine the sense of European identity, or even the future of the European project?

Very much so. There is a complete chasm in terms of understanding between the creditor countries and the debtor countries. When I speak to my colleagues

from Finland, the Netherlands, Sweden, Germany, Austria, I encounter this view – it is almost like an orthodoxy – that the programme countries wouldn't be in the mess they're in, had they played by the rules and not been so spendthrift.

Which doesn't explain the Irish difficulties...

No it does not. It may apply to Greece perhaps, but not to us. We ran a budget surplus before the crisis.

And do you see a way out of this poisonous antagonism?

Firstly I think that political leaders of all countries, from Ireland to Germany, have to start talking in different terms. They should speak the language of European partnership. I get accused of being Little Missy Europhile because I defend Germany: indeed I always try, when I am on radio and television, to explain that the German perspective is different from ours, and that we have to understand where they are coming from if we want them to understand where we are coming from. We would need to see that kind of leadership in all Member States. We need Chancellor Merkel to explain a little bit more to the German public the reality of what has happened in other Member States. One element of that reality being, for example, that by paying unsecured senior bondholders, which the Irish government had no obligation to do, we protected German banks.

But isn't this precisely an issue of contention within Ireland, one that feeds resentment towards the EU? Many commentators argue that it was unwise of the Irish government to extend its guarantee to all bondholders and that it was compelled to do so by the ECB.

Well, I wasn't part of that government... I would certainly disagree with the notion of a blanket guarantee for all bondholders and for all banks, no matter how dysfunctional they were, for example Anglo Irish, which was a zombie bank. I think that in the future, when we look at this question at a European level – which I hope we will do through our new banking union – we will be looking at banks of systemic importance. In Ireland's case that would have been Allied Irish Bank and Bank of Ireland. But unfortunately now that is all history for us: it has happened and we need to move on.

And how do you handle and defend that position, as a member of the current government?

How do I defend it now? Well, quite frankly, private banking debt has become sovereign debt. If we want to continue attracting Foreign Direct Investment to Ireland, if we want to continue providing a safe environment for business to flourish and for jobs to be created, we cannot default on sovereign debt. And I actually think that Irish people understand that. They would like some degree of leniency from the European institutions; they would like the Troika to come forward with a report on the promissory notes' restructuring; they would like to see a hand of friendship from our European partners. But no one expects the debt to be written-off completely.

What role would you like to see a banking union perform?

Mervyn King, the Governor of the British Central Bank, has this famous quote saying that *"banks are international or transnational in their lifetime, but national in their debt."* I think that is true, and I do not think it is a sustainable position.

The June 2012 Eurozone summit stated that it is imperative to break the vicious circle between banks and sovereign states which has been at the centre of the Eurozone's, and of Ireland's, difficulties. The agreement reached by the 13th December 2012 ECOFIN Council on the establishment of the Single Supervisory Mechanism is an important step in that direction. The SSM is key to ensuring confidence in banking supervision across Europe, which will be a prerequisite for ESM interventions. It provides the first element of the package of banking union measures that will facilitate the breaking of the link between banks and sovereigns. We now look forward to speedy progress towards agreement on the other elements: the new proposals on capital requirements (known as CRD IV), a harmonised bank resolution framework, and deposit guarantee schemes. Proposals for a single resolution authority are also to be developed.

Beyond the technical discussions, don't you find that the whole debate on debt has highly moral, even moralistic, overtones?

I do. And I must say that I am myself Germanic in some of my outlook because I believe in good spending; I believe in fiscal prudence; and I think that moral

hazard is a very important question. Could we trust certain Member States, who have broken every single condition of every single agreement, and falsified accounts? We are negotiating the Multiannual Financial Framework at the moment and paying into the European Financial Stability Facility, the European Financial Stabilisation Mechanism, and the European Stability Mechanism. As a German taxpayer I would be asking: *'do we really want to hand over our credit card to the Greek government?'* There has to be a lot of checks and balances put in place before we can arrive at mutualisation mechanisms. But that is where we have to go otherwise this euro crisis will never end.

Talking about mutualisation and coordination: do you think that should apply also to tax rates?

I have no difficulty with moving towards a position where there will be greater coordination of tax policy at the European level. But not to the point where we cede control of setting our tax rates in Ireland. That would be a step too far. Our view on our corporate tax rate is a very basic one: we have a transparent rate that does not change from year to year or from government to government. It doesn't matter if you are a big or a small company, if you are in favour with the government of the day or not – our rate applies to all companies, without bias or favouritism. It is consistent and that makes it a good instrument to attract Foreign Direct Investment.

Moreover, Ireland doesn't have a spectacularly low rate: our 12.5% is higher than in a lot of the Eastern European countries, Latvia and Slovakia for example. And finally, Ireland is a small open economy, and we are not, and never will be, in the industrial hub of Europe. We cannot all be Germany or France. I think the Eurozone crisis is exposing the differences and the imbalances. We have a geographical disadvantage as well as a kind of inbuilt economic disadvantage. This concerns not just Ireland, but a lot of the small peripheral countries, especially the islands – Cyprus, Malta –, who do not have ready access to trans-European rail and road networks. And so the corporate tax rate is hugely important for us. It is not the only element of our industrial policy, but it is a crucial part of it.

What would the other elements be?

Being the only English-speaking member of the Eurozone is very important for us. Also having a traditional and very strong relationship with the United States: there is, per capita, more American investment in Ireland than in the rest of the Eurozone combined. That is because we have a very pro-Atlanticist view, which is ironic, considering we are not in NATO, and are against a lot of the military policy of the US. But we have a very strong cultural link, and a trade link as a result of that as well. Other important elements: we have a skilled workforce, and we have become a hub for technology, so that the tech sector is vibrant in Ireland even in the middle of our recession.

What about the financial industry?

It is small but also very important. We have about 30,000 people employed in financial services in Ireland. That sector is a spin off of the City of London, in the sense that a lot of people working in the IFSC would live in London, a lot of the companies would be offshoots of London-based companies or companies that trade very intensely with London. The back and forth exchange is really strong. It is a delicate balance, which is why when things like the Financial Transaction Tax are being discussed at European level, we want it to apply to all 27 Member States because if it were to apply to just those who signed up to the Fiscal Compact, or just to the Eurozone, we would have a major problem. Many companies would just leave Dublin and go to the City. That is significant in the middle of a very difficult economic period.

Another element at play in the Irish relation to Europe has to do with the Irish State's tradition of military neutrality. What are your views on that?

We have developed this perception of ourselves that to be neutral and to not engage in any sort of common defence is a badge of honour. I don't think that we have ever really thought about 'what if Ireland was attacked,' or 'what if a war broke out in Europe?' How would that impact on us? So that position on neutrality is quite narcissistic: we do not have to worry about its consequences, and we can parade it around the world, go to the United Nations and tell everyone how wonderful we are.

But that has become part of Irish identity and it will be very hard to change. My party published a paper called 'Beyond Neutrality' which talked about us joining a European common defence. I am very supportive of that position but I don't think that we could gain political traction for that in the short term.

Moving on to the last referendum, on the Fiscal Compact: how do you explain the victory in the first round this time, as against what happened in the previous two referenda?

I think firstly, I would say this wouldn't I?, that the government handled it much better. After the Fiscal Compact was signed, even before we knew we would require a referendum, one of the things I insisted on – I lobbied the Taoiseach and the Tánaiste in particular, and all of our officials – was to ensure that we as government would communicate directly with the public. I strongly believe that we need to have a national narrative about Europe as we take steps towards further integration. The government had pretty much agreed to that in any event, therefore when we learned from the Attorney General that the referendum was required, we put that decision into practice. For the first time ever the government sent a copy of the treaty to every household in the country with an explanatory memorandum. We did it ourselves; we did not get the Referendum Commission to do it.

Was that unprecedented?

Yes, it was. I think that it was the biggest information campaign for any referendum in the history of the state. That said very clearly to the public 'we as government are not saying that you cannot understand this, we are providing you with the information and we trust your judgement to take from it what you will.' That was a very important scene-setting decision, which took away any of the arguments about the government trying to hoodwink people into voting. Then we had a very disciplined and a very coherent campaign for five weeks. We coordinated with all of the political parties and civil society organisations who were in favour. If you speak to the Irish Business and Employers Confederation, or any of the other sectoral organisations who came out campaigning, they will tell you that they'd never had such engagement from a government on a European referendum. We took backbench TDs, that is, non-ministerial members of Parliament, and allocated them to different

organisations’ committees, to liaise between government, political parties and these organisations. We had spokespeople who knew the detail of the treaty and were able to go on television or radio and just speak, singing off the one hymn sheet. It was really effective.

You said that you endeavoured to articulate a narrative about Europe. What story was that narrative telling?

The narrative was a positive one. We tried to avoid getting sucked into the negative arguments and taking on a defensive stance, which is very hard when you have a loud ‘no side.’ We wanted to talk about Ireland’s relationship with Europe, but from the national perspective. We were saying ‘this is good for Ireland, we want confidence in Ireland, we want continued Foreign Direct Investment into the country, we want to create an environment where businesses can prosper, for job creation’ and so on.

So it was mainly an economic discourse?

Very much, almost exclusively. We are a country in a bailout programme, we have lost our economic sovereignty – this is all that concerns people. When you read the treaty, it was not about any of the other issues: it was about access to the European Stability Mechanism, about having a safety net. Access to the ESM: that message probably was the most effective. Irish people understood it really well. But they were also responsive to the other elements: putting in place rules that are binding, constraining governments from behaving in a profligate way or in a way that is irresponsible with taxpayers money. I think people liked that message too.

And what did the ‘no side’ chose as their battlegrounds?

The ‘no side’ were talking about austerity, taxes, household charge, all of these issues. We were talking about responsible budgeting and security, access to the ESM, which is about saying more of the same in a sense because it is about meeting the targets under our EU-IMF programme, saying that we are committed and responsible. While the ‘no side’ were offering to burn bondholders and tear up the agreement, a bit like what Syriza had been saying in Greece. So people had a clear choice; they evaluated the two positions and obviously a significant

majority seemed to think that the country was going in the right direction. They may have been frustrated about the slow pace of progress and with some aspects of our relations with the European institutions, or with Germany in particular, but they still preferred that certainty and that security.

You have been chairing a governmental interdepartmental group for over a year now in order to prepare the Irish Presidency programme. What are Ireland's priorities for the upcoming six months?

My main focus, and the focus of all our ministers chairing Councils, will be stability, jobs and growth. In this respect, supporting SMEs and combating youth unemployment are priorities for us. We are going to be looking at driving forward the single market agenda, of which the digital single market will be a big-ticket item. Moreover, we are only going to have eleven informal Councils, and one of them will be dedicated specifically to EU/US trade, which is an area that has stagnated for a while. Achieving progress across the enlargement dossier is another field of specific focus for Ireland. Finally, we will be working to finalise the Multiannual Financial Framework negotiations to secure a European budget that is fit for purpose and which will fully support the EU's return to growth and competitiveness.

Do you foresee any serious difficulty in any particular area?

The Eurozone crisis! President Van Rompuy's report on Economic and Monetary Union sets out some very interesting concepts which could lead to a form of integration enabling the Union, as a whole, to effectively respond to global challenges whilst ensuring stability both economically and socially. Reaching agreement on how to best take forward the four pillars outlined in this report will be a challenge but I am confident that there is a firm commitment among all Member States to further integration.

It is sometimes easier to lead a successful Presidency as a small Member State than if you are a big Member State, because others are not so suspicious of your motivations. I hope that because we have been so successful in implementing our programme for the past eighteen months, there will also be good will towards Ireland. That could also put us in a key position to really make some progress.