

# MAKING MORE OF OUR INTERDEPENDENCE

António Vitorino | *president of Notre Europe - Jacques Delors Institute*

**0**ur President António Vitorino takes a stand on the main issues of the European Council of 20-21 March 2014 in an interview covering the stability or convergence programmes and the national reform programmes, the climate and energy package, the situation in Ukraine and the EU-Africa relations.

**1. This European Council meeting is due to provide member states with guidelines relating to the stability or convergence programmes and the national reform programmes that they are required to submit in April. What do you consider to be the primary issues involved here?**

We may hope that this European Council meeting will pave the way for a new phase in European integration after four years of a crisis which, in addition to its social and economic fallout on member states and their citizens, has also fuelled growing mistrust of the EU. It is high time for the “sense of survival” that has been guiding member states’ actions over the past few years to be replaced by the sense of a common destiny capable of rallying the EU’s citizens and of reconciling them with the European project. It is not going to happen by a stroke of the magic wand, but the changes looming in the European institutions this year must impart a fresh thrust to this new beginning so that we can make more of our interdependence in various fields.

In the context of the European Semester, the European Council will be calling on member states, not unexpectedly, to consider building into their national programmes the five priority spheres identified in the “Annual Growth Survey” for 2014, in particular with regard to fiscal consolidation, to the promotion of competitiveness and to the struggle against unemployment. It is necessary first and foremost to confirm the priority assigned to growth and employment since 2012 on the basis of the Growth and Employment Pact adopted by the European Council in June 2012 and of the series of initiatives adopted to foster youth employment in 2013.

In particular, member states with an excessive public debt and/or deficit must be able to pursue their fiscal consolidation at a more moderate pace in such a way that the cuts in public spending can spare longer-term investments in education, research and innovation, and

allow governments to cater for the needs of the more vulnerable sectors of the population. The heads of state and government must also remember that member states with more room for budgetary manoeuvre must stimulate investment and consumption so as to contribute to economic recovery in the EU.

And finally, given that the struggle against tax evasion and fraud has to become a priority among member states in view of the budgetary difficulties being encountered by a large number of them, the heads of state and government need to seal the political agreement that will allow the Council to adopt the directive on the taxation of savings. The ball is in Austria’s and Luxembourg’s court, and I hope that they will prove capable of confirming their will to lift to their veto on the review of this directive in order to extend the automatic exchange of tax information to payments made by trusts and foundations.

**2. On a broader level, what might the EU do to avert the danger of deflation and to stimulate growth?**

To date the ECB has played a crucial role in the crisis with its initiatives in support of the European banking industry and its intervention on the secondary bond market thanks to the SMP (*Securities markets programme*) programme and its successor, the OMT programme (*Outright monetary transactions*). Mario Draghi’s announcement in the summer of 2012 that “everything that needs to be done” to safeguard the single currency would be done restored confidence and made it possible for countries such as Spain and Italy to borrow at lower interest rates. In addition, the ECB has already cut interest rates to their lowest level ever in view of the low level of inflation.

The ECB should now pursue its course of action by acting firmly to ward off the danger of deflation which could threaten Europe’s fragile economic recovery by substantially increasing the real weight of private and public

debts. For instance, it might announce a long-term refinancing operation designed to impart a fresh boost to credit for small and medium businesses. Thus inflation would rise in the euro area, albeit in a context of compliance with the target of a level close to but below 2%.

Having said that, those seeking a miracle solution for the EU's weak growth rate are labouring under an illusion. Achieving a return to growth demands the combination of a whole series of instruments mutually bolstering each other, with a good balance between national action and European measures, because the primary sources of growth are the province of the member states - who, by the way, achieve very variable results in that area.

On the European level, the strengthening of the banking union and its various different aspects must bolster the effectiveness of the ECB's policies and speed up the transposition of those policies into the real economy. The Growth and Employment Pact provides for an overall sum of 120 billion euro, and its ability to impart fresh dynamism to the European economy depends both on the implementation of quality projects in the member states and on the availability of credit in the context of a European budget that has been reduced. It would be a good thing for the heads of state and government to ensure regular political tracking of the implementation of this other "pact", including with regard to the European Investment Bank's contribution.

Moreover, deregulating and imparting fresh dynamism to those sectors that contribute to strong and sustainable growth in Europe can be achieved in the context of the single market, if we improve the free movement of services and the development of digital industries. Deregulating trade should also make a contribution to growth in the countries of Europe. The completion of the negotiations currently under way to set up a transatlantic partnership might impart a fresh boost to economic growth in the EU thanks to the expansion of trade with the United States. The Commission expects the accord to generate some 120 billion euro, or an additional 0.5% of GDP, on an annual basis. The greater the degree of regulatory convergence between the two shores of the Atlantic, the greater the economic benefits that the EU will get out of the partnership.

### **3. The European Council will be addressing the EU's industrial competitiveness. What can we expect to emerge from this debate?**

The weight of industry in the European economy has been dropping constantly since the 'nineties and the crisis has

simply speeded up that process. Given that some 80% of imports and exports are industry-related, having a solid and competitive industrial structure is crucial if we are to maintain Europe's economic clout in this globalised world.

The European Council should debate some measures designed to improve industrial competitiveness on the basis of the proposals put forward in the Commission's recent Communication, which seem to me to make good sense: improving infrastructures, facilitating access to credit, according priority to "key enabling technologies", helping SMEs to internationalise and so forth.... Yet the text produced by the Commission seems to be to be both too specific and too ambitious.

Can anyone really believe that the handful of measures implemented by the EU is going to reverse the trend of industrial decline in Europe? There again, it is primarily up to the member states to make their industrial choices, including by deciding to commit to the common projects that Europe so sorely needs. And at a time when it is becoming increasingly difficult to distinguish between the manufacturing and the service sector, should we not rather set ourselves the goal of improving the competitiveness of Europe's industry in the broadest sense of the term on the basis of its capacity for innovation, for the efficient management of global production chains or of its specialisation in the manufacture of top-of-the-range goods?

### **4. The European Council is going to debate the new "Climate and Energy" package proposed by the Commission. What is your view regarding the package proposed?**

It is important to properly identify the principal challenges associated with the renewal of the European framework for energy and climate policies ahead of 2030. The whole energy sector has been the object of rapid change at the global level, raising as many questions as it offers opportunities. The EU needs to make sure that it takes this change into account when developing its new strategy. Also, the implementation of the (3x20) goals in the first Climate and Energy Package has led to a certain amount of tensions which is threatening to jeopardise the energy transition in Europe in the medium-to-long term - tensions between the three goals of sustainable development, competitiveness, and security of supply; and tensions between national unilateral policies that are destabilising the European energy system as a whole and threatening the security of the electricity system.

The new 2030 Climate and Energy Package must come up with answers both to these sources of tension and to

other existing problems such as the EU energy industry's loss of competitiveness, the lack of completion of the internal energy market, and the structurally low prices on the carbon market (ETS). It should make it possible to achieve the goals set in the energy transition process and to fight against climate change, and it should guarantee predictability for investments in low-carbon technologies. The proposal formulated at this stage seems to be rather prudent and consensus-based, resting as it does primarily on technological neutrality and flexibility. The targets listed are at the lower range of ambitions and leave little room for manoeuvre and may require increased efforts after 2030.

Thus we need to ensure that the new governance proposed is accompanied by sufficient discipline to guarantee the common interest in an economically effective manner, and to thus pave the way for the "European energy community" which is more of a necessity today than ever before. Yet we may expect the Council not to adopt any binding decision on account of the numerous disagreements and reluctance on the part of several member states at this stage.

**5. In your view, what are the principal messages that the European Council should issue regarding the situation in Ukraine?**

To date the EU has been attempting to play a bridging role between the two sides facing off in Ukraine, but also between Russia and the United States. This does not make its task any easier, especially in view of the tension amongst its member states.

In the short term, the European Council must respond to the demands of the Ukrainian people and authorities for a rapprochement with the EU in the political and economic spheres, while making it very clear that it is not a matter of envisaging membership for Ukraine. This, because it is necessary to take into account the fact that, above and beyond Crimea, Ukraine as a country is deeply divided with regard to its future, between the EU and Russia. In any event, this crisis must remind the Europeans of the need to avoid placing their eastern neighbours in a position where they have to make a mutually exclusive choice between the EU or Russia. I believe that it would be useful both for our US allies and for the eastern European member states to subscribe to that view to a greater degree.

The European Council must maintain a firm stance with Russia in connection with respect for international

law and the sovereignty of Ukrainian territory, including Crimea, and it must forge a united front with the other countries defending that red line. This firm stance includes the possibility of adopting a gradual approach to sanctions against certain Ukrainian and Russian leadership figures. Indeed, I notice that despite its hesitation, the EU has clearly set off down this path. I also note that some people liken the case of Crimea to that of Kosovo, but they are wrong to do so. In one instance it was a case of imparting a formal organisation to a desire for independence, in the other it is a matter of planning annexation by Russia...

In the medium term, the EU's position is naturally going to depend on the decisions and actions taken by the Russian authorities over the coming days. But having said that, it is necessary to improve our handling of the interdependence binding us to Russia in numerous fields, and in the energy field in particular. Here too, we should stop referring to such unattainable goals as "energy independence", choosing instead to mobilise in an effort to improve the way we organise our interdependence, including with Russia. This crisis must of course prompt us to further diversify our energy supply and to develop the infrastructures which allow such diversification, including to the east. But it should also remind us that Russia is our major partner in eastern Europe. It is important to avoid finding ourselves caught up in a zero-sum game with the Russians, and to be more active in seeking to put in place new kinds of tripartite sectoral partnership involving the Europeans, the Russians and their neighbours.

Working to implement such partnerships in the medium term, however, does not in any way prevent Europe from adopting a firm stance in the immediate term. Also, a prospective future development of this kind will only be possible on the basis of a process of dialogue making it possible to rebuild mutual trust, but that process is going to be very difficult to kick-start without some positive gestures on Vladimir Putin's part.

**6. This European Council is also going to debate relations between Africa and the EU. What decisions and conclusions do you expect to see?**

In the short term, the European Council first and foremost must conduct an assessment of the recent operations in Mali and the Central African Republic, for which it is imperative that Europe's involvement be organised on a European scale: Africa, too, is part of our immediate neighbourhood and we would be well advised from

now on to afford it far greater attention, on the basis of a shared vision.

The Europeans have tended over the past few years to focus on their relations with China, with India, with Brazil and so forth, underestimating their interests in Africa. Yet since the Joint Africa-Europe Strategy was adopted in Lisbon back in 2007, Africa has developed by leaps and bounds, with an annual growth rate of 5%. There are of course endemic problems involving border conflicts and ephemeral governments, as well as very different rates of development from one country to the next. But the prospects are promising (particularly in the field of communications, logistics and banking). The EU-Africa Summit on 2 and 3 April must mark a paradigm shift, with clearer involvement in Africa on the Europeans' part.

The European Council cannot be happy simply with viewing the continent first and foremost as a reservoir of raw materials or as a source of illegal immigration. As Pascal Lamy regularly points out, the explosion of the middle class worldwide, which is expected to expand from 2 billion people to 5 billion people by 2030, is likely to come primarily from Asia and from Latin America, but also from Africa. Thus the Europeans need to make the most of this hunger for consumption on their doorstep. The priority must be given to trade, taking care to develop partnerships which are less asymmetrical and more balanced than in the past with African economic players who are displaying an increasing ability to join the global marketplace with every passing day.

Moreover, Africa will have a population of 1.5 billion people by 2030 and, together with China and India, it will account for two-thirds of the world's entire labour force between the ages of 19 and 25. The Europeans, who are going to have to cope with their demographic decline, need to reflect as of right now on the potential contribution which can be made by this increasingly well-educated and well trained labour force with which it enjoys both historical ties and geographical proximity.

The EU is right to ask the migrants' countries of origin and transit to cooperate, but it must do so within the framework of a broader legal immigration policy (readmission against the granting of visas). We are still a long way away from a minimum cooperation threshold regarding readmission, which could strengthen the EU's position vis-à-vis its African partners.

And finally, the various policies implemented by the EU (Euro-Mediterranean partnership agreement, European migration policy, the "Sahel strategy", the Sub-Saharan Africa "transport" programme and so forth) demand greater coherence and need to be directed more towards the continent's stronger integration. In this sense, given that the Cotonou Agreement with the ACP countries is due to come up for review in 2015 ahead of the negotiation of a new agreement in 2020, the full and comprehensive participation of the African Union as a stake holder in the negotiations should be taken into consideration.

On the same themes...

WHAT NEW CLIMATE AND ENERGY PACKAGE FOR THE EU?

Sami Andoura & Stefan Böhnner, *Tribune - Viewpoint, Notre Europe - Jacques Delors Institute, March 2014*

GROWTH AND JOBS: WHAT STRATEGY FOR THE EU?

Maria-Eugenia Le Gourrière, *Synthesis of a conference co-organised with EPPA, Notre Europe - Jacques Delors Institute, March 2014*

THE SINGLE MARKET 20 YEARS LATER: CHALLENGES AND OPPORTUNITIES

Emanuel Gyger & Maria-Eugenia Le Gourrière, *Synthesis of a conference co-organised with the Maison de l'Europe in Paris, Notre Europe - Jacques Delors Institute, February 2014*

GROWTH, COMPETITIVENESS AND EMPLOYMENT: THE RICH LEGACY OF THE WHITE PAPER

Jérôme Vignon, *Tribune, Notre Europe - Jacques Delors Institute, February 2014*

THINK GLOBAL - ACT EUROPEAN IV. THINKING STRATEGICALLY ABOUT THE EU'S EXTERNAL ACTION

Elvire Fabry (dir.), foreword by Pascal Lamy and António Vitorino, *Studies & Reports No. 96, Notre Europe - Jacques Delors Institute, April 2013*

Managing Editor: Yves Bertoncini • The document may be reproduced in part or in full on the dual condition that its meaning is not distorted and that the source is mentioned • The views expressed are those of the author(s) and do not necessarily reflect those of the publisher • *Notre Europe - Jacques Delors Institute* cannot be held responsible for the use which any third party may make of the document • Translation from French: Stephen Tobin • © *Notre Europe - Jacques Delors Institute*

