

"The Spanish situation leads us to the banking union"

*Interview with António Vitorino, president of Notre Europe
on the occasion of the European Council meeting on 28-29 June 2012*

1 - The European Council is expected to focus on the situation in Greece, which now has a new government: what do you consider to be the most important issues involved?

First of all we have to welcome the advent of a government that appears to have better prospects and greater staying power, but it is also necessary to assess the situation in connection with the implementation of the adjustment programme, and to analyse the feasibility and the relevance of this new government's demands. The feeling I get is that it is going to be necessary to agree to an "intelligent" rescheduling of the memorandum thrashed out with the EU and with the IMF. It is not a matter of offering the Greeks "gifts" or of promising them more money, but of reshaping certain aspects of the memorandum's timetable (in particular where the country's budget adjustment efforts are concerned) in order to make it more realistic and more credible with respect to the money markets.

The recent elections should prompt us to form a clearer picture of the situation in Greece. We are talking about a country that has already made a major adjustment effort, a country whose GDP shrank by 6.9% last year and whose public debt amounts to over 160% of GDP... In view of those circumstances, it is in interest of the country's creditors to mitigate the debt repayment terms, while demanding that those reforms that do not damage public finances (such as the privatisation plan) be maintained. Otherwise, there is a tremendous danger that Greece might not make it, that its debt will continue to rise until it reaches an unsustainable level, and that Europe's leaders may one day find themselves having to agree to an ordered restructuring of the country's debt (which means taking losses).

And finally, the "growth pact" put together by the EU will be very useful for Greece. This, because even a package of measures worth just 1% of the EU's GDP can have a major impact if we consider the size of the country's economy – I am referring in particular to the contribution of structural funds and of EIB loans. Without this European contribution, the implementation of the Greek reform programme also stands a good chance of failing.

2 - Do you think that Spain's situation is going to generate any landmark decisions?

The situation in Greece has prompted the EU to abandon the "no bail-out" clause; the situation in Spain is probably going to allow it to move towards a "[banking union](#)"¹, which will also have a very positive impact on the EMU's stability.

Where Spain is concerned, the decision adopted by the Eurogroup on 9 June has not been well received by the markets. They are fully cognisant of the fact that the solution recommended – namely, loaning the Spanish Government 100 billion euro so that it can then lend that sum on to the

¹ The underlined words refer to documents available on the website of Notre Europe (www.notre-europe.eu).

banks – is going to lead to a major deterioration in Spain's public debt. The result is that Spain today is being forced to borrow at rates of over 5% in the short term, while its 10-year bonds have occasionally been traded in the marketplace at over 7%, which is unsustainable in the medium term.

So measures need to be adopted to smash the link between the bank crisis and the sovereign debt crisis. We need to consider the eventuality of the EFSF or the ESM directly recapitalising the Spanish banks, a move which would of course have to go hand in hand with direct supervision of the Spanish banking sector by the European institutions. It is precisely because state aid to banks can entail more disadvantages than benefits today that the present context may be favourable for making crucial progress towards a "banking union" based on European mechanisms both of solidarity and of supervision.

3 - "Banking union", "political union", "eurobonds", "federal leap": do you think that the European Council will adopt conclusions on a par with the proposals aired during its preparation?

To know it, we shall have to pay close attention to the analyses and proposals formulated by Presidents Barroso, Draghi, Juncker and Van Rompuy which are rather encouraging. Obviously the European Council on 28 and 29 June will not be able to make detailed decisions regarding all of the current challenges, but what must emerge, at the very least, is a global compromise enabling us to move forward simultaneously [towards a banking, budget and political union](#), as well as an agreement on a road map for the coming semesters.

The obstacles so far have been caused to a large extent by disagreement over the timetable of the measures that need to be given priority in order to impart a decisive new thrust in those three directions. Thus we need to make a more accurate distinction between decisions which can be made very rapidly and in connection with which there probably exists a political agreement already (for instance, empowering the ECB to supervise banks), and other initiatives which would require changes to the treaties and/or major preparatory work at the technical level (for example, a European bank restructuring fund, or the issue of "eurobonds"). The ["Tommaso Padoa-Schioppa Group" report](#)² that *Notre Europe* has just published provides a very clear analysis and very clear guidelines in that connection.

I repeat, the important thing is to build all of these elements into a global compromise accompanied by a provisional timetable including, of course, the implementation of the agreements already reached, particularly in connection with structural reforms and with budget consolidation. On that basis the European Council might decide, for instance, to set up a working group or to devise a working method to address the more complex issues from a political or a technical standpoint, but at least it will have set a clear course and have cleared the horizon to some extent for observers, for the citizens and for the markets.

4 - This European Council may adopt measures designed to fuel growth. What can we expect in concrete terms in that connection?

If we are to rediscover the path to lasting growth, but also to have a global political consensus, I think that it is necessary to achieve rapid ratification of the ["TSCG"](#), and then to add to it the "growth pact"

² "Completing the Euro. A road map towards fiscal union in Europe", Report of the "Tommaso Padoa-Schioppa Group", *Notre Europe*, June 2012. Foreword by Jacques Delors and Helmut Schmidt.

currently being prepared – preferably in the shape of an additional protocol. This growth pact should include two kinds of measures, involving both a stronger European effort in the sphere of investments and funding and the deepening of the single market. In parallel, it goes without saying that all efforts to resolve the bank crisis and to move towards a "banking union" will also have a decisive impact on the European countries' growth.

For both economic and political reasons, it is crucial for budget stringency at national level to be accompanied by an increase in investment at EU level. A consensus appears to be forming around at least three issues: almost doubling the EIB's lending capacity (+ 60 billion euro) through an increase in the capital put in by the member states; the reallocation and more rapid use of European structural funds to the tune of 50 billion euro; and lastly, the launch of a pilot "project bond" phase in order to attract private capital into the development of transport, energy, and telecommunications infrastructures on a European scale.

Yet ultimately, the greatest challenge remains the complete realisation of the European Single Market, which would boost Europe's competitiveness in terms both of productivity and of employment. For instance, there still remains a great deal to be done in the services and digital economy spheres, so the European Council must provide clear stimuli in that direction, 20 years after those launched by Jacques Delors.

It is also worth highlighting the fact that the crucial challenges must be picked up at national, and sometimes even at regional, level in order to promote growth. The Commission has already issued specific recommendations to each member state in the context of the "European Semester" which should be aired in the course of the European Council meeting. The EU will be able to increase its growth rate and to bring down unemployment in the course of the next few quarters also by making the most of each member state's ability to improve its competitiveness on the basis of its own specific trump cards and features.

And lastly, if it were possible to make any progress in improving the coordination of national economic policies, as the "TSCG" urges its signatory states to do, that would also have a positive impact on growth in the euro zone and in the EU.

5 - The European Council is going to be holding its first in-depth debate on the "multiannual financial framework" after 2013. Do you hold out any great hopes in that connection?

I am not very optimistic. The crisis has caused the budget issue to be relegated to the back burner since the start of 2012. And at the most recent "General Affairs" Council meetings several member states have adopted fairly radical, not to say populist, stances, demanding major cuts for the [next multiannual financial framework](#). It is rather astonishing for anyone to thus foster another hotbed of tension among member states, particularly in view of the fact that the Commission's proposal in connection with the multiannual financial framework is fairly balanced.

In this context, the Danish duty presidency has decided to put a "negotiating box" on the table, without mentioning any figures. It hopes that the member states will thus be able to more easily reach compromises regarding the structure of the financial framework, or even regarding more concrete issues such as whether or not to build certain programmes (ITER, Galileo) into the financial framework. But the decision as to whether or not to build ITER or Galileo into the financial framework obviously has an impact on both the overall amount of the financial framework and on

the amount for each entry. If those programmes are included, it is necessary either to increase the overall amount of the financial framework or to decrease the amount in other entries...

But aside from these technical details, it would be particularly worthwhile to highlight the fact that, given that public expenditure at national level is going to be tight for the foreseeable future, the important thing is to [spend our money better together at Community level](#). The debate on growth may help to foster this healthy realisation.

6 - The European Council's agenda suggests that it is also going to debate the governance of the Schengen area and asylum policy. What do you think of the latest developments in those two areas?

The Council of Ministers' recent decision must be examined in the light of what is absolutely essential, which is safeguarding the free circulation of persons. In that sense, even though the terms of the Council's decision are somewhat confused, we cannot really talk about an "epistemological break" with the conclusions of the European Council in June 2011, inasmuch as it is principally concerned with facilitating the reintroduction of national border controls by member states while also extending the time frame within which such border controls may be reintroduced.

It was important not to deny that there are sometimes real problems in monitoring external borders, while at the same time stressing that the re-establishment of national borders can only be a last resort after a gradual process including an initial [strengthening of European solidarity action](#) in favour of exposed or defaulting member states. It is equally crucial that public order and security issues remain the only reasons that can be claimed for potentially re-establishing national border controls, and that no other reasons can be invoked, such as massive migrant influxes, which would have lent themselves to all kinds of random interpretations. I would add, moreover, that it is important for the Commission to continue to be the main player when it comes to defining the measures to be adopted in "exceptional circumstances".

The situation created by the Council's recent decision is more problematic in connection with the "Schengen assessment mechanism", and in particular with the somewhat surprising change to the legal basis that was adopted. This change sparked immediate retaliation from the European Parliament which, in any case, continues to be the co-decisionmaker regarding a whole series of aspects of the "Schengen code" and which therefore wields an important blocking power. It is absolutely necessary to re-establish the terms of the dialogue between the two players. Changes to the legal basis are possible at the Community level, but they have to be thrashed out jointly by the Commission, the Council and the European Parliament.

Where asylum is concerned, we may welcome the proposals recently formulated by the Commission. A new "European asylum system" was supposed to be put in place by 2010; the EU is already two years late on account of differences among the member states... Yet it is crucial for member states' positions to move towards convergence in this area, because as long as the number of applications for asylum and, above all, the acceptance rate for those applications are so different from one country to the next, we are going to be seeing very strong tension in connection with the monitoring of the [Schengen area](#)'s external borders.