

WG VI
WD 018

NOTE

From:	The Secretariat
To::	Members of Working Group on Economic Governance
Subject:	Comments on the draft report (WD 014)

Members of the Working Group will find attached a consolidated set of comments on the draft report (WD 014) which have been received by the Secretariat.

**PROPOSAL FROM CHAIRMAN OF WG VI
FOR A REPORT FROM THE WORKING GROUP TO THE CONVENTION (WD 14)
COMMENTS BY MS RIITTA KORHONEN
17.9.2002**

2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty**. Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social cohesion and progress, and a social market economy.

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on the existing Article 2 TEU and Articles 2 and 4 TEC, and taking into account the above elements.

COMMENT: Adding new elements to the objectives of the Union should be avoided. The above-mentioned articles form a sufficient basis for the text to be drafted for the new Constitutional Treaty.

RATIONALE: The objectives of the Union should be as clear as possible. Growth, high level of employment, social progress and sustainable development, among others, are already mentioned as objectives of the Union in the above-mentioned articles. Moreover, changing the current balance of objectives might lead to conflicting goals, especially if the hierarchy of ends and means is not clarified and if the principle of subsidiarity is not taken into account.

The Group recommends that **the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States should be maintained**. However, taking into account the fact that Member States' economic policies are regarded as a matter of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic policies of the Member States**.

COMMENT: This is acceptable but Art. 99 (together with Art. 104) should be included in the new Constitutional Treaty.

RATIONALE: The overall economic governance and policy coordination, based on the provisions of the Treaty and the relevant secondary legislation, functions well. The first years of EMU have been successful. Moreover, it is clear that the EMU provisions cannot be changed during the period, when a number of Member States still remain outside the euro zone. The principle of equal treatment of those, who initially adopted the euro and those, who will adopt the euro later, has to be applied until the process of adoption of the single currency has been completed. Therefore, articles 99 and 104 should be added to the Constitutional Treaty (they are not included in the EUI draft for the Constitutional Treaty).

3. Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions. *[Some members of the Group consider that accountability of the ECB might be improved by][enhancing the ECB's reporting to the EP][giving the EP a greater role in the designation of ECB Board members][providing for the obligatory publication of ECB minutes]*. The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute.

COMMENT: Making the treaty changes suggested in the bracketed text would put the independence of the ECB into question. Statements and in particular changes to Treaty wordings, which could undermine the independent status of the ECB, should be avoided. The ECB has already shown willingness to exchange views on economic policy issues and increase openness. Better transparency can be achieved without changes in the provisions of the Treaty. Central bank independence is an integral part of the overall economic policy strategy of the Union conducive to growth and employment. The credibility and continuation of this successful strategy should not be jeopardised.

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers that this is primarily an issue for individual Member States and should not therefore be part of the constitutional treaty.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. *[The group recommends that the existing procedures remain unchanged]* ~~*[The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]*~~

1. **COMMENT: THE TEXT IN THE 2ND BRACKETS SHOULD BE DELETED. FURTHERMORE, THE BEPGs (ART. 99) SHOULD BE INCLUDED IN THE NEW CONSTITUTIONAL TREATY.**

2.

RATIONALE: There has been broad agreement that the current attribution of competences should not be changed. Enhancing the formal role of the Commission in the context of the BEPGs, as suggested, would however lead to an increase in the competence of the Community in economic policy coordination. As a unanimous decision by the Member States is needed to change a Commission proposal, this would change the competences in a way that has not been intended. Therefore, the BEPG procedure should remain unchanged.

The BEPGs are the central instrument of economic policy coordination and have, therefore, a major role in the conduct of EMU, which has been underlined by various

European Council conclusions. Hence, it would be counterproductive to downgrade the importance of the BEPGs in the Treaty context by leaving Art. 99 out of the Constitutional Treaty (as is the case in the EUI draft for the Constitutional Treaty). That would also affect the existing balance of the institutional set-up in the policy coordination.

The Working Group proposes that the European Parliament should be able to give ~~its 'avis'~~ ~~an 'avis conforme'~~ on the Broad Economic Policy Guidelines;

COMMENT: Neither of the bracketed texts should be included in the final report. Instead, the text could read as follows: *“The Working Group proposes that a European Parliament hearing on the Broad Economic Policy Guidelines could be organised.”*.

RATIONALE: The European Parliament already has the possibility to express its views through existing arrangements and is formally informed on the outcome. If the formal role of the EP is enhanced, the procedure would be complicated further which goes against the aim to streamline and simplify it.

Moreover, it is not clear what would be the value added of changing the existing procedure, which already ensure that all the major parties, including the EP and the Social Partners, have the possibility to express their views. Accordingly, the EP has played a constructive role by formulating its opinions which have been taken into account in the BEPGs.

The European Council in Barcelona mandated the Council and the Commission to streamline the relevant processes including the BEPGs and to focus especially on implementation. The competence to conduct economic policies belongs primarily to the Member States. Consequently, the implementation of the joint policy strategies of the EU is mainly the responsibility of the national Governments and Parliaments.

[The Working Group recommends that there should be an informal consultation process with social partners on the Broad Economic Policy Guidelines.]

COMMENT: This clause should not be included in the final WG report, as the social partners already have a role in macroeconomic dialogue (Cologne process).

RATIONALE: The Social Partners already have a significant role. The European Council in Cologne created a procedure of biannual macroeconomic dialogue. The Cologne process, which takes into account the autonomous position of the Social Partners as well as the independence of the ECB, has proved to be fruitful and has enhanced policy coordination. The Spring macroeconomic dialogue is especially linked with the preparation of the BEPGs.

The Social Partners have a primary role in shaping of the economic policy stance by ensuring the functioning of the labour markets and wage determination. The individual countries have different systems in this respect. Furthermore, the individual partners have emphasised their autonomy, which is reflected in the informal way that the macroeconomic dialogue has been set up. The macroeconomic dialogue offers the possibility for the Social Partners to express their views on BEPGs and the policy stance.

The Treaty gives the Social Partners a special role in European decision making but only in clearly defined questions, which underlines their clearly defined role. Confirming their formal status in EU decision making would imply a transfer of competences and require that the Social Partners are able to commit themselves also at the European level. The current coordination functions well, as the European parties understand the EMU rules and accordingly act responsibly, which has been reflected in e.g. wage moderation.

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty.**

COMMENT: This is acceptable. Nevertheless, Art. 104 on the excessive deficit procedure should be added to the new Constitutional Treaty.

RATIONALE: The stability and long-term sustainability of public finances are central elements in the economic policy strategy of the Union. This is reflected in the

Treaty provisions stressing the obligation to avoid excessive deficits. Therefore, a clear reference to public finances is needed in the Constitutional Treaty, which is missing from the current draft. Leaving Art. 104 out would undermine the importance of the issue and damage the credibility of EU economic strategy. It would be unwise to send a signal to the markets that the stability of public finances is not considered to be the key part of the overall strategy.

However, in order to make the Pact more effective, the group recommends that *[the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.][and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned]*

COMMENT: These additions in parentheses are acceptable.

RATIONALE: Strengthening the Commission's role in the excessive deficit procedure and removing the right to vote from the Member State concerned might enhance the credibility of the excessive deficit procedure.

The Working Group considers that **greater discipline needs to be exercised by Member States**, in particular regarding warnings on excessive deficits.

COMMENT: This is in principle supported but as it concerns Member States, it should not be included in the new Constitutional Treaty.

RATIONALE: Greater discipline with regard to the provisions of the excessive deficit procedure and the SGP is needed. However, these issues lie in the competence of the Member States and should thus not be included in the Constitutional Treaty.

4c ~~Open method of coordination~~ Streamlining of the coordination processes

~~The Working Group considers that the **open coordination method has proved to be a useful policy instrument**. *[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of*~~

~~replacing or circumscribing the 'Community' method].~~

~~It is recommended that the consultation process with the social partners should continue.
[The Group agreed that this process could be made more effective by providing for it in the Treaty].~~

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

COMMENT: The question of the open method of coordination should not be included in the final WG report. Instead the focus should be on streamlining the coordination processes.

RATIONALE: The open method of coordination will be discussed in other Convent Working Groups, namely in the Working Group on Complementary Competences (WG V) as well as in the Working Group on Simplification of Legislative Procedures and Instruments (WG IX). The coordination of the different processes (Lisbon/Luxembourg/Cologne/Cardiff) will be streamlined and synchronised according to the Barcelona conclusions. In this regard there is no need for Treaty changes.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

COMMENT: This is supported. However, the tax provisions (Art. 93, 94 and 175) should be added to the new Constitutional Treaty.

RATIONALE: As regards the debate on fiscal harmonisation and decision making procedures, one further fundamental argument has to be kept in mind. There is a fiscal interest, which concerns both the Member State governments and the Community. It is

the obligation to maintain stability and long-term sustainability of public finances and to avoid excessive deficits. There is a risk of increasing tax competition and an erosion of tax bases. In this environment, it is important that the independent room for manoeuvre of the Member State governments in tax policies is not narrowed too much or too rapidly. This aspect favors a rather cautious case by case approach in tax issues.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition.

[The Group recommends that these changes consist of the following elements:

- i) — ~~Maintaining the principle of unanimity for both indirect and direct taxation;~~*
- ii) — ~~Moving towards QMV~~*
- iii) Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the internal market].*

COMMENT: The first two options should be deleted. There is no need to change the existing decision-making procedure.

RATIONALE: Even though there is in general no need to change the existing decision-making procedure, certain specific taxation issues related directly to the functioning of the internal market could be decided by QMV. This applies to e.g. environmental taxation. It should however be noted that the concept of an environmental tax still needs further clarification.

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience. In the meantime, there is **no need for new Treaty provisions**. The Group however notes that the issue of secondary legislation in this area raises important horizontal questions in the

area of comitology which go beyond the mandate of the group.

COMMENT: This is acceptable and no Treaty changes are required.

RATIONALE: The Lamfalussy process fully respects the Treaty and does not require any changes to the present institutional arrangements.

5 Institutional issues

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

COMMENT: It is important that the form of external representation of the euro area fulfils the principle of political accountability, which rules out the Commission as the external representative. As the issue is evolving, no text should be added to the Treaty or the new Constitutional Treaty.

**Comments by Mr Pat Carey T.D. ,
Irish Government Representative to the Working Group on Economic Governance regarding
the proposal from the Chairman for a draft Report from the Working Group (WD014)**

I am pleased to be able to say that there are many points in the Chairman's draft report with which I find myself in ready agreement :

- The current balance of competencies between the ECB - with regard to monetary policy - and the member states with regard to economic policy - should not be altered.
- In this regard, the mandate of the ECB, as the draft report suggests, should also remain unchanged.
- I agree with the Chairman's draft conclusions that there is a need for improvement in the existing co-ordination of economic policies of the member states.
- Indeed, there is a clear and urgent need for better streamlining of the co-ordination processes aimed at allowing a better focus on achieving real and tangible results and benefits for Europe's citizens.

However, with regard to those areas of the draft Report where a consensus has still not emerged and which are still in brackets, I would make the following points :

- **Regarding paragraph 2 of section 4d on taxation I am opposed to any change to the existing decision making procedures including those set out in indents (ii) and (iii). In that context, I strongly support indent (i) "maintaining the principle of unanimity for both indirect and direct taxation". I take this view because :**
 - **Proposals for change go against the principle of subsidiarity**
 - **I do not believe that a case has been made that the introduction of the Euro makes such harmonisation either necessary or desirable.**
 - **No case has been made that the current position adversely affects the operation of the internal market.**
 - **Tax harmonization would ignore the varying needs and motivations of Member States' differing social and cultural backgrounds.**
 - **Perhaps most importantly, I do not believe that there is any support for this among European citizens.** In my view, a key challenge for all of us is to nurture political support for the existing Community competences and institutions and I would encourage a greater focus on this.
- **With regard to the Broad Economic Policy Guidelines, I have not been convinced of the arguments supporting the Commission being given the right to make a formal Proposal instead of a Commission Recommendation.** I believe that such a change would substantially reduce the Guidelines' political and democratic significance by reducing the role of the Member States' in its preparation. The Council is already looking at ways to improve the Guidelines, by moving to a multi-annual model and streamlining the process. In my view to go further than this and to allow the Commission to adopt a Proposal, would critically undermine the member states' contribution to the development of the Guidelines and would ultimately make it much more difficult for the member states to 'buy into' the Guidelines' recommendations.
- **I do not believe that a compelling reason has been put forward why the excessive deficit procedure should be changed to allow the Commission to issue early warnings and have the Council decide on this by QMV excluding the vote of the member state concerned.** Our view is that existing procedures are appropriate and are a reasonable balance between the duty of the Commission and the fiscal rights of Member States and that the political agreement of the Council giving the Early Warning gives it more force.

- I am certainly willing to consider measures to better manage the current structure within which the Eurogroup operates. But we need to bear in mind that a key success of the Eurogroup is its informal character, which allows for frank discussion. It will be important that this should not be lost. **In this context, I do not agree that there is a need for a Treaty-formalised Euro-ECOFIN.**
- **I also do not agree that the current arrangements for representing the Eurozone in international organisations are problematic.** Ireland strongly supports the current efforts to enhance the co-ordination of EU or Euro area positions in international fora. We believe that the emphasis should be on the development of such common positions and making them more specific. We also believe that the present system of multi member IMF constituencies provides the EU with greater representation than could be guaranteed by an alternative arrangement and also provides an effective mechanism by which such common positions can be communicated within the IMF.
- The European Parliament's involvement in the BEPG process would raise issues of the balance between Member States and the European Parliament on fiscal matters (i.e. taxation) for which the Member States have clear competence. For this reason I would be opposed to the Parliament being able to give an 'avis conforme' on them; this would effectively give the Parliament the right to veto the Guidelines. As regards including consultation with the social partners in the Treaty, this would introduce an unnecessary degree of inflexibility as well as possibly being impractical in member states without a well-developed social partnership structure.
- While I agree that the open method of co-ordination has been useful, I fail to understand why it needs to be included in the Treaty. It will continue whether or not it is provided for in the Treaty. Indeed in my view, such an action, while not intentional, will probably only serve to make the whole co-ordination process less flexible and more cumbersome - a result which is the very opposite of what we are all trying to achieve.

Comments on the Draft Report by Péter Gottfried, Member of the Working Group, Hungary

2.1. General

- If a new constitutional treaty includes the Union's economic and social objectives, those should be based on the existing Article 2 of TEU and Articles 2 and 4 of TEC.
- The exclusive competence for monetary policy within the Eurozone should lie with the ECB and the competence for economic policies should remain under the responsibility of the Member States with improved co-ordination.

3. MONETARY POLICY

- The mandate and statute of the European Central Bank should remain unchanged. The primary objectives of the ECB, e.g. the maintenance of price stability should be preserved without widening it to other objectives. The accountability of the ECB is satisfactory. No amendment of the working methods of the Governing Council is recommended without and before the participation of the new Member States.

3.1. Economic policy

- The commitment by Member States to decisions taken within the economic policy co-ordination should be strengthened and this responsibility should lie primarily with the national governments.

3.2. Broad Economic Policy Guidelines

- Since the competence for economic policy lies with the Member States the impact of the Broad Economic Policy Guidelines is limited. To give the European Commission the right to make a formal proposal would not change the current set of competence. The same applies to the avis of the European Parliament.

3.3. Stability and Growth Pact

- The Stability and Growth Pact should remain outside a constitutional treaty. The excessive deficit procedure should be reviewed.

3.4. Open method of co-ordination

- The open co-ordination method can be a useful instrument in case of certain policies, but its elements should not be necessarily included in a constitutional treaty. The various co-ordination processes should be streamlined and simplified.

3.5. Taxation

- The competence in the area of fiscal policy should be maintained although some changes to the existing decision-making procedures might be envisaged. While maintaining the principle of unanimity some exemptions affecting directly the basic freedoms might be introduced.

3.6. Financial markets

- Internal market harmonisation in the field of financial services should be continued by the Lamfalussy method adopted in the securities markets field. There is no need for new Treaty provisions.

3.7. Institutional issues

- While no measures should prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, it is not recommended to establish a formal “Euro-Ecofin” Council.

**Comments by R. Zile Representative of the Government of Latvia
to the Convention Working Group on Economic Governance**

Riga, 24th of September 2002

Contribution concerning the Draft Report to the Convention by the Working Group on Economic Governance (working document no. 14).

2. General

*“The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty.**”*

Referring to the mandate of the working group it should be noted that it was not task for the working group to put forward a proposal for new provisions of the constitutional treaty. To my understanding the work of the group aimed at defining provisions related to economic policy that could be included either in a new treaty or as amendments to existing one.

3 Monetary Policy

*The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions. [Some members of the Group consider that accountability of the ECB might be improved by][enhancing the ECB's reporting to the EP][giving the EP a greater role in the designation of ECB Board members][providing for the obligatory publication of ECB minutes]. The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute.*

I'm proposing to delete all square brackets, as I strongly believe that status of ECB should remain unchanged. Presentation by Mr Duisenberg on 13th of September confirmed that primary task of ECB is to ensure price stability (as a precondition for economic growth) and, therefore, it is designed as an institution independent from governmental or other institutions. Current reporting provisions seem to be adequate in respect to democratic accountability principles.

4. Economic policy

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. [The group recommends that the existing procedures remain unchanged] [The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]

The Working Group proposes that the European Parliament should be able to give [its 'avis'] [an 'avis conforme'] on the Broad Economic Policy Guidelines;

I'm supporting the proposal not to change procedures applied to the Broad Economic Policy Guidelines. Consequently there is no scope to establish an obligation to have the avis of European Parliament on the Guidelines.

4b Stability and Growth Pact

*The Working Group considers that the **Stability and Growth Pact** should remain outside the **Constitutional Treaty**.*

4c Open method of coordination

*The Working Group considers that the **open coordination method** has proved to be a useful **policy instrument**. [Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method].*

Points 4b and 4c should be considered as interlinked. As working group has agreed no to include in the Treaty the provisions for Stability and Growth Pact then there is not real scope for including the provisions of open coordination method in a Treaty. Also the discussion on 13th of September with Mr. Solbes confirmed that open coordination method could be included in Treaty only if there is policy context for it. Therefore I opt for deleting square brackets added to point 4c.

It is recommended that the consultation process with the social partners should continue. [The Group agreed that this process could be made more effective by providing for it in the Treaty].

Referring to the argumentation given above I would propose to delete the square brackets.

4d Taxation

*The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC** should be maintained.*

*The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition.*

This paragraph could not be included in the main text of the report while the choice between options below (in square brackets) has not been made. The first option actually proposes to stay with existing provisions of decision-making.

[The Group recommends that these changes consist of the following elements:

- i) Maintaining the principle of unanimity for both indirect and direct taxation;*

I'm supporting this option, given that independent fiscal policy creates the opportunity for less

developed member states (candidate countries) to establish preconditions for the so-called "catching-up" process. Whereas in developed market economies higher than average tax rates may be appropriate in the light of highly developed infrastructure etc., accession countries need somewhat lower than average tax rates to attract investment, maintain external competitiveness and support the considerable restructuring needs. Also one should note that majority of new member states do not have sufficient "reserves of social capital" and therefore costly areas of expenditure like social policy, culture, education etc. have to be addressed through country-specific provisions of fiscal policy. This puts additional tax burden to employees and employers and in combination with possible harmonised tax requirements of EU (if decided by QMV) it can lead to unfavourable situations (particularly, business environment) in new member states. Therefore introduction of any additional measures of harmonized fiscal policy at EU level would require a consensus between all member states.

ii) Moving towards QMV

iii) *Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the internal market].*

5 Institutional issues

*The Working Group considers that the **Eurogroup has an important role** to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a large majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission. [A number of members of the group consider that, in order to take decisions related exclusively to the Eurozone, a 'EURO-ECOFIN' consisting of participating countries should be provided for in the Treaty as an institutional entity (albeit) temporary, in its own right].*

I do not agree to the proposal of including "EURO-ECOFIN" provision in the Treaty and therefore propose to delete square brackets. As it is clear that after next round of EU enlargement the Eurogroup will not represent large majority of Member States, then inclusion of specific provisions in Treaty could be considered as indication of institutionalising "two speed Europe". It is obvious, that new member states will not be able to join Euro sooner then 2 years after accession even if they are meeting convergence criteria. Those member states outside of the Euro area would be left with limited influence on EU decision making process and this may hamper their development.

*Signatures: A. van Lancker, J. Borrell, G. Katiforis,
E. Gabaglio, H. Puwak, P.Béres,
S-Y Kaufmann.....*

*(our proposals are in blue-clear in the print out-, bold **and**
italic)*

Members of Working Group VI will find attached a proposal from the Chairman for a report from the Working Group to the Convention. This proposal aims to reflect the outcome of the discussions of the group on the full range of issues in its mandate, and takes into account the exchange of views in the group on the three sets of draft conclusions already circulated. The Chairman intends that a first discussion of this draft report take place at the meeting of the Working Group on 18 September.

DRAFT

Report to the Convention by the Working Group on Economic Governance

1 Introduction

The Working Group on Economic Governance has carried out a systematic examination of all the issues set out in its mandate. These fall under three headings: monetary policy, economic policy and institutional issues (see CONV 76/02). During the course of its work, the Working Group has held hearings with Mr Duisenberg, Chairman of the ECB, Commissioners Solbes and Diamantopoulou, Mr Akerholm, Chairman of the Economic and Financial Committee, and Professor Rodrigues, academic and advisor to the Portuguese government.

The work of the Group has been based on the expectation that the Convention will agree to draw up a basic constitutional treaty. It has therefore looked at possible elements which might be included in such a treaty, but not excluded other issues which might be less appropriate for a constitutional treaty, or which might not require treaty change at all. In preparing this report, the Group has had particular regard to the implications of enlargement.

* * * * *

2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty**. Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social *and territorial* cohesion and progress, *and a better equilibrium between competition and public services*, in a social market economy.

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on *rewriting of* the existing Article 2 TEU and Articles 2, 3 and 4 TEC, and taking into account the above elements.

The Group recommends that **the exclusive competence for monetary policy within the Eurozone remains in the EU, implemented by the ECB. The competence for macroeconomic policy (fiscal, budgetary and employment) should be shared competence between EU and the Member States. Monetary and macroeconomic policies should be coordinated.**

Taking into account the fact that Member States' economic policies are regarded as a matter

of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic *employment and social* policies of the Member States, in a framework of sustainable development.**

The fundamental role of the social dialogue and of the social partners has to be mentioned in the Constitutional Treaty as a principle.

3 Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should be changed , in order to include among the objectives of the European Central Bank the promotion of growth and employment, on equal footing with price stability. The criteria that define these objectives should be adopted by the Council. An advisory committee to the ECB should be established, composed of all relevant actors, including social partners.**

[Some members of the Group consider that accountability of the ECB might be improved by][enhancing the ECB's reporting to the EP][giving the EP a greater role in the designation of ECB Board members][providing for the obligatory publication of ECB minutes]. The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, . ***The Convention should be able to make a proposal for the composition of the ECB governing Council.***

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers ***that a better co-operation between national and European parliaments would help but that this issue is not to*** be part of the constitutional treaty.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination.*[The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]*

The different processes and open co-ordination methods set by the Lisbon process in the fields of macroeconomic policy and employment should be synchronised and mentioned in the Treaty, to achieve annual Broad Economic and Employment Guidelines with social objectives.

The Working Group proposes that the European Parliament should be able to give *[an 'avis conforme']* on the Guidelines;

[The Working Group recommends that there should be an consultation process with social partners on the Broad Economic Policy Guidelines

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty**.

However, the Growth and Stability Pact should put emphasis on stimulation of growth and investment in order to use it as an instrument of positive economic co-ordination. The deficit criteria should be evaluated according to its structural components and the “Golden rule” related to public investments should be taken into consideration.

In order to make the Pact more effective, the group recommends that [the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.] [and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned]

The Working Group considers that **greater discipline needs to be exercised by Member States**, in particular regarding warnings on excessive deficits.

4c Open method of coordination

The Working Group considers that the **open coordination method has proved to be a useful policy instrument**. *[Given that it is now applied to a number of different policy areas, to be specified into the Implementation Treaty, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not have the effect of replacing or circumventing the 'Community' method]*

It is recommended that the consultation process with the social partners should continue. *[The Group agreed that this process could be made more effective **and democratic** by providing for it in the Treaty].*

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure that the functioning of the single

market is not affected by tax competition

[The Group recommends that these changes consist of the following elements:

- ii) *Moving towards QMV, together with co-decision procedure, in areas affecting directly the fundamental freedoms, the internal market (including cross-border activities), the sustainable development,*

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience. In the meantime, ***art. 202 should be modified to allow EP monitoring on implementing measures – “call back” procedure***. The Group notes that the issue of secondary legislation in this area raises important horizontal questions in the area of comitology which go beyond the mandate of the group.

5 Institutional issues

The Working Group considers that the **Eurogroup has an important role** to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a large majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission. *[A number of members of the group consider that, in order to take decisions related exclusively to the Eurozone, a 'EURO-ECOFIN' consisting of participating countries should be provided for in the Treaty as an institutional entity (albeit temporary), in its own right].*

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

General remarks

Some members have noticed that issues such as own resources for the EU budget, social objectives and policies, services of general interests and European goods of public interest are an integral part of economic governance, but are not included in the mandate of the group. Therefore, these members suggest to extend the mandate in order to tackle these items, too, and to foresee extra-time and meetings for this purpose.

**Comments by Mr Gerhard Tusek ,
Alternate member of Hannes Farnleitner, Representative of the Austrian Head of
Government to the Working Group on Economic Governance
regarding the proposal from the Chairman for a draft Report from the Working
Group (WD014)**

There are many points in the Chairman's draft report with which I find myself in ready agreement, especially :

- The current balance of competencies between the ECB - with regard to monetary policy - and the member states with regard to economic policy - should not be altered.
- I agree with the Chairman's draft conclusions that there is a need for improvement in the existing co-ordination of economic policies of the member states. In my contribution WD 11 I have pointed out my view on improved interaction of the main coordination procedures.

With regard to a few areas of the draft Report I would make the following points:

- **Section 3 on Monetary Policy**

Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions. *[Some members of the Group consider that accountability of the ECB might be improved by]*~~*[enhancing the ECB's reporting to the EP]**[giving the EP a greater role in the designation of ECB Board members]**[providing for the obligatory publication of ECB minutes]*~~. The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute.

I strongly oppose to either giving the EP a greater role in the designation of ECB Board members or providing for the obligatory publication of ECB minutes. However, reporting could be improved. This could be for example a report at the turn of the year on the design of monetary policy in the previous year and a preview for the year to come.

- **Section 4 on Economic Policy**

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination**

framework at the European level should be strengthened, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers that this is ~~primarily~~ an issue for individual Member States and should not therefore be part of the constitutional treaty.

I suggest to delete “primarily”. This wording would allow room for misleading interpretations. Interactions between national parliaments and governments are to be decided by Member States. However, we would welcome an exchange of best practice.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. *[The group recommends that the existing procedures remain unchanged]* ~~*[The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]*~~

The BEPG procedure should remain unchanged. The text in the 2nd bracket should be deleted.

The Working Group proposes that the European Parliament should be able to give ~~*[its 'avis']*~~ ~~*[an 'avis conforme']*~~ on the Broad Economic Policy Guidelines;

I am strongly opposed to both options. The European Parliament's involvement in the BEPG process would raise issues of the balance between Member States and the European Parliament on economic policy matters for which the Member States have clear competence. Both proposals go against the principle of subsidiarity. Instead I agree with Ms Korhonen, who suggested: “*The Working Group proposes that a European Parliament hearing on the Broad Economic Policy Guidelines could be organised.*”.

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty**.

~~However, in order to make the Pact more effective, the group recommends that *[the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.]* *[and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned]*~~

The existing excessive deficit procedures are appropriate and reasonably balanced.

4c Open method of coordination

The Working Group considers that the **open coordination method has proved to be a useful policy instrument**. *[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, ~~but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method~~.*

By introducing the method of open coordination, an instrument has been developed that allows for rapid reaction to new challenges while leaving sufficient scope for Member States, necessary for the de-centralised approach to economic policy coordination. However, limits should be determined, particularly in areas for application that do not fall into the Union's competencies. I therefore would suggest to add in the final report:

"Its scope and limits should be laid down in the treaty."

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

While I agree with this conclusion I would like to refer to my own contribution WD 11. For a policy approach that is targeted towards economic growth, employment and price stability, it is important that the recently developed coordination and dialogue mechanisms are being further improved and gradually bundled within a comprehensive strategy. Thus coordination between the economic policies of Member States could be improved.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified

taxes, but sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition.

[The Group recommends that these changes consist of the following elements:

i) — ~~Maintaining the principle of unanimity for both indirect and direct taxation;~~

ii) — ~~Moving towards QMV~~

iii) Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the internal market].

On 29th of August this WG decided to review options on taxation already in discussion during the last ICG. Especially, Art. 93 should refer also to **direct taxation** and **exceptions in option iii) should be detailed** as already proposed in CONFER 04776/00, 28.9.00:

- des mesures de mise à jour technique ayant pour seul objet la simplification ou l'application uniforme, simple et transparente des règles communautaires existantes dans le domaine de la taxe sur la valeur ajoutée, des droits d'accises et du droit d'apport;
- *des mesures concernant les impôts indirects à la seule fin de prévenir la fraude, l'évasion fiscale et d'éviter que les règles existantes ne soient contournées.*

- **Section 5 on Institutional issues**

5 Institutional issues

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

The final conclusion should refer also to declaration Nr 7 of the Treaty of Nice. This **declaration** should be **integrated** into the Treaty:

7. DECLARATION ON ARTICLE 111 OF THE TREATY ESTABLISHING THE
EUROPEAN COMMUNITY

The Conference agrees that procedures shall be such as to enable all the Member States in the euro area to be fully involved in each stage of preparing the position of the Community at international level as regards issues of particular relevance to economic and monetary union.

**Comments by Philippe de Buck, Secretary-General of UNICE,
on the draft report from the WG VI to the Convention (WD 14)**

2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty**. ~~Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social cohesion and progress, and a social market economy.~~

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on the existing Article 2 TEU and Articles 2 and 4 TEC, and taking into account the above elements.

Comment:

The objectives of the Union are well and clearly defined in the above mentioned Treaty articles and already comprise high level of employment and social progress, sustainable growth, high degree of competitiveness, high level of protection. There is no need to add new objectives; one has to always match objectives and instruments for their achievement, so adding new objectives opens up a problem of transfer of competences.

The Group recommends that **the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States should be maintained**. However, taking into account the fact that Member States' economic policies are regarded as a matter of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic policies of the Member States**.

Comment:

Supported. The overall economic and monetary architecture of the EMU functions well and reflects the current state of European integration, respecting the principle of subsidiarity. Current attribution of competences also ensures clarity and transparency as to who is responsible and accountable for what area of economic policy.

3. Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions. ~~*{Some members of the Group consider that accountability of the ECB might be improved by}[enhancing the ECB's reporting to the EP][giving the EP a greater role in the designation of ECB Board members][providing for the obligatory publication of ECB minutes].*~~ The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute.

Comment:

Inflation introduces uncertainty and distortion into the economy, making it more difficult for all economic agents to take right decisions. Monetary stability is absolutely necessary for sustainable economic development. Only a strong and independent central bank is able to safeguard price stability, essential for creating conditions favourable to increased investment and employment. The benefits of low and stable inflation should be even better explained to the large public by the ECB. All proposals in brackets compromise the independence of the ECB and open the door for political pressure. This is unacceptable as the bank's independence is essential for achieving sustainable, non-inflationary growth. The current level of involvement of and the dialogue with the European Parliament is sufficient: the ECB presents its annual report to the EP, its president and members of the Executive Board may be heard by the competent parliamentary committees at the request of the EP or at their own initiative.

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers that this is primarily an issue for individual Member States and should not therefore be part of the constitutional treaty.

4a **Broad Economic Policy Guidelines**

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. *[The group recommends that the existing procedures remain unchanged]* ~~*[The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]*~~

Comment:

The BEPGs concern the coordination of national economic policies and therefore the Member States need to keep enough flexibility in agreeing them. In that way they are 'owned' by the Member States and not imposed on them, which should facilitate their national implementation. Thus, the existing procedures should remain unchanged.

The Working Group proposes that the European Parliament should be able to give *[its 'avis']* ~~*[an 'avis conforme']*~~ on the Broad Economic Policy Guidelines;

Comment:

The European Parliament already expresses its view on the BEPG informally. It is natural, as the BEPG are about the national economic policies, which are prerogative of national parliaments and national governments. Thus, the democratic legitimacy is ensured via the national parliaments, and the coordination at the European level via the fact that the Commission makes the initial recommendation.

[The Working Group recommends that there should be an informal consultation process with social partners on the Broad Economic Policy Guidelines.]

Comment:

UNICE recalls that there exists already an informal consultation process on the BEPG and UNICE, as a social partner and an actor actively involved in this process, is satisfied with the way it functions. There is no need to change the current set up of the Macroeconomic Dialogue (Cologne process), whose spring session is devoted to the discussion of the BEPGs.

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty.**

However, in order to make the Pact more effective, the group recommends that *[the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.][and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned]*

The Working Group considers that **greater discipline needs to be exercised by Member States**, in particular regarding warnings on excessive deficits.

Comment:

The lack of respect of the commitments undertook within the Stability and Growth Pact is one of the main shortcomings of the present situation.

4c Open method of coordination

The Working Group considers that the **open coordination method has proved to be a useful policy instrument.** ~~*[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method].*~~

Comment:

The open method of coordination is considered by the business community as a useful instrument to reach common objectives by methods best suited to local circumstances in the areas where the EU does not have competence. As such, it reflects the principle of subsidiarity, allowing at the same time for exchange of best practices and national experiences at the European level. It should remain a flexible and pragmatic instrument and as such should not be codified in the Treaty.

It is recommended that the consultation process with the social partners should continue. ~~*[The Group agreed that this process could be made more effective by providing for it in the Treaty].*~~

Comment:

UNICE is of the opinion that the current consultation procedures function well and that there is no need to include them in the Treaty.

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. ~~The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition.~~

Comment:

This sentence does not reflect the discussions in the group. It is not only the differences in tax rates that create obstacles to smooth operation of the internal market. Therefore, the sentence should be deleted or reformulated to: 'The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of systems to the proper functioning of the single market'.

[The Group recommends that these changes consist of the following elements:

- i) Maintaining the principle of unanimity for both indirect and direct taxation;*
- ii) Moving towards QMV*
- iii) Maintaining the principle of unanimity with the exception of areas affecting directly the*

fundamental freedoms or the internal market].

Comment:

UNICE asked the Secretariat to study option iii) in more detail, as the current formulation allows for multiple interpretations.

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience. In the meantime, there is **no need for new Treaty provisions**. The Group however notes that the issue of secondary legislation in this area raises important horizontal questions in the area of comitology which go beyond the mandate of the group.

5. Institutional issues

The Working Group considers that the **Eurogroup has an important role** to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a large majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission. ~~*[A number of members of the group consider that, in order to take decisions related exclusively to the Eurozone, a 'EURO-ECOFIN' consisting of participating countries should be provided for in the Treaty as an institutional entity (albeit) temporary, in its own right].*~~

Comment:

Creation of a EURO-ECOFIN Council would require transfer of competences from the 'full' ECOFIN. Currently the ECOFIN Council already takes decisions with the votes of the euro-members only, effectively acting as EURO-ECOFIN.

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions

of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

Please find attached my brief remarks on the draft report presented by Mr. Hänsch.

To 3. Monetary policy:

I would be in favour of publishing the ECB minutes so that we could better understand the concerns of the members of the Board. This has been a success in the USA and the UK. I would, however, be against the EP designating members of the Board, which then could turn into clearly a political rather than an expert body.

To 4. Economic policy:

4a) I would support not changing the rules on the Broad Economic Policy Guidelines for the moment, as this will cause unnecessary political trouble on top of the other problems there will be in getting agreement on the draft Constitution. There will no doubt be a time when they should become more of a constraint.

I see no reason why the EP should not give its avis but certainly not an avis conforme which would lead to further conflict with the Council. Economic policy is a matter for National Governments in the concept of EMU not for the EP.

I see no real problem with informal consultations with social partners, except that it is steadily increasing the bureaucracy. After all the BEPG are presumably consulted in some way with social partners at national level.

4b) I am not sure that the Pact should be made more effective until it is modified to become more economically rational. I do not see a problem with Commission warnings which have no legal consequences.

4c) Open method of coordination

Given that the open method has been rather useful because it is so flexible and light, it would

seem inappropriate to put it in the Constitutional Treaty. However if as some people want, the Constitutional Treaty defines all methods of acceptable decision making and bans all other methods, then it must go into the Treaty.

4d) Taxation

iii) seems the most effective option on the assumption that discipline is possible in the EU institutions. As in practice there is not I think it has to be i). In reality there will be no great difference between ii) and iii).

To 5. Institutional issues:

I do not think that 'EURO-ECOFIN' is feasible at the moment, though at some stage it will be necessary. But that stage is, probably, when all member states have joined EMU.

Comments on Draft Report by Mr. de Bruijn, Alternate Member of the Convention Representative of the Netherlands Government

The last four months, the Working Group Economic Governance has conducted a review of matters concerning economic policy co-ordination in the European Union. The examinations of the Working Group have resulted in a draft report, which shall be discussed on 27 September next and which shall finally be submitted to the European Convention. In this respect, I wish to express the following remarks.

Ad 2. “General”

The Treaty texts are sufficient and complete. Changes as mentioned in the draft report are not desirable. ‘Improved co-ordination’ is possible if this does not lead to ‘enhanced co-operation’.

The draft text mentions a number of possible objectives which should be included in the Treaty.

The texts of TEU as well as in TEC, however, already include:

- Promotion of economic and social progress;
- A high degree of employment;
- The emergence of balanced and sustainable development (TEU) and;
- A high degree of employment and social protection;
- Sustainable and non inflationary growth;
- A high degree of competitiveness (VEG).

‘Competitiveness’ and ‘sustainable growth’ both return in existing Treaty texts as well. Moreover, the proposed text mentions a number of unlike and undefined objectives, e.g. *"social market economy"* and *"social progress"*. Either these should be deleted, or should be defined and be made subject to further discussion. Additionally, it should be mentioned that mutual contradictions can emerge between the different objectives (e.g. full employment could be reached, but only on the expense of *"social progress"*, for example by reducing benefit payments).

“Improved co-ordination between the member States” is desirable, certainly when this results in the improvement of the implementation of the social and economic policy of the Union. This phrase shall not be changed into or be explained, however, as “enhanced co-ordination”.

Ad 3. Monetary Policy

It is of crucial importance that the mandate of the ECB will not be changed. Therefore, the first sentence of this paragraph must be maintained. It could be considered, however, to give European Parliament the right to approve the nomination of new ECB Board Members

The remaining text between brackets, in which enhancing of the ‘accountability’ of the ECB e.g. is being proposed, is a correct reflection (‘some members think..’), but should nevertheless be deleted. Instead, the Netherlands would welcome the adoption of the following text: “*the lines of accountability of the European Central Bank should also remain unchanged*”. The following arguments are in favour of unchanged accountability of the ECB (re: previous discussions):

- Changing the ECB reporting is not necessary as this already is organised properly and sufficiently: e.g. the ECB-president visits EP four times a year for the purpose of reporting to EP;
- Moreover, it turned out from the discussions within the Working Group Economic Governance, that only a small minority favours an enhanced ‘accountability’ of the ECB. Therefore, the Netherlands does not approve the proposed texts between brackets referring to enhanced reporting and obligatory publication of ECB minutes.
- In the draft text no mention is made of a possible introduction of QMV with regard to article 112 lid 2b of the Treaty, concerning the assignment of members of the Board of Directors of the ECB. On the basis of this Article, assignment of ECB directors must be proposed by the Council and should be decided unanimously by the Council composed of the Heads of State and Government. **NB:** If this subject is proposed by members of the Working Group, than it should taken into consideration that the Netherlands judges the timing of discussion about this subject matter as too early and will strongly hold to the existing unanimity vote procedure.

At this moment the so called 'enabling clause' is being negotiated in Frankfurt, which is included in the Treaty of Nice. Furthermore: it is essential that *consensus* is being reached on the assignment of the president of the ECB, because this person plays a crucial role in a common policy area.

4. Economic Policy

4a: Broad Economic Policy Guidelines

- The Netherlands supports existing procedures to remain unchanged. The Netherlands do not

support a formal right for the Commission to initiate the Broad Economic Policy Guidelines;

- Introducing the right for the European Parliament to give an advice on the Broad Economic Policy Guidelines ('avis') might be considered;
- In the draft text, between brackets, it is indicated that an "*informal consultation process with the social partners on the Broad Economic Policy Guidelines*" should take place. This informal consultation already exists in the form of the Macro Economic Dialogue or "Cologne Process". Moreover, the Commission has recently proposed to establish a "Tripartite Social Top", in order to increasingly involve the social partners in the process of open policy co-ordination¹. Also, preceding the European Spring Council, consultations are being held with the social partners. Therefore, it is not clear at all what the aim and added value is of the proposed addition and therefore, this part of the draft text should be deleted.

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4b Stability and Growth Pact

In case a Member State threatens to reach an excessive deficit position Commission can *recommend* the Council to issue an 'Early Warning'. The Ecofin Council can decide to diverge from the Commission's recommendation by QMV. In the draft report two alternative options are proposed:

- The Commission *independently issues* an 'Early Warning' directly to the Member State concerned, without interference by the Council;
- The Commission *proposes* the (Ecofin) Council to issue an 'Early Warning'.

The Netherlands prefers the second option. It is essential that the Ecofin Council remains involved in the issuing of an 'Early Warning'. In this way, Member States preserve responsibility in judging their budgetary policy. In case of a Commission *proposal*, the Ecofin Council could only diverge from the Commission's proposal, however, when deciding accordingly unanimously, making it much more difficult for the Council to make mutual political concessions, while avoiding an Early Warning.

The option that the Commission would be in the position to autonomously issues an 'Early Warning' puts the Member States offside. Member States would not be involved any more in the decision-making leading to an Early Warning, and consequently they would more easily accuse the Commission of acting on its own account. As a result the 'Early Warning' would lose its preventive effect.

4c Open method of Co-ordination

- The draft text suggests that the method on open policy coordination should be laid down in the text in such a way that the flexibility of the instrument is safeguarded. This seems to be impossible, as this instrument appears in different varieties, weights, players and products. The paragraph between brackets should, therefore, be deleted, notwithstanding the smoothing words about flexibility
- Also, the draft text suggests, between brackets that the consultative process between the social partners should be included in the Treaty. This might be considered, but most likely damages the informal character of these consultations.

In this context we would like to give a brief reaction to Working Document 015 on the open coordination method. The Netherlands find that Working Document 15 contains some interesting ideas, which need, however, more detailed elaboration before they can be discussed by the Working Group. In our view, the open co-ordination method is a means to facilitate policy learning, benchmarking and peer pressure in areas where the competence lies at the level of an individual Member State. The Commission's role is to facilitate this process through regular reports. All this can be clearly communicated without integrating the open coordination method in the Treaty. On the contrary, including it in the Treaty would lead to a confusing situation and possibly to the creation of a new coordination process next to the existing processes such as the BEPGs or the Employment Strategy. This would be very hard to explain in a period of streamlining such processes.

4d Taxation

No progress was made concerning the draft text on taxation. No choice has been proposed by the Working Group Presidency for a choice between the three options, based on the preceding discussions. Option three is defined very vaguely and probably the phrase “*freedoms of the internal market*” was meant.

Important in this respect is also the sentence which reads: “*sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition*”. This implies that by agreeing a range of tariffs, tax competition which is harmful for the internal market can be avoided. This is not correct: harmful taxation can be caused by tariffs, but also by differences in tax base. Moreover, the terminology “*unified taxes*” will be experienced by some Working Group members as rather provocative.

The Netherlands is of the opinion that:

- The emergence of the Euro system does not lead to a change in reasoning for or against tax harmonisation. Differences in taxation policy can be underpinned with the argument that they stimulate efficient and effective policy measures. These differences also reflect national priorities where it comes to a mix of public services and appropriate tax levels;
- The growing economic interdependence between Member States has led to a certain level of convergence. Successful tax measures in one Member State are being implemented in other Member States as a result of the process of exchanging *best practices*, e.g. by making tax measures more employment friendly. The Code of Conduct to avoid harmful tax competition guarantees that Member States do not revert to dishonest methods for attracting tax revenues at the expense of other member States;.
- Tax harmonisation can be desirable in those areas where these measures constitute an impediment for the smooth operation of the internal market and labour mobility, or when the subject has a common international character (environment). The present Treaty offers sufficient scope to address subjects which lead to erosion of the mobile tax base (e.g. international savings); separate tax co-ordination for specific international sectors is, however, not desirable. For some specific areas of the taxation legislation QMV could be considered.

4. 5 INSTITUTIONAL ISSUES

The possibility for Euro zone Member States to independently decide on matters of their concern, already exists in the current Treaty (art. 122.3 and 122.5). The text between brackets is therefore not relevant and should be deleted.

It could be considered to extend this competence to e.g. parts of art. 99 (introduction of an Euro Zone /Euro Member States section in de Global Economic Policy Guidelines) and art. 104 (excessive deficit procedure against a Euro Member State). This prevents the need for an explicit emergence in the Treaty of a *Euro Ecofin*, which, as indicated in the draft text, would be more or less a temporary phenomenon and would not contribute to a more transparency (one more committee).

The draft text concerning *external representation* is not correct. Not all Member States, the Netherlands is one exception, experience the current informal arrangements for Euro representation as problematic. There is scope, however, to enhance European / Euro influence in international organisations, and as a subject matter might be included in the draft text.

Also, the ECB, which represents the Euro Zone on monetary issues in e.g. the G-7, should also be

mentioned in the last sentence of the related paragraph. No Working Group member seems to be in favour of turning the external representation of the Eurogroup to the President of the Eurogroup or to the Commission.

Report to the Convention by the Working Group on Economic Governance

1 Introduction

The Working Group on Economic Governance has carried out a systematic examination of all the issues set out in its mandate. These fall under three headings: monetary policy, economic policy and institutional issues (see CONV 76/02). During the course of its work, the Working Group has held hearings with Mr Duisenberg, Chairman of the ECB, Commissioners Solbes and Diamantopoulou, Mr Akerholm, Chairman of the Economic and Financial Committee, and Professor Rodrigues, academic and advisor to the Portuguese government.

The work of the Group has been based on the expectation that the Convention will agree to draw up a basic constitutional treaty. It has therefore looked at possible elements which might be included in such a treaty, but not excluded other issues which might be less appropriate for a constitutional treaty, or which might not require treaty change at all. In preparing this report, the Group has had particular regard to the implications of enlargement.

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2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty. *However, EU's main focus should remain on the Single Market and competitiveness.*** Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social cohesion and progress, and a social market economy.

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on the existing Article 2 TEU and Articles 2 and 4 TEC, and taking into account the above elements.

The Group recommends that **the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States should be maintained.** However, taking into account the fact that Member States' economic policies are regarded as a matter of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic policies of the**

Mem3 Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions.

[Some members of the Group consider that accountability of the ECB might be improved by][enhancing the ECB's reporting to the EP][giving the EP a greater role in the designation of ECB Board members][providing for the obligatory publication of ECB minutes][transparency of the ECB prodecudes should be increased]. The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute. ***These amendments must respect the equality of eurozone Member States.***

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers that this is primarily an issue for individual Member States and should not therefore be part of the constitutional treaty.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. *[The group recommends that the existing procedures remain unchanged][The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal.]*

The Working Group proposes that the European Parliament should be able to give *[its 'avis'] [an 'avis conforme']* on the Broad Economic Policy Guidelines;

[The Working Group recommends that there should be an informal consultation process with social partners on the Broad Economic Policy Guidelines.]

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty**.

However, in order to make the Pact more effective, the group recommends that *[the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.][and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned][the role of codes of conduct in the field of economic policy is increased].*

The Working Group considers that **greater discipline needs to be exercised by Member States**, in particular regarding warnings on excessive deficits.

4c *Streamlining the coordination processes*

The Working Group considers that the **open coordination method has proved to be a useful policy instrument**. *[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method].*

It is recommended that the consultation process with the social partners should continue. *[The Group agreed that this process could be made more effective by providing for it in the Treaty].*

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified taxes. *As a matter of fact, healthy tax competition between different countries promotes the reduction of the high tax burden in Europe. On the other hand clearly harmful tax competition must in any case be abolished.*

[The Group recommends that these changes consist of the following elements:

- i) Maintaining the principle of unanimity for both indirect and direct taxation;*
- ii) Moving towards QMV*
- iii) Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the internal market].*

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience. In the meantime, there is **no need for new Treaty provisions**. The Group however notes that the issue of secondary legislation in this area raises important horizontal questions in the area of comitology which go beyond the mandate of the group.

5 Institutional issues

The Working Group considers that the **Eurogroup has an important role** to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a large majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission. *[A number of members of the group consider that, in order to take decisions related exclusively to the Eurozone, a 'EURO-ECOFIN' consisting of participating countries should be provided for in the Treaty as an institutional entity (albeit) temporary, in its own right].*

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

**Contribution by Rt. Hon. Valdo Spini, representing the Italian Chamber of Deputies, on the
draft conclusions of the "economic governance" working group (WD014)**

General Issues

I agree on the need to clearly spell out the economic and social objectives of the Union in the future Constitutional Treaty. The present division of powers, giving the European Central Bank exclusive competence over monetary policy and the Member States over economic policy, should be completed by vesting the Euro-Group with an effective coordination function between the Euro-area states. I believe that the Group should say quite clearly that some form of EU-level economic governance is a necessary condition to protect the Euro and enable it to progress.

4.1. Broad Economic Policy Guidelines

The BEPGs are the instrument that must be enhanced in order to guarantee economic policy coordination. This entails enhancing the role of the European Commission, empowering it to submit formal proposals and not merely a draft recommendation, as well as the role of the European Parliament which could issue an opinion on the BEPGs. The social partners should also be involved in the drafting and implementation of the Guidelines.

The BEPGs could also play an essential part in helping to synchronise and simplify the various processes related to economic, employment and development policies, consistently with the objectives of the latest Commission communication on this issue. In particular, the Broad Economic Policy Guidelines should also include the final indications relating to these processes, where necessary adjusting their time-scales.

Stability and Growth Pact

It does not appear appropriate to incorporate the Stability and Growth Pact into the Treaty. However, the European Commission should be empowered to intervene directly and serve "an early warning" notice on a member state in the event of an "excessive deficit procedure".

5. OPEN COORDINATION METHOD

The fundamental components of the open coordination method should be incorporated into the Constitutional Treaty, preserving the necessary flexibility and obviating any risks of replacing the Community method. In this way, the Union would have a flexible and manageable instrument, with

a number of aspects defined in advance to guarantee its consistency and coherence, which could be used when appropriate in areas of complementary competence.

5.1. Tax Policy

Tax policy should be co-ordinated to ensure that it cannot become an instrument used by the Member States to practise unfair competition. Differences between taxation systems produce distortions in the internal market, and hamper economic and budgetary policy coordination. I therefore believe that this is an issue which should be subject to qualified majority voting and to the co-decision procedure with the European Parliament.

5.2. Institutional Issues

I am in favour of formalising the Euro-Group: Euro-area Member States ought to equip themselves with an institutional body empowered to take decisions on issues of common concern.

Representation of the Euro-zone at international fora (currently exercised by the ECB, the President of the Euro- Group or the Commission, as appropriate) should be exercised exclusively by a member of the Commission, who is able to guarantee the necessary continuity of action and protect the Community interest.

COMMENTS FROM MR BARNIER 26.09.02 (underlined drafting proposals and underlined comments)

Members of Working Group VI will find attached a proposal from the Chairman for a report from the Working Group to the Convention. This proposal aims to reflect the outcome of the discussions of the group on the full range of issues in its mandate, and takes into account the exchange of views in the group on the three sets of draft conclusions already circulated. The Chairman intends that a first discussion of this draft report take place at the meeting of the Working Group on 18 September.

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Report to the Convention by the Working Group on Economic Governance

General remark : the Commission will not repeat the arguments already exposed to the Group in its contributions and at the occasion of the hearing of Commissioner Solbes - which are now well known - but will just make brief comments and drafting suggestions. It also recalls that looking for a consensus is a positive approach, but that it might be useful to let certain important options open for discussion by the plenary session of the Convention.

In some parts of the report reference is made to the "Constitutional Treaty" and in others to the "Treaty". It should be decided whether this group wishes to take a view on the inclusion of certain articles in a constitutional treaty.

1 Introduction

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The work of the Group has been based on the expectation that the Convention will agree to

draw up a basic constitutional treaty. It has therefore looked at possible elements which might be included in such a treaty, but not excluded other issues which might be less appropriate for a constitutional treaty, or which might not require treaty change at all. In preparing this report, the Group has had particular regard to the implications of enlargement.

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2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty**. Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social cohesion and progress, and a social market economy.

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on the existing Article 2 TEU and Articles 2 and 4 TEC, and taking into account the above elements.

The Group recommends that **the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States should be maintained**. However, taking into account the fact that Member States' economic policies are regarded as a matter of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic policies of the Member States**.³ Monetary Policy

Some members of the Group consider that accountability of the ECB might be improved by enhancing the ECB's reporting to the EP, giving the EP a greater role in the designation of ECB Board members or providing for the obligatory publication of ECB minutes. The group nevertheless recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions.

Comments : it is suggested to invert the two sentences, as proposed options would contradict the general affirmation that the tasks, mandate and statute of the ECB should remain unchanged.

The group agrees on the importance, in the light of enlargement, of being able to amend paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, and invite the ECB and/or the Commission to make use of the enabling clause included in the Treaty of Nice to make proposals for amending Article 10 of the ECB statute as soon as the Treaty is ratified.

Comments: it would be useful to suggest an operational follow up.

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that economic policy coordination should be reinforced. In this respect, the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by increasing focus on implementation and ensuring that national parliaments have a stake in such commitments. The Group considers that the forms of involvement of national parliament is primarily an issue for individual Member States and should not therefore be part of the constitutional treaty.

Comment: it is important to recognise that proper functioning of EMU and implementing “Lisbon” strategy requires reinforced economic policy co-ordination and increased attention to be paid to consistency between national decisions and EU framework and commitments.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. While some members of the group recommend that the existing procedures remain unchanged, the group stressed the need to help ensure that the guidelines reflect the common European interest and that policies are consistent. Giving the Commission the right to make a formal proposal would be an important step in that direction.

The Working Group proposes that the European Parliament should be given a formal role and that it should be able to give its avis or avis conforme on the Broad Economic Policy Guidelines. It should nevertheless be noted that an “avis conforme” could block the adoption of the document. Member States would then be left alone to take national policy decisions with no co-ordination at EU level. One should also keep in mind that BEPGs are not in the legislative field.

[The Working Group recommends that there should be a consultation process with social partners on the Broad Economic Policy Guidelines.]

Comment : a consultation created by the Treaty cannot be considered as informal. The existing macroeconomic dialogue already allows such a consultation. The macroeconomic dialogue is currently based on a European Council Resolution, and it is of informal nature allowing open discussions between all parties (social partners, ministers, ECB, Commission). The Commission has already proposed a tripartite social summit before the Spring Council.

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Treaty**.

However, in order to make the Pact more effective, the group recommends that *[the Commission should be competent to issue first warnings on excessive deficits and the implementation of the BEPGs directly to the Member State concerned.]**[and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned]*

The Working Group considers that **greater discipline needs to be exercised by Member**

States, in particular regarding warnings on excessive deficits.

Comment: addressing recommendations to Member States in case of policies departing from the BEPGs is covered by the same Treaty article. The purpose is the same as with early warnings on deficits: to help Member States to take corrective action in time.

4c Open method of coordination

The Working Group considers that the **open coordination method has proved to be a useful policy instrument** in policy areas where no stronger coordination instrument exists. *[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method].*

Comment: adding a reference to existing stronger coordination instruments (like the BEPGs) would clarify the situation and the fact that the open coordination does not replace stronger instruments.

It is recommended that the consultation process with the social partners should continue. *[The Group agreed that this process could be made more effective by providing for it in the Treaty].*

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure the proper functioning of the single market

[The Group recommends that these changes consist of the following elements:

- i) *Moving towards QMV*
- ii) *Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the good functioning of the internal market].*

Comment : the first option is clearly not compatible with the introductory paragraph mentioning the changes to be made.

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented and that there are ongoing discussions on its extension to other financial fields**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience. In the

meantime, there is **no need for new Treaty provisions**. The Group however notes that the issue of secondary legislation in this area raises important horizontal questions in the area of comitology which go beyond the mandate of the group and thus find an answer in the work of other groups.

Comment: the text could better reflect the current state of affairs and explicitly say that the issue should be answered in an horizontal way.

5 Institutional issues

The Working Group considers that the **Eurogroup has an important role** to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission. *While recognising the need to keep the Eurogroup as an informal forum for discussion, a number of members of the group consider that, decisions related exclusively to the Eurozone should be taken by the Ecofin Council, meeting in a special composition gathering the sole participating Member States.*

Comment: the first part of the paragraph and the option in brackets are not exclusive. The Eurogroup should remain for the purpose for which it was established, while at the same time giving an institutional answer within the normal Community framework to the existence and specific policy coordination need of the euro area.

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required might depend in part on the international organisation, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission. The need to ensure consistency over time and to reflect the common interest should be taken into consideration.

Comment : being formally represented by the President of an informal body appears to be an institutional contradiction. The Commission, in close cooperation with other institutions, would better ensure a single position and consistency over time.

Comments by Mr. Glotz Member of the Convention, representative of the German Government

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1 Introduction

The Working Group on Economic Governance has carried out a systematic examination of all the issues set out in its mandate. These fall under three headings: monetary policy, economic policy and institutional issues (see CONV 76/02). During the course of its work, the Working Group has held hearings with Mr Duisenberg, Chairman of the ECB, Commissioners Solbes and Diamantopoulou, Mr Akerholm, Chairman of the Economic and Financial Committee, and Professor Rodrigues, academic and advisor to the Portuguese government.

The work of the Group has been based on the expectation that the Convention will agree to draw up a basic constitutional treaty. It has therefore looked at possible elements which might be included in such a treaty, but not excluded other issues which might be less appropriate for a constitutional treaty, or which might not require treaty change at all. In preparing this report, the Group has had particular regard to the implications of enlargement.

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2. General

The Group recommends that the **Union's economic and social objectives should be included in a new constitutional treaty**. Some members of the group have emphasised the importance of including a reference to sustainable growth and competitiveness. Others attach more importance to highlighting full employment, social cohesion and progress, and a social market economy.

It is proposed that the text for the constitutional treaty be drafted in a balanced manner, based on the existing Article 2 TEU and Articles 2 and 4 TEC, ~~and taking into account the above elements~~. However, the economic and social goals in these articles should not be amended or modified.

The Group recommends that **the current structure whereby exclusive competence for monetary policy within the Eurozone lies with the ECB and competence for economic policy lies with the Member States should be maintained.** However, taking into account the fact that Member States' economic policies are regarded as a matter of common concern (Article 99 TEC), the Group also agrees that there is **a need for improved coordination between the economic policies of the Member States.**

3 Monetary Policy

The group recommends that **the tasks, mandate and statute of the European Central Bank should remain unchanged**, and should not be affected by any new treaty provisions. ~~*[Some members of the Group consider that accountability of the ECB might be improved by][enhancing the ECB's reporting to the EP][giving the EP a greater role in the designation of ECB Board members][providing for the obligatory publication of ECB minutes].*~~ The group agrees on the importance, in the light of enlargement, of being able to amend **article 10** paragraph 2 of the ECB statutes relating to the working methods of the ECB's Governing Council, as foreseen by the enabling clause in the Treaty of Nice amending Article 10 of the ECB statute. In order to limit the number of members of the ECB Council (and not only the voting rights), in addition a change of article 10 paragraph 1 could be considered.

4. Economic policy

Given the importance of economic policy coordination, the Working Group considers that the **commitment by Member States to decisions taken within the coordination framework at the European level should be strengthened**, in particular by ensuring that national parliaments have a stake in such commitments. The Group considers that this is primarily an issue for individual Member States and should not therefore be part of the constitutional treaty.

4a Broad Economic Policy Guidelines

The Broad Economic Policy Guidelines are considered by the Group to be an important instrument for supporting economic policy co-ordination. ~~*[The group recommends that the existing procedures remain unchanged][The group recommends that in order to help ensure that the guidelines reflect the common European interest, the Commission be given the right to make a formal proposal].*~~

However, some members proposed to change Art. 99 paragraph III in order to give the Commission a more important role in the surveillance of the economic policy. The Working Group proposes that the European Parliament should be able to give [its 'avis'] [an 'avis conforme'] on the Broad Economic Policy Guidelines;

~~*[The Working Group recommends that there should be an informal consultation process with social partners on the Broad Economic Policy Guidelines].*~~

4b Stability and Growth Pact

The Working Group considers that the **Stability and Growth Pact should remain outside the Constitutional Treaty**.

~~*However, in order to make the Pact more effective, the group recommends that [the Commission should be competent to issue first warnings on excessive deficits directly to the Member State concerned.] [and that the Council should take decisions by QMV on the basis of a Commission proposal, excluding from voting the Member State concerned].*~~

The Working Group considers that **greater discipline needs to be exercised by Member States**, in particular regarding warnings on excessive deficits.

4c Open method of coordination

The Working Group considers that the **open coordination method has proved to be a useful policy instrument**. ~~[Given that it is now applied to a number of different policy areas, it is recommended that the basic objectives and elements of the method be included in the Constitutional Treaty, but in a manner which does not undermine the flexibility of the method (which is one of its main advantages) and which does not have the effect of replacing or circumscribing the 'Community' method].~~

It is recommended that the consultation process with the social partners should continue. ~~[The Group agreed that this process could be made more effective by providing for it in the Treaty].~~

The Working Group supports the conclusions of the Barcelona European Council that the various **coordination processes be streamlined**. It recommends that, in order to implement the Lisbon strategy, **further efforts should be made to synchronise and simplify these processes**.

4d Taxation

The Working Group recommends that the **competences of the EC in the area of fiscal policy as set out in article 93, 94 and 175 TEC should be maintained**.

The Group agrees that **some changes should be made to the existing decision-making procedures in order to facilitate progress in the area of fiscal policy**. ~~The Group underlines that the objective of these changes should not be the establishment of unified taxes, but sufficient approximation of rates to ensure that the functioning of the single market is not affected by tax competition.~~

[The Group recommends that these changes consist of the following elements:

- i) — Maintaining the principle of unanimity for both indirect and direct taxation;*
- ii) — Moving towards QMV*
- iii) — Maintaining the principle of unanimity with the exception of areas affecting directly the fundamental freedoms or the internal market].*

"The principle of unanimity for Council decisions pursuant to Articles 93, 94 and 175 (2) first indent of the EC Treaty, shall be abolished, moving to qualified majority decisions in most cases:

- For indirect taxes, qualified majority decision-making should become the norm; unanimity should still apply in a few exhaustively listed areas (setting the tax rates, fixing the tax rate structure and the place of taxation, the transition to a definitive scheme for imposing turnover tax).
- As regards direct taxes, a transition to qualified majority voting is proposed for measures to eliminate the harmful tax competition, measures to eliminate direct obstacles to the free movement of goods, persons, services and capital as well as for preventing double or non-

taxation.

- Matters relating to environmental and energy taxation should also be decided by qualified majority.
- In addition, the provisions on cooperation between administrative authorities, in particular in the field of combating fraud, should be subject to qualified majority voting."

4e Financial Markets

The Working Group notes that **the recommendations in the 'Lamfalussy' report on simplifying regulation of securities markets have been implemented**. It agrees that a proper assessment of these measures can only be made in the light of sufficient experience. In the meantime, there is **no need for new Treaty provisions**. The Group however notes that the issue of secondary legislation in this area raises important horizontal questions in the area of comitology which go beyond the mandate of the group.

5 Institutional issues

The Working Group considers that the **Eurogroup has an important role** to play in facilitating discussions between participating countries, and that this will increase after enlargement given that, for a transitional period, its membership will no longer represent a large majority of Member States. The Group therefore considers that no measures should be taken which would prevent the possibility of informal discussions amongst finance ministers of the Eurogroup, the ECB and the Commission. ~~*A number of members of the group consider that, in order to take decisions related exclusively to the Eurozone, a 'EURO-ECOFIN' consisting of participating countries should be provided for in the Treaty as an institutional entity (albeit) temporary, in its own right*~~

The Group agrees that the **current informal arrangements** (reflecting the fact that the provisions of Article 111 paragraph 4 TEC have not been implemented) for **representing the Eurozone in international organisations are problematic**. Whilst recognising that the type of representation required ~~might~~ depends in part on the type of international organisation and its legal and institutional constraints, views within the group differ between those who wish to see this role lying essentially with the President of the Eurogroup, and those who prefer to follow the practice in the area of trade policy by conferring this task to the Commission.

Comments by Mr. Henrik Hololei
Alternate Member of the Estonian Government
to the draft Report from the Working Group (WD014)

2. General

Union's economic and social objectives are already included in the Article 2 TEU and Article 2 and 4 TEC. I find them to be well balanced at the moment and therefore the text of the new Constitutional Treaty should be based on above-mentioned Articles without changes to avoid possible conflicts in objectives and in order to achieve maximum clarity of the objectives.

Regarding the division of competencies between the Member States and EU I agree that the current structure should be maintained. Generally speaking the rules governing economic policies in EU have functioned well and it is too early to make any changes. There is some room for improvement in implementation as the consistency of different coordination instruments should be improved.

3. Monetary Policy

I agree that the tasks, mandate and statute of the European Central Bank should remain unchanged. ECB already reports annually to the European Parliament and the President has quarterly monetary dialogue with Monetary and Financial Committee of the Parliament. The EP is also consulted in the process of electing the Members of the Board. Regarding the Monetary Policy decisions by the ECB, the president is always presenting the main arguments at the press conference. Taking this into account I agree with Mr. Akerholm that ECB is more transparent than most of its member banks and I find that it is also well positioned in an international comparison. Any changes to the current situation could jeopardize the independence of the ECB and therefore the text in brackets should be deleted.

4. Economic Policy

I support the proposal that the commitment of economic policy coordination by Member States should be strengthened within the current coordination framework.

The present macro-economic policy coordination is based on Community-wide broad economic policy guidelines, excessive deficit procedure and SGP, and on convergence/stability programs (pre-accession economic programs for candidate countries). That framework is comprehensive and provides, in principle, all necessary tools for policy coordination on the Community level. It also strikes clear balance between Member States and the Community institutions.

The focus on structural part of BEPGs country sections should be further strengthened and should cover policy priorities for several years in sufficient detail to match properly convergence and stability programs of Member States as well as documents stemming from Cardiff and Luxembourg

process. BEPGs should serve as a comprehensive set of policy recommendations in main areas of structural reform both Community-wide and in individual Member States.

On convergence and stability programs, the Code of Conduct should be adhered to and where necessary, further strengthened. Analysis of structural budgetary positions should be given particular attention (while maintaining the nominal 3% and medium term balanced budget rules).

4a Broad Economic Policy Guidelines

One possibility to improve the effectiveness of the coordination is **to increase the capacities of the Commission in this process**. Commission should be given the clearly assured responsibility for surveillance of macroeconomic situation and structural reforms in Member States. **Therefore I find it reasonable to give the Commission the right to make a formal proposal.**

The European Parliament has already a possibility to express its views on BEPG and is also informed about the results. **Increasing the role of the EP would complicate the process and make it more time consuming.**

The same rationale concerns the social partners. Macroeconomic dialogue is at the moment an important input to the BEPG and the achieved balance should not be changed.

The ownership of Member States should be strengthened, primarily by peer reviews and peer pressure in context of yearly regular follow-up of policy measures.

4b Stability and Growth Pact

The proposed text regarding the SGP is acceptable. There is no need to include one fiscal policy measure into the Treaty.

I would support also the idea of increasing the role of the Commission in issuing first warnings on excessive deficits and that the decisions in the Council should be taken on the basis of Commission proposal by QMV, excluding from voting the Member State concerned.

It should support the proper functioning of SGP, improve the discipline of Member States and reduce the risk of the decisions being influenced by political situation. Greater fiscal discipline is also important from the viewpoint of stability of common currency.

4c Open method of coordination

I agree that **the open coordination method has proved to be a useful policy instrument and that some of its basic elements could be included in the Treaty**. However it should be **additional measure**, not substitute to existing traditional coordination methods.

I do not find it necessary to include the consultation process with the social partners into the Treaty.

As already mentioned above the different coordination methods should be more consistent, the processes streamlined, better synchronized and simplified. It would increase transparency of economic policy coordination in EU.

4d Taxation

Taxation is direct outcome of domestic policy choices in every Member State and therefore reflects fundamental preferences of the society. EU should be very careful making any decisions on harmonizing tax policies. Therefore **I do not see any need to change the present decision making procedure regarding taxation and the principle of unanimity should be maintained.**

4e Financial Markets

The wording of this section is acceptable and I agree that there is no need for Treaty changes.

5 Institutional issues

Deliberations on the case for formalizing the Eurogroup should depart from the question on what economic and monetary policy measures are relevant for Eurogroup only in the EMU context while having negligible effect on the Community as a whole. One may consider exchange rate *vis-à-vis* the third countries' currencies and fiscal policies as possible candidates in such a list. The rate of exchange between the euro and national currencies of non-Euro members is the matter of common concern. It implies that any agreements or policy measures in respect of the external value of the Euro *vis-à-vis* the third countries have direct impact on economic conditions in the whole Community. Therefore **I would support that the Eurogroup should continue in a present form.**

I agree that Eurozone should prepare common statements and be able to speak with one voice if needed. However those questions should be solved case by case as there is probably no uniform solution. **First of all Eurozone has to prepare its positions in an effective way**

**Comments by Alfonso Dastis to the draft Report to the Convention by the Working Group on
Economic Governance**

Madrid, 24th of September 2002

1 Introduction

No comments

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2. General

I agree that the Union's economic and social objectives should be included in the new constitutional treaty. However, I think that no redrafting of article 2 TEU and Articles 2 and 4 TEC should be undertaken since those articles cover those objectives already in a carefully balanced manner.

No amendments suggested to the second paragraph.

3 Monetary Policy

None of the sentences in brackets should be included in the report, at least as a consensual statement. The rest of the paragraph is acceptable.

4. Economic policy

The paragraph is acceptable as is.

4a Broad Economic Policy Guidelines

I believe that the existing procedures for the BEPGs should remain unchanged. My position is thus that the first sentence in brackets should be added to the report. The other bracketed sentences should consequently be deleted.

In addition to that, the words “ an important instrument” in the first sentence of the first paragraph should be replaced by the words “the key instrument”, to emphasize the key role of the BEPGs in ensuring economic policy co-ordination.

I don't think that the involvement of the European Parliament in the elaboration of the BEPGs should be altered. Consequently I propose that the entire paragraph be deleted. The same goes for the paragraph concerning the involvement of the social partners.

4b Stability and Growth Pact

I can accept the wording of both the first and the third paragraphs.

As far as the second paragraph is concerned, it needs some clarification and should have separate sentences for the different phases of application of the pact. Subject to the examination of the precise wording, I would support some strengthening of the Commission's position in the warning phase and would accept the exclusion of the member State concerned in the voting. However, I am not prepared to accept the replacement of the existing recommendation of the Commission by a proposal.

4c Open method of co-ordination

While I agree that the open co-ordination method has proved to be a useful policy instrument, I do not support its inclusion in the Treaty, precisely because it would make it lose its current virtues, namely, its flexibility and its informality and could adversely affect the use of the traditional methods of action by the Communities.

I don't see in which way the consultation process with the social partners could be made more effective by providing for it in the Treaty. Therefore, the sentence in brackets should be deleted.

I agree with the third paragraph.

4d Taxation

I believe that no changes should be made to the existing provisions of the Treaty concerning taxation, be it as regards competencies or decision-making procedures. Therefore, the bracketed sentences should disappear and the second paragraph should be adjusted accordingly.

4e Financial Markets

The paragraph is acceptable to me.

5 Institutional issues

I am not in favour of establishing a restricted ECOFIN, since that would jeopardise the institutional unity of the Union. On the other hand, I believe that the possibility of extending the number of issues on which voting could be restricted to members of the Eurogroup should be provided for in the Treaty.

I agree that the current informal arrangements for representing the Eurozone in international organisations are problematic. I would support the inclusion of language favouring the strengthening of internal co-ordination, possibly by not requiring unanimity, and increasing the stability of the Presidency of the Eurogroup, which could then take up the external representation of the Eurozone.
