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COVER NOTE

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to The Convention

Subject : French-German contribution on Economic Governance

The Secretary-General of the Convention has received the attached contribution from Mr Joschka Fischer and M. Dominique de Villepin on Economic Governance.

FRENCH-GERMAN CONTRIBUTION TO THE WORK OF THE EUROPEAN CONVENTION ON ECONOMIC GOVERNANCE

The existence of the euro, the experience of the coordination of economic policies since 1997 and the entrance of new members in the European Union underline the need for strengthening of Europe's economic governance, particularly in the euro area.

The current framework of the European governance reflects a well balanced share of competences:

- the monetary policy competence within the euro area lies within the Community and is exercised by the ECB;
- the budgetary policy competence lies within the Member States: they have to respect the discipline (art.104: avoiding the excessive government deficits) and to coordinate their economic policies (art. 99) within the ECOFIN Council ;
- the Commission has no executive powers but it shares with the Council a role of multilateral surveillance of the economic policies. The Council has the power to make recommendations to the Member States concerned (art. 99.4, art.104.6) and to decide sanctions (art.104.11) ;
- The Eurogroup, set up by the European Council in 1997, is the primary forum for the informal coordination in the euro area but only the ECOFIN Council is able to take formal decisions.

While maintaining this functional share of competences in the Treaty France and Germany seek a way to achieve a closer coordination of economic policies in the EU, and especially in the euro area, in order to promote economic growth in Europe and to reinforce the weight of Europe. To achieve these objectives, economic governance could be strengthened by :

- an appropriate framework respecting the share of competences, and efficient procedures for the euro area to ensure quick, credible and appropriate decisions ;
- a recognition of the special interests for the Members States belonging to the euro area for a closer cooperation.

In this context, France and Germany would like to express their common views on four main subjects that were emphasised by the working group's report on economic governance and during the discussions in the plenary session :

1) STRENGTHENING COHESION IN THE EURO AREA BY REINFORCING THE EUROGROUP AND THE DECISION-MAKING CAPACITY OF THE EURO AREA

France and Germany are in favour of the reinforcement of the economic coordination within the euro area. Effective coordination of economic policies is of the highest importance for the countries in the euro area since they share a common interest rate policy. This implies a need to discuss these issues regularly and to ensure a good coordination of common policies with the budgetary and tax policies that remain largely national. Further integration and an entirely effective policy mix require stronger convergence. Therefore, they have three proposals for the euro area :

- 1) recognise the Eurogroup in a Protocol annexed to the Treaty to preserve its vital role for guidance of the euro area, while remaining a forum for informal dialogue with the ECB.
- 2) elect the president for a two-year term in order to strengthen the Eurogroup's presidency and to improve its visibility.
- 3) moreover, because of a large number of Member States will not be members of the euro area for many years, France and Germany underline the necessity for Member States of the euro area to decide among themselves within the Council on issues arising out of the existence of their common currency (for example, stability programs, section of the BEPG's regarding the eurozone). It could take the form of a Euro-ECOFIN Council as proposed by the Commission.

2) IMPROVING COORDINATION OF ECONOMIC POLICIES

Improving coordination of economic policies is desirable insofar it does not disrupt the balance of the existing institutional triangle (Commission-Council-European Parliament) which has proven its efficiency.

France and Germany make the following proposal:

- 1) the strengthening of the central instrument for coordinating policies, i.e. the BEPG's, by an increased focus on implementation and encouraging more active involvement by the national parliaments and

2) the reinforcement of the surveillance budgetary procedures

A clear distinction should be made between the procedures linked to objective surveillance powers (early warning procedure when there is a risk of breaching the threshold of 3%) to be granted to the Commission and the role of recommendations in the field of economic policy to remain to the Council. The Commission should have the right to assess, independently from the Council, when there is a risk of breaching the threshold of 3%. This assessment should be made in common with the Member States in a contradictory procedure and should be based on a full and comprehensive analysis. Moreover, it implies that the Commission should improve the quality and the effectiveness of the surveillance.

The Commission's responsibilities regarding the BEPG's and Excessive Deficit Procedure should be kept unchanged.

3) FINALISING THE INTERNAL MARKET BY ACHIEVING GENUINE CONVERGENCE OF TAXATION

In the fiscal area, the unanimity decision making would be a major impediment to any progress. Therefore, France and Germany reiterate their common position presented in 2000 in the Nice European Council on a broader use of a qualified majority vote for tax issues directly related to the internal market, such as for the elimination of direct obstacles to the free movement of goods, persons, services or capital and, in particular, the prevention of situations involving discrimination, double taxation or double remission, for certain provisions for the harmonisation of turnover taxes and excise duties and cooperation between tax authorities, for combating fraud and tax evasion and for elimination of harmful tax competition. It seems to be necessary to finalize the internal market, i.e to limit existing divergences between taxation in the Member States and to eliminate harmful tax regimes. In addition, the most pragmatic and the most efficient medium-term approach to the creation of a single Europe is to fix a policy convergence objective focusing efforts on a number of key tax issues.

4) MOVING TOWARDS SHARED EXTERNAL REPRESENTATION

With respect to the external representation of the euro zone, France and Germany share the view that a single representation in international financial institutions such as the IMF will be the adequate voice of a integrated Europe. A single European seat will increase the weight of the European Union compared to other major actors in the international environment. As first step, it requires strengthening and improving the preparation of common viewpoints in international financial institutions.

Joschka Fischer

Dominique de Villepin
