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The President

Mr Herman Van Rompuy
President of the European Council
Rue de la Loi 175
B-1048 Brussels

316560 04.10.2012

Dear President,

I am pleased to send you herewith the position of the European Parliament on your "*Issues Paper on Completing the Economic and Monetary Union*". The reflection note "*Towards a real Economic and Monetary Union - Building a capacity to decide*" has been drafted by the European Parliament's representatives and was endorsed by the Conference of Presidents of the political groups on 2 October 2012.

Yours sincerely,

Martin Schulz

Annex

2 October 2012

REFLECTION NOTE

By the representatives of the Parliament

Towards a real Economic and Monetary Union Building a capacity to decide

I. Guiding Principles

A real Economic and Monetary Union (EMU) should be based on the guiding principles of the European Union as laid down in the Treaties, especially in Articles 3 TEU and 9 TFEU. It must support the social market economy by promoting sustainable growth, competitiveness, employment, and by safeguarding the European social model. In a genuine EMU, stability, solidarity, growth and democracy must go hand in hand.

These principles should be reinforced and implemented with a view to a better division of roles and resources between the EU and the Member States while acknowledging their respective democratic legitimacies. The EU should set binding economic policy guidelines and fiscal benchmarks under the co-decision procedure, whilst leaving up to Member States the responsibility as to how to implement them. The EU should have its budgetary capacity increased through its own resources in order to address imbalances and foster growth and social cohesion. National Parliaments should retain full responsibility concerning their budgets within the boundaries of the EU's fiscal framework. A true European political sphere has to emerge as the source of legitimacy and political authority at the EU level.

In accordance with these principles and to this vision, the European Parliament stresses three basic points:

First, there must be no division of the European Union.

Secondly, the Euro is the currency of the European Union and the European Parliament is the parliament of the European Union. The European Parliament, therefore, it is the parliament of the Euro.

Thirdly, the "Community method" is the only viable way to effective and democratically legitimate decision making at EU level, and EMU is a communitarian policy. Reinforced EMU governance must be based on the EU institutions. All legislative measures must be adopted under co-decision.

If the full establishment of a genuine Economic and Monetary Union within the EU will require in the medium term a Treaty change to be completed, none of the steps necessary to frame it and make it work are prevented by the current Treaties. On the contrary, acting swiftly and thoroughly within the current Treaty framework is the only way to prepare the ground for a future and successful Treaty change. For this reason, this paper will highlight what could and should be done within the existing Treaties.

II. The Four Building Blocks

1. Banking Union

A single banking supervision authority, a banking resolution mechanism and a deposit guarantee scheme must be adopted in co-decision. Single banking supervision must be adopted as a single package in co-decision. It has to be recalled that the bridging clause may always be used. Once single supervision is established, the ESM can be activated in line with European Council decisions.

Democratic parliamentary oversight of banking supervision activities must be established:

- Hearing and consent for in-coming chairpersons;
- Regular reporting with a right for the European Parliament to object;
- Ad-hoc hearing procedures;
- Right to audit.

Full budgetary control by the European Parliament and the Court of Auditors and full jurisdiction of the European Court of Justice should be ensured.

2. Fiscal Union

In order to reconcile fiscal consolidation, growth, productivity, competitiveness and the European social model and to counteract pro-cyclical tendencies and safeguard productive investment, the Commission should make proposals to identify, in the framework of ex-ante co-ordination, eligible investments to be prioritised within the boundaries of the EU and national fiscal frameworks.

A stronger and more integrated fiscal union should include different forms of fiscal solidarity, from short-term funding instruments on a limited and conditional basis, to gradual roll-over into a redemption fund.

The new legislation on enhanced budgetary surveillance ("Two-Pack") should be swiftly finalised. The Treaty on Stability, Cooperation and Governance must be integrated into the Union Treaties within five years, as provided for in that agreement.

The European Commissioner for Economic and Monetary Affairs should always be a Vice-President of the Commission and chair the Euro Group. He or she should become Treasurer of the EU with a specific status.

3. Economic Union

The existing Treaties already provide the necessary tools for strengthening the efficiency and the legitimacy of the decision-making and governance of EMU. All measures must aim at preserving the social market economy and the European social model.

The legal bases in the Treaties related to the internal market and to the social and cohesion policies should be further used and coordinated among themselves to reinforce the economic and social dimension of the Union.

Enhanced cooperation in the framework of the existing Treaties should be considered the natural way to deepen the Union and to complete the internal market in case of blockage, as in the fiscal policy field. The use of these instruments in conjunction with Article 136 TFEU could radically facilitate the adoption of measures for the Euro-area.

Institutional instruments such as the bridges to qualified majority voting and to the ordinary legislative procedure should be implemented.

An Inter-institutional Agreement should be negotiated to involve the European Parliament in the drafting and approval of the Annual Growth Survey and the Economic Policy and Employment Guidelines.

An increased budgetary capacity based on specific own-resources (including a financial transactions tax) should, in the framework of the EU budget, support growth and social cohesion addressing imbalances, structural divergences and financial emergencies which are directly connected to the Monetary Union.

While preserving and fully applying the rules of the "Six-Pack" and the European Semester, Member States experiencing substantial fiscal and macro-economic problems should be assisted in the double challenge they are facing in this crisis: fostering their competitiveness and growth while undergoing necessary fiscal consolidation. Taking into account the performance of the Member States with regard to the European Semester and the Europe 2020 headline targets, additional support from EU programmes and policies should be made available.

Building upon existing strategies, a new set of guidelines for Member states, including binding social and economic benchmarks with minimum standards to be applied to the main pillars of their economies, should be introduced. Member States would have the responsibility to determine how to apply them.

The provisions on the external representation of the European Union provided for in Article 138 TFEU should be implemented.

4. Political Union

A Fiscal, Economic and Banking Union require a Political Union. As the Institution directly representing EU citizens, the European Parliament has to be the cornerstone of such Political Union. No new accountability structures specific to the euro-area must be established. The accountability of the Commission to the European Parliament has to be anchored to European politics and the electoral process.

Any possible differentiated integration scheme must in any event preserve the indivisibility of the Commission and the European Parliament.

Any future modification of the Treaties, in the medium term, must improve the decision-making process of the Union. This means generalising qualified majority voting and transforming the remaining special legislative procedures into ordinary ones (co-decision).

(a) Strengthening the democratic process

All new Union legislation concerning economic governance, financial supervision and budgetary matters must be agreed under co-decision in order to ensure the full legitimacy of such measures through the joint decision-making of the Council and the European Parliament. The current Treaties enable this democratic imperative to be fulfilled through the use of the bridging clause in Article 48(7) TEU. Any further integration of budgetary, economic or fiscal policies requires the full involvement of the European Parliament.

The ESM should be subject to proper scrutiny by the European Parliament. An EU stability mechanism should be developed within the EU legal framework.

High standards of democratic accountability should also apply to the *Troikas*, which have a decisive role for Member States that are under a programme. This should include a European Parliament hearing of, and consent to the appointment of the *Troika* chief, regular reporting from the *Troika* to the European Parliament, ad-hoc hearings and the right to audit *Troika* action. The European Parliament should make sure that the *Troika* respects the core principles of the European Union, including the principle of subsidiarity.

At this stage, the implementation of high standards of democratic accountability for the *Troika* may be achieved through a working agreement with the European Commission, as the latter is partly responsible for the appointing and supporting the *Troika*. By doing this, the European Parliament is naturally complementing the role of the respective National Parliaments which find themselves in a weak position as recipients of financial support. The Commission must report to the European Parliament any proposals it makes relating to national budgets.

The Council of Ministers should decide to organize itself with a more visible parliamentary dimension in all the questions where it acts as a legislator, thereby fulfilling its function as the second legislative chamber of the Union.

The distribution of seats in the European Parliament should take into account the number of citizens represented in an objective manner.

(b) Foster the emergence of a genuine European political sphere

The most recent proposal of the European Commission for a European legal statute for European Political Parties should be quickly adopted. It must oblige European Political Parties to have in place democratic structures for their internal proceedings.

In this respect, Declaration 11 on arrangements for consultations between the European Parliament and the European Council in the process leading to the election of the President of the European Commission, annexed to the final act of the Lisbon IGC, offers enormous potential if carefully implemented.

Furthermore, European electoral law still offers a variety of possibilities to progress pragmatically: candidates for the European Parliament should be known to the electorate at least six weeks before the election date. There should be lead candidates appointed by the European Political Parties. Elections should close everywhere at 20.00 hrs to allow results to be known all over Europe the same evening. The name of the European Political Party should appear together with the name of the national political party on the ballot paper.

(c) Cooperation between European Parliament and national parliaments

Cooperation between the European Parliament and National Parliaments was consecrated by the Lisbon Treaty. The European Parliament will pursue faithful cooperation to share information and expertise with National Parliaments at every relevant level, with the aim of ensuring that parliamentarism is at the core of the European public space.

Cooperation with National Parliaments must contribute, in particular, to the implementation of the principle of subsidiarity.

The working arrangement between National Parliaments and the European Parliament in the framework of Article 9 of Protocol 1 TEU and Article 13 TSCG should respect the existing distribution of powers and the decision-making procedures provided for by Treaties. Interparliamentary cooperation with regard to the European Semester has already proved its value and should be strengthened.

An enhanced EMU governance also needs that the governments of Member States consult with their respective parliaments on issues related to EMU and to the financial mechanisms that will support it before making any final commitment.