The *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*: views in other EU Member States

Standard Note: SN/IA/6286
Last updated: 16 April 2012
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Section IADS

On 9 December 2011 the European Council discussed the adoption of a "Fiscal Compact" as part of an overall strategy to tackle the sovereign debt crisis in the Eurozone. It was initially supported by 26 of the 27 EU Member States - all the Eurozone States and all the non-Eurozone States except the UK. The UK Prime Minister, David Cameron, vetoed the compact as an EU agreement, largely on the grounds that there was no guarantee that it would not affect the UK's financial services industry.

The 26 decided to adopt an inter-governmental (international) agreement outside the institutional framework of the EU. On 16 December 2011 a draft International Agreement on a Reinforced Economic Union was published, which was the basis for negotiations by an ad hoc working group on a fiscal stability union. On 30 January 2012 the informal European Council concluded the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). The UK did not agree to it and the Czech Republic said it might join at a later stage.

Shortly after the December 2011 European Council, a number of Member States were reported to be concerned about the implications of the agreement. On 28 February 2012 the Irish Taoiseach, Enda Kenny, announced that Ireland would hold a referendum on ratification of the new Treaty. This will be held at the end of May. On 2 March 2012, 25 Member States formally signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). The target for completing ratification of the Treaty is the end of 2012, although the Treaty can enter into force with 12 ratifications.

This Note looks briefly at views on the new Treaty in the other EU Member States, the US, China and Russia. For UK views on the Treaty, see Research Paper 12/14 The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union: political issues 27 March 2012. See also Standard Note 6274, "In brief: provisions of the fiscal compact and economic issues", 26 March 2012, and Standard Note 6160, In brief: Eurozone crisis documents, 15 February 2012.

Contents

1 Eurozone States

1.1 France

President Nicolas Sarkozy was reported to have been pleased with the inter-governmental outcome of the European Council summit, which indicated that there would be more power for the Council of Ministers (intergovernmental) and less for the Commission (less Europe). President Sarkozy was highly supportive of inter-governmentalism in a speech in Toulon on 1 December 2011:

> The reform of Europe is not a march towards supra-nationality. Europe will reform itself by pragmatically drawing the lessons of the crisis. The crisis has pushed the heads of state and government to assume greater responsibilities because ultimately they have the democratic legitimacy to take decisions. [...]
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> The integration of Europe will go the inter-governmental way because Europe needs to make strategic political choices.[...]
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> This is the raison d'etre of the government of the eurozone that France wanted and which will bring together all the heads of state and government to decide with one another.[1]

According to the Economist, Charlemagne, 9 December 2011, Sarkozy has long supported the creation of a small, inter-governmental 'core' of Eurozone States without the UK, Scandinavia and Eastern European States, which "would allow France, and Mr Sarkozy in particular, to maximise its impact". Sarkozy told *Le Monde* that there were now two Europes: one that wanted more solidarity between its members, and regulation; and another "which is attached only to the logic of the single market".[2] The UK's "opposition to any prospect of joining the euro cannot be without consequence", he said, and the UK's demands concerning financial services would have been an unacceptable "step backward". He was adamant that the new treaty would not represent a delegation of economic sovereignty to others: "This will be a shared exercise of sovereignty by democratically elected governments. Not one single new field of competences will be transferred to any supranational authority".

A US Congressional Research Service Report, "The Eurozone Crisis: Overview and Issues for Congress" of 29 February 2012 commented on an ambivalent French position on the Fiscal Compact:

> Although France agreed to the fiscal compact, Paris has in the past strongly resisted similar measures on the grounds that they infringe on national sovereignty. In analyzing France's apparent policy shift, some commentators posit that Sarkozy only supported the compact in the hope that once it is in place, German policymakers would become more willing to support the increased financial assistance that he believes will be necessary to resolve the crisis. Others note that as the French economy has come under growing market pressure, officials in Paris have little choice but to follow Germany's lead.

Nicolas Sarkozy has said France is unlikely to ratify the Treaty before the two rounds of presidential elections in April and May 2012. By the time of the first round on 22 April 2012,

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1 HEUObserver blog, 2 December 2011

2 HEUObserver, 12 December 2011

although Sarkozy will have signed the TCSG, it will not have been approved by the French parliament. It is also unlikely that the Treaty will have the 12 ratifications necessary for entry into force by the time of the second round of elections on 6 May. When President Sarkozy announced his intention to run for a second term, Chancellor Merkel of Germany pledged to support him "no matter what".[3]

François Hollande, the Socialist candidate, has said that if elected he will renegotiate the TSCG before it can enter into force in order to include intervention from the European Central Bank, the creation of eurobonds and a financial relief fund. He criticised the balanced budget rule and the requirement that it must be incorporated into national law or constitutions, "in effect preventing future governments from exercising expansionary fiscal policies".[4] In an interview published in *Le Monde* on 9 February 2012, Hollande expressed his concerns about the "ambiguous role" of the Court of Justice and the lack of growth initiatives.

1.2 Germany

For Chancellor Angela Merkel the inter-governmental treaty was not the desired outcome of the December 2011 summit. Merkel wanted an EU Treaty amendment to enshrine budget discipline in EU law for all 27 Member States and enforcement by the European Commission and the Court of Justice. Peter Ludlow, in a commentary on the December 2011 European Council, wrote about Merkel's ambitious agenda

> The December agreement was to a large extent made at Germany's insistence and reflects German priorities. Angela Merkel is in other words a clear winner. Without her pressure, nobody else would have contemplated Treaty change, let alone made it the centrepiece of the Euro Area's strategy. The chancellor's dominance is not absolute however and her victory in December was certainly not costless. There were other winners too and Angela Merkel herself was bruised in the process. Last and by no means least, now that she has got her way on the Treaty, there is a widespread sentiment that it is her turn to make concessions. Far from simplifying the politics of the euro crisis, the December Council has in fact made it more complicated.[...]
>
> There are indeed few parallels in EU history to the way in which she almost singlehandedly brought the other member states into line in the weeks preceding the Council. The remark that she would look after Sarkozy, which she allegedly made to Cameron on 18 November, may be apocryphal, but the fact that the British thought she said this testifies to the impression which she gave. Others felt the same too and there were phases in the actual discussions at the European Council which illustrate why. Everybody around the table was fed up with Cameron. It was Merkel however who effectively stopped the debate by saying, 'I want a decision tonight'.[5]

Chancellor Merkel told the *Bundestag* on 14 December 2011 that the Euro crisis had seen Europeans "move closer than ever before" and that the "common sense of responsibility" would "remain with us far beyond the crisis".[6] In time, she thought, all EU Member States would have to work more closely on laws, which would require a "change in thinking" in national parliaments and a willingness to put themselves in the place of others. While she

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3 H*EUObserver* 6 February 2012

4 H*EUObserver* 15 December 2011

5 Peter Ludlow, "The European Council of 8/9 December 2011", 12 January 2012

6 EUObserver, 14 December 2011

regretted the UK's veto, she thought the UK would be an "important partner" in the future. The opposition Socialist leader, Frank Walter Steinmeier, was critical, stating that the intergovernmental path was not as harmless at it appeared at first glance, but would put Europe "on a politically and legally fully incalculable path". He spoke of an "alienation process" with Britain which would be "unstoppable". The Government's coalition partner, the Free Democratic Party, is also divided over the extent to which Eurozone States in difficulties should be helped. The party's general secretary, Christian Lindner, resigned over the splits on the issue.

In an interview for *EurActiv* 22 December 2011, Patrick Sensburg, a Christian Democrat MP who chairs the Bundestag Subcommittee on EU law, said he thought the new treaty would be ratified in Germany "as an ordinary international treaty, not as EU law", in much the same way as the Schengen Treaty had been ratified, after a committee discussion and a vote in the Bundestag and Bundesrat (under Article 59(2) of the German Constitution, the Basic Law). Other sources indicated that there may be questions about the legality of the TSCG and whether it conflicts with the EU Treaties. However, Sensburg thought the political commitments of Member States would take precedence over legalistic considerations.[7]

28 February 2012, the German Constitutional Court found that the special parliamentary panel of nine Budget Committee members set up in October 2011 to make quick decisions (in secret) about the use of the European Financial Stability Facility (EFSF) is largely unconstitutional and can only be allowed to approve the purchase of debt on the secondary bond market.[8] This ruling is based mainly on the Court's opinion that the special decision-making power granted to the panel curtails the rights of the 611 other MPs, as budget policy is the responsibility of the *whole* Bundestag, and from the related need to guarantee as much parliamentary legitimacy as possible to decision-making. This ruling means that either the full Bundestag or its 41-strong Budget Committee will have to be convened each time a decision must be made on the use of the EFSF and its permanent successor, the European Stability Mechanism (ESM).

On 14 March 2012 the North Rhine-Westphalia coalition government led by the Social Democrats and Greens collapsed, which means there will be early elections in May. If the junior coalition partner, the FDP, loses support to the Social Democrats, this could have implications for Chancellor Merkel at federal level. In Berlin the opposition Social Democrats have insisted on the introduction of an EU financial transaction tax and an EU growth fund in exchange for their support for the TSCG. Merkel will need to negotiate very carefully with the SPD to achieve the two-thirds Bundestag majority she needs to ratify the Treaty.

1.3 Italy

The Prime Minister, Mario Monti, has the support of the Parliament to ratify the TSCG and a simple majority is needed. The balanced budget rule will be inserted in the Constitution, and this is reported to have wide parliamentary support.

The former Italian Prime Minister, Giuliano Amato, thought the treaty would not be enough by itself to resolve the crisis but that it was necessary to restore trust. He told the Lords EU Committee on 23 January 2012 that "trust may be the main outcome of this treaty on which you can build what in the treaty itself is missing, which basically is increasing the capital of

7 H*EurActiv* 22 December 2011

8 See H*Reuters* 28 February 2012H. Text of ruling in German is at Hhttp://www.bundesverfassungsgericht.de/aktuell.htmlH

the stability mechanism to be introduced as early as possible and starting together with actions promoting growth".

1.4 Spain

The Spanish Socialist (PSOE) leader has supported François Hollande's call to renegotiate the TSCG to include growth as well as austerity. However, as the PSOE suffered a defeat in a general election in November 2011, the conservative Partido Popular (PP) has an absolute majority in Parliament that would allow the TSCG to be ratified. The new Government of Mariano Rajoy is confident of obtaining a majority vote in both parliamentary chambers. The balanced budget rule is already in force, having been approved by a reform of the Constitution in September 2011.

1.5 Ireland

Karl Whelan, a professor of economics at University College Dublin, thought it would be difficult to argue that the TSCG would not require constitutional change, since it aimed to provide new powers for the Commission in budgetary matters and for the establishment of a common economic policy.[9] The Minister for Finance, Michael Noonan, suggested Ireland might need to hold a referendum, not on the new Treaty, but on Ireland's membership of the Eurozone.[10] Opposition parties said they would demand a referendum anyway. Fianna Fail and Sinn Fein believed the balanced budget rules limiting deficits to 0.5% of GDP meant the new treaty would require a referendum "from a political perspective" because it would have to have constitutional law or equivalent status.[11] The Irish Minister for European Affairs, Lucinda Creighton, was sorry that the UK veto had resulted in an intergovernmental treaty for 26. She said she "hoped to maintain close cooperation with London on EU matters" and that the Irish authorities would "attempt to make sure Britain finds a place at the negotiating table".[12]

At the end of December 2011 the Taoiseach, Enda Kenny, said he would establish a permanent referendum commission and he told Parliament on 24 January 2012 that he would hold a referendum if the Attorney General clearly advised him such a vote was necessary, continuing:

> Ireland needs to see this new Treaty adopted and enforced. It is absolutely in the national interest to do so, and I reject arguments that fail to recognise that this approach will best serve our interests and bolster our recovery.
>
> Discipline and coordination will be our touchstones in the future. The new Treaty will take implementation of all that has been agreed previously on to a new level. In the past we relied, perhaps too heavily, on peer pressure. We are now giving real muscle to the process. All Member States – big, small, north or south, will have to abide by the rules. The EU institutions will have a key role to play.
>
> Adoption of the Treaty will help to generate confidence, the necessary pre-cursor to investment, growth and jobs, here in Ireland and across the Euro Area and the wider European Union.

9 H*EUObserver* 14 December 2011
10 H*Irish Times*, 14 December 2011H
11 H*EUObserver*, 14 December 2011
12 H*EurActiv*, 15 December 2011

> That is no small prize, but it is one that this Government is firmly fixed on. It is critical to our national interest. [...] [13]

He outlined some outstanding issues but emphasised the need for a way of "making a serious contribution to stabilising our common currency as a means to support a return to sustainable growth, accompanied by job creation". Ireland, he said, "had nothing to fear and a great deal to gain" from the process, and that "Whatever path towards ratification is required, the Oireachtas will, of course, be fully and appropriately involved in the process".

On 28 February 2012, Kenny told the Daíl that, on the advice of the Attorney General, Máire Whelan, "on balance" a referendum should be held and the date has been set for 31 May 2012. The EUObserver reported on 2 March 2012 that "the debate has already started about what concessions Ireland should seek to sweeten the vote for a population looking to vent its anger at having to foot the bill for bad behaviour by banks". The main opposition party, Fianna Fail, has said it will join the governing Fine Gael and Labour parties in campaigning for a 'Yes' vote on the TSCG. Sinn Fein leader, Gerry Adams, has said SF deputies will campaign against the Treaty.

Ireland is under some pressure, as the last two EU treaties (Nice and Lisbon) were rejected in referendums and subsequently ratified after second referendums. The governments of the day had been criticised for being too complacent about a positive outcome and allowing eurosceptics to dominate the debate. The *Guardian* suggested there were" fears within the Fine Gael/Labour coalition in Dublin that voters might use the next referendum to punish the government over its domestic policies such as the continuing cost-cutting austerity programme and the continued recession".

Ireland's Deputy Prime Minister, Eamon Gilmore, thought that the need to ratify the Treaty in order to access emergency funding under the ESM was significant, even though Ireland did not intend to resort to more funding. It might also be an incentive for a yes-vote in the referendum, although public opinion appears to be turning against ratification following comments on 12 March by the Economic Affairs Commissioner, Olli Rehn. When the Irish Government asked to defer annual repayment of loans due to the ECB under the promissory notes scheme, Rehn said Ireland had to respect it commitments and obligations.[14]

Professor Karl Whelan[15] told the Oireachtas Committee meeting on European Affairs on 2 February 2012 that the economics of the TSCG were "pretty terrible", but that since future ESM funding was conditional on Ireland signing it, this was a powerful argument for signing it.[16] He thought the Fiscal Compact was "overly-restrictive and badly designed" but that Ireland "should stick with the European project and hope we can work to improve its design in the future and hope to improve its design in future". The 'golden rule' was "poor" and the Compact would result on average in more austerity than necessary.

1.6 Greece

Greece is at the centre of the whole debate about economic and fiscal discipline, but the Greek population is unsupportive of EU demands, which the Government has been trying to implement with a severe austerity programme.

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13 HStatement to the Dáil 24 January 2012

14 See H*RTÉ News* 14 March 2012H and H*Irish Times* 14 March 2012

15 University College Dublin

16 HRTÉ News 2 February 2012

A general election to replace the technocratic government of Prime Minister Lucas Papademos has been postponed to April 2012 because the Government needs more time to implement changes. BBC News reported that Papademos was positive about the fiscal compact: “The decisions taken are significant steps towards tackling the crisis, as well as avoiding seeing these kind of phenomena again in the future”.

The Greek Parliament approved ratification of the TSCG on 28 March by 194 votes to 59 with 47 abstentions. The balanced budget rule will be inserted into the Constitution.

1.7 Portugal

In February 2012 the Prime Minister, Pedro Passos Coelho, who succeeded the centre-left Prime Minister Jose Socrates in 2011, said Portugal would not seek another EU bailout or an extension of its existing one and pledged that Portugal would meet its fiscal objectives and implement economic reforms. Portugal’s main union, the General Confederation of Portuguese Workers (CGTP), has been particularly opposed to labour market reforms the Government has demanded as part of a €78 billion international bailout.

EMU Commissioner Olli Rehn addressed the Portuguese Parliament on 15 March 2012, having met in Lisbon with Pedro Passos Coelho and the Finance Minister, Vitor Gaspar, the day before. Gaspar set out Portugal’s plans for “Gaining Credibility and Competitiveness” in a speech on 19 March 2012.

On 13 April 2012 Portugal became the first EU Member State to ratify the TSCG. 204 out of 240 MPs in the Portuguese Parliament voted to ratify it.

1.8 Austria

According to *Europolitics* in February 2012, the TSCG can be adopted by a simple majority in the Austrian Parliament, which the Federal Chancellor, Werner Faymann, is confident can be obtained (although Government officials are reported to have said that the creation of a 'fiscal union' would require a referendum). The Government announced a reform package on 10 February 2012 and it plans to upgrade the balanced budget law into a constitutional law.

In an interview with the *Wall Street Journal* on 4 March 2012 Faymann said the economic crisis had not been overcome. “The European Union’s fiscal compact was an important step ... But this can only be a first step” The EU should not become “a bottomless pit”. The second step, he said, was “sustainable economizing and investments in growth and employment”.

1.9 Belgium

The Walloon socialist leader, Elio Di Rupo, formed a government in Belgium after 18 months of political uncertainty and a caretaker government.[17] The six-party coalition government supports austerity measures, which at the end of January 2012 gave rise to a general strike in Brussels. Di Rupo agreed to the Fiscal Compact in December 2011, but the TSCG will have to be ratified by all nine Belgian parliaments at federal and regional levels. Di Rupo has

[17] See HEUObserver 1 December 2011

said the ratification process will be finished by the end of 2012 and that the 'golden rule' will be part of a 'special majority bill' requiring a two-thirds majority.[18]

1.10 Netherlands

The Dutch Government is a minority Christian Democrat/Liberal coalition The Prime Minister, Mark Rutte, thought a referendum would not be needed, as the compact concerned "no big new deals" but only "the cap-stone in the construction of the euro".[19] The Dutch parliament voted on 29 February 2012 against a proposal to hold a referendum on the TSCG.

Usually Rutte depends on parliamentary support from the eurosceptic Freedom Party (PVV), but for EU-related matters it needs the support of the opposition Labour Party. The Social Democrats have hinted recently that their support for the Government through the Eurozone crisis might end and the Labour Party suggested elections should be held if the compact meant a transfer of powers to the EU. Geert Wilders' nationalist and eurosceptic Freedom Party (the PVV), the Socialist Party and the Greens have called for a referendum on a new treaty. The PVV is against Netherlands membership of the Eurozone and the Labour Party has threatened to vote against the TSCG if the Government insists on meeting a 3% GDP deficit target for 2012, as required by Brussels. The coalition needs the support of both these parties to get the TSCG through Parliament.

1.11 Luxembourg

In an interview in the *SpiegelonlineInternational* on 24 January 2012 the Luxembourg Foreign Minister, Jean Asselborn, was critical of Chancellor Merkel's push for the Fiscal Compact and said the new Treaty had been a "big waste of time and energy", since most of what it aims to do could have been done under EU law.

The Luxembourg Prime Minister and President of the Eurogroup, Jean-Claude Juncker, supports the TSCG. The Luxembourg Consulting Group reported on 2 February 2012 that Juncker thought the new Treaty would succeed although the Stability Pact had not, because of Member States' legal or constitutional commitment to "a stable union and to a lasting solution". He also thought that entry into force after 12 ratifications would provide the impetus for all the other Contracting Parties to implement the Treaty provisions.

1.12 Finland

During a parliamentary debate on the Eurozone crisis on 13 December 2011, the conservative Prime Minister, Jyrki Katainen, said the six-party coalition Government would not agree to a transfer of national budgetary sovereignty to the European Commission, or to qualified majority decision-making on the boards of the EFSF and ESM. The leader of the eurosceptic True Finns party, Timo Soini, said the fiscal compact would erode Finnish budget sovereignty. The Centre Party did not want to break up the Eurozone, but was not willing to save the euro at any price. However, Finnish adherence to the compact appeared to be assured when, on 14 December 2011, the Finnish Government won a parliamentary vote of confidence over its handling of the eurozone debt crisis.

During the negotiations on the draft treaty, the Finnish Government turned sceptical again. The foreign minister, Erkki Tuomioja (Social Democratic Party), thought Finland should not sign up to the TSCG, which was "at best unnecessary and at worst harmful" and that it would

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18 See H*Europolitics* 29 February 2012

19 HEUObserver, 9 December 2011

overlap with the 'six-pack', "confuse decision-makers, undermine the EU Commission's role and create new divisions within the EU".[20] He believed the treaty was a "concession made to Germany so that the EU's paymaster lets the European Central Bank intervene more forcefully to stem sovereign debt problems from spreading to more euro-countries". On the other hand, the chair of the Finnish Parliament's finance committee, Kimmo Sasi, indicated that Finland was ready to sign the treaty.

Although Jyrki Katainen has said that a treaty change is not problematic for Finland, the Constitutional Committee believes that replacing unanimity by QMV in the governance of the EU's bail-out funds could result in Finland having to contribute large amounts without the Parliament's endorsement, and that such a move would be unconstitutional.

Finnish voters are growing increasingly eurosceptic, as the *EUObserver* reported on 17 January 2012, continuing:

> The far-right and anti-euro True Finns party won nearly a fifth of parliamentary seats in elections last April. Reflecting the national mood, the new government has already put extra conditions on the second Greek bail-out and raised heckles over expansion of EU passport-free travel to Bulgaria and Romania.
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> Finnish presidential elections on Sunday feature eurosceptic candidate Sauli Niinisto as a front-runner.
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> After last Friday's downgrade by US ratings agency Standard & Poor's of nine EU countries, Finland remains one of the only four triple-A rated economies which backs up the euro bail-out fund, the EFSF.
>
> The fund itself lost its S&P triple-A rating on Monday, raising the spectre of higher bail-out borrowing costs, amid market concerns over EU political disunity.
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> One expert has warned that if any euro-using country, such as Finland, does not sign the fiscal compact, it would see its borrowing costs soar and could ultimately be excluded from the single currency.

1.13 Slovenia

In early March 2012 the leaders of all parliamentary parties agreed to include the TSCG 'golden rule' in the Slovenian Constitution. The Prime Minister, Janez Janša, announced agreement after meeting the parliamentary representatives on 6 March, and said it would require the support of at least two-thirds of the Parliament.

On 29 March 2012 the Government adopted the bill to ratify the TSCH, under which Slovenia will introduce the balanced budget rule into its Constitution. It also adopted the bill ratifying the treaty establishing the European Stability Mechanism (ESM).[21]

1.14 Slovakia

In Slovakia the Government fell in October 2011 over whether to give the Eurozone's European Financial Stability Facility (EFSF) more powers.[22] The Slovak Parliament approved the measure, but the coalition government collapsed, forcing new elections. The TSCG will

[20] H*EUObserver* 17 January 2012

[21] See H*The Slovenia Times* 6 March 2012H

[22] See H*Economist* 15 October 2011

need to be approved by a constitutional majority of 90 members in the 150-seat parliament. This means the outgoing government of Iveta Radicova will need the support of the left-wing opposition, led by former prime minister, Robert Fico. Radovica has said that any measure transferring powers to Brussels will have to be approved in a referendum. *Europolitics* reported in February 2012:

> A change in government after the forthcoming mid-March parliamentary elections could cast a slight shadow over the ratification process. That said, the governing coalition parties have already given their green light and the opposition has not voiced concerns. A simple majority is required in parliament for ratification, which is likely to happen in the first half of the year. The constitution will be amended to align the balanced budget rule with the fiscal compact.

1.15 Estonia

The Prime Minister, Andrus Ansip, issued a Government communication on 9 December 2011, in which he welcomed the Fiscal Compact: "I am glad that the new fiscal agreement will require the government sector budgets of member states to be balanced or have a surplus ...This has always been Estonia's financial policy principle". He was not against enshrining the balanced budget rule into the Constitution and said Estonia supported "steps designed in essence to discipline states whose irresponsible fiscal policy behaviour harms the entire Eurozone". In late January 2012 a parliamentary committee approved the Fiscal Compact.

1.16 Cyprus

Cyprus takes over the presidency of the EU on 1 July 2012. A simple majority in Parliament is needed for ratification of the TSCG and no particular problems are envisaged.

1.17 Malta

The Prime Minister, Lawrence Gonzi, announced that Malta was satisfied with the final text of the new Treaty and would sign up to it.[23] The TSCG must be ratified by a resolution in the Maltese Parliament, for which a simple majority is required for approval. On 7 February 2012 a bill to amend the European Act was debated. The *Malta Star* thought the Government was avoiding the full parliamentary process:

> ... the Maltese government wants the EU Fiscal Compact to be introduced automatically as part of the European Act about Malta's membership of the EU without the need to go through the parliamentary process.
>
> The short bill says that it is enough for the Prime Minister to declare the EU Fiscal Compact as part of the EU Treaty for it to bind Malt automatically and without any parliamentary scrutiny and approval: "If the Prime Minister by order declares that a treaty specified in the order being a treaty entered into by Malta after the 16th April, 2003, or that a decision specified in the order, being a decision that amends the Treaty, is to be regarded as one with the Treaty as herein defined, the order shall be conclusive that it is to be so regarded".

23 H*Times of Malta* 31 January 2012

2 Non-Eurozone States

2.1 Denmark

Denmark took over the rotating EU presidency on 1 January 2012. Denmark is not a member of the Eurozone,[24] and for this reason did not take a leading role in the negotiation of the TSCG. However, the Minister for European Affairs, Nicolai Wammen, conceded that the Eurozone crisis would "heavily affect" the Danish Presidency agenda, and that the Presidency aimed to unite Eurozone and non-Eurozone States.

The Social Democrat, Helle Thorning-Schmidt, Denmark's first female prime minister, leads a three-party coalition government with 89 out of 179 seats in the Parliament. The new Prime Minister did not speculate about possible constitutional issues linked to ratification of the treaty, but said that Denmark aimed to ratify it. The Foreign Minister, Villy Søvndal (Socialist People's Party), was primarily concerned about the obligation on national governments to cut deficits to 0.5% of GDP. The other two parties in the minority coalition government thought a referendum might be needed.[25]

The pro-EU Social Democrats depend on the support of the Red-Green Alliance, which has been highly critical of what it argues are the EU's "neo-liberal policies".[26] At the end of 2011, the *EUObserver* reported that the Danish Government "had become stuck in a quagmire of resistance to the so-called fiscal compact".[27] The report summarised the situation as follows:

> The Red Greens have come out firmly against the deal, calling for a referendum in which they intend to campaign for the No side, and so the government will need the backing of the opposition Conservatives and Liberals to push through the new treaty.
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> But the right is also divided on the issue, with the Liberal Alliance, a new libertarian party also calling for a referendum. The hard-right Danish People's Party has come out in favour of a plebiscite as well. Both parties sit on the opposition benches.

The Liberal Alliance said that if there is a referendum, it would campaign for a no-vote because, although in principle it supports greater fiscal discipline in the Eurozone, the compact/treaty represented a threat to the Danish economy.

On 11 January 2012 Søvndal told journalists that the weaker requirements for enforcing new fiscal rules meant Denmark would not have to amend its Constitution, and that there was an understanding that Danish participation in the fiscal compact would not force the country to later adopt the Euro. Denmark could not change its constitution and therefore the wording of the agreement in this respect would be important in determining if Denmark was ultimately a signatory. She also said that if Denmark chose to sign up to the agreement, it would expect to be able to fully participate in all Euro Summit meetings.

Danish ratification would ultimately depend on the agreement preserving Denmark's opt-out from the euro and a number of other issues. The Danish Parliament must grant the

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[24] Denmark rejected the euro in a referendum in 2000 by 53.2% to 46.8%.

[25] H*EurActiv* 19 December 2011

[26] H*EUObserver*, 9 December 2011

[27] H*EUObserver*, 14 December 2011

Government a mandate before treaty negotiations, and the European Affairs Committee approved a negotiating position on 20 January 2012. The mandate states that Denmark should commit to the fiscal compact to the furthest extent possible, but that this is dependent *inter alia* on the binding nature of the agreement and flexibility for Member States. According to *Europolitics*, "The expectation is that the debt brake will be inserted into a new budget law of a general nature. Provided that the legal analysis shows that no sovereignty is transferred, no referendum is needed".

2.2 Sweden

Sweden has not adopted the euro. The Prime Minister, Fredrik Reinfeldt, has said that a decision on adopting the Compact would have to be debated by Parliament first. The deputy prime minister, Jan Björklund, leader of the europhile Liberal party, issued a public plea calling on Sweden to sign up to the TSCG, under the slogan. "Our country must not be sidelined – Sweden belongs in core Europe". As Reinfeldt's centre-right government is a minority coalition, it needs the support of the opposition Social Democrats on any EU deal. Their position is unclear.

2.3 Poland

Poland, which held the rotating EU Presidency until the end of 2011, will have to secure parliamentary approval of the new treaty in order to ratify the TSCG. The Polish Government is in favour, and is likely to be supported by two left-wing opposition parties in the Parliament. However, fears have also been expressed that the new treaty will mean German fiscal dominance.

A simple parliamentary majority is needed for treaties which do not cede national sovereignty. Treaties that cede Polish sovereignty to other institutions need a two-thirds majority to pass. As the new treaty functionally applies only to Eurozone States, a simple majority vote might be possible. Both the right-wing opposition parties opposed the compact, and together they could block agreement on the new treaty. If Parliament does not approve the treaty the Government could call a referendum on it.

On 13 December 2011 the opposition leader, Jaroslaw Kaczynski, accused the foreign minister, Radek Sikorski, and the Prime Minister, Donald Tusk, of selling Polish sovereignty to Germany for the sake of "private ambitions".[28]

Poland joined other Eastern European States in calling for non-Eurozone States to be allowed to be observers at the euro summits proposed by the new Treaty, and to which only France was opposed. The Prime Minister, Donald Tusk, told a press briefing in mid-January that he was concerned about a Franco-German "monopoly" on EU reforms. He thought the French and German leaders should not be criticised for their initiative, but "we should be more present and not leave all the initiative to them".[29]

The pro-EU President, Bronislaw Komorowski, promised to convene a cross-party round table and ask the national Security Council to examine the compact before the Parliament voted on it. Sikorski was reported to have been critical of David Cameron for staying outside the compact.

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28 H*EUObserver* 14 December 2011

29 H*EUObserver* 19 January 2012

There is already a balanced budget provision in the Polish Constitution.

2.4 Hungary

After the December European Council meeting, Hungary was reported to have sided with the UK in rejecting the Fiscal Compact. However, the Hungarian Foreign Ministry put out a statement which 'corrected' media reports, stating that the Hungarian Prime Minister, Viktor Orbán, would first report back to the Hungarian National Assembly on 12 December for a debate on whether the proposed intergovernmental treaty entailed fiscal union and a transfer of national sovereignty. The statement made clear that Hungary was not in the same camp as the UK:

> Unlike the UK, which has a permanent opt-out, Hungary has an obligation under the Treaties to adopt the common currency as soon as she meets the criteria. Moreover, Hungary remains genuinely interested in the success of the euro and has always been in favour of any measure necessary for it. The Hungarian Presidency in the first semester of 2011 gave ample evidence of our constructive approach when the first European Semester was implemented and the six legislative proposals on economic governance brought to near agreement.

The Hungarian Parliament, with the support of the opposition Socialist Party, agreed to a balanced budget rule being inserted in the new (and highly controversial) Constitution, which came into force on 1 January.

2.5 Czech Republic

The Czech Prime Minister, Petr Necas, would not commit to the Compact until it became clear whether it would focus on issues like budget deficits and public debt, which would be popular, or whether it would attempt to coordinate taxes, which would not. The TSCG could be ratified by a constitutional majority (three-fifths) of votes in the two houses of parliament,[30] but Necas is reported to favour a referendum. In his view the TSCG "undoubtedly means a radical transfer of powers to the EU".[31] He was concerned about the possibility of a "voting cartel" in the Treaty provisions, whereby "If two big countries agreed on something with the EC, all remaining states would have to vote together with them". He was allegedly referring to France and Germany. Two parties in the ruling centre-right coalition, the Civic Democrats and Public Affairs, would like a referendum, while the third coalition party, TOP 09, believes the issues are "too complex" for the electorate and should be made by Parliament. The opposition Social Democrats are against holding a referendum, which would mean the two bigger parties having to ask the Communists for support.

The Czech Government discussed the fiscal compact on 14 December 2011, and on 19 January 2012 Nečas told the Czech Parliament that he would like the fiscal compact to be voted on as part of a national referendum on the adoption of the euro – or alternatively, to hold a separate referendum on the fiscal compact/new Treaty.

On 30 January 2012 Nečas announced that the Czech Republic would not be adopting the TSCG for three reasons:

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[30] It is likely that a majority could be formed in favour of the new Treaty, with the participation of the centre-left opposition Social Democrats.

[31] Quoted by the national agency ČTK and reported in H*EurActiv* 20 January 2012

- because non-euro countries will not be able to participate in all eurozone summits (the compromise was that non-eurozone signatories would participate at least once a year and will take part in all summits which discuss competitiveness or changes to the architecture of the eurozone);
- because the treaty does not pay enough attention to debt;
- because it would face "complicated ratification" back home.

The Treaty would also need to be approved by the eurosceptic President, Vaclav Klaus, who is opposed to any erosion of national sovereignty. However, he is due to step down in March 2013.

2.6 Romania

The Romanian President, Traian Basescu, supported the TSCG but has said it would need a two-thirds 'supermajority' in Parliament and approval in a referendum. The opposition Social-Liberal Union, an alliance of centre-left, liberal and centre-right parties, thinks a referendum may not be necessary. The Social Democrat leader in the alliance, Victor Ponta, thinks the balanced budget 'golden rule' could be adopted more quickly by special legislation rather than a constitutional amendment. Former prime minister, Adrian Nastase, said that it would be difficult to obtain the two-thirds vote in both Chambers needed to amend the Constitution and a referendum might be needed to give a popular mandate to such a fundamental change.[32]

On 6 February the Romanian government of Prime Minister Emil Boc resigned after nearly three weeks of protests over austerity measures and the economic downturn. The new centre-right is headed by Mihai Razvan Ungureanu, and it will remain in place until legislative elections in November 2012. The Government is reported to be motivated to ratify the TSCG because it would like to adopt the euro in 2015.

2.7 Bulgaria

Bulgaria's Prime Minister, Boyko Borisov, said in December 2011 that Bulgaria would fully implement the main measures envisaged in the Fiscal Compact with constitutional amendments by March 2012. After the December European Council, he said that "Many of the ideas adopted in Brussels coincide with the proposals of Finance Minister Simeon Djankov, enshrined in the so-called Financial Stability Pact. We have held talks on these issues and these will continue in the coming weeks".[33]

He reiterated that Bulgaria would not join EU efforts to ensure additional money to boost rescue funds. Bulgaria, along with the UK, Romania and Hungary, did not participate in the increase in IMF resources agreed in December 2011 under the authority of the European Stability Mechanism (ESM). The Bulgarian Finance Ministry stated that Bulgaria's principled position was to "not participate in the financing of programmes to support financially undisciplined countries".[34]

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32 H*EUObserver* 12 December 2011

33 H*Novinite.com*, Sofia News Agency, 10 December 2011

34 See HMinistry of Finance press release, 19 December 2011H, "Bulgaria will not take part in the financing of programmes to support undisciplined countries"

2.8 Latvia

The Latvian Government supported the compact and TSCG, although a referendum cannot be ruled out.

2.9 Lithuania

Lithuania is due to hold parliamentary elections in October 2012. A simple majority is required for treaty ratification, but some sources think the Lithuanian Parliament will ask the Constitutional Court for an opinion on the compatibility of the TSCG with the Constitution.

3 Non-EU States

3.1 United States

The US Administration is reported to have felt frustrated by the EU's failure to show political will to solve the sovereign debt crisis more quickly. When the Fiscal Compact was agreed in December 2011 US officials were reported to have praised the move as a "step in the right direction" but warned that an EU show of force and will was still needed. Secretary of State Hillary Clinton said on 12 December that the US was not concerned about the UK not participating in the Compact, but about whether the Compact would succeed in its principal aim of enhancing the position of the euro and containing the deepening debt crisis.[35]

In Written Testimony before the House Committee on Financial Services, 20 March 2012, Secretary Tim Geitner said "The European financial crisis has already caused significant damage to economic growth in the United States and around the world, and we have a strong interest in a successful resolution of the crisis".

3.2 Russia

In a discussion of EU-Russian relations on 13 December 2011, the Russian Ambassador to NATO, Dmitry Rogozin, expressed his "doubts" about the EU's future and its economic weakness. According to a report in *EurActiv*, he said "The role you are playing right now, you look more like [...] a rich banker who is very frightened of everything and trembles over his riches when the bandits are already past the doors".[36]

3.3 China

In March 2012 Zhou Xiaochuan, the governor of China's Central Bank, the People's Bank of China (PBOC), said that the unstable economic and financial situation in Europe will be one of the biggest uncertainties for China's economy in 2012.[37]

The Chinese premier, Wen Jiabao, has emphasised the importance of resolving the Eurozone debt crisis, also hinting that China might provide financial support. He told Angela Merkel during a visit to Beijing in February 2012 that China backed the EU's efforts to stabilise the euro.

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35 See HXinhuanet.comH, 13 December 2011

36 H*EurActiv* 14 December 2011

37 HXinhuanet.com, 8 March 2012