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Rehn insists Brussels bodies can oversee treaty

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By Peter Spiegel in Brussels

A new fiscal treaty will be enforceable by European Union institutions despite British misgivings, the bloc's senior economic official said on Monday, adding that many of its provisions were already in place.

Olli Rehn, the European commissioner for economic and monetary affairs, said the new treaty was likely to only serve as "an umbrella" to give more permanence to already-agreed policies on fiscal discipline, many of which come into effect this week after passing the EU's normal legislative process.

The British government has argued that because the new intergovernmental pact will be agreed outside normal EU treaties, Brussels institutions are barred from monitoring and enforcing its measures. However, David Cameron, the UK prime minister, did appear to soften his stance on Monday, saying Britain would "look constructively" at proposals to use EU institutions.

"Our legal analysis is that by far the vast majority of measures decided on Friday can be introduced through [EU] legislation," Mr Rehn said. "While we would certainly have preferred a treaty at 27, this fiscal compact treaty was bold and effective and legally viable."

Mr Rehn's defence came as Brussels' aides and national diplomats voiced disparate views of how the new treaty might work, poring over hundreds of pages of existing EU legal code to find support for their positions.

Members of the so-called euro working group, a caucus of senior eurozone treasury officials, will begin haggling over the treaty's contents later this week and could complete a draft within days, diplomats said.

European Commission officials are pushing for the treaty to be very narrow, simply enshrining "debt brake" commitments made at the summit and other technical changes that would make punishment for profligate governments more automatic.

"If you want to introduce and implement automatic sanctions, to which there is a reference in the new fiscal compact, it may be that you may require a treaty change for that," Mr Rehn said.

However, most measures agreed on Friday night, including submitting national budgets to Brussels for pre-legislative review and giving EU officials the power to request amendments, could be implemented through normal legislation, Commission officials believe.

The approach is being backed by British allies, including some within the eurozone, such as Ireland, who want to keep the UK involved in economic policymaking. By limiting the scope of the treaty, they have argued, most of the measures will go through the EU's normal legislative process where Britain retains an equal role.

But such an approach would make the treaty negotiation almost superfluous. Commission lawyers say the only thing that cannot be dealt with through normal legislation is creating more automatic sanctions for spendthrifts. The problem is that if European officials draw up a treaty of minimal scope, they risk antagonising its main backer, Nicolas Sarkozy, the French president who is seen as the primary winner in the summit battle.

Some diplomats fear Mr Sarkozy will use the absence of the UK from the new treaty process as an opportunity to push for a broader agreement to include more economic and fiscal policies – such as labour markets, financial regulation and tax policy – which could create a parallel structure to the current EU.

“The objective is to incorporate these provisions into the EU treaties as soon as possible,” said one concerned eurozone diplomat. “We should anchor ourselves to the tried and true EU institutions early on and avoid having the new agreement drift off to the barren intergovernmental realm where only the big member states rule.”

There were also disputes over how the treaty would affect the nine non-euro countries weighing up whether to sign.

Although the treaty change was intended to create closer economic co-ordination within the eurozone, some officials said the new deal's structure could bind non-euro signatories as well – a stance that led Victor Orban, the Hungarian prime minister, to join Britain in initially rejecting the pact on Friday night.

Diplomats from new EU member states, which unlike Britain are obliged to join the euro eventually, said they have been given assurances that they will only be forced to implement the treaty's strictures once they join the single currency, but acknowledged the issue remains undecided.

“The Germans would like to believe it would be binding from day one,” said a diplomat from a new member state. “We would believe it's not binding from day one.”