

December 15, 2011 5:47 pm

Move to limit scope of eurozone treaty

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By Peter Spiegel in Brussels and Quentin Peel in Berlin

European negotiators say momentum is building towards making a highly touted new treaty on budgetary discipline extremely narrow, enabling its smoother passage through national parliaments but hindering Franco-German ambitions to create a fiscal union in the eurozone.

Diplomats said several European Union countries are lining up in favour of a draft that would contain only two elements: a so-called “debt brake” obliging signatories to write debt and deficit limits into national constitutions; and a measure making EU sanctions against fiscal rule-breakers more automatic.

Despite originally backing a French push to make the intergovernmental pact more ambitious – in pre-summit talks, both Paris and Berlin agreed to new bureaucracy to co-ordinate eurozone fiscal policy, for example – Angela Merkel, German chancellor, now appears ready to embrace the narrow version.

According to a senior German official, while France and Germany will go further in bilateral agreements, Ms Merkel now supports a treaty of only two or three pages that would not even enshrine regular eurozone summits – something Nicolas Sarkozy, the French president, has championed.

The limited treaty would leave much of the heavy lifting on more intrusive fiscal rules to the normal EU legislative process, where the UK, which has opted out of the new treaty, has equal standing to all other member states. Some of those measures have already been approved and went into force earlier this month.

A process focused on EU legislation has long been urged by EU leaders in Brussels, who have argued that much of the discipline urged by Germany is achievable through existing treaties and requires no new pacts.

Despite the move towards a more limited treaty, Mario Draghi, the European Central Bank president, continued to give the deal high praise on Thursday, saying in a Berlin address that the pact was “the right way to go”.

“The decisions of the European Council summit, together with the [EU legislation] approved recently by the European parliament, are a breakthrough for clear fiscal rules in our monetary union,” Mr Draghi said.

Since last week's summit Mr Sarkozy has hailed the pact as "the birth of a different Europe", and Brussels-based diplomats said France had continued to push for a treaty that would set up parallel bureaucracies within existing EU institutions to co-ordinate and monitor eurozone fiscal policy.

Senior French officials have insisted they are not pushing for the creation of new institutions, but people briefed on the negotiations said Paris was attempting to make sure the new treaty stood outside the current EU structure and could not be written back into existing treaties.

"We think most countries want to see this designed so that it can be incorporated with EU treaties," said one Brussels-based ambassador. "But the French want to take it in another direction."

Another senior European diplomat from a non-euro country said that divisions had also emerged between France and Germany over who the treaty would apply to. Germany has urged all signatories to become part of the new regime, while France has focused on the 17 eurozone members, reflecting Mr Sarkozy's long-articulated view that the currency union should act alone as part of a two-speed Europe.

"The Germans have always wanted to keep the family together," said the non-euro diplomat. "France has the tradition of going for something more exclusive."

According to a letter from a top aide of Herman Van Rompuy, European Council president, sent to national ambassadors and obtained by the FT, formal negotiations over the treaty will begin next week and a final text should be completed by the end of next month so it can be signed by March "or, if possible, an earlier date".

Mr Van Rompuy announced he would hold an informal summit of all 27 EU members, including the UK, which has opted out of the new pact, after the text is completed. This is likely to be the first week of February.

Additional reporting by Alex Barker in Brussels

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