INTERPARLIAMENTARY CONFERENCE UNDER ARTICLE 13 OF THE TREATY ON STABILITY, COORDINATION AND GOVERNANCE IN THE ECONOMIC AND MONETARY UNION

Brussels, 4 February 2015

Presidency Summary

The Conference under Article 13 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union took place in Brussels on 4 February 2015. It was held within the framework of the parliamentary dimension of the Latvian Presidency of the Council of the European Union. The Conference was attended by representatives of 35 Houses of Parliaments from 27 Member States, of the European Parliament, as well as the representatives from Switzerland and Norway, and Montenegro.

The first plenary session entitled "A European New Deal: Stimulating public and private investment for growth and jobs in Europe" was co-chaired by Martin SCHULZ, President of the European Parliament, and Ināra MŪRNIECE, Speaker of the Saeima of the Republic of Latvia.

Mr SCHULZ explained that the European Parliament has always believed in the importance of the Community method, and expressed satisfaction that the "Investment plan for Europe" is falling under this method. Mr SCHULZ emphasized that to continue with European Union's (EU) high level of employment and prosperity, social indicators should be considered as important as budgetary and monetary criteria, and their violations should be treated accordingly. The European Commission's scoreboard to follow the key employment and social developments relevant for the well-functioning of the EMU is a good example. Mr SCHULZ pointed out that growth-friendly investment is needed in the EU to complement the structural reforms. It is essential in order to ensure that the 25 million unemployed Europeans could find jobs and millions are raised out of poverty. Thus, the Investment plan is very welcome as it presents a new path for the EU towards growth and jobs. For the best possible chance to succeed all involved parties are called to play their part, and proper democratic accountability needs to be ensured. Some aspects, such as the selection criteria for the projects, still have to be fine-tuned, but the key aim is to regain investors' confidence.

Ms MŪRNIECE stressed that the European Union needs a clear vision for the way forwards in order to be competitive globally, stressing that a delicate balance will have to be achieved between fiscal (including investment), structural and monetary measures. While the European Central Bank's quantitative easing programme is one of the tools, structural reforms will still have to be carried out in order to achieve a long-term sustainable growth. Ms MŪRNIECE also emphasized the importance of social fairness in implementing the necessary structural reforms. In her address, Ms MŪRNIECE focused on a more efficient economy and fairer society as essential elements for the sustainability of growth. There is a need to invest in the society – in education, technology and infrastructure, so that the skills, training and educated workforce promote a greater sense of fairness in the society that is essential to prevent the soaring inequality contributing to economic or political instability further on. Latvia considers the social dimension to be an essential element of the economic governance and coordination. The ultimate goal of economic policy is the welfare of society. Finally, Ms MŪRNIECE noted that the representatives of the national parliaments are the channel through which the citizens to have a democratic representation in the decision making.

Pierre MOSCOVICI, European Commissioner for Economic and Financial Affairs, Taxation and Customs Commission, in his address focused on three main aspects regarding boosting private and public investment.

First, it is planned to mobilise 315 billion euros between 2015 and 2017, leverage public funds, and free up private funding. EUR 16 billion from the EU budget as a guarantee together EUR 5 billion from the European Investment Bank makes EUR 21 billion that are at the heart of the European Fund for Strategic investment. There will be no negative impact on the EU budget. The idea is to launch a catalyst effect to draw in other funding resources, including European Investment Bank's loans for infrastructure as well as private investments. Fund will take contributions and provide guarantees. About EUR 17 billion will go to the SMEs that are the key to Europe's competitiveness. On 13 January 2015 Commission made a proposal on the Regulation on the European Fund for Strategic Investments and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013. Strong Member States' participation is essential in order to gain market trust. Decisions on projects to be supported should not be made by the politicians, but by experts, on the basis of economic and social added value, not on political basis. More funding is needed for innovative investment.

Second, series of targeted measures will be needed to ensure investments that would benefit real economy. There is a lot of liquidity in markets, and resources should go towards viable, productive, sustainable projects in such fields as education, research & development (R&D), innovation, interconnectedness, energy networks, broadband networks, and transport. Investing should be carried out in accordance with the needs of tomorrows' economy.

Third, there should be measures to ensure legal security, and thus to increase the effectiveness of the project – to improve competitiveness, to lift barriers for investment. Structural reforms are necessary in conjunction with the internal market improvements, especially in the services and digital sectors, or to improve infrastructure.

Mr MOSCOVICI also declared that as far as the legal basis for the Fund for Strategic investment is concerned, goodwill is needed; the Fund for Strategic investment should to be operational by September 2015. Investments should be quick and sustainable, showing tangible results.

Wilhelm MOLTERER, Vice-President of the European Investment Bank (EIB), emphasized that the main task is to attract investment, as it is a precondition to facilitate the stability of the employment and the economic growth. It is important to create a smart system for attracting private resources using public resources and to facilitate economic development. Therefore, a new innovative financial instrument, the Fund for Strategic Investment, was created. It will be used as a buffer for the EIB projects. It is expected that the Fund's resources will be streamlined towards supporting the SMEs, projects concerning infrastructure and innovations, as well as technical and economic consultations. He emphasized that currently the investment rate on average is about 15% lower than in the period preceding the economic crisis. In order to carry out the digital economics agenda, about EUR 55 billion are needed every year.

Jean ARTHUIS, the Chair of the European Parliament's Committee on Budgets, stressed that the economic governance must ensure democratic legitimacy and parliamentary control over the Fund for Strategic investment.

The exchange of views

Representatives from Estonia, Lithuania, Germany, Spain, Austria, United Kingdom, Italy, France, Sweden, Slovenia, Ireland, Belgium, Poland, Portugal, Romania, the Netherlands, Finland, and the European Parliament took part in the exchange of the views.

The low level of investment due to low confidence of the investors was emphasized as the greatest problem. Most representatives agreed that innovations should be the focus of the investment plan. Investments should be made in a targeted and smart way, focusing on such fields as renewable energy, infrastructure, broadband connections, research and development. In the same time, it is unclear where the viable projects could come from, since, if they need a public guarantee that shows they might not become business successes in their own right.

It was stressed on several occasions that the "New deal" is a historic opportunity, and it should not be wasted by overregulating it or "over-discussing" it. It should not be seen as a temporary measure, but rather as a strategy for the future of Europe. The

Investment plan for Europe should be large and ambitious enough to have sufficient economic effect, it should be targeted, use clever financial solutions, and the technical scrutiny is important; an overall political strategy needs to be defined with a political-economy goal. However, one of the representatives expressed a belief that while productive investment is needed, quantitative easing together with the interest rates should already be enough, and Investment for Europe plan could be creating a new bubble.

In order to encourage public investment, the invested money should be treated differently from the money used to cover regular expenses; otherwise the Member States have an incentive to cut back on the investment. The Flexibility initiative [13 January 2015 Commission Communication "Making the best use of the flexibility within the existing rules of the stability and growth pact"] is considered to be a step in the right direction, but it still could be improved.

Some representatives expressed concern that it might not succeed considering the money available or allocated to this programme, the fact that is starting very late and might not be ambitious or effective enough. Besides the investment, achieving the Single market for real could be the quickest way towards growth and jobs, and it would also increase the investors' interest. Other representatives stressed that they believe more thought must be given to consumers, GDP growth should not be the only criterion, social and environmental ones must be considered as well. Moreover, the selection criteria for the projects are not clear and simple enough, just as the control mechanism and the possible ways of democratic scrutiny for the Member States and their parliaments are not defined. It was questioned whether the quantitative easing together with the Strategic investment fund will not facilitate inequality and what would be the best way to ensure that those instruments boost the job creation, instead of benefitting just the wealthiest part of the society. Finally, some representatives raised the issue as to how the Member States will contribute and get involved.

One representative declared that the fiscal consolidation and austerity measures have produced a collapse of investment; therefore, he called for a renegotiation of the Treaty, for preparing plans for the hardest hit countries and stressed the need for a genuine EMU.

Mr MOSCOVICI explained that the investment plan is a specific response to the deficit of investment, which is still lower than the pre-crisis investment. Furthermore, the EU is losing its role as an actor in the global economy. There is no contradiction between the investment plan, internal market aims and entrepreneurship facilitation. Fiscal consolidation and sound finances are still necessary, albeit with the flexibility considerations taken into account. Structural reforms are to be maintained in order to keep the EU's competitive edge – the EU does not exist in a splendid isolation.

Furthermore, public and private investment is needed in order to facilitate innovations. Investment should be carried out in a targeted way; the quality of investment is important as well as the amount of a fresh investment. Selection criteria will be transparent, viable projects are needed for a targeted investment. As to the risk that the investment might be insufficient, Mr MOSCOVICI replied that the plan takes account of the current situation and is realistic.

Mr MOLTERER said that the multiplier effect has been calculated using practical experience as a fundament. Member States should be engaged on both the project level and regarding the national investment platforms. European Investment Bank is ready to begin the work under the understanding that the guarantee would apply later. Finally, the Investment plan should not be discussed outside its context, namely, as a part of a broader strategy, in conjunction with the Single market rules and the structural reforms. Quality of the projects selected is of a great importance in order to protect the AAA rating.

Mr ARTOIS indicated that Stability and Growth Pact allows to distinguish between investment and governmental expenditure. Decision as to when the Investment plan will start is urgent, legal basis is needed as soon as possible. It is hoped that the guarantees will bring confidence. Success will depend on actions taken; the Member States have to perform reforms in order to be competitive and to boost their growth. Mr ARTOIS warned that, insofar as research is concerned, as some institutions cannot borrow money care needs to be taken that promising institutions do not fall outside the scope of the Investment plan.

Mr ŠADURSKIS in his concluding remarks underlined the urgency of the "new deal" measures. Low rate of investment is linked to Europe's low rating in global competitiveness and its low popularity as a destination for investment. Europe is often seen as being old-fashioned and rigidly regulated, thus investment tends to flow to riskier, more vigorous. The EU has to become more attractive for investments whichever way it can – for instance by encouraging the positive view on success in business, reforming taxes to encourage business or by removing barriers to the Single market. However, the Europe should not compete in the global "race to bottom" by reducing expenses. It has to compete on quality and high added value. Therefore, the EU has to invest in the line with tomorrow’s needs. Member States have to support the “new deal” as businesses are not created in Brussels. The "new deal" will only succeed if the Member states are fully behind it.

The second plenary session entitled “Fiscal consolidation and structural reforms: state of play and best practices in implementing the fiscal compact” was co-chaired by Roberto Gualtieri, Chair of the Committee on Economic and Monetary Affairs of the European Parliament, and Kārlis Šadurskis, Chair of the Budget and Finance (Taxation) Committee of the Saeima of the Republic of Latvia.

Mr ŠADURSKIS compared the fiscal consolidation and structural reforms to the family budget planning. In the long term perspective, the states have to review the effectiveness of the public spending and to promote sectors with the best possible. Recent years of fiscal and structural reforms in Greece have proved that this path is hard but leads to sustainable results. Fiscal consolidation and structural reforms need to be carried out – not as an aim in itself but in order to achieve competitiveness for European Union's businesses globally. In the same time those have to be accompanied by smartly targeted policies to facilitate investment and growth, as well as to alleviate potential hardships for those most in need of help.

Jānis REIRS, Minister of Finance of the Republic of Latvia, remarked that uneven and low growth has been subsisting in the European Union since 2008. So far there have been two directions for action on the European political agenda in order to renew the growth - growth-friendly fiscal consolidation and structural reforms. There are divergent views as to their effectiveness in resolving current economic problems and lessening similar. In the same time, the economic and financial integration, as well as spill-over effects observed during the crisis, demonstrate the need for combined solutions and a coordination of economic policies.

Olli REHN, Vice President of the European Parliament, recalled that nearly seven years have passed since the beginning of the financial crisis and five – since the European debt crisis. While between 2013 and 2014 most Member States have returned to some economic growth, it remains weak and in many Member States employment rates remain very high. The recovery in 2013 and 2014 is to be welcomed, but not all problems are resolved. Economic growth is endangered by the war in Ukraine, Russia's power politics, crisis in the Middle East, as well as the deflation. These are the factors that have weakened the trust of the investors in Europe and decreasing economic activities.

Mr REHN also indicated that there are three important developments for the current economic situation that could have positive result on EU's economic growth. Those are the fall of the oil price, the European Central Bank's quantitative easing programme and the strong growth of the United States of America's economy.

Mr REHN stressed that to ensure economic growth and sustainable employment stability, the EU has to create a growth enabling monetary policy framework, to consolidate public finance opportunities, and to intensify structural reforms in all Member States so that the European Union would become more competitive.

Dominic HANNIGAN focused on Ireland's experience. Three years have passed since Irish citizens participated in a referendum on fiscal consolidation pact, in January 2013 it came into the force. It is possible, that currently this fiscal project cannot be fully assessed yet as many Member States are struggling to decrease their debt. However, discussions still need to be held as, first, the Fiscal Compact has to be implemented in the national legislation, and it takes a lot of time; second, for some Member States it is complicated to fulfil the rules of the Fiscal compact within the time period set; third, there is a requirement to set up an independent consultative council (there is one in Ireland).

The main aim is to facilitate budgetary discipline in the EU in the long run. It is necessary to comprehend whether the EU will achieve this, considering the high level of private and public debt in the EU.

The exchange of views

Representatives from Portugal, Lithuania, Germany, Austria, Italy, Netherlands, France, Sweden, United Kingdom, Estonia, Romania and Cyprus took part in the exchange of views.

Several representatives referred to the duty to observe the rules. Economic governance criteria should apply equally to all the Member States. Many countries have carried out painful reforms. It is unacceptable that some would have different terms. Rules should be the same for everyone. Fiscal compact will not have impact unless the Member States have the political will to implement it. Moreover, some states have achieved economic growth without a significant increase in the public spending.

It was pointed out that assessment of how the EU's budgetary resources are spent should be carried out and a common conduct in this respect. Overall, tax issues are not harmonised and the budgetary deficit is decreasing slowly. There was a suggestion to evaluate criteria to be used in assessing economic development, namely, whether the GDP the appropriate criteria.

In the same time, the welfare of the population must not be forgotten – the reduction of the budgetary deficit is not an end in itself. The growth should not be financed by incurring a new debt to be paid by future generations.

Mr REIRS in response to the views expressed indicated that it is possible to observe fiscal discipline in the same time facilitate the investment, including public investment.

Mr REHN responding to the remarks made by the parliamentarians said that the European Parliament has published a report recently in which it has recommended to evaluate and review the cooperation between the EU and the International Monetary Fund (IMF). It could be a part of the wider review of the European economic governance. Mr REHN suggested a possibility that the Eurozone might be represented in the IMF and called on the Member States to consider this, as so far the Member States have blocked the external representation of the Eurozone.

Mr HANNIGAN stressed the importance of working together across the nation and explaining the situation to the people as Ireland's experience in overcoming the crisis. He also expressed his belief that while there are a range of instruments for overcoming the crisis (quantitative easing, banking supervision), this is not the moment to stop.

The third plenary session entitled "Strengthening the Social dimension of the EMU" was co-chaired by Marita Ulvskog, Acting Chair of the Committee on Employment and Social Affairs of the European Parliament, and Aija Barča, Chair of the Social and Employment Matters Committee of the Saeima of the Republic of Latvia.

Mr DOMBROVSKIS, European Commission Vice-President for the Euro and Social Dialogue, pointed out that in the post crisis period the social and economic differences between the EU Member States have constantly increased and have reached unprecedented levels. These divergences need to be resolved as they are undermining the main aim of the EU, namely, to facilitate convergence and improve the living conditions of all the people. Since a negative development in one Member State has a cross-border impact on other Member States, the new European Commission is accentuating social justice, combining the creation of new jobs and development of skills with the modernisation of the labour market and welfare system.

In order for the EMU to function, the state administration structures have to dispose of the long lasting differences among the Member States, and the measures that are carried out previously, need to be strengthened and simplified. Mr DOMBROVSKIS informed that in accordance with the Commission Working programme for 2015 there are several new proposals. One of those concerns the measures to deepen the EMU package for reinforcement social and employment aspects of the EMU; another – labour mobility package, to support labour mobility and for better coordination of social security systems; third – package to promote integration and employability of the labour market, that is targeted primarily at skill development for long-term unemployed and young people. In parallel to the Commission's work further activities need to be carried out at the Member States' level, that is, the employment and social protection system has to be reformed and modernized. Mr DOMBROVSKIS emphasized that EMU's sustainability can be achieved by facilitating convergence and by using the opportunities awarded by the European Semester.

In conclusion, Mr DOMBROVSKIS remarked that we should fully utilise the instruments that are at our disposal in order to advance the social dialogue and involve the social partners. He also provided information on the High level summit of March 5 2015 with European and Member States' social partners that could be a great platform for holding discussions on facilitating cooperation within the framework of the European Semester.

Marita ULVSKOG, Acting Chair of the Committee on Employment and Social Affairs of the European Parliament, remarked the financial and economic crisis in the EU has been a trial – 25 million unemployed, including 6 million young people, 120 million are under a risk of poverty or social exclusion. The participation in the labour market is difficult. The EU is far from achieving the strategy EU 2020 targets.

Ms ULVSKOG emphasizes that the internal market has a potential to generate growth and employment, under the condition of an effectively working market. The EU has to elaborate standards for the protection of the workers. The EU will not benefit if the Member States will compete between themselves with lower rates, less qualified employees and poor working conditions. From the perspective of the costs we cannot compete with China and India, but, in the same time, we can be better and more exclusive, considering the qualification and working condition for the employees. Besides, unfair competition in the EU labour market causes dislike for the EU, facilitating nationalism, populism and even an incentive for closing borders between the Member States.

The EU has to resolve the issue of inequality. It has to pay more attention to the structure of our society. A great inequality brings about great costs and does not facilitate long term growth.

Mr MUET, Vice-Chair of the Finance Committee in the French National Assembly, in the beginning of his address, reminded of the consequences of the previous political direction –6 billion people have lost their jobs, in some Member States the GDP has decreased by even 25%, youth unemployment has increased dramatically. The crisis in Europe shows that the coordination of budget rules is not sufficient. An individual approach to each Eurozone Member State is needed. Member States have to base their competitiveness on innovations, not by decreasing salary costs. Mr MUER expressed an opinion that a cyclical solidarity mechanism within the Monetary Union needs to be established - there has to be a differentiated minimal salary that would be linked to the social progress and the increase of the productivity. Furthermore, the idea of the EU's unemployment insurance has to be development.

To ensure that Europe becomes an area of solidarity, and not a large market where all the Member States compete among themselves, it must be assured that there is the social dimension to the whole European Semester process. Possibly, also the Employment ministers' meeting could be organised (similarly to Eurogroup meetings), where social development within the Eurogroup could be evaluated and political recommendations could be elaborated. In concluding his address, Mr MUET emphasized that inequality is a sign of selfishness resulting in the lack of solidarity between the Member States.

Mr RYDER, Director-General of the International Labour Organisation, stressed that strengthening of the EMU depends on the EU's capacity to benefit all the Member States. He reminded that in the beginning the EMU facilitated the creation of the new jobs and improvement of life quality. He also reminded that from 1991 to 2007 the average rate of unemployment in the 12 EU Member States decreased by 2%,while the differences among the Member States stood at 5.5%. As a result of the 2008 crisis the unemployment increased very fast and the differences among the Member States reached even 22%. Now the issue is not whether the social dimension of the EMU needs to be strengthened, but how to do this?

Mr RYDER believes that the action should be twofold. First, there should be Member State level measures, such as improving transitions from school to work and avoiding skill mismatches; support to the job seekers, especially long-term unemployed, support in order to maintain jobs within sustainable enterprises that have met with external upsets. Second, there has to be a general EMU social dimension approach within the framework of the existing surveillance mechanisms to help the Member States to overcome the so called asymmetric shocks.

Mr RYDER indicated that, in order to strengthen the social dimension, the resources provided by the structural funds and the Youth Guarantee should be used more effectively. New instruments should be created. In this respect he welcomed the new Investment fund that could create 2.1 billion new jobs, and thus to decrease the EU's rate of unemployment by 1%. In the same time he stressed that it is necessary to think about the link between the social dimension and the investment plan, so that those jobs would be beneficial.

Mr RYDER emphasized the importance of the social partners' involvement in the dialogue with Europe. Social partners have the experience, they already work with the Member States affected by crisis and with the European Commission, but there are opportunities to deepen this cooperation. The European Semester is one of the opportunities to work together.

The Exchange of views

Representatives from Slovenia, Lithuania, Germany, Estonia, France, Latvia, Czech Republic, Portugal, United Kingdom and the European Parliament took part in the exchange of views.

All representatives highlighted the importance of the EMU's social dimension, and expressed their regret that this issue is only examined at the very end of the conference. The majority of the representatives stressed the need to find a balance between the economic and fiscal politics within the social realm.

During the discussion the freedom of movement for workers was very topical. The freedom of movement for workers cause certain problems due to the uneven social situation, namely, the migration mostly happens from East to West. The unequal attitude in Western Europe, differentiating between the local workers and emigrants was stressed – often the migrants receive lower salaries and their work conditions are worse. On the other hand, social dumping was mentioned as a problems, seeing as the migrant workers are ready to work in exchange for a lower remuneration, squeezing out the local workers. In order to resolve this, common minimal social standards should be set in all Member States, and active labour market policy is needed.

It was also stressed that the unemployment is the most alarming social problem, especially the youth unemployment which exceeds 50% in some Member States.

Some representatives pointed out the insignificant amount of the instruments that are available to affect the social situation.

In his remarks on the discussion, **Mr DOMBROVSKIS** emphasized that the deepening of the EMU social dimension is impossible without a social and economic convergence. The problem of the unemployment has to be resolved not only through a more targeted social assistance. In the same time, the active labour market policy needs to be improved.

Mr RYDER indicated that the EU's competitiveness is impossible to conceive without a quality labour force. Remuneration has to be balanced with productivity. He highlighted that within the EU there has to be an equal treatment towards all employees, and it should not matter which Member State the employee is from.

Ms ULVSKOG stressed in her concluding remarks that in order to improve the quality of life, everyone has to strive to achieve better work conditions for all the EU citizens. It is impossible to achieve high labour effectiveness if there is no adequate remuneration.

Mr MUET indicated that EMU's social dimension must be balanced with its economy part.