



House of Commons
European Scrutiny Committee

**Economic and
Monetary Union**

Twenty-eighth Report of Session 2012–13

**Documents considered by the Committee on 16 January 2013,
including the following recommendations for debate:**

A blueprint for a deep and genuine EMU — Launching a
European Debate

Towards a genuine Economic and Monetary Union



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Report, together with formal minutes

*Ordered by The House of Commons
to be printed 16 January 2013*

Notes

Numbering of documents

Three separate numbering systems are used in this Report for European Union documents:

Numbers in brackets are the Committee's own reference numbers.

Numbers in the form "5467/05" are Council of Ministers reference numbers. This system is also used by UK Government Departments, by the House of Commons Vote Office and for proceedings in the House.

Numbers preceded by the letters COM or SEC or JOIN are Commission reference numbers.

Where only a Committee number is given, this usually indicates that no official text is available and the Government has submitted an "unnumbered Explanatory Memorandum" discussing what is likely to be included in the document or covering an unofficial text.

Abbreviations used in the headnotes and footnotes

EC	(in " <i>Legal base</i> ") Treaty establishing the European Community
EM	Explanatory Memorandum (submitted by the Government to the Committee)*
EP	European Parliament
EU	(in " <i>Legal base</i> ") Treaty on European Union
GAERC	General Affairs and External Relations Council
JHA	Justice and Home Affairs
OJ	Official Journal of the European Communities
QMV	Qualified majority voting
RIA	Regulatory Impact Assessment
SEM	Supplementary Explanatory Memorandum
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union

Euros

Where figures in euros have been converted to pounds sterling, this is normally at the market rate for the last working day of the previous month.

Further information

Documents recommended by the Committee for debate, together with the times of forthcoming debates (where known), are listed in the European Union Documents list, which is published in the House of Commons Vote Bundle each Monday, and is also available on the parliamentary website. Documents awaiting consideration by the Committee are listed in "Remaining Business": www.parliament.uk/escom. The website also contains the Committee's Reports.

*Explanatory Memoranda (EMs) can be downloaded from the Cabinet Office website: <http://europeanmemoranda.cabinetoffice.gov.uk/>.

Letters sent by Ministers to the Committee relating to European documents are available for the public to inspect; anyone wishing to do so should contact the staff of the Committee ("Contacts" below).

Staff

The staff of the Committee are Sarah Davies (Clerk), David Griffiths (Clerk Adviser), Terry Byrne (Clerk Adviser), Leigh Gibson (Clerk Adviser), Peter Harborne (Clerk Adviser), Paul Hardy (Legal Adviser) (Counsel for European Legislation), Joanne Dee (Assistant Legal Adviser) (Assistant Counsel for European Legislation), Hannah Finer (Assistant to the Clerk), Julie Evans (Senior Committee Assistant), Jane Lauder (Committee Assistant), Alex Hunter (Committee Assistant), Stewart McIlvenna (Committee Assistant), and Paula Saunderson (Office Support Assistant).

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1 Economic and Monetary Union

(a)	
(34452)	Commission Communication: <i>A blueprint for a deep and genuine EMU — Launching a European debate</i>
16988/1/12	
COM(12) 777	
(b)	
(34453)	President of the European Council Report: <i>Towards a genuine Economic and Monetary Union</i>
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<i>Legal base</i>	—
<i>Department</i>	HM Treasury
<i>Basis of consideration</i>	Minister’s letter of 28 December 2012
<i>Previous Committee Report</i>	HC 86–xxiv (2012–13) 12 December 2012
<i>Discussion in Council</i>	13–14 December 2012
<i>Committee’s assessment</i>	Politically important
<i>Committee’s decision</i>	For debate on the Floor of the House

Background

1.1 At the June 2012 European Council “the President of the European Council was invited to develop, in close collaboration with the President of the Commission, the President of the Eurogroup and the President of the ECB, a specific and time-bound road map for the achievement of a genuine Economic and Monetary Union [EMU]”. The intention was for an interim report to be presented at the October 2012 European Council and a final one to be presented at the December 2012 European Council.

1.2 The interim report, which built on ideas expressed during bilateral meetings in September with all Member States and the European Parliament, was considered at the October 2012 European Council, together with Commission draft legislation for the first stage of a Banking Union.¹ Following presentation of the interim report the European Council asked for a specific and time-bound roadmap to be presented at its December 2012 meeting, saying that:

“The process towards deeper economic and monetary union should build on the EU’s institutional and legal framework and be characterised by openness and transparency towards Member States which do not use the single currency and by respect for the integrity of the Single Market. The final report and roadmap should include concrete proposals for how to achieve this.”²

1 (34217)13682/12; (34218) 13683/12; (34231) 13854/12; and (34314) —: see HC 86–xiv (2012–13) chapters 1 and 2 (17 October 2012) and *HC Deb*, 6 November 2012, cols. 805–833.

2 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132986.pdf.

1.3 The Communication, document (a), was presented by its President in November 2012 as “the Commission’s contribution to the report of the ‘four presidents’ on the next steps for economic and monetary union.”³ It provided the Commission’s vision for a strong and stable architecture in the financial, fiscal, economic and political domains of the currency union. Section 1 provided background information on the EMU, Section 2 looked at the measures that have been taken so far to deal with the crisis in the eurozone, Section 3 put forward proposals the Commission thinks necessary for a deep and genuine EMU and Section 4 considered questions of democratic legitimacy and accountability that arise in the context of a more integrated currency union.

1.4 The Report, the “Van Rompuy Report”, document (b), by the President of the European Council, prepared “in close collaboration with” the Presidents of the Commission, the Eurogroup and the European Central Bank, is that requested by the October 2012 European Council. The President commented that “It incorporates valuable input provided by the Commission in its Communication [document (a)]... The European Parliament has also made a valuable contribution”.

1.5 The Report was split into two broad sections. After providing background information on the EMU, the first section sets out an overview of sequencing, describing how measures to improve the EMU could be implemented under three stages: Stage 1 being end 2012–13, Stage 2 being 2013–14 and Stage 3 being post 2014. In the second section of the Report the President discussed the proposals in the established format, separating them into the four pillars thought necessary for a genuine EMU: integrated financial framework, integrated budgetary framework, integrated economic policy framework and democratic legitimacy and accountability. The President said that “the views set out in this report focus on the euro area Member States as they face specific challenges by virtue of sharing a currency”. He also said that “the process towards a deeper EMU should be characterised by openness and transparency and be fully compatible with the Single Market in all aspects”.

1.6 The President said that “the euro area needs stronger mechanisms to ensure sound national policies so that Member States can reap the full benefits of the EMU”. He asserted a “commitment to, and subsequent implementation of, a roadmap towards genuine EMU” is “indispensable”. In Stage 1 (end 2012–13) of this roadmap, the President highlighted the importance of ensuring fiscal sustainability and breaking the link between banks and sovereigns. He proposed:

- completion and thorough implementation of stronger fiscal governance measures already agreed (that is the “six-pack” and Treaty on Stability, Coordination and Governance (SCG)) or soon to be agreed (that is the “two-pack”: eurozone only legislation for enhanced budgetary monitoring and enhanced surveillance);
- establishing of a framework for *ex ante* coordination of major economic policy reforms in the eurozone;
- establishing a Single Supervisory Mechanism for the eurozone and other Member States which want to join voluntarily and entry into force of the Capital Requirements Regulation and Directive;

3 See http://europa.eu/rapid/press-release_IP-12-1272_en.htm.

- agreement on harmonisation of national resolution and deposit guarantee frameworks, ensuring appropriate funding from the financial industry; and
- enabling direct bank recapitalisation through the European Stability Mechanism.

1.7 For Stage 2 (2013–14) the President asserted the importance of completing the financial framework and promoting sound structural policies. He proposed:

- completion of an integrated financial framework through establishing a common resolution authority for the eurozone and those other Member States which have decided to be part of the Banking Union and an appropriate backstop to ensure that bank resolution decisions are taken swiftly, impartially and in the best interest of all; and
- establishing a mechanism for stronger coordination, convergence and enforcement of structural policies based on arrangements of a contractual nature between Member States and EU institutions on the policies countries commit to undertake and on their implementation.

1.8 For Stage 3 (post 2014) the President asserted the need to improve the resilience of the EMU through the creation of a shock-absorption function at the central level. He proposed:

- establishing a well-defined and limited fiscal capacity to improve the absorption of country-specific economic shocks in the eurozone, through an insurance system set up at the central level; and
- an increasing degree of common decision-making on national budgets and an enhanced coordination of economic policies, in particular in the field of taxation and employment, building on the Member States' National Job Plans.

1.9 We considered these documents just before the December 2012 European Council. Although we were told that the Commission Communication, document (a), would not itself be the subject of discussion at the meeting, we heard the Government's comments on it that:

- the UK is not legally obliged to join the euro and the Government has been very clear that the UK will not join the euro under it;
- the Government has said that it recognises that the eurozone Member States are likely to want to move towards a stronger, more stable currency union and economic and financial stability in Europe is in the UK's interests;
- at the same time, the Government has been clear that the UK will not take part in measures designed to strengthen integration in the eurozone;
- it has also been clear that proposals must take account of the interests of all Member States, in particular with regard to the single market;
- the Government will always ensure that the UK's specific interests, especially on the single market, are protected;

- the document does not put forward actual legislative proposals — further Explanatory Memoranda would be due if specific legislative proposals were to be published by the Commission.

1.10 In relation to the Van Rompuy Report, document (b), we heard, in addition to a reiteration of the comments on the Commission Communication, that:

- the Government welcomed the fact that the President said that “the views set out in this report focus on the euro area Member States as they face specific challenges by virtue of sharing a currency”; and
- it also welcomed the fact that the President said that the process proposed must be “fully compatible with the Single Market in all its aspects”.

1.11 We noted both the Government’s reiteration of its general policy in relation to UK membership of the eurozone and to policies proposed in relation to the eurozone problems and the two specific comments on the Van Rompuy Report. However we said that we were deeply concerned about the possible implications for the UK of what is proposed. In addition to the issue of a threat to the single market for financial services, already exemplified by the current Banking Union proposals, there was the question of democratic legitimacy and accountability. We noted that the Van Rompuy Report states that the organisation and modalities of this “are a responsibility of the European Parliament and national parliaments to determine jointly” but we were concerned:

- at the implications of the apparent presumption in the reports about the primacy of the European Parliament; and
- the implicit presumption that democratic legitimacy and accountability of a new strengthened EMU framework and cooperation under Article 13 of the SCG Treaty should necessarily be considered within the context of the European Semester.

1.12 We said we expected, therefore, the Prime Minister to secure very robust language in the Conclusions of the European Council about the single market and the role of national parliaments. We noted that we intended to recommend that these documents be debated on the Floor of the House in the light of those Conclusions. To that end we asked to receive from the Minister immediately after the European Council a detailed account of how the Conclusions met the concerns expressed in the Report about the single market and the role of national parliaments.

The Minister’s letter

1.13 The Financial Secretary to the Treasury (Greg Clark) says first, in relation to our expectation that the Prime Minister should secure very robust language in the European Council Conclusions⁴ about the single market, that “the Prime Minister did just that” by:

- securing robust language on protecting the single market in its entirety; but

4 See http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134353.pdf.

- “also more significantly” in agreeing specific safeguards to protect the single market in financial services and protect the interests of the UK’s financial sector.

1.14 On protecting the integrity of the single market in general, the Minister comments that:

- the Conclusions outline clearly that “throughout the process the integrity of the Single Market will be fully respected, including in the different legislative proposals which will be made”; and
- this makes clear that the integrity of the single market must be respected in all aspects of further integration.

1.15 He comments further that the agreement at European Council [that is its endorsement of the ECOFIN Council’s general approach] of the draft Regulations on the Single Supervisory Mechanism and changes to the European Banking Authority provides a good example of how the Government can secure important changes to safeguard its interests. The Minister continues that, “as the Prime Minister made clear in his Post-Council Statement:⁵

“A single currency needs a single system for supervising banks, so Britain supported the first steps agreed towards a banking union, but in return we and others demanded proper safeguards for countries that stay outside the new arrangements. The European Council therefore agreed a new voting system that means that the eurozone cannot impose rules on the countries outside the euro area, such as Britain, without our agreement. There is also an explicit clause that says that no action by the European Central Bank should directly or indirectly discriminate against those countries outside a banking union. That is vital for our financial services industry, which must continue to be able to provide financial products in any currency.”

1.16 He concludes that successful protection of the single market and non-eurozone Member States’ interests in the context of the Single Supervisory Mechanism have set a helpful precedent, which proves that solutions can be found that allow some Member States to integrate more closely, while still protecting the single market for those who do not choose to do so.

1.17 Turning to the role of national parliaments and the European Parliament, the Minister says that:

- as the Prime Minister made clear in his reply to our Chairman during his Post-Council Statement, while the European Parliament has the role given to it as set out in the Treaties, the Government believes that national parliaments are the institutions closest to the peoples of Europe and that is why they should be at the heart of providing democratic legitimacy within the EU;
- the European Council Conclusions outline that, in the process of greater eurozone integration, national parliaments and the European Parliament both have a part to play;

5 *HC Deb*, 17 December 2012, cols. 565–587.

- they suggest that new mechanisms to increase the level of cooperation between national parliaments and the European Parliament could contribute to this process, but that the exact modalities of a conference of their representatives to discuss EMU related issues is for the Parliaments to determine themselves; and
- the Government shares that view.

Conclusion

1.18 As we foreshadowed in our previous Report on these documents, we now recommend that they be debated on the Floor of the House and that, given the importance of the matters covered in them, the debate should be for three hours.

1.19 We are grateful to the Minister for his letter following up the Prime Minister's Post-Council Statement, which will be relevant to the debate. We note the claims the Minister makes about the UK's ability to protect the single market in the context of the evolving governance framework for the EMU — we suggest that Members will wish to examine this matter in the debate.

1.20 We suggest also that Members will wish particularly to consider the Minister's comments about the role of national parliaments. In that context we make our own comments, as follows.

1.21 We note that the Van Rompuy Report states that new mechanisms to increase the level of cooperation between national parliaments and the European Parliament in the field of EMU, building on Article 13 of the SCG Treaty and Protocol 1 of the TFEU, should be the responsibility of national parliaments and the European Parliament to determine. The organisation and modalities of any such activity are yet to be determined. In our view they must be discussed in an appropriate forum, such as the regular Speakers' Conference, bearing in mind that the Speakers of Member States have different constitutional roles and that the constitutional arrangements of Member States also differ.

1.22 No new institutions or bodies should be created which would have supremacy over the United Kingdom Parliament, as it has constitutional primacy.

1.23 We remain willing to discuss the matters which arise from the Commission Communication, the Van Rompuy Report and the Council Conclusions. We are bound to point out that there are a number of issues raised which cause us grave concern, exemplified by the following statements from the Communication, Van Rompuy Report and the Council Conclusions respectively:

“Interparliamentary cooperation as such does not, however, ensure democratic legitimacy for EU decisions. That requires a parliamentary assembly representatively composed in which votes can be taken. The European Parliament, and only it, is that assembly for the EU and hence for the euro.”

“At the same time, the provisions for democratic legitimacy and accountability should ensure that the common interest of the union is duly taken into account; yet national parliaments are not in the best position to take it into account fully.

This implies that further integration of policy making and a greater pooling of competences at the European level should first and foremost be accompanied with a commensurate involvement of the European Parliament in the integrated frameworks for a genuine EMU.”

“Further integration of policy making and greater pooling of competences must be accompanied by a commensurate involvement of the European Parliament. New mechanisms increasing the level of cooperation between national parliaments and the European Parliament, in line with Article 13 of the TSCG and Protocol No 1 to the Treaties, can contribute to this process. The European Parliament and national parliaments will determine together the organisation and promotion of a conference of their representatives to discuss EMU related issues.”

1.24 The principles on which discussions should now proceed, in our view, are:

- **proposals to reinforce the EMU and the EU economic governance framework in general will clearly impact economically and legally on all Member States, including those whose currency is not the euro. On this basis, and in full respect of Protocol 1 of the TFEU, any parliamentary oversight of a strengthened EMU, including that envisaged in Article 13 of the SCG Treaty, should be at the level of 27 national parliaments and the European Parliament; and**
- **any new arrangements must respect the different competences of national parliaments and the European Parliament and operate consistently with national democratic scrutiny processes, including our own Standing Orders. So far as the United Kingdom is concerned, they must respect the primacy of this Parliament.**

Formal minutes

Wednesday 16 January 2013

Members present:

Mr William Cash, in the Chair

Michael Connarty
Mr James Clappison
Julie Elliott
Nia Griffith
Chris Heaton-Harris
Kelvin Hopkins

Chris Kelly
Penny Mordaunt
Stephen Phillips
Jacob Rees-Mogg
Henry Smith

The Committee deliberated.

Draft Report (*Economic and Monetary Union*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1.1 to 1.24 read and agreed to.

Resolved, That the Report be the Twenty-eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 23 January at 2.00 p.m.]

Standing Order and membership

The European Scrutiny Committee is appointed under Standing Order No.143 to examine European Union documents and—

- a) to report its opinion on the legal and political importance of each such document and, where it considers appropriate, to report also on the reasons for its opinion and on any matters of principle, policy or law which may be affected;
- b) to make recommendations for the further consideration of any such document pursuant to Standing Order No. 119 (European Committees); and
- c) to consider any issue arising upon any such document or group of documents, or related matters.

The expression “European Union document” covers —

- i) any proposal under the Community Treaties for legislation by the Council or the Council acting jointly with the European Parliament;
- ii) any document which is published for submission to the European Council, the Council or the European Central Bank;
- iii) any proposal for a common strategy, a joint action or a common position under Title V of the Treaty on European Union which is prepared for submission to the Council or to the European Council;
- iv) any proposal for a common position, framework decision, decision or a convention under Title VI of the Treaty on European Union which is prepared for submission to the Council;
- v) any document (not falling within (ii), (iii) or (iv) above) which is published by one Union institution for or with a view to submission to another Union institution and which does not relate exclusively to consideration of any proposal for legislation;
- vi) any other document relating to European Union matters deposited in the House by a Minister of the Crown.

The Committee’s powers are set out in Standing Order No. 143.

The scrutiny reserve resolution, passed by the House, provides that Ministers should not give agreement to EU proposals which have not been cleared by the European Scrutiny Committee, or on which, when they have been recommended by the Committee for debate, the House has not yet agreed a resolution. The scrutiny reserve resolution is printed with the House’s Standing Orders, which are available at www.parliament.uk.

Current membership

Mr William Cash MP (*Conservative, Stone*) (Chair)
 Mr James Clappison MP (*Conservative, Hertsmere*)
 Michael Connarty MP (*Labour, Linlithgow and East Falkirk*)
 Jim Dobbin MP (*Labour/Co-op, Heywood and Middleton*)
 Julie Elliott MP (*Labour, Sunderland Central*)
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 Ian Swales MP (*Liberal Democrat, Redcar*)