People's News

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Euro contributed to the boom

The careful language of the Regling-Watson report on the banking crisis recognises implicitly that abolishing the Irish pound and joining the euro zone was a big mistake.

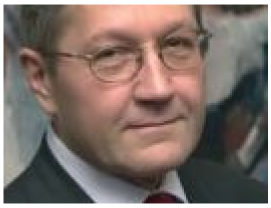
Regling and Watson state (p. 23) that 'In a monetary union, the challenge for policies becomes even greater as monetary conditions cannot be influenced directly and the (nominal) exchange rate is no longer a policy instrument'.

They don't say – because they don't need to – that It is clear from what we found that when Ireland joined the euro the relevant authorities thought they had nothing more to worry about and could go for a pint!

Regling-Watson pose the question (p.24): 'Was it a coincidence that Ireland's economic fundamentals began to deteriorate when Ireland joined the euro area?' They answer their question by stating: 'Certain aspects of EMU membership certainly reinforced vulnerabilities in the economy. Short-term interest rates fell by two thirds from the early- and mid-90s to the period 2002-07. Long-term interest rates halved. Real interest rates were negative from 1999 to 2005 after having been strongly positive earlier.

This contributed to the credit boom, the strong increase in household debt, the property bubble and the general overheating of the economy. The removal of exchange rate risk facilitated foreign funding, including for the growing current account deficits. This financing ease meant that Ireland's boom could continue for longer than without EMU membership, and the asset bubble could become bigger.'

They go on to say that after Ireland joined EMU: 'Other available policy instruments – such as fiscal policy, bank regulation, income policy – were not used to offset the well-known expansionary effects of EMU membership on the macroeconomic environment or even fueled the fire, in particular tax policies'.



In the light of what has happened these comments are devastating. They are an indictment of the Department of Finance, which is the principal source of economic advice to the Irish government. There is no doubt that heads should – but won't – roll there. But they don't say, because the evidence they quote shows otherwise, that they themselves think Ireland's adopting the euro, and with it abolishing national control of either interest rates or the exchange rate, was a highly beneficial step.

Regling-Watson know well that it is not yet time – nor is it for them as outside commentators – to question the most important policy decision ever made by the Irish state. Nor, one suspects, did they want their report to be sidelined by a headline: 'report says that we should not have joined the euro'.

They could have included how Denmark and Sweden – small countries outside the euro zone but members of the EU – are weathering well the post-2008 storm, that being the obvious riposte to the point about EMU helping small country members of the euro zone to deal with the economic crisis.

They probably didn't want to take that route, as explicitly criticising euro membership would have upset too many careers in Ireland and the EU, and would have led to their report being rejected. Read the Regling/Watson report.

Citizens' initiative shows cracks

EU politicians are keen to talk up the European Citizens' Initiative (ECI), a clause in the EU treaty obliging the European Commission to consider legislating on any idea supported by one million European citizens. Institutional affairs commissioner Maroš Šefčovič calls it a 'real step forward in the democratic life of Europe'. But seven months after the implementation of the Lisbon Treaty, Brussels institutions are struggling with civil liberties issues surrounding its implementation. Earlier in June, the draft legislation went to member states for discussion and is now back with the Parliament.

The modified proposal sees the commission decide at the moment it registers the initiative if it is fundamentally silly or against European 'values'. The admissibility of the initiative will then be decided once 100,000 signatures have been gathered. Meanwhile most member states are looking to have signatories provide ID numbers and are fretting about verifying the signatures – pushing to have them all checked.

Mario Tenreiro, a commission official working on the issue, dismissed the 'censorship' concerns: 'All MEPs have to wear blue and stars – should we register this? I don't think so', he said, attempting to highlight how clear cut such decisions will be. Campaigners are also worried that member states' preoccupation with security issues – most opted to have signatories hand over their ID numbers and want all signatures to be verified – will put off citizens, make the process too lengthy and give it the semblance of an intelligence-gathering exercise.

Others took issue with the commission's argument that 100,000 signatures have to be gathered from the required nine member states before admissibility is considered, arguing it is too burdensome.

The Commission would like to see the new law agreed by 1 December, the first year anniversary of the Lisbon Treaty, but the bottom line – as we pointed out during the referendum campaign – is that the Commission can ignore the petition and bin it.

Warning of volatility in euro zone

A report by ratings agency Fitch has warned that episodes of 'extreme market volatility' in the euro zone are likely to persist until economic recovery and deficit reductions are secured in the region.

The report says the crisis in the euro zone, including concerns over the single currency's sustainability, arose as a result of economic imbalances, scepticism over countries ability to adapt, concerns about fiscal solvency and doubts over political commitment to the euro.

Meanwhile, Jürgen Stark, an executive member of the European Central Bank, said that markets acted 'irresponsibly' in response to the Greek debt crisis: 'In the middle of negotiations rating agencies downgraded Greece. Markets have exaggerated the problems', he said. 'What we are witnessing now is not a crisis of the euro, what we are witnessing is a loss of public confidence by markets in the ability of governments to run sound and responsible fiscal policies'. When thieves fall out ….

Ashton strikes deal over EU diplomats

EU foreign minister Catherine Ashton has struck a deal with the representatives from the three main political groups in the European Parliament on the shape of the European External Action Service (EEAS) – the new EU diplomatic corps.

The EEAS will ultimately be provided with a staff of more than 8,000 people and at least 60 per cent of EEAS staff should be permanent EU officials rather than national diplomats, 'in an effort to ensure their first loyalty would be to the new service'. The EEAS' operational budget (including €6 billion per year for development aid) will be part of the Commission's budget, while its administrative budget will be separate. Strategic country planning will take place in the service but the ultimate programming decisions for external assistance will rest with the commission.

Ashton bowed under EP pressure and accepted its calls to have the foreign minister of the country holding the rotating EU presidency as her deputy. In addition, the relevant three EU commissioners (Enlargement, Development and Humanitarian Aid) will also serve as deputies for issues under EU competence. Ms Ashton, who has a hectic travel schedule, will be deputised by either the relevant EU commissioner or the foreign minister of the country holding the EU presidency.

The budget line for this year is €9.5 million euros. This foresees 1,100 diplomatic staff with about 100 new jobs created. 'These [new] posts are for reinforcing delegations overseas', said an EU diplomat. Ms Ashton's team is still hoping to get the service established by 1 December – exactly a year after the Lisbon Treaty, came into force.

Trichet: 'We need the equivalent of a fiscal federation'

ECB President Jean-Claude Trichet has called

for a 'quantum leap' in the governance of the euro zone that would broaden the powers of the Commission and member states over each country's budget position and overall competitiveness. He said 'the ECB believes that a true quantum leap is needed in the framework for surveillance and adjustment of fiscal policies', adding 'we need the equivalent of a fiscal federation'.

Trichet said an independent agency, preferably housed within the Commission, should have the powers to hand down sanctions on countries whose budgetary and macroeconomic policies would lead to losses of competitiveness. 'The Commission should have greater responsibility by making proposals which can only be modified with unanimity in the council rather than mere recommendations under the stability and growth pact', Mr. Trichet said.

He also hinted that he would support the use of sanctions for member states outside the euro zone which break debt and deficit rules. He said: 'At the level of the EU27, and in particular within the euro area, we must have effective instruments to prevent – and, where necessary, correct – excessive deficits and debt levels ... The initiation of sanctions also needs to be quasi-automatic'.

Barroso: 'We should not only be a monetary union, but also an economic union'

EU Commission President José Manuel Barroso has rejected concerns that Europe is moving too quickly toward economic austerity, instead saying it is vital to cut debt to restore market and voter confidence. Mr Barroso has also said that his main goal in his second term is 'to make the EU really stronger in terms of economic governance, to make Europe, and also our partners, understand that we should not only be a monetary union, but also an economic union'.

De Gucht: 'Greek bailout is against the EU Treaties'

EU Trade Commissioner Karel De Gucht has said that the guarantee arrangement for Greece breaches the EU Treaties: 'You shouldn't forget that in the Treaties it is provided that a bailout is not possible ... What has been done is to collectively deviate from the Treaties, because the guarantee arrangement is a system of bailout, no matter how you look at it. One has deviated from that, one has actually done something against the Treaties because one has seen that it was necessary'. De Gucht added, on the new measures over budget supervision, that 'EU leaders of course want to claim they made those decisions ... (but) when you look at the details, everything comes from the European Commission'.

France and Germany consider 'two-tier' euro

EU officials have revealed that Germany and France are examining ways of creating a 'two-tier' euro system to separate stronger northern European countries from weaker southern states. The creation of a 'super-euro' zone would initially include France, Germany, Holland, Austria, Denmark and Finland. The likes of Greece, Spain, Italy, Portugal and even Ireland would be left in a larger mostly Mediterranean grouping.

'It's an act of desperation', the official is quoted saying. 'They are not talking about ideal solutions but the lesser of evils. Helping Greece could be done relatively cheaply but Spain they can't afford to let fail or bail-out'. The article noted that French president Nicolas Sarkozy is understood to have been initially cool on the idea but has grown so frustrated with Greece and now Spain that he has allowed officials to explore proposals. The official added, 'Only one thing is sure, the euro zone will change'.

Sarkozy has said, 'We are only at the beginning of the concept. Only four months ago, the words "economic governance" were taboo. But the idea is progressing'. Sarkozy added: 'There will be sanctions for those who do not fulfill their commitments on debt. Fines are not the best solution. Together with Angela Merkel, we are supportive of the withdrawal of voting rights'. The latter would require treaty change but EU leaders agreed to postpone the talks on sanctions until October.

However, Franco-German tensions over the shape of the EU's economic governance persist, with Sarkozy still harbouring desires for a eurozone economic government rather than simply the tougher budgetary rules for all twenty-seven member states favoured by Germany.

EU to step up raw materials 'diplomacy'

In November 2008, the European Commission presented a new 'integrated strategy' for raw materials, suggesting three pillars for the EU's policy response to global resource scarcity:

- better and undistorted access to raw materials on world markets;
- improved conditions for raw materials extraction within Europe, and;
- reducing the EU's consumption of raw materials by increasing resource efficiency and recycling.

The strategy was supported by EU industry ministers who called for EU 'raw materials diplomacy' and a stronger focus on resource-efficiency and recycling.

In November 2009, the European Commission set up an expert group which began screening a list of thirty-nine 'potentially critical' raw materials whose availability to industry could come under threat as global competition for natural resources intensifies. Now, an EU expert group has identified fourteen raw materials seen as 'critical' for EU high-tech and eco-industries and suggested that the European Union's global diplomacy should be geared up to ensure that companies gain easier access to them in future.

'It is our aim to make sure that Europe's industry will be able to continue to play a leading role in new technologies and innovation and we have to ensure that we have the necessary elements to do so', said Industry Commissioner Antonio Tajani, presenting the group's final report on 17 June.

The supply risks identified for the fourteen critical raw materials highlighted in the report primarily relate to the fact that global production is concentrated in a handful of countries: China, Russia, the Democratic Republic of Congo and Brazil. The low recycling rates of these materials and the difficulty of substituting them with others add to their 'criticality', the report said.

To guarantee that industry can access these essential raw materials 'we need fair play on external markets' said Tajani. Encouraging supply from EU sources, improving resource efficiency and increasing efforts to recycle were also highlighted in the report as ways forward.

Of the forty-one minerals and metals analysed, the expert group listed the following fourteen raw materials as critical for the EU: antimony, beryllium, cobalt, fluorspar, gallium, germanium, graphite, indium, magnesium, niobium, PGMs (platinum group metals), rare earths, tantalum and tungsten. The group cites forecasts indicating that demand for some of them might more than triple by 2030 compared to 2006 levels.

These materials are an essential part of both high-tech products and every-day consumer items, such as mobile phones, thin-layer photovoltaics, lithium-ion batteries, fibre-optic cables and synthetic fuels.

Policy measures to improve access to primary resources should cover 'fair treatment of extraction with other competing land uses', promote exploration and extraction within and outside the EU and 'ensure that exploration by companies is regarded as a research activity', the report says. It also advises the EU to promote good governance, capacity-building and transparency in relation to the extraction industry in developing countries.

The European Commission and the African Union Commission agreed on 8 June to develop bilateral cooperation in the field of raw materials and work together on issues such as governance, infrastructure, investment and geological knowledge and skills.

Regarding trade and investment, the group advises the EU to consider shaping a new EU-wide policy on foreign investment agreements to 'better protect EU investments in raw materials abroad'. The bloc should also consider the merits of pursuing dispute settlement initiatives at World Trade Organisation (WTO) level 'to include in such initiatives more raw materials important for EU industry'.

The EU filed a joint complaint with the United States against China at the WTO in June last year, accusing Beijing of unfairly favouring its industries by restricting access to nine types of key raw materials. China, which is responsible for 95% of global 'rare earth' production (one of the fourteen materials listed as critical to EU industry), plans to ban exports of some of them as of 2015. Beijing's plans are a cause for concern among manufacturers of high-tech products ranging from computers to electric car batteries and wind turbines. The Commission will publish a Communication on implementation of EU Raw Materials Initiative and strategies to ensure access to raw materials in the Autumn.

Tories could support treaty changes

David Cameron has said Britain could be prepared to endorse European treaty changes to support the euro. The British prime minister told parliament that 'Sorting out the euro zone and adding to its governance arrangements is clearly vital for Europe. There may well be significant changes coming down the track'. However, he ruled out agreeing to anything that would 'pass power from the UK to Brussels'.

'As we are not a member of the euro, we will not back measures that draw Britain further into financial support for the euro area.' On the controversial issue of submitting national budgets to the European commission for vetting, he said that the UK would engage in 'co-ordination and consultation' with the commission, but would go no further, saying, 'Clearance – no, never'.

Former commissioner calls Congo's colonial owner a 'visionary hero'

Louis Michel, the Belgian former EU development commissioner and current prominent Liberal MEP has shocked his home nation and its one-time central African subjects by calling King Leopold II, the Congo's colonial master responsible for between 3 million and 10 million deaths, a 'visionary hero'.

'Leopold II was a true visionary for his time, a hero', he said, 'and even if there were horrible events in the Congo, should we now condemn them?'

In the late 19th Century, the Belgian colony of the Congo Free State, effectively the personal property of Leopold II, became infamous for the enslavement and brutal treatment of the Congolese people. The Casement Report was a 1904 document by then British consul in the Congo, Roger Casement. It detailed abuses in the Congo Free State which was under the private ownership of King Leopold II of Belgium. This report was instrumental in Leopold finally relinquishing his private holdings in Africa. Leopold had ownership of the Congolese state since 1885 (granted to him by the Berlin conference) in which he exploited its natural resources (mostly rubber) for his own private wealth. Estimates of the number killed while the region was plundered for its rich resources vary substantially, but researchers believe between five million and twenty million died.

‘Leopold II does not deserve these accusations’, continued Mr Michel, himself a descendent of the Belgian king and a ‘knight, officer and commander’ in the Order of Leopold, Belgium’s highest honour. ‘The Belgians built railways, schools and hospitals and boosted economic growth. Leopold turned the Congo into a vast labour camp? Really? In those days it was just the way things were done.’

A cartoon from 1906 depicting King Leopold II entangling the Congo.

Admitting there were ‘irregularities’, he said: ‘We can easily be tempted to exaggerate when it comes to the Congo ... I feel instinctively that he was a hero, a hero with ambitions for a small country like Belgium. To use the word “genocide” in relation to the Congo is absolutely unacceptable and inappropriate. And yes, maybe colonisation was domineering and acquiring more power, but at a certain moment, it brought civilisation.’ Conrad would have been proud of him!

Mr Michel is currently the vice-president of the EU’s Joint Parliamentary Assembly with African, Caribbean and Pacific (ACP) countries, the contemporary trade and political association linking Europe with most of its former colonies. Its next meeting will be held in Kinshasa, the capital of the Democratic Republic of the Congo, in December. Of course, several of the EU member states are former colonial powers and it should come as no surprise that elements within the EU elite hold such views.

Additionally last week, a group of legal activists has formally requested war-crimes charges be brought against twelve Belgian government officials allegedly responsible for the assassination of Patrice Lumumba, Congo’s first prime minister, whom the CIA also attempted to murder, according to a US Senate investigation.

A palace fit for a king

A building firm has been awarded the project to build the new headquarters of the European Council in Brussels, which will house EU President Herman Van Rompuy. The contract is for €180 million, but the article notes that, with study expenses, removal of asbestos and preparation works the total cost will be more like €315 million.

EU taxation on the way?

EUOBSERVER reports that European commissioners are in a holding pattern over whether to introduce a tax on carbon across the EU, a proposal that if backed by the EU executive could prove to be one of the most controversial and bitterly fought over pieces of legislation Brussels has mooted in years.

Under initial proposals by taxation commissioner Algirdas Šemeta, from 2013, sources of greenhouse gases that are not currently covered by the EU’s flagship environmental endeavour, the Emissions Trading Scheme (ETS) – sectors such as agriculture, as well as transport and households – would see a flat, minimum fee of between €4 and €30 per tonne. Mr Šemeta himself is known to favour a price of €20 per tonne, although there is as yet no firm price tag and member states would be free to slap additional taxes on top.

The proposals would not involve fresh legislation, but a review of an existing energy tax directive, which sets minimum rates for energy products used in heating, electricity and motor fuels. At the moment, energy taxes are based on volume. According to the proposals, this would be based on carbon and energy content. However, the tax would not be imposed on electricity or other sectors already within the ETS, which covers half of the bloc's greenhouse gas emissions.

Taxation spokeswoman Emer Traynor said that during a 'very useful and constructive discussion' there was 'wide support for the broad objective presented by commissioner Šemeta' and 'general agreement that good preparatory work has been done in this area'. One clear line did emerge from the debate, which was that the commission backs a common EU CO_2 minimum taxation rate, so member states would not compete amongst each other in offering less onerous rates.

Once the commission agrees on further moves, the next step would be a formal legislative proposal from the commission, which must then be approved by the European Parliament and, as the subject of taxation requires it, unanimity from all member states.

In December last year, French government attempts at introducing a carbon tax were struck down by the country's constitutional court. The judges found that Sarkozy's carbon tax framework placed the overwhelming burden of the tax, set at €17 per tonne of CO_2 emitted, on households instead of industry.

EU takes on extra 18 MEPs for £7 million

An Intergovernmental Conference (IGC) of EU ambassadors has amended the Lisbon Treaty to allow an extra eighteen MEPs to begin work at a cost of £7 million a year to taxpayers. EU leaders at last week's summit agreed to launch the IGC in order to revise the Treaty. The conference only lasted fifteen minutes but the cost of the amendment will be £28 million, the bill for the pay and perks of the MEPs over the next four years. The amendment must now be ratified by all twenty-seven member states, which will mean a Dáil vote on the amendment later this year.

Commission to pay journalists for 'sensitive' trips

The EU Commissioner in charge of communications has announced that journalists will be 'embedded' with Commission president José Manuel Barroso on important meetings abroad from October. The service will also be extended to other Commissioners on media-sensitive missions, like the planned visit of Olli Rehn to Athens in the coming weeks.

Barroso will have his own dedicated speechwriters and two dedicated photographers on permanent call as well as a TV crew to travel with him. Commission vice-president Vivienne Reding intends to submit a financing decision and operational guidelines to enable the Commission 'to take in charge some of the costs of journalists travelling with you [Barroso] and fellow commissioners'. That'll make it even handier for RTÉ and the *Irish Times* reporting!

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