

DEBATE

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Thank you Jean-David for that very comprehensive talk. We have about twenty minutes left. I would now like to open the discussion. It has been two years since we had a series of meetings, of hopes, announcements and eventually setbacks. I would like to put the following question to you: what could there be that might jeopardise the arrangements of the last few days? For example, you say that after a certain number of ratifications, there would be a mechanism that could enable..., etc. But is it possible that an important country, a key country, will not ratify? Is this a real risk? My second question is linked to that one. I've been so engrossed for two days that I've not followed the press, etc. I don't know if there have already been effects, early indications, of reactions from the markets. At the same time, on the basis of the decisions that have been taken, and in relation to the question that I've just asked, do these decisions of the last few days appear, or are they perceived, to be credible?

Jean-David LEVITTE, Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

I believe that they are for one simple reason; we all firmly believe that if we do not put into effect what has been decided, it will be the end of the Euro. As no one wants to see the end of the Euro in the Euro zone, there is very strong pressure on national Parliaments, on nations, to put what has been decided into effect. Thierry without saying it was thinking of France.

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Not necessarily.

Jean-David LEVITTE, Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

Not necessarily. I don't want to speak for Germany naturally, but I'm in no doubt. Why? Because what we have adopted as a decision is the golden rule. It already exists in Germany; it needs to be adopted in France. The golden rule, these are very strict rules of management with a very small budget deficit, etc. France must adopt it, just as the seventeen countries of the Euro and around it will have to adopt it in their national legislation, if possible at a constitutional level. The transposition of this golden rule into national legislations will be done under the control of the European Court of Justice. It is a very big decision. In addition, we have adopted a number of other measures. For example, when a budget deficit is above 3% of GDP, the decision to be taken will be the following: the Commission will look at it immediately and there will be the possibility of sanctions, and these sanctions, which can be scaled, can only be annulled if there is a very strong qualified majority in favour of doing so. This is one example among others, but these are decisions which go a long way towards collective discipline. Everyone in Europe is very aware that this is absolutely essential if we want to organise this convergence of our economies.



Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Anyway, that's what I think as we already have an election campaign under way. Ratification must take place before March if I understand correctly.

Jean-David LEVITTE, Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

No. The treaty is going to be negotiated up until March because there is the major task drafting it, of selecting the legal instruments on which each of these decisions will be based, and all of that will make up the treaty. When the treaty is ready, each country will have to ratify it. Given the fact that we will be in the closing stages of an election campaign, it will naturally be up to the elected President and the elected Parliament, at the end of April or beginning of May for the President, and in June for the Parliament, to pass the necessary ratification measure.

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Thanks. It would be interesting to see how the markets react to what might be perceived as a little...

Jacob FRENKEL, Chairman of JPMorgan Chase International, former Governor of the Bank of Israel

Thank you very much for this extremely useful and informative report. I have two quick questions: one on history and the other on the future. You described in a very interesting way the absence of an exit clause in terms of the context at the time. Is it fair to say that in early November in Cannes, when Prime Minister Papandreou suggested that he would need to go for a referendum, in response to that he was told that his referendum would really be about whether he wanted to stay in or not and that that was the first time that an exit clause was introduced?

The second question is much speculative about the future. As you look into the future of the landscape of the finance industry a decade from now, at the present time the role of banks in the United States as a funder of industry is very minimal and most of it comes from the capital markets. In Europe, it is the other way round. With the requirements for much more capital in the banking sector, which is something that I support strongly, and much less leverage, do you see a convergence in these transatlantic trends?

Jean-David LEVITTE, Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

I would like to go back briefly to Cannes and the G20 Summit, firstly for our G20 partners who are in this hall and who attended a Summit that was certainly useful, but a little too dominated by the problems of the Euro zone. Why? Because on the eve of that Summit, and you are quite right to remind us, the Greek Prime Minister of the time had announced, to everyone's surprise including his own country, his intention to hold a referendum on the aid plan, but a conditional aid plan of the European Union to his country. We had invited him to Cannes really to clarify matters. Naturally, holding a referendum is the most democratic way of deciding an important issue. But we told him that it had to be very clear to us, that the question put to the Greek people had to be simple: "Do you want to stay in the Euro zone or not?" That was the only question because things needed to be really clear.

If there was uncertainty, and as long as there was uncertainty about the will of the Greek people, the European partners would not provide the financial assistance expected. We cannot pay out billions and billions of euros with little or no hope of getting it back without knowing what this money is going to be used for. We indicated very clearly that we



were ready to go ahead, for as long as necessary, to finance the plan to bail out the Greek economy, to help it get back on the rails, but on condition that the Greek people, if it were asked, should be asked a single realistic question: "Are you prepared to stay in the Euro or not?" As I have just said, there is really no way out of the Euro for the historical reason that I mentioned. In fact, the question put was: "Do you want to remain in the European Union by staying in Euro or not?"

That was quite a dramatic moment I have to say, when Prime Minister Papandréou and his Finance Minister at the time, Venizélos, realised that we were partners and that we were not prepared to take on the costs unless Greece kept its side of the bargain transparently. As you know, Prime Minister Papandréou went back to Greece and the decision was taken wisely not to have this referendum because the vast majority of the Greek people clearly wanted to stay in the Euro. The cost of leaving the Euro, for Greece, and also for any other European country, would be absolutely devastating. That helped to raise awareness and to bring in a new government, led by a highly regarded economist, Lucas Papademos, who adopted a very courageous programme which we are determined to support as robustly and for as long as is needed for Greece to re-join us on the path to success.

On the banks, I do not have your expertise to answer your question. There are effectively two models for financing the real economy. I remember Lehman Brothers, I'm not sure if that is a good memory, but there are also other memories besides. I am not sure if there was one system that was better than another. Anyway, what I understand of the decisions that were taken is that we wanted to recapitalise the banks to the extent indicated two days ago by the EBI. We are going to do it. Every country is going to do it. Every bank is going to do it. The European institutions consider that, once it is done, the banks will be in good shape to continue their traditional role in the European economy. Again, I am not competent to say if our use of the banks is excessive or not. It has gone well so far and the crisis in the world banking system is not peculiar to Europe. It began in the United States. It spread through the entire world and we took the decision to sort out the problems in the banking system in Europe.

From the floor

As always, you are quite persuasive. I think that you have contributed the phrase that we have been looking for with 'Europe Plus' and you underlined the nature of the collective discipline that has been added to Europe Plus, which works very well for Germany. Talk to us about how difficult it was for France to give up a little bit, or perhaps more than a little bit, of sovereignty that is involved in creating Europe Plus.

The second thing is that you have mentioned a couple of times the American fiscal and budgetary situation as not being ideal. What was the role of the United States in this euro crisis? How do you judge the role of the administration, particularly given, as you said, the United States lacks credibility on this subject.

Jean-David LEVITTE, Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

On sovereignty, as I have said, we decided, on creating Europe, to undertake an unprecedented adventure of shared sovereignty. States did not want to share their sovereignty. I see before me Madame Fu Ying and Lourdes Aranda. If one asked China or Mexico to share their sovereignty with Japan or the United States for example, I think that would be difficult to envisage. But this is what we've been doing in Europe for 50 years. We've been doing it on a voluntary basis by the democratically expressed choice of all of our nations election after election. No one is forced, and the United Kingdom as I said, has chosen an opt-out so as not to be in the Euro. Denmark has done the same. But once this path has been chosen, it must be followed through to its logical conclusion. In creating the Euro we decided to share something which is the very symbol of the sovereignty of a State, that is to say the currency.

When you have a shared currency, when you have abandoned your monetary sovereignty, the rest is relatively easy. In other words, organising fiscal convergence, that is to say gradually deciding that corporation tax will be the same rate and tax base in the countries of the Euro zone, is on the whole less difficult than taking the decision to abandon



the Deutsche Mark or the Franc. The same goes for budget discipline. Budget discipline is the natural consequence of the existence of the Euro. You cannot have budgets that are hugely divergent for long. Otherwise you have losses of competitiveness and eventually you have the Euro zone falling apart. That is all well understood now as we negotiated in Franco-German between Germany and France

Then in a letter to all our partners we proposed everything I have described, and all the proposals of the Franco-German letter are found in the decisions of the Seventeen Plus. But curiously, these decisions were not too hard to take in terms of sovereignty. They were more difficult to take in terms of cultural differences. This is true in particular between Germany and France. We are two poles apart in European construction. We not only have two different cultures and two different languages, we have different legal traditions. We have different educational systems. It is this Franco-German rapprochement which, more often than not, enables us to find a compromise on a European-wide scale. Because when two opposite poles reach a reasonable compromise, there is hope of reaching it with seventeen or twenty seven.

It is true to say that our European partners do not particularly like the Franco-German motor driving Europe, but when the motor breaks down, we are criticised even more because we paralyse Europe. All in all, in the present circumstances, I believe that the countries of the Euro zone and beyond, all those who want to be part of this move towards integration, towards convergence, were very happy to be able to do it and to start the work two nights ago on the basis of the Franco-German proposals. As for the role of the United States, since the beginning it has been very useful and very positive. Very useful, like other governments that have expressed their concerns very forcefully by saying: *"But be careful, you friends of the Euro zone, you aren't alone. What you do, or rather what you don't do or don't do quickly enough, has consequences for the entire world because you represent 30% of the world economy."*

Secondly, the United States has made its contribution to the debate. When we had meetings in Cannes on the fringe of the G20, President Obama, at the request of President Sarkozy, took part in two or three closed sessions. Why? Because there is no miracle solution, we haven't got a monopole over the solution. But above all because we don't think the Euro zone should work alone, all by itself. This is an issue that was brought up in Cannes. We want the International Monetary Fund to be able to play its role, and of course the Monetary Fund receives contributions from other countries apart from European ones. One of the decisions that we have taken is to look at whether we could add 200 billion euros to the resources of the European Monetary Fund to help it cope, but we still want others to make their contribution.

We know that, while it may be difficult at the moment for the United States on account of Congress, other countries are interested in taking part. I am thinking of China, of Japan, of Korea and maybe others. Now, for these countries, it is obvious that this participation must not be done directly with the Euro zone, it must, quite naturally, be done through the International Monetary Fund. I have to say that for us Europeans who, in the past, had to go to the rescue through the International Monetary Fund during the Asian crisis or during the crisis in the Latin American countries, etc., it is a case of history repeating itself, not with bitterness, it is normal. Everyone experiences difficulties at some point, and we are convinced that by saving the Euro zone we will help the world economy regain the path to faster growth.

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Thank you Jean-David. We have already gone a little past our time limit. We are going to go on just a little longer, but not too much. At this stage I would like to highlight the link between the discussion we are having and the round table which follows. I wanted to have a round table called: "Europe as a laboratory of world governance", that is to say this idea that Jean-David has mentioned of shared sovereignty, and shared on a voluntary basis. As he said, it is something extraordinary historically. It is really the subject of the next round table. We will have President Ilves, President of the Republic of Estonia, and the three other key figures who will take part are from outside the European Union, precisely to discuss this wildly ambitious idea of shared sovereignty. This is to make the link.



Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Two questions and, I'm sorry, there are hands going up everywhere now, but unfortunately I will have to set a limit. So I'm going to take one German or Franco-German hand with Hans Stark. I see six hands up. I'm going to take François Bujon de l'Estang who raised his very quickly with Reginald Bartholomew, and there I stop.

Hans STARK, Secretary General of the Study Committee for Franco-German Relations (Cerfa) at Ifri

Thank you very much. Very quickly, Mr Lévitte, you have spoken a lot about stability. Now what about solidarity? How is it going to be expressed for the next three months and even beyond three months, because it is of course rather crucial, at any rate in the short term? Is there now a consensus for it among the seventeen, and especially from the Franco-German side, for a solidarity that would go beyond the recapitalisation of the banks through the ECB?

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

If you'll allow me, I'm going to take the three questions. That way, you can answer them all at once.

François BUJON de l'ESTANG, Senior International Adviser and member of the European Advisory Board of Citi

Jean-David, many thanks for your extremely clear, fresh comments. It is quite obvious that the European Council meeting just held was of major importance, if only because it confirmed the existence of a two speed Europe. The link has become looser, or the gulf has widened, between the seventeen members of the Euro zone and the ten European Union countries that are not members of it. But, given what you have explained and the fact that the heads of State have chosen in a very opportune and intelligent manner the idea of implementing the new treaty without waiting for ratification by all seventeen members, is there not a risk that we shall end up with a three speed Europe? That is to say, the ten non-members of the Euro zone, the hard core that will have ratified and implemented the system, including all the measures that have been taken to keep the markets, dare I say, at bay, and some Euro zone countries which would have difficulty with ratification, which would not be able to do it or which would end up becoming in a way second class citizens of the Euro zone. What was said in Cannes to Mr Papandreou, and what you have mentioned, was of course valid for an immediate crisis. But over a longer more uncertain period, are we not in danger of ending up eventually with a three-speed Europe?

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

François, there we have the whole debate of the beginning of the 90's after the fall of the Soviet Union and the consequences of an enlargement of the European Union that was perhaps a little too fast. I'm going to take Reginald Bartholomew and someone drawing my attention who is an eminent journalist with Reuters whose name escapes me, but who is of course distinguished.



Reginald BARTHOLOMEW, Former Chairman of Merrill Lynch Investment Banking Italy

I think that I need to begin by saying that I am an American and therefore susceptible to being misunderstood in terms of attitudes towards the European Union. In my own case, I have spent almost a quarter of a century of my life living in Europe, first as an American ambassador to Spain, NATO and Italy and then as an American investment banker. To complicate matters further, I married a French woman and two of my four children were born in Paris. I can therefore be accused of many prejudices but being anti-Europe is not one of them.

My concern is this. Where are the people in all of this? Where are the people? It is the Europeans yourselves who have spoken of the famous phrase 'the democratic deficit'. It is you, the Europeans, not the Americans, who point out that since the first elections for the European Parliament in 1979, when the turnout was in the mid-60%*s*, turnout has declined in every election and the current projection for June of next year is 40%. How is it, when I was an ambassador in Spain or in Italy from 1993 to 1997, that there was no question for a bright young politician as to where he would make his career. It would certainly not be in the European Parliament or anything to do with Europe. That is where you went after you had had your popular career.

I therefore come to the question here of how do the people figure in all of this? What you have done, if I understand it correctly, is that you have made a breach – perhaps not a great one, but still a breach – in one of the two hallmarks of national sovereignty. The first is foreign policy, which you Europeans have always jealously protected to this day, but the other is fiscal policy and control of taxes and spending.

What is to happen now? A Parliament passes a bill - and the Parliament represents the people. Then somebody who does not represent the people and who is a European official – or I do not quite understand it – is in a position to dictate changes to that budget and those decisions taken by that national policy, backed up by the threat of being taken to the European court? This is not hostility; this is a question of clarity.

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Thank you Reginald. Last question.

From the floor

Mr Levitte, I would like to ask you if you think the Summit of these past few days has possibly damaged relations between the UK and France, and the UK and the other European countries? Thank you.

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Unfortunately we must stop the questions and Jean-David Lévitte is going to answer and conclude at the same time.

Jean-David LEVITTE, Diplomatic Advisor and Sherpa of President Nicolas Sarkozy

Firstly, the question of solidarity. Where is the solidarity? The solidarity is embodied today in the European Financial Stability Facility which is designed to come to the aid of countries that need it, and which we are in the process of



setting up. This provisional facility was due to be replaced by a permanent European stability mechanism in 2013. At the European Council, we decided to bring forward the implementation of this European Stability Mechanism to July 2012. That is to say that all ratifications will need to have been completed and, to ensure that it will not be blocked by some difficulty or other in any country, we have decided that, in an emergency, decisions to provide assistance to countries that need it can be decided on a majority of 85% of those entitled to vote. Quicker than anticipated we will have a permanent aid mechanism with 500 billion euros of capital and rules for taking decisions that will avoid paralysis and a veto by any country.

Second question, a two or three speed Europe. In reality, what struck me in the way the discussions went overnight from Thursday to Friday is that at the start the United Kingdom had support, but more at the end. Basically, what we call the Euro Plus, that is the Seventeen plus all those who want to join, turned out to be all the others with qualifications. For example, we immediately got support from a country which is not in the Euro (Denmark), but which said: *"We will stay out of the Euro, but we are for closer integration of the economies, more stability, more discipline, and more competitiveness"*. And then all the countries that want to join the Euro as soon as possible, such as Poland, said: *"But we, it goes without saying, we will participate"*. In the morning, if I remember correctly, there was a country that said: *"We are still with the United Kingdom"*. That was Hungary.

And then they changed their mind later in the morning, before the end of the European Council. We were left with only the Czech Republic and Sweden which had to consult their parliaments to find out if they were to join us. In reality we could well be twenty six, with the United Kingdom staying out of this faster integration of our economies. The question from François Bujon de l'Estang has to do with inside the Euro zone, that is to say are the countries having difficulty keeping up going to be able to catch up? That is the basic question. I believe that the answer is yes. Firstly, because we are determined, now that the Greeks have made their choice, to provide them with all the assistance necessary for them to succeed. Secondly, because there are other countries that are going through difficult times. We have given massive assistance to Ireland. Everyone now acknowledges that to be a success, and moreover no one talks about Ireland's difficulties any more. When one looks at Ireland's spreads, they have returned to a historically normal level.

Finally there is Spain, Portugal and Italy, and these three countries now have new governments. Two of them, Italy and Portugal, have adopted or are about to adopt programmes which are seen by everyone as totally credible, and which move in the direction of this economic convergence. There is still Spain, which has just elected a new government that will only be installed around Christmas time, but the new President of the Government is also very determined to push through the important reforms so that the Spanish economy can re-join the club of competitive economies. Yes, we have recognised the risk of the Euro zone collapsing through differences in the competitiveness of each economy. Having recognised this, we have decided within each country, and all together, to adopt the measures necessary to organise convergence.

Now, the last question but one is about the nations and basically about democracy in Europe. It is true that the European Parliament is not yet sufficiently recognised. It is an institution that is becoming increasingly more powerful in the construction of Europe as many decisions are taken, as we say, by "co-decision". That is to say that the Council and the Parliament must decide. But the European citizens who vote are not yet aware of it. When they are asked to vote for the European Parliament, they fail to consider how important it is. I think that in time, things will be corrected. Nevertheless I would like to stress that in a democracy governments are elected and are not illegitimate. When our heads of State and government make their decisions, they do so on behalf of their people, and if the people are not satisfied, they express it in no uncertain terms at the next election. Moreover, we only need to look at what has happened over the last few months to see how vigorously democracy in Europe is expressed.

Finally, on the matter of budgets, this is a fundamental question. You are right to bring it up. This was one of the discussions we had with the Germans. Should the European Court of Justice have been able to decide that a budget of a European nation did not comply with the commitments undertaken? For us, it was a red line. It was unthinkable. Quite simply because one of the founding privileges of democracy is that Parliament votes on taxes and on the budget. Chancellor Merkel agreed with this analysis, and the role of the European Court of Justice will be limited to checking that the golden rule is transposed into national law according to this treaty which we are going to negotiate. This is its proper legitimate role. But then, if the Commission says: "There is a deficit which goes too far, beyond 3%, you need to correct what has been done", governments can only change this recommendation by, as I have said, a reinforced



majority. Then naturally, in each country, the adjusted budget will need to be voted on by the relevant body, the National Assembly, Parliament. The democratic system will continue to function as before. Simply, if this correction in trajectory is not passed by Parliament there will be penalties for each country. It will be entitled to do this, but there will be a price to pay and that will be penalties which we will have to determine in the forthcoming negotiations, which must be successful.

There is still a fourth question which is about Franco-British friendship. I can assure you straight away, it is intact. We have worked magnificently in Libya for example. Our two countries account for 50% of the total defence costs of the European Union. This will continue to be so in the future. In foreign policy and in defence, we go hand in hand. The United Kingdom decided in the past not to join the Euro or Schengen. This has not prevented it from continuing to be a member of our European Union. Simply, it is true that the distance existing today from the core of Europe is going to increase. The greater the integration of the economies of the Euro zone and all those who want to join us, that is to say probably twenty six, the more the United Kingdom will find itself diverging from the increasingly integrated core of Europe. But that is their choice.

I will conclude by saying, once again, that I came out of that long European Council meeting, from that night of intense work, feeling very optimistic about the future of Europe and the future of the Euro zone. Not only because there was a slowly rising, and now total, awareness by all the countries involved, but also because, during that night's work, there was unanimous expression of a very strong will to do everything to make the Euro a success. We simply do not have the right to fail.

Thierry de MONTBRIAL, President and Founder of the World Policy Conference

Jean-David, I am extremely grateful to you. I think we are all aware that this 4th meeting of the World Policy Conference comes at an absolutely historic moment. I think that even the most sceptical here in this hall will find it hard to resist your reasoned optimism. Thank you very much indeed! Given the importance of the subject, I have overruled deliberately, but now we are going to pass on to the next round table which is moderated by Charles Kupchan. I am going to invite His All Holiness, Bartholomew I, Archbishop of Constantinople, President Ilves of the Republic of Estonia, Madame Fu Ying, Deputy Foreign Minister of the People's Republic of China, and Kemal Dervis, whom you all know, to address the house.