Forward look: 8 – 21 February 2021

Speech of Eurogroup President, Paschal Donohoe, at the LSE's German Symposium 2021 – "The Euro – A Changing Europe in a Changing World"

Good afternoon. Thank you for the invitation today to speak to the LSE German symposium. I would like to thank Professor Velasco for his warm introduction. While virtual webinars such as today have become very much part and parcel of what we do and how we interact, I must admit it I do miss physical meetings. From a coffee with colleagues, to getting a sense of the energy in a room, or even from trying to gauge the degree of harmony or disharmony in a debate.

Nevertheless, I am still delighted to be here today and I look forward to engaging with you all over the course of the next hour or so.

We are all conscious that we are living in unusual and challenging times. The past year has shown us the preciousness and unpredictability of life. Right across this continent and right across the globe, people of all ages have had to adapt to what we have euphemistically come to call the 'new normal'. In truth, it has been an altered reality.

Indeed, pandemics or plagues for the want of a better word have been part of the human experience since time immemorial. It is only with the advent of modern medicine and healthcare that the majority of our citizens in this part of the world have had the luxury to view them as something of a holdover of the past. An abstraction, something for someone else to worry about.

But in the words of Albert Camus in his seminal, and rather revelatory work when read today, *'The Plague'*:

"…when the abstraction sets to killing you, you've got to get busy with it."

And so we have; across the globe, healthcare workers, scientists, policymakers, politicians and people from all walks of life have gotten busy with adjusting and fighting back. We are reacting to the immediate impact of the plague in healthcare, social and economic terms but also crucially in plotting and advancing down the path to recovery.

So great are the challenges we now face that I believe that if the European Union had not existed before this crisis we would now be beginning the slow process of creating it.

It is in these circumstances I am honoured to give the euro lecture today. We will celebrate the 20th anniversary of the euro as a physical currency during a time of great social and economic upheaval. But we also mark the 70th anniversary of the Schuman declaration (1950). This of course was framed against the backdrop of an existential European conflict.

The Schuman declaration surely embodied some of this sentiment. The vision that amidst suffering, there was enough hope to build a better future on. To build a better Europe on.

That is surely what Schuman meant when he said:

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."

For today, I want to share my own experiences as President of the Eurogroup with you, focusing on how Europe has stepped up in response to COVID-19 and how this response can and will contribute to building a better world.

To proceed, I will address two broad themes.

First, I would like to reflect on the first 20 years of the euro with a focus on crisis management given that we have now faced two "once in a generation" shocks.

I will look at the responses to both the global financial crisis and this pandemic. This is useful to do in terms of learning from shared experiences but also in highlighting the benefit of collective action.

Second, I want to look forward at this critical juncture to address what I think is needed from a policy maker or politician's perspective to ensure a sustained and robust economic recovery as opposed to just a temporary rebound.

Put simply, as the process of vaccination increases and restrictions ease, we will automatically see a pick-up in growth – for example, through pent-up demand – which we can see from savings patterns. However, it will be very important to look beyond any initial surge in activity and as policymakers we need to deliver the kind of growth and reform that is sustainable. A rebound and a recovery are different. We will need to provide confidence and certainty. In this context, I will also talk about the specific role of the Eurogroup and our own priorities.

First 20 years of the euro – origins and developments

The past two decades have been eventful and challenging but we have made such progress. I distinctly remember the debates prior to the launch of the euro.

Commentators energetically engaged on theories of optimum currency areas, fiscal harmonisation, price and wage alignment, sovereignty arguments and so forth.

There were certainly many worthy arguments against the euro. It was seen as impractical, too ambitious, it was coming too soon, it wouldn't survive its first major challenge. The architecture behind it was incomplete. How could the euro operate?

For me, the first tangible sign of success came from the sheer speed at which the euro was adopted in everyday life. In Ireland, as in the other member states, people took to the euro very quickly, within a matter of weeks.

There are many ways to look at our shared currency. However, I believe the most resonant is the fact that like all money it is based on trust. At its most fundamental, the euro is a political construct built on trust with inherently political foundations. Upon these political foundations all else was built.

Today, the euro has become the second most important currency in the international financial system after the dollar. The currency at its heart is an expression of our shared values.

However, I would like to start by looking at how the euro has fared during times of challenge and crisis. Looking back at the last 12 months, Europe economically has stepped up and I think the euro and its institutions have really come of age.

This is not to say that there have been no mistakes or bumps along the road – there surely have been. However, much of this was inevitable, simply reflecting the fact that the currency was still in its relative infancy and the infrastructure behind it was developing.

The euro was designed to make our borders invisible, to provide stability and to facilitate our shared interconnectedness and interdependence. These latter two words bring me back to the focus of my talk – how the euro has fared during times of crisis – the sovereign debt crisis and most recently COVID-19.

We see that the euro has faced these two enormous challenges head on. The financial crisis threatened to derail European integration but ultimately it forged a stronger common purpose and a more robust common currency. Similarly, from COVID-19, the Euro will emerge even more resilient driven by the kind of collective action that we have seen over the past 12 months.

The Euro during times of crisis

The sovereign debt crisis was the first real test of our currency. At its most fundamental, the creditworthiness of the euro itself was under threat as this 'contagion' spread. This culminated in a number of member states – including my own – requiring formal financial assistance followed by quite extended periods of fiscal consolidation and structural reform.

It necessitated the creation of new institutions, practices and procedures. Without naming everything, this included the setting up of the European Stability Mechanism (ESM), changes in respect of banking supervision and regulation and the setting up of Single Supervisory Mechanism.

There were also a series of reforms to the fiscal rules and the overall fiscal framework with an appreciation of the need for greater levels of economic oversight over deficit and debt levels.

On reflection, the financial crisis demonstrated that the euro area was initially not fully equipped in the face of a very large shock. But our political institutions evolved and did rise to the challenge. Far from being a weakness, the invisible borders of our European community allowed us to develop political consensus on the need to introduce new structures, practices and solutions to protect our citizens from future shocks.

In fact, many of the measures and safeguards that we put in place over the past decade were crucial in tackling the economic crisis caused by COVID-19.

Ironically, a disease that threatens our shared collectiveness and freedom of movement has been met by greater European inclusiveness and unity. Over the past year, the speed and magnitude of the European response has been unprecedented.

In contrast to the financial crisis, which some claimed was an existential crisis for the currency itself, the euro is now positioned as a key asset and symbol of our resilience and strength.

As President of the Eurogroup, I have seen on a daily basis the strength of the collective response to this crisis, which I could categorise in three ways.

First, member states have allowed their tax and social protection systems to act in full, helped in no small part by the decision to suspend the EU fiscal rules last March as well as amendments to the State aid rules. These decisions sent a clear signal to the markets that our responses to this crisis would be different.

The level of borrowing over the past year to protect incomes and employment and to fund the enormous health response has been unprecedented. This has encompassed the normal automatic stabilisers as well as new innovative income and business support measures.

Second, at a broader European level what has been done is remarkable. This included three key safety nets agreed by Eurogroup to the value of €540 billion – SURE, the ESM's Pandemic Crisis Support and the EIB's pan-European guarantee fund.

These schemes are fully operational and the success of the SURE scheme in particular – in terms of member states accessing it and also in respect of how oversubscribed bond offerings have been – speaks volumes.

The Eurogroup also agreed last November to the ESM Treaty Reform and the early introduction of the backstop to the Single Resolution Fund. These reforms mean that crisis related funding will flow in a more efficient and effective manner.

On top of these, we also have the new EU Recovery Fund – this will channel €750 billion of investment to where it is needed most to reinforce the Single Market, intensify cooperation and equip our economies to drive the green and digital transitions.

The third element of our response centres on the ECB which have been decisive in its monetary policy actions notably through its Pandemic Emergency Purchase Programme. The decisions taken have been vital in keeping yields low and in facilitating liquidity. They have helped to instil an air of confidence and certainty in the markets at a time marked by uncertainty.

All of these tangible actions from member state level up to our European Institutions are delivering real results. They are protecting lives and livelihoods and they will facilitate a forceful recovery.

So in looking at this crisis, compared to before, there are two crucial differences.

First, our actions have been much more coordinated both in terms of messaging and crucially as regards decision-making.

Second, there is a much greater shared recognition of the challenge. Consequently, responses have been fast, honed, and built on consensus. This in turn creates a self-reinforcing momentum on which we can make further progress.

This has illustrated the importance of coordinated action and that we can only grow and prosper if we support each other. Put simply, no individual effort can be as effective as joint action.

While COVID was unimaginable a year ago, the EU’s counter measures, whether that is in terms of the Recovery Fund, or SURE for example, are beyond imagination.

Forward look – what is needed to secure recovery?

So a lot has been achieved over the past 20 years and particularly over the past 12 months. But I think it is fair to say that many of our responses can be characterised as emergency in nature, often at times our instruments have been rather blunt. But that was to be expected given the urgent need to support our citizens and to design, roll out and implement schemes sometimes in a matter of days.

Given what we faced, it was all hands on deck.

While we are now dealing with the unthinkable, the easy thing to do would be to focus on today and the emergency response to steady the ship and restore what has been broken. We could just seek to welcome back the ‘old normal’ – many of us would just settle for that.

And we could applaud ourselves for the unprecedented scale of our efforts.

But that is not enough. We must do better.

This is not to dismiss the scale of what has been achieved over the past year or the importance of what we have achieved since the last crisis. The truth is our initial ‘emergency’ responses were profoundly empowered by the reforms we have undertaken over the last decade.

We could not know that this work would be used to combat a worldwide pandemic. But the truth is the planning, the hard work on structures and processes, on building political will and consensus and delivering reform – that pays off.

At Eurogroup, I have been struck by how aligned we all are on what the euro area needs to do to protect our citizens from this pandemic, and particularly until the signs of recovery become clearer. There is an inherent risk of withdrawing support too early as opposed too late.

I am also aware of a lot of recent commentary on the euro area and some of the latest data releases and forecasts reaffirm the challenge we face. Our economies entered 2021 with less momentum than we might have hoped for. However, much of this reflects the trade-off we faced between health restrictions and opening up activity.

There is no doubt we will need to redouble our efforts in terms of vaccine roll-out in the weeks ahead.

We are under no illusion at Eurogroup as to the scale of the challenges we face to ensure that the euro area recovers quickly and sustainably.

In time, fiscal policy will need to become more targeted to those sectors and citizens most in need. While Covid has affected every economy, it has been a particular challenge for young women and men but also those employed in contact-intensive sectors.

There is an inherent risk of long-term economic scarring, so aside from income and business supports, we will need to provide the necessary training and upskilling, as there will be an inevitable reallocation of resources.

As part of this, I see the Recovery Fund playing a key role. There is a pressing need to raise investment – in both human and physical capital. Next Generation EU can be a critical catalyst to achieve the necessary change and reform need in Europe so as to raise potential growth.

The Recovery Fund offers member states a unique opportunity to channel investment into the areas where it is needed the most, to “crowd-in” private investment and to deliver for all of our citizens. It can and will make a significant difference. That it is why it so important that it is implemented quickly.

As Finance Ministers, our decisions around budgetary strategy will shape the economic recovery. This encompasses, short-term decisions in relation to income protection; to more medium-term decisions on targeted fiscal supports to longer-term investment decisions.

A key takeaway for me is that our emergency responses were greatly enhanced by our collective will, shaped by close coordination and consensus. We must use the unprecedented mobilisation of political will now present to set the stage for the coordinated reforms we need, whether that is in the areas of banking reform, capital markets, the role of the euro or the overall fiscal framework.

At Eurogroup, we have priorities in each of these areas. Over the coming months, I would envisage debate with my colleagues on the appropriate budgetary stance, particularly as vaccinations are rolled out and as recovery begins. We will look closely at what is needed in the second half of this year but also in terms of the appropriate strategy for 2022. I am firmly of the belief that a coordinated Euro Area budgetary approach will be far greater than the sum of its parts, and it will reinforce the impact of national Recovery Plans.

I am encouraged that we approach these important discussions from a position of consensus. Such consensus is vital for decisions to respect the core European principle of shared sovereignty, and to maintain the support of citizens for the solidarity that is at the heart of a truly European recovery.

Conclusion

So to conclude, I have covered a lot this afternoon. From the perspective of a politician and a Finance Minister, the world is watching our actions in response to COVID-19.

It is true our European interconnectedness was intertwined with the spread of the ‘contagions’ that caused both of the major crises in the life of the euro. Yet it was precisely this reservoir of interconnectedness of shared destiny and solidarity that allowed us take the steps required to emerge stronger and more unified from these events.

Through this – we will prevail.

And let us end with Camus, from *‘The Plague’* again:

“And indeed it could be said that once the faintest stirring of hope became possible, the dominion of plague was ended.”

Let us redouble our efforts, as Europeans, to reach that precious and healthy destination.

Two new director-generals appointed in the Council’s General Secretariat

Today, the Council appointed Maryem van den Heuvel as the new Director-General for External Relations (RELEX), and Didier Seeuws as the new Director-General for General and Institutional Policy (GIP).

Maryem van den Heuvel

Maryem van den Heuvel, a Dutch national, is currently Chief Foreign Policy Advisor in the cabinet of Charles Michel, President of the European Council, and previously served as Ambassador of the Kingdom of the Netherlands to Belgium. She is a senior diplomat with longstanding experience in European and foreign affairs.

DG RELEX provides policy support to the European Council and its president in the areas of the EU’s external relations and international summits. It assists and advises the Council, the Council presidency and the High Representative in his capacity as President of the Foreign Affairs Council. It prepares and coordinates the work of the Council and its different preparatory bodies in the areas of foreign policy, security and defence, trade, development cooperation and humanitarian aid, enlargement and the EU’s integrated political crisis response.

Maryem van den Heuvel replaces Leonardo Schiavo, who retired at the end of 2020. She will start her new assignment on 1 April 2021.

Didier Seeuws

Didier Seeuws, a Belgian national, has been working in the General Secretariat of the Council since 2014, having previously held the position of head of cabinet of former President of the European Council, Herman Van Rompuy. He is currently Director of the Task Force on the UK.

DG GIP provides many horizontal political services in support of the work of both the Council and its presidencies, and the European Council and its president. GIP is also responsible for horizontal files such as the Multiannual Financial Framework (MFF) and for interinstitutional relations.

It acts as secretariat for the General Affairs Council and for the European Council, drafting all European Council supporting documents and providing assistance during meetings.

Didier Seeuws will replace Jim Cloos, who retired on 1 February. He will start his new assignment on 16 February 2021.

The decisions to appoint Maryem van den Heuvel and Didier Seeuws were adopted by written procedure.

Fight against terrorism: Council renews the EU terrorist list for a further six months

The Council today renewed the so-called **EU terrorist list**, which sets out **persons, groups** and **entities** subject to **restrictive measures** with a view **to combating terrorism**. The **14 persons** and **21 groups and entities** on the list are subject to the **freezing of their funds and other financial assets in the EU**. It is also prohibited for EU operators to make funds and economic resources available to them.

The Council is empowered to establish an EU list and impose related restrictive measures under Council Common Position 2001/931/CFSP, and Council Regulation (EC) No 2580/2001.

The **Council** first set up the list as implementation of UNSC Resolution 1373/2001 that followed the terrorist attacks of 11 September 2001. It **reviews the list** at regular intervals, and **at least every six months**, on the basis of a regular exchange of information between member states on any new facts and developments relating to the listings.

This sanctions regime is separate from the EU regime implementing UN Security Council resolutions 1267 (1999), 1989 (2011) and 2253 (2015) and targeting Al-Qaida and ISIL/Da'esh. The EU also has its own sanction regime which allows the EU to apply sanctions autonomously to ISIL/Da'esh and Al-Qaida and persons and entities associated or supporting them.

Press release – Carbon levy on EU imports needed to raise global climate ambition

On Friday, the Committee on Environment, Public Health and Food Safety adopted a resolution on a WTO-compatible EU carbon border adjustment mechanism (CBAM) with 58 votes for, 8 against and 10 abstentions.

The resolution underlines that the EU's increased ambition on climate change must not lead to 'carbon leakage' as global climate efforts will not benefit if EU production is just moved to non-EU countries that have less ambitious emissions rules.

MEPs therefore support the introduction of a WTO-compatible CBAM to place a carbon price on imports of certain goods from outside the EU, if these countries are not ambitious enough about climate change. This would create an incentive for EU and non-EU trade industries to decarbonize in line with the Paris Agreement objectives.

MEPs underline that it should be designed with the sole aim of pursuing climate objectives and a global level playing field, and not be misused as a tool to enhance protectionism.

CBAM must be linked to a reformed EU Emissions Trading System (ETS)

The CBAM should be part of a broader EU industrial strategy and cover all imports of products and commodities under the EU ETS. MEPs add that by 2023, and following an impact assessment, it should cover the power sector and energy-intensive industrial sectors like cement, steel, aluminium, oil refinery, paper, glass, chemicals and fertilisers, which continue to receive substantial free allocations, and still represent 94 % of EU industrial emissions.

To prevent carbon leakage, carbon pricing under the CBAM should be linked to the price of EU allowances under the EU ETS, they add.

Quote

After the vote, Parliament rapporteur Yannick Jadot (Greens, FR) said:

“The CBAM is a great opportunity to reconcile climate, industry, employment, resilience, sovereignty and relocation issues. It is a major political and democratic test for the EU, which must stop being naïve and impose the same carbon price on products, whether they are produced in or outside the EU, to ensure the most polluting sectors also take part in fighting climate change and innovate towards zero carbon. This will give us the best chance of remaining below the 1.5°C warming limit, whilst also pushing our trading partners to be equally ambitious in order to enter the EU market. Parliament is leading the way and we expect the same level of ambition from the Commission and member states.”

Next steps

Plenary is set to vote on the resolution in its session 8-11 March 2021. The Commission is expected to present a proposal in the second quarter of 2021.

Background

While the EU has already substantially reduced its domestic greenhouse gas emissions (GHG), those from imports have been rising, thereby undermining the EU’s efforts to reduce its global GHG footprint.

Parliament has played an important role in pushing for more ambitious EU climate legislation and declared a climate emergency on 28 November 2019.