European Council meeting, October 2012

Briefing note

The European Council meeting in October was the meeting in which no far reaching decisions were expected. The main agenda points were still related to the financial crisis. The discussions have followed the path outlined in the previous meetings, in particular the decisions from the summit in June.

The short summary of the outcomes can be expressed in the sentence that the EU leaders confirmed the decision that the main solution for the finance crises in the EU will be the tighter integration of the Union. This message has been accepted positively by most of the external observers, incl. the global market, as an indication of the determination and clear outlining of the further objectives, which have been missed from the EU leaders for a considerable time in the previous stages of the crises.

In the Summit discussions the future shape of the banking supervision in the Union and the steps towards the banking Union were the main agenda point. This includes in particular common mechanism and common supervision authority regulating the banks within the Eurozone, as well as a shared rescue fund for the banks. Although the principal political decision to this point had already been taken in June, its interpretation has become unclear. Developments in weeks after the June summit gave reason to doubts whether some countries, in particular Germany, Finland and the Netherlands, are really committed to achieve a banking Union in a reasonable time. These doubts received realistic contours after the request to make funds assembled in the ESM needed in form of rescue injections for banks in some of the Member States only after the launch of the supervision mechanism. This was an opposition to the request coming especially from France, Spain and Italy, supported by the European Commission and the IMF insisting on launching the mechanism as soon as possible and not to lose the momentum gained in tackling the crisis.

The critical and the most sensitive questions in the discussion surrounding the creation of banking supervision in the EU have been these two in particular:

A. The balance between regulatory power of European and national regulators. This includes the question of effectiveness of the regulation: can the European regulator do effective work in overseeing more than 6000 banks which would fall under its agenda? How can the competence of national regulators with their knowledge of the local situation and daily contact between the regulator and the regulating subjects be used in the best way, as well as the question of the relation between subsidiary banks to their parent institutions in times of insolvency. This takes into account the fact that in some of the EU member states the banking sector is almost totally in hands of foreign capital. Losing the power of national regulator in these countries may lead to extreme vulnerability, vis-à-vis the banking operations between parent and subsidiary banks.

B. The balance between Eurozone and the rest of the EU. Strictly speaking the banking union will only be operational within the Eurozone. However, strong links between economies within the whole Union will make non Eurozone members dependent on the decisions of the banking supervision to a large extent, although without having a share in the decision making structures of the supervision body. Some of the influential countries strongly expressed their fear to be marginalised in the process.

The main decision of the October summit is the commitment to have the legal framework for a functioning banking union ready by the end of 2012. The supervision mechanism will then be operational during 2013 and launched in gradual steps.

The summit confirmed that the crisis has far reaching consequences not only on the functioning of the Union in designing mechanism for averting the immediate calamities. The crisis has at the same time consequences on the fundamental design of the basic parameters of the Union and future shape of the cooperation among the Union Member States. A move towards a tighter Union, although now recognised as a basic strategy framing a response to the crisis, is vehemently opposed by some of the Member States, in particular by the UK. According to the UK Prime minister the deepening integration of the Eurozone will be not only a "massive change" for the EU, it will also change the nature of Britain's place within the EU and the UK will see the banking union and deeper integration of the Eurozone as a chance to renegotiate its own status in the Union. This process already started. In the week prior to the Summit, the home secretary of the UK government confirmed that the UK would use its right under the Lisbon Treaty to opt out of over 130 Union legal acts on justice and home affairs policy.

In this light another discussion also has to be seen which has taken major attention in the fringes of the summit – a possibility of a separate budget for the Eurozone. This seemingly technocratic question has far reaching consequences. Once this is implemented it will be a launching moment for a number of further decisions strengthening the integration, including the transfer of competencies to EU level and deepening of the gap between the core and periphery, or between the inner circle and the rest of the Union. After the summit a multispeed union has become a reality which is closer than ever before.

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