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Country: The Netherlands
Role: Head of State
Topic: Financial Union

Introduction:

The creation of a strong financial union in Europe in this moment is imperative. Currently, the creation of new means of revenue and the establishment of new resources for EU institutions to fulfill their supervisory tasks are imperative measures that need to be taken in order to regain international trust and internal stability in the Union. However, the Netherlands insists in maintaining a deliberate pace to the construction of the new banking system, including reforms to VAT and FTT. What is needed at the moment is not a stopgap measure to alleviate the strains of the continuing crisis, but deliberate legislation that sets up measures that will ensure the long-term strength of the Union and sets in motion a process of growth that will bind the nation-states of the EU closer together and create EU-wide financial strength and stability. Step-by-step design to the oversight architecture, emphasizing substance and not the calendar, will be necessary in order to create a strong fiscal union.

The ambitious proposal of a European banking union would be a definitive step towards fiscal cooperation and stability within the Union. The globalized world that the European Union is a part of enables the banking sectors of some Member states to grow many times larger than the national GDP, ending up “too big to fail” and the Union with a lack of agency over which to address what happens when one does fail. The failure of these banks has dramatic consequences—not only on a national level but internationally as well. The plan put forward by the Commission would make the European Central Bank (ECB) the chief regulator of some of the largest banks (and largest lenders) in Europe. The implementation of the ECB as the single bank supervisor in the region would place the European banking sector on a more sure footing and help to restore confidence in the Euro and the single market. The Commission argues that a banking union for the EU, with the European Central Bank supervising banks and credit institutions, and ensuring adequate liquidity for the system, would alleviate the strain placed on national governments in regards to their banking sectors and streamline financial transactions within the Union.

However, such a move has not been uniformly popular within the Union. Member states not in the Eurozone resist the idea of a banking union on the basis that it would infringe on the state’s sovereignty in regulating their financial transactions. Even within the Eurozone, the idea of a banking union is contentious. Some increasingly Euroskeptic northern states have become wary, seeing a banking union as transference of economic sovereignty to Brussels and against the principle of subsidiarity. While acknowledging such complaints, the Netherlands agrees with the Commission’s proposal of a banking union, as long as the process towards achieving this union is deliberate and long-term; not a quick fix for the current economic problems.
The Netherlands sees the reform of the VAT and FTT as essential parts of this process, and supports the Commission’s move to address these taxes in order to harmonize the financial transactions in the European Union. The lack of a common VAT system in the European Union creates legal complexity, uncertainty, and extra compliance costs for EU citizens and trading partners. Citizens do not get the full benefits of a single market, and the EU gets less revenue than might otherwise be the case. This lack of harmonization creates legal complexity, uncertainty, and extra compliance costs when doing trade both in the EU and externally. While a Union-wide Financial Transaction Tax (FTT) has met with some resistance, the Netherlands agrees with the Commission that it is necessary. A FTT applicable to the entire Union would, in the words of Commission President Jose Manuel Barroso, “make the financial sector pay its fair share” and contribute to the Union budget. Given that 10 EU member states already have a FTT in place on the national level, this proposal would introduce new minimum tax rates and harmonize existing tax rates on financial transactions. Similarly to VAT reform, this would streamline trade negotiations both within the EU and outside, resulting in not only new revenue but also a new ease of doing business for the Member States.

The Netherlands supports this ambitious proposal to deepen and strengthen the financial union. This crisis has shown that intensive cooperation between Member States is imperative for the wellbeing of the Union as a whole. The Netherlands agrees with the motions of the Presidency in the creation of a banking union. A banking union should be set in place deliberately and through a step-by-step process, establishing effective bank supervision and the cleaning of European balance sheets before moving towards a single banking resolution mechanism and European deposit scheme. However, the Netherlands gladly accepts the Presidency’s proposal and looks forward to working with to create a stronger financial union through the creation of a single banking system.

Plan of action:

In the face of the ongoing financial crisis, deepening the fiscal ties that bind the European Union together is a matter of utmost importance. Deeper financial integration is seen in the Netherlands as an imperative in stabilizing and strengthening the European economy as a whole, although it supports each country’s ability to determine their own economic policies. The Netherlands strongly advocates the creation of a banking union in order to deepen financial ties, fiscal cooperation, and economic stabilization within the European Union. However, the mere creation of such a mechanism will not be adequate to further these larger financial goals; instead, the Netherlands proposes that certain benchmarks be made first. The interests of the Netherlands, in accordance with the goals of the Irish Presidency, are as follows:

- Before a banking union is to be established, effective European bank supervision must happen. One institution, to be agreed upon by the Council, should have supervisory abilities over all European banks of a certain size. The Netherlands views the expected transfer of oversight abilities to the European Central Bank for banks with over €30 billion in assets as an important first step in creating a single supervisory mechanism (SSM). The Netherlands notes that until this transfer has been made, other moves toward creating the banking union should be postponed.
- The Netherlands supports the direct support to banks by the European Stability Mechanism (ESM) under strict conditions. The Netherlands dissuades countries from using the ESM to address legacy bank debt; instead, direct bailouts should only be possible once the establishment of the SSM is done.

- The Netherlands supports the Commission proposal to establish a FTT for the European Union. However, the Netherlands insists that, in their case, Dutch pension funds should be exempted from this tax in order to alleviate strain on the Dutch taxpayers and that the FTT should not be a disproportionate burden on top of the Dutch banking tax, a national measure already in place. In order for the FTT to benefit the Union and not create unnecessary strain on Member states, it is imperative that it does not place undue financial burdens on stressed economies.

- In response to the presidential proposal of a reformed VAT and Financial Transaction Tax as new EU revenues, the Netherlands agrees with simplifying the legislature surrounding these issues in order to streamline coordination between EU member states and generate revenue for the European Union as outlined in the European Commission’s “Tax reforms in EU Member States: Tax policy challenges for economic growth and fiscal sustainability” (European Commission 2012).
  - VAT fraud is still an issue that needs to be addressed before VAT can be considered a legitimate addition to the European budget; therefore, the Netherlands supports the creation of a mechanism to prevent it.

- The final steps in this process should be the creation of a single resolution mechanism and a European deposit guarantee scheme.

- Specific attention must be paid to ensuring that in each step the principle of subsidiarity is respected.