New European pact to save the euro faces UK concerns, waning market confidence

LONDON — British Prime Minister David Cameron warned that Europe's new fiscal pact, aimed at fixing the euro, faces significant political hurdles, while investors and ratings agencies said the deal was insufficient to fix the continent's debt problems.

Cameron, who was the only leader among the 27 European Union members to refuse last week to consider a plan to tighten budget controls, warned the deal could clash with existing EU rules and that it could take months of negotiations to sort the conflicts.

As the political rift between Britain and euro countries created uncertainty about the deal's implementation, ratings agencies Moody's and Fitch warned it did not even properly address the problem of lowering existing debt.

Stocks and the euro fell sharply as market confidence in the plan — and Europe's ability to end the crisis — ebbed. Italy's government, whose borrowing rates jumped higher on Monday, faced days of union strikes and protests, which even silence La Scala opera house in Milan on Monday.

The U.K.'s refusal of the new European fiscal pact threatens to leave Britain isolated on the fringes of the EU, while the 17 countries which use the euro currency — and almost all their neighbors — agree to consider a new pact to enforce deeper political and fiscal bonds.

"This is new territory and does raise important issues which we will want to explore with the 'euro plus' countries," Cameron told the House of Commons, referring to the block of 17 eurozone nations, and nine others who say they'll either sign up to or consider the new pact.

Cameron also faced criticism from within his own Cabinet, with his deputy Prime Minister Nick Clegg warning that Britain risked being "a pygmy in the world," and isolated from key decisions

Clegg, whose pro-European Liberal Democrats are junior partners to Cameron's Conservatives in Britain's coalition, "did not want his presence to be a distraction," his office said.

Cameron told legislators that unlike a new EU treaty, the plan for the pact doesn't "carry the same dangers for Britain — nonetheless, it is not without risks."

He said some uncertainty lies ahead.

"I think we are going to see now, frankly, a period of great change in Europe. No one quite knows where this new organization outside the European treaties will go, and what powers it will seek and how it will act," Cameron said.

Ministers from both governing parties insisted Britain's coalition was not on the brink of collapse.

The opposition Labour Party said Cameron's veto had failed to halt Europe's march toward closer fiscal ties. "It's not a veto when the thing you wanted to stop goes ahead without you. That's called losing," Labour's leader Ed Miliband said.

Britain's government is worried that the new European pact would overlap with the existing EU treaty. In particular, Cameron's office said it was not clear how EU institutions such as the European Commission, the EU's executive based in Brussels, could be used under two different, possibly competing, regimes.

"There are issues that are raised by this, about institutions serving two masters — the euro zone and the European Union — and we need to look at those issues very carefully," Cameron's spokesman Steve Field told reporters.

"If you have the institutions serving the 27 and serving the 17, there is potential for conflict of interest," he said.

A European Commission official, who declined to be named in line with the institution's policy, said it was likely that all 27 members of the EU would need to approve the use of EU institutions for the new agreement.

Any move by Britain to block the use of the existing EU institutions — their bureaucracies and their buildings — in the new treaty would further complicate the new deal's implementation.

Cameron's veto will already make it harder for European nations to enforce their new deal.

Through the new intergovernmental treaty, the participating countries can agree to go beyond the rules in the current EU Treaty — but can't sign up to new rules that contradict existing ones.

That is set to cause problems for one of the central summit decisions — creating more automatic sanctions for budget sinners.

Under the current EU Treaty, the European Commission can declare a country to be in excessive deficit — a move that forces the country to spell out in detail how it will bring down its deficit and debt or face sanctions — only if a qualified majority of EU countries agree.

The summit decisions aim to simplify this procedure, by giving the commission the right to declare a state to have an excessive deficit unless a qualified majority of countries vote against it.

This, however, is not possible without changing the existing treaty, said a commission official.

Sarkozy was quoted as telling Le Monde newspaper on Monday that last week's summit had divided Europe.

“There are clearly two Europes,” Sarkozy was quoted as saying. “One that wants more solidarity among its members and more regulation. The other which is attached only to the logic of the single market.”

Cameron said last week he was unable to sign up to a deal because other nations couldn’t agree to safeguards for Britain’s financial services sector, the country’s economic kingpin.

However, the EU’s Economic Affairs Commissioner Olli Rehn said London’s financial district may not escape new regulation.

“If this move was intended to prevent bankers and financial corporations from the City from being regulated, that’s not going to happen,” he said Monday in Brussels. “We must all draw the lessons from the ongoing crisis and help solve it and this calls for the financial sector as well.”

As confidence in the new European plan faded, stock markets fell sharply. Germany’s DAX ended the day 3.4 percent lower, while Italy’s borrowing rates rose, indicating growing fears about its financial future. Italy’s 10-year bond yield was up 0.30 of a percentage point at 6.53 percent.

Fonte: The Washington Post, Washington, 12 Dec. 2011, Internacional, online.