

**Speech of the Secretary-General of the European Parliament,  
Mr Klaus WELLE,  
at the ECB Seminar**

Frankfurt am Main, 20 September 2013

***Beyond dialogue: democratic framework and scrutiny for  
banking union and deeper EMU***

Klaus Welle: It is very nice to be back in the European Central Bank.

In fact we have been promoted from first floor to thirty-sixth floor which is quite drastic.

When preparing for this I had a look again at my intervention from last year, which was also posted on my website at that time. The development since then is quite amazing.

Usually, when you give this kind of intervention, especially when you come from the European Parliament, the suspicion is: this is abstract thinking somewhere between weird and anarchist, and surely very far from realisation. What is amazing in the present case, with that scrutiny agenda which I tried to sketch out one year ago - as an appeal for necessity in case the European Central Bank would be taking over banking supervision - is how far, together, the European Central Bank and the European Parliament have gone in this direction.

I think that it is good to sketch out a bit the progress and at the same time examine what is in the pipeline and what are the perspective issues.

Maybe this is a fertile ground to come back, next autumn, to see whether or not we have made further progress.

## 1) Inter-Institutional Agreement

So, first on the Inter-Institutional Agreement, the draft of which has been politically agreed between the two Presidents: what have we achieved?

- We have agreed that the future President and the Vice-Presidents of the supervision authority would in fact present each of them, herself or himself, during a hearing in the Parliament and that the Parliament would express its view, and, if that view is negative, then the European Central Bank will either go back to the selection list of potential candidates or restart the procedure. That is very, very far-reaching - I hope that the fact that I am saying it is very, very far-reaching doesn't lead to reconsider the whole process, but, yes, it is very, very far-reaching. And we are extremely happy about this.



The new European Central Bank headquarter in Frankfurt/Main under construction

- We are also laying down a procedure for inquiries, not only to allow for an inquiry committee to be set up, but also to allow preliminary reflections, exchange of views and give substance to information rights. There will be a regular dialogue. So the head of the new single supervisory authority will come twice a year to the European Parliament - and in special cases, if needed.

Why is this justified? - It is justified because, when we say 'banking supervision' it sounds very technical, but, in fact - if we take it seriously, if we go to the bottom of the issue - we all know where it leads to: banking supervision, in the extreme case, leads to the replacement of the management of a bank; it leads to the demand of recapitalization for a bank; it may even lead to the closing of a bank. And the banking system is not just one sector in the economy. It is really the key sector in the economy, because without the banking system all the rest of the economy doesn't work. So, these are decisions of major importance for countries. The whole future of a country may depend on them.

We have seen it recently, in the case of Cyprus, where the core of the issue was the banking system. Those decisions need to be taken. But of course also for decisions of that kind of importance one needs to take responsibility, one needs to explain, one needs to give reasons and arguments to the citizens. And, in Europe, the citizens are represented in the European Parliament.

## **2) The European Parliament as the Parliament of the Eurozone**

I also had last year a number of discussions, including with Christian Thimann here at the ECB, that were reflections of a wider debate on what should be the appropriate structure to accompany the decisions of the Eurozone on the parliamentary level. There was a big debate going on one year ago. Should it be national parliaments because a lot of money has to come from national level? Or can it be the European Parliament? And, if it is the European Parliament, what kind of structure should do this task within the European Parliament, given the fact that, of course, we have Members from 28 Member Countries, not just from the 18 sharing the Euro?

This has led to some initiatives within the European Parliament. Our President Martin Schulz proposed, at the end of last year, to the Conference of Presidents to think about either establishing a Eurozone Subcommittee of the ECON Committee, or to create a specific Committee for the Eurozone. This proposal has led to some heated debates within the Parliament because, as you can imagine, the Parliament is composed of Members from 28 countries. In this context, how can you work in smaller circles, and, at the same time, respect those who are not in? Especially those who are not yet in? So, how could we deal with this?

In the President's proposal, which was basically the idea of a sub-structure within the ECON Committee, we could have combined these two elements by saying that everything has to *finally* be adopted by the ECON full Committee and then go to the Plenary. Still, this proposal has not been adopted yet. The political group leaders have said that the President's proposal should be considered a reflection at that stage. They would like to have talks about it again, when they will be thinking about the setting up the complete committees' structure for the next legislature, so 2014-2019. Nevertheless, I think, this has been a very important initiative of our President. It gave a very clear message within our system that scrutiny is really not a minor issue. Legislation remains the major issue, but scrutiny is a very important issue too. And there is a strong expectation that scrutiny - whoever does the job - is taken very seriously.

So, for those who mean the ECON Committee should defend the view that there is no special body needed, that there is no sub-committee needed, they themselves will then have to acknowledge that the ECON Committee needs to put more stress on scrutiny issues.

And I believe that is precisely what we have witnessed with the negotiations on the Inter-Institutional Agreement between the European Parliament and the ECB, which were in fact conducted, for the most part, between the ECON Committee rapporteurs and the European Central Bank. This has been a demonstration that

the ECON Committee is now giving a lot of importance to scrutiny issues and is ready and willing to conduct those tasks itself.

Then - and I think this is an additional important development - we had in May this year a joint German-French paper on the future of Europe and the future of the Eurozone. And following to this paper, we have had a long press briefing by the French President François Hollande. What is important for us in this is that both countries have made it very clear that the Parliament of the Eurozone is the European Parliament. So, the debate which we were having one year ago - can it be the European Parliament or should it be the national parliaments or do we even need maybe a separate entity to accompany this process - has at least been answered by the leaders of two very important Member Countries, by Mrs. Merkel and Mr. Hollande. And they are saying that the European Parliament is also the parliament of Eurozone, which has always been our position.

You also find a phrase in their joint text, which is saying that the European Parliament should be asked to start reflection after the elections 2014 on what are the necessary organisational adaptations needed within the European Parliament for it to be able to fulfil this role. So, you have two elements there:

- a) they are saying that the systematic place to have those decisions and the scrutiny role is the European Parliament;
- b) they are saying that, from their point of view, the European Parliament needs organisational adaptations, which should be kicked in with the new Parliament for the period 2014-2019.

And - as I was recalling it before - we are in this phase of our own internal reflection where Group leaders are saying that they would like to have a look at this issue again, when it comes to the setup of the new structures post-2014 elections.

### **3) Cooperation with national parliaments**

Another issue has been how to cooperate with national parliaments? One tangible progress here is the setting up of the Conference on the Fiscal Compact.

As you are aware in the Fiscal Compact Treaty there was a special conference foreseen between the European Parliament and national parliaments to accompany this process.

The Presidents of parliaments have reached an agreement in a meeting in Cyprus some months ago where in fact they agreed on the composition, on the division of labour and on the regularity of those meetings.

So, we will have twice a year a conference, once organised by the parliament of the rotating Council Presidency and once organised by the European Parliament.

The European Parliament conference will normally take place every year in January, linked to our normal European Semester Week and will be co-chaired by us and the rotating Council Presidency.

The meeting chaired by the rotating Council Presidency will take place in October. Of course, these are only the structural preconditions. It is a forum for dialogue. It is definitely not a decision-making body. But it is yet another piece in the architecture which has been successfully implemented.

### **4) Scrutiny as a part of the legislative process**

Beyond the issues more narrowly linked to the question of Banking Union and the Fiscal Union, I believe that the crisis has told us some wider issues about scrutiny. If you agree that the part of the problem has been that the European legislation has not been properly implemented, has not been properly followed through, that some countries were getting away from their obligations - for example in the area of statistics - with things which they should never have been allowed to do, then I

believe that one of the consequences, if we want to have a functioning Economic and Monetary Union, is that scrutiny in general has to go to a different level.

I believe in fact that scrutiny has to become an integral part of the legislative process, something where we probably have not been good enough in past years because we were very happy to legislate in new areas but without investing enough time and effort in scrutiny issues.

So, a number of thoughts and at least projects on their way within the European Parliament concerning scrutiny:

One thing we are newly establishing in our own administration is a dedicated unit for ***ex post* impact assessment**.

We have already created one year ago a Directorate for Impact Assessment. It will now be complemented by a unit for *ex post* impact assessment. What does it mean? We are more and more amending legislation. We are not anymore legislating in completely new fields. We are amending legislation. So, for us, it is very important to understand where were problems in the legislation that already existed? Was it properly implemented? Wasn't it properly implemented? What about spending programmes? Do they work or not?

There is a lot of information on this available but it is not easily integrated into the legislative process. We have long documents from the European Commission and from other actors. But from there, to have elements to be considered in the legislative process is still a very long way.

So, our new unit for *ex post* impact assessment has the responsibility to translate in short documents and in a timely manner what is already available in the market and feed it in an organised and systematic way into the legislative process so that we know that, when legislation is being adapted, we will take systematically into account the experiences from the ground.

In this respect it could also be useful to rethink **the work and the responsibilities of the two advisory committees** which are the Economic and Social Committee and the Committee of the Regions.

These two committees have the advantage that they are built on decentralised structures in the Member States: in the case of the Committee of the Regions, these are regional representatives and local authorities; in the case of the Economic and Social Committee, these are social actors, might it be on business side or might it be on social side or might it be on the environmental side.

I think it is fair to say that they have played - let's say - too much a 'niche' role in the past years. So, the question is: isn't there a kind of unused potential from there which could be more valuable for the legislative process?

We have therefore started discussions and negotiations between the European Parliament and the two committees with a view to strengthen their own content capacity and to increase the cooperation with the European Parliament.

As a result, if we succeed, it might mean that:

- a) firstly, their own staff support for this work might be strongly increased;
- b) secondly, they might be much more systematically integrated into our own legislative process and that they might be focusing their work much more than in the past on impact assessment. That means they could activate their local and regional networks and provide us with information on how this legislation works when being applied and what are the identified deficiencies?

Given that very often the national level has shown to be less than cooperative, this could be a second channel which would be quite interesting.

We have also conducted in the European Parliament in the last year five comparative studies between the European Parliament and a number of national parliaments, that is the German Bundestag, the Italian Camera di Deputati, the French Assemblée Nationale and the House of Commons in Great Britain plus the US Congress. We have found out that there are areas where we could learn.



We will study in more details functioning of so called 'select committees' in the House of Commons, which has developed a very strong focus on scrutiny of the Executive. These committees are dedicated instruments for scrutiny of the Executive whereas in the legislative field they are working with *ad hoc* committees. We will surely remain with our own committee structure but we are open to learn how we could intensify our work on scrutiny and if those 'select committees' are structures interesting elements to learn from.

What is also interesting is to get some inspiration from the Government Accountability Office in the United States. The Government Accountability Office - and I visited them in February - is the Court of Auditors of the United States of America but they have developed their own reflection on what is the role of the court of auditors in a very interesting way. Nowadays only 1/3 of their activity is a traditional work of a court of auditors. 2/3 of their activity is so called '**performance audits**'. So, they are checking on the ground, not only on the federal level but also on the state level, if spending programmes are working and if the legislation is working, and where are the deficiencies. They agree with the committees in the Congress on annual work programmes, which means that they work in a very focused way and directly feed into on-going legislative procedures. So, from these 3000 collaborators in the Government Accountability Office, 2000 are in fact focusing on collaboration with the Congress. That is very useful because as a Court of Auditors they have the right to not only check on the federal level, but also on the state level.

And this is a very interesting way to address a problem that we have in a very similar way in the European Union because we also are organised in a multilevel setting. Most of the spending is in fact under the responsibility of the Member States or even of the regions. So, if you don't have access there, you don't go very far. Legislation is implemented on the level of Member States and not just on the federal levels. If you don't have the possibility to check there, you don't go very far. So, cooperation *via* a Court of Auditors' structure on those issues can be extremely fruitful.

This is interesting because our Court of Auditors in the European Union is already in the middle of a re-thinking of its own work. They have developed ideas around performance audits. Not only ideas. They are more and more shifting their works towards performance audits, which means that they are not only focusing on the rates of error and the legality of payments, but they are getting more and more interested in how spending programmes are working and if the legislation is working.

If you synchronise this effort with the Annual Legislative and Work Programme of the European Commission, if you feed in this information when it matters the most, which means when we are revising legislation or when our spending programmes are discussed, you may have a very powerful tool available for the legislative process.

We are having a meeting between our Budget Control Committee and the Court of Auditors on performance audits in the month of October. So, this is something which is, let's say, under the discussion and joint reflection.

Just to complement, I would like to say that as of the 1st of November we have established a new General Directorate which is called **Parliamentary Research Service** where we bring together our Directorate for Impact Assessment, the Library, plus potential contribution from the two committees with a chance to grow. This Parliamentary Research Service should further strengthen our own content capacity in the Parliament. This is very important because we can of course speak about rights and entitlements we would like to do, but if you don't bring the men power behind, you don't go very far. So, we are in a process of shifting resources from languages and administration to the production of political content in order to be able to do those new things under the constraint which we all know, I mean: financial means and personnel resources that are not expected to increase the next years.

## 5) Increasing legitimacy on the European level

Last but not least, and I think this is also related, my view is that the fact that we are now going into very, very sensitive issues which are determining the economic and social living conditions in the Member States and of individual citizens to a much larger extent than in the past. This happens not only in the programme countries but, beyond the programme countries - let us think of Spain or Italy - and also in these countries who have to give guarantees - and whose future is also linked to the success of those reforms. From my point of view we have a new need for an increased legitimacy on the European level. So, the question is how can you add this legitimacy on the European level?

The quick answer to this is normally the Treaty change, but the demand for a Treaty change very is also a non-answer, because we know that the Treaty change is something far away in time and not easy to get: you need 28 'yes' out of 28, which statistically, independently from the issue, is not very likely. So, it is very important to not just say: 'OK, Treaty change' but to explore what are the possibilities under the current system. How can we increase legitimacy on the European level without Treaty change?

What is surely very interesting ahead of us is how the next European elections are going to be conducted and how the reconstitution of the Commission and the Parliament are going to be conducted.

We have, and that might come as a surprise for some of you, a completely new legal base for the coming into office of the next European Commission. It is true that the new legal base is already 4 years old. It came into force on the 1st of December 2009. But this is the first time that it is going to be applied. We have already forgotten about it. There has the Lisbon Treaty. But a part of the Lisbon Treaty did not come in force at the last European elections, when the last

Commission came into place. This part will be tried and tested for the very first time.

So, why, this time, it is different?

First, the legal base is changed in many aspects.

The President of the European Council makes his proposal for Commission President with the European Council, *but after consultation* with the European Parliament. You namely have *Declaration 11* which outlines the fact that the President of the European Council and the European Parliament have to consult. It makes sense, because the second novelty is that the European Council has to make its proposal for Commission President *in view of the outcome* of the European elections.

So, what is the outcome of the European elections?

In our system, it is not so easy to say because the Parliament is composed of minority groups, very small minority groups and very big minority groups, but there is not a majority party in the European Parliament. So, that means you need a process to make sense out of the outcome and in fact to understand who has the parliamentary majority and who doesn't.

And this also is new: the European Parliament *elects* the Commission President. This was not the language around before the Lisbon Treaty. So, the European Parliament *elects* the Commission President.

Three new elements... It is not yet completely clear how they will be applied: the European Council may prefer to do it like in the past; the Parliament will try to have it applied to the maximum; and it will be very interesting to see how this effectively plays out.

Second, in addition to all this, European political parties have decided to propose lead candidates for the European elections. So, they will propose candidates who eventually will take over the role of the President of the European Commission or will have other important functions.

This is a very important change because it means that voters in fact can have an idea about who would lead the European Commission depending on the outcome of the European elections.

That is something which on national level is absolutely normal. Let's take the elections in Germany next Sunday - if it would just be about composing the Parliament, voters' interest and voters' participation would be much lower. So, the big issue behind is: should it be Merkel? Should it be Steinbrück? Who is going to get the Executive?

And the national parties have never thought about the concept which we know at European level and which is: you first vote, and only after the elections we think about who could be heading the Executive.

If from now on, also in the European Union, voters could know in advance who the personal alternatives are, what are the persons that may come out as the end result of such a process, and then we also would have a much higher degree of legitimacy. It would maybe not be exactly the kind of popular mandate that leaders claim on the national level but it would get closer to it. That is important if these people, elected at European level, play a more and more important role in the daily life of citizens.

Maybe I stop here. I could of course also say that in the next legislature, I think there will be major decisions to be taken which will have a huge impact.

We have on the one hand the British demand, at least from the leading governing party, who do not form the government - important differentiation - for the renegotiation of the British role.

We have on the other hand the question: do we need a specific organisation of the Eurozone? Something President Hollande has put forward quite strongly when he said that he is ready for 'political union' and that the 'political union' is a separate organisation of the Eurozone!

So, we have potentially major institutional change to be discussed and negotiated in the next Parliament but that is maybe a step too far for today.

Thank you!