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German-French consultations signify more reforms of the eurozone

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The cyclic German-French intergovernmental consultations took place in Paris on 6 February. Among the issues Angela Merkel, Nicolas Sarkozy and ministers from both cabinets were discussing were: the situation in Syria and Iran, the fiscal pact, Greece's debt, and the eurozone crisis. However, the most important part of the meeting was the adoption of the 'Green Book' concerning the convergence of the German and French systems of taxing businesses in the EU and the appeal for the creation of a special account to which revenues of the Greek state would be transferred and which would be managed from outside Athens. The Green Book is an effect of the work of a common working group, which was appointed by the Finance Ministries of France and Germany at the end of 2010.

The meeting was concluded with a joint interview given by the two leaders for German and French television media.

Commentary

- France and Germany have announced the process of harmonising their tax bases and thresholds – which is to start in 2013 – following consultations in both countries. France has made concessions in this area and intends to adjust its rates to the tax rates applicable in Germany (the threshold of total fiscal levies imposed on firms in Germany is around 28%, while in France this figure stands at around 34%). The document also states that the German-French agreement is to improve the competitiveness of the eurozone, which means that these solutions will be pushed through across the entire eurozone. If this happens, the competitiveness of such countries as Ireland, Portugal or Greece can be reduced, as a result of which firms will be more inclined to move their headquarters from the peripheries of Europe to the centre. Additionally, this reform could adversely affect the attractiveness of investing, for example, in Slovakia or Estonia, whose tax rates would be increased significantly above the tax rates imposed on firms in the region.

- The proposal to create a special account for Greece is a slightly more moderate version of the one Chancellor Angela Merkel made during the previous summit of the European Council. It was criticised by most eurozone member states since it significantly restricted Greece's right to plan its budget spending independently. Pursuant to the previous German concept, a new commissioner for savings would have the temporary right to veto those budget proposals which have not been consulted with international institutions. The new idea put forward by Merkel and Sarkozy would help to achieve a similar goal: funds transferred to the Greek budget account would be blocked and allocated in the first order for the repayment of Greek debts. This is another element of pressure on Greece to implement reforms. Merkel and Sarkozy also warned that another tranche of aid for Greece would be made available on condition that Athens carries out the reforms it had undertaken to.

- The meeting of Chancellor Angela Merkel and President Nicolas Sarkozy has also been used to demonstrate their harmonious co-operation in resolving the eurozone's problems. The interview, during which full co-operation was clearly emphasised, is another element of the plan of Merkel to support Sarkozy as a candidate in the presidential elections in France.