

Transcription of the interview with Luc Frieden (Luxembourg, 28 July 2010) – Full version

Caption: Transcription of the interview with Luc Frieden, Luxembourg Finance Minister, carried out by the Centre Virtuel de la Connaissance sur l'Europe (CVCE) on 28 July 2010 at the Luxembourg Finance Ministry. The interview was conducted by Elena Danescu, a Researcher at the CVCE, and particularly focuses on the following subjects: the personality and European achievements of Pierre Werner, Luxembourg's role in the European integration process, the Eurogroup, Ecofin and economic governance after the Lisbon Treaty.

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I. Luc Frieden on the personality and European achievements of Pierre Werner

[Elena Danescu] On this day of 28 July, it is a great honour to meet the Luxembourg Minister for Finance, Mr Luc Frieden, whose account will contribute to the research file on the work and achievements of Pierre Werner on which the Centre Virtuel de la Connaissance sur l'Europe is currently working. Hello, Minister.

[Luc Frieden] Hello.

[Elena Danescu] With your agreement, I should like to start with a few questions on your relationship with Pierre Werner. Having just graduated in business law at the Sorbonne, you received in 1987, as part of the Joseph Bech prize, an award granted to young academics. Attending the ceremony were Pierre Werner and Jacques Santer, two public figures with whom you worked in your subsequent career. When did you first meet Werner and what do you recall from that meeting?

[Luc Frieden] In fact I first met Pierre Werner as a student, because during the holidays I was working as a reporter for the Luxembourg radio station RTL. As part of this summer job RTL had sent me to see Werner to cover various events. From the outset I noticed that, despite my only being a student, he displayed great respect for young people. He treated me like a grown-up. So that was the first time that I saw Werner face to face and was able to speak to him. But obviously as the Prime Minister in office when I was born, he was someone who made a great impression on me with regard to the handling of the affairs of state. Having lived in the country, and taken an interest in politics, I had always seen Werner as someone who displayed great dignity, great commitment, in the running of our country, so I could never have imagined at the time that I would one day become

Finance Minister, like him. But it was perhaps something that impressed me from the very beginning. In fact, he is someone for whom I had and still have a great deal of admiration.

[Elena Danescu] How did your relationship develop at that point, after that first interview?

[Luc Frieden] Quite unexpectedly a rather special relationship developed, because he noticed that I was interested in government affairs and European politics. Subsequently, after continuing my studies in the United States and Great Britain, I was appointed to work at the ECU Institute, which was a European association committed to promoting the single currency. Pierre Werner was also on this committee. As a young student, and subsequently as a young lawyer, we would both attend meetings of the Institute, which was based in Lyon, France. So I suggested to Werner that I could take him in my car. Always kind and considerate, Werner agreed. During our recurrent journeys to Lyon we talked about a great many things. Actually I mostly listened, as Werner did the talking. I was his chauffeur, so to speak, and I enjoyed listening to what he had to say. I learned a great deal from these journeys, in the course of which I asked him many questions about Europe and politics. I think it was probably during these trips that he convinced me to venture into politics, about which I was hesitant: in fact, he brought out my political commitment.

[Elena Danescu] Do you remember his outlook at the time on European integration?

[Luc Frieden] Yes, I remember very well that he would always explain that was no alternative to European integration. Obviously, we were in the late 1980s and we were talking about Europe on a smaller scale than is currently the case. But with his experience of the post-war years, his grasp of the Luxembourg economy which needed the Common Market, as it was known at the time, to sell steel and export financial services and media products, he would always explain that there was only one solution for Luxembourg, and that was to play an active part in European integration. A currency, from his standpoint, was just a logical component of European integration. So he often talked to me about the European spirit and he easily won me over to this approach.

[Elena Danescu] Did he talk about his mission in the chair of the Werner Committee?

[Luc Frieden] Not as such, but certainly in passing. On our way to the ECU Institute we obviously had plenty to say about the single currency and he reminded me why, even then, he thought the Common Market would only be complete once it had achieved economic and monetary union. So, as far as he was concerned, it was a perfectly normal idea. He also explained to me the problems holding up the project, at that time. But actually, what he did in the 1970s and we carried through in the 1990s was exactly the same thing. It was the same approach. There were only a very few subsequent changes, but the political climate was more favourable in the 1990s than 20 years earlier.

[Elena Danescu] After the Werner Plan was shelved, did he tell you who might carry on his work on monetary union, or who he thought his successors might be?

[Luc Frieden] I think he never gave up the idea of achieving economic and monetary union. This explains his European commitment, even after leaving office. He would always say that we must build a single currency in one form or another. He did not mention any specific people, but he was certainly convinced that others would carry on his work. And I believe that, among those who took his place at the head of the Luxembourg Government, or as Finance Minister, he found worthy successors whom he knew well. It should be borne in mind that he put Jacques Santer's name forward to succeed him, and he also brought Jean-Claude Juncker into his government as State Secretary for Labour, later becoming Finance Minister. It was also Werner who encouraged me to go into politics. In fact it was after one of the many talks I had with him, not just on the way from Luxembourg to Lyon, but also I sometimes went to see him at his home at Limpertsberg, where one day, for Christmas 1991, he presented me with his memoirs. He gave them to me, then he took out his pen and wrote inside the book: 'To Luc Frieden as a heartfelt tribute in the hope that reading this will open up prospects for him in the choice of his career.' I think that this exchange was probably the last time we talked before I decided to go into politics, which came to fruition in 1994 when, at Santer's request, I took part for the first time in the general election. So, I think that without actually citing anyone in particular who he wanted to implement the Werner Plan, because after all it was a European plan, I do think that he had a clear idea of who, directly or indirectly, he had in mind to carry on the work he had started so well. Furthermore, as far as he was concerned, his work did not only concern monetary union, but also developing Luxembourg as a financial market place, developing its international side. He often told me about his first trip to the World Bank after the Second World War. He stressed how important it was for Luxembourg to belong to international organisations. So his overall sense of openness, of which the monetary project was a part, was an essential part of his character, and I think I have never forgotten that message since we had those talks 20 years ago.

[Elena Danescu] In view of the international fame and prestige the former Prime Minister enjoyed, do you know whether Pierre Werner was called upon or consulted with respect to Luxembourg's strategic thinking on European integration and international relations?

[Luc Frieden] Indirectly, yes. I don't think he took part in working groups, his former function excluding such work, but I think that his successors often consulted him on various issues. And of course whenever he spoke in public on these topics, notice was taken. I remember very well that he was often asked to lecture on the subject and of course, what Pierre Werner said in these lectures influenced the work of those who were later to hold high office in government and in Europe.

[Elena Danescu] In your opinion what were the main motives that prompted Luxembourg and its policy-makers to position themselves as the arbiters of European integration, untangling many tense situations and crises, and advancing the European cause?

[Luc Frieden] I think it is due to our history and geography. It is due to history because every time the great powers of Western Europe disagreed, Luxembourg, on account of its command of the various languages and the fact that its culture is largely influenced by both French and German culture, was well placed to intervene and help find compromise solutions. Our geographical position obviously helped too, because Luxembourg has always paid a high price in misunderstandings between France and Germany. This was the case during the two world wars, but it is equally true of other political matters. So Luxembourg quite naturally tended to act not so much as an arbiter but as a mediator between opposing interests. The fact that we speak both languages obviously helped a great deal and I think that people such as Pierre Werner helped to gain other people's respect for Luxembourg. You should bear in mind that Luxembourg has given Europe many leading figures: Pierre Werner, on the committee behind the Werner Plan, Jacques Santer and Gaston Thorn at the head of the European Commission, Jean-Claude Juncker at the head of the Eurogroup. So Luxembourg was seen as a natural European, capable of facilitating certain things and I think that people such as Werner, and Joseph Bech before him, prepared the way in masterly fashion, and we are still reaping the benefits today.

[Elena Danescu] Finally, in your opinion, how would you describe Pierre Werner at a human level and what is the most lasting memory you have of him?

[Luc Frieden] He was a very kind man, extremely intelligent and upstanding in the exercise of his functions. If you look at photographs of him at official visits, when people spoke to him he was always agreeable, as well as having a far-reaching command of the subject in hand and a lively intelligence. That was something which impressed me a great deal, but also the way he treated those with whom he was conversing. He would treat a young student in exactly the same way as he would treat the Prime Minister of another country. So I think he was someone from whom we could learn a great deal, above all those who now hold positions of responsibility in government. He was a model for those who had the good fortune to continue his work and he remains for me, even today as the Finance Minister and consequently one of his successors, a model to be followed. Although he was in government in another era, the problems are much the same and the challenges are certainly the same, so I think we may find great inspiration in his example. I would say that one meets only a very few men of his calibre; he was truly remarkable.

II. The role of Luxembourg and Luxembourgers in the European integration process

[Elena Danescu] How would you assess the role played by the Grand Duchy of Luxembourg in European integration, in particular in progress towards Economic and Monetary Union?

[Luc Frieden] To start with, I think Luxembourg owes a great deal to Europe. Without Europe

Luxembourg would be nothing, because our peace, stability and prosperity depend on European integration. Without Europe, I am quite sure, we would once more fall victim to war; without Europe we would not be able to export our goods and services; without Europe Luxembourg could not make itself heard in the European Union. Thanks to Europe we play a part in all the major European debates and, as we derive great benefit from Europe, we should give a great deal back. So we should always, even at the most difficult times, give priority to Europe. Giving priority to Europe has meant, ever since the start of European integration, that we should see Europe's interests, alongside our own. What price would we have to pay if there was no Europe? And our continuing role will be to defend equal rights for all in European integration; to ensure that in the event of conflict we may contribute to compromise solutions, as we have often done in the past. With regard to policies for the euro zone, economic and monetary policies, I think our financial and political stability are assets, combined with our command of several languages and the fact that our national interests are less important than those of larger countries, particularly in economic terms, all of which enables us to act as a neutral mediator. This role has been a key feature in the past, in the days of Pierre Werner and when Jacques Santer and Jean-Claude Juncker were first in office. In an enlarged Europe, this role is undoubtedly somewhat different, but we should always be there to remind the longstanding members of the European Union that all the states in Europe have a European vocation and that, in the last analysis, we are the beneficiaries of a greater Europe in which everyone applies the same principles. So, our part is to remain convinced Europeans, even at the most difficult times. I think that all of those who served as Finance Minister before me played this part perfectly in the European Union.

[Elena Danescu] You mention the special role, the very specific role, that Luxembourg has played in European integration. But what vital national interests must Luxembourg preserve in this process?

[Luc Frieden] Our vital national interests are identical to European interests. There is no national interest which would go against the wider European interest. Our vital national interest is to ensure that economic and political borders stay open, that Europe develops and the rights and duties of everyone are upheld within the European Union. I can think of no national interest which might be contrary to European integration. Quite the opposite, I would say that European integration is the vital interest of Luxembourg. Without that Luxembourg has no future. National identity is not called into question by European integration; it is strengthened by it, as a necessary complement to our vital national interests which are economic growth, quality of life and the welfare system. But no European provision jeopardises them, indeed Europe enables them to develop even further.

III. The government's work to introduce the euro to Luxembourg

[Elena Danescu] On 4 February 1998 you were appointed Justice Minister and Budget Minister,

also tasked with relations with Parliament. You promptly took charge of coordinating the work of the government on introducing the euro to Luxembourg. How did you come to chair this committee? What role did it play and what did it achieve?

[Luc Frieden] The Finance Minister at that time was Jean-Claude Juncker. He represented Luxembourg at meetings of the Council of Finance Ministers. By appointing me Minister for the Treasury and Budget he made me, in some sense, his assistant for monetary policy at a national level. He said to me: ‘You know, the euro is a major European project, but it will be very difficult for the population to adapt to a new currency. A change of currency upsets people and disturbs their everyday life.’ So he said: ‘I would like you to be minister of the euro.’ In other words, to keep people informed — shopkeepers and consumers — to help them get used to the new currency, and to prepare all the legislation and practical procedures for launching a new currency, which is an extraordinary undertaking. Never before had so many countries changed their national currency from one day to the next. So my job was to talk to all the players in business and society to prepare the euro launch. It was a very exciting project because I was convinced of the merits of the single currency but I also knew it was a colossal challenge. What I did was to organise large round table debates in which traders and citizens’ groups took part, and we would discuss the practical procedures for launching the euro, the associated publicity campaign, and the interim period during which it would be possible to use both the Luxembourg franc and the new European currency. The results were extremely positive, because I never imagined events would move so fast and without any major problems. The reason was certainly the high quality of the preparation and the fact that everyone was very committed to changing their mindset from one day to the next. We noticed that just a few days after the euro launch the people of Luxembourg had already got used to the new currency and were using it to make payments. In their heads it almost certainly took a little longer because they had to adjust to a new scale of values. So anyway my mission was very clear: to prepare the practical launch of the new currency in Luxembourg. I can say now, 10 years after the event, that I am very proud and very pleased with this work which was a collective effort that I was able to steer.

[Elena Danescu] Were there any difficulties or did it all go without a hitch, thanks to Luxembourg’s long experience and understanding of finance and banking?

[Luc Frieden] No, I think there were a lot of practical difficulties, but having examined them beforehand we were able to find solutions. It was necessary to reframe a considerable amount of legislation: all the laws which referred to the Luxembourg franc had to be updated; all the fines in the penal code, all the public sector tariffs. All that had to be changed. We succeeded in doing it, and it was a colossal job, but we had anticipated the difficulties and that was the key to success.

IV. Ministerial portfolios in Luxembourg and participation in European Councils of Ministers. Relations between the Eurogroup and Ecofin

[Elena Danescu] You now hold several ministerial portfolios. You consequently attend several meetings of the Council of the European Union in its various configurations. Which meetings do you attend?

[Luc Frieden] When I was first appointed as a minister I attended meetings of the Justice and Home Affairs Council. So I was tasked with European policy on internal security and justice, which is a key European project because both fields touch on many cross-border issues. In Europe, where citizens enjoy freedom of movement, issues related to justice and policing obviously require close cooperation which can no longer be intergovernmental cooperation, but must be genuinely European. So that was the great European project, which alongside the Single Market was a fascinating undertaking. Subsequently, and during the Luxembourg Presidency of the Council of the European Union, in 2005, I chaired meetings of the Council of Ministers for Justice and Home Affairs, but also of the Council of Defence Ministers, because from 2004 to 2006 I was Minister for both Justice and Defence. This turned out to be extremely useful because I was able to take care of both domestic and external security. In many of the matters under discussion at the time, in particular the fight against terrorism, the two sides of the issue went very much hand in hand, complementing one another. In 2009, when the present Prime Minister Jean-Claude Juncker appointed me as Finance Minister — prior to that Juncker was both Finance Minister and Prime Minister — in 2009 I was appointed Finance Minister and since then I have represented Luxembourg at meetings of the Council of Finance Ministers and at the Eurogroup, which brings together the Finance Ministers of countries which use the euro as their common currency.

[Elena Danescu] You cite the Finance Minister portfolio which you have held since July 2009. Why was there this change of portfolio between the Prime Minister and yourself, and above all what were the repercussions at a European level?

[Luc Frieden] For the first question you should certainly ask the Prime Minister. He organises his government, but I think he prepared me very effectively because I was previously Budget Minister and in this capacity I of course worked closely with the Finance Minister. I am now in charge of finance, and consequently the budget, but also taxation, the financial market place and international financial relations. Among the reasons that certainly led to this change is the extremely difficult economic and financial situation, which started with the financial crisis at the end of 2008 and meant that someone was needed to look after the country's finances from dawn till dusk, and sometimes even at night. So I gave up my duties as Justice Minister to devote all my time to finance, at home and abroad. I am consequently now alone in representing Luxembourg at meetings of the Council of Finance Ministers. Jean-Claude Juncker attends meetings of the Eurogroup, not as the Luxembourg representative but as President of the Eurogroup. So he represents the whole group, whereas I represent Luxembourg in the Eurogroup.

V. The Banque centrale du Luxembourg and EMU

[Elena Danescu] As part of Economic and Monetary Union, the Banque centrale du Luxembourg came into existence on 22 April 1998, at the same time as the European Central Bank. What has the Banque centrale du Luxembourg changed in the working of the country's institutions, there not having been a central bank in the past? My second question is what prompted the division of labour between the management of the currency, entrusted to the Banque centrale du Luxembourg, and supervision of the banking system, for which the Commission de Surveillance du Secteur Financier (Financial Supervisory Committee — CSSF) is responsible, and how does Luxembourg stand in relation to other European countries in this respect?

[Luc Frieden] Luxembourg did not have a central bank because it did not have a monetary policy either. We belonged to a monetary union with Belgium and there was consequently no need for a central bank. In fact we set up our Central Bank because of the European treaties, which included the requirement that if we were to belong to the system of central banks which makes up the European Central Bank we had to have a national central bank. And that is why we established it. Since then it has developed very well. Obviously it has no say on monetary policy on its own, because such policy is decided by the ECB, but its Governor, much as all the Governors in euro zone Member States, takes part in meetings of the ECB Governing Council. At a strictly national level I think it has done a very good job, which also includes research work, because it employs many experts and as a result its contributions, in particular on monetary, economic and budgetary policy, are extremely valuable documents which nurture and enrich political debate in Luxembourg. By definition and as stipulated in the treaties, the central bank must act independently from the government. It is not for politicians to dictate its policy on interest rates, for example. Politicians have laid down targets in the treaty, for example regarding price stability, and the ECB pursues this key objective quite independently. We decided to hand over supervision of the financial sector to another authority because with regard to supervisory matters there is no need for an independent authority. On the contrary, it is the Finance Minister who certifies banks and uses the services of the CSSF to supervise them. As Minister I can therefore give instructions and make recommendations to the Managing Director of the CSSF, but I do not have the same powers over the Governor of the Central Bank. So it is the political conception of supervision of the financial sector which explains the existence of two separate authorities. Moreover, many other countries in the European Union have the same system; but there are some who invest all these powers in the ECB. What is more it is something which is changing all the time, even inside individual countries. There are good arguments in favour of both systems, but for the time being we are operating very well with effective, professional control of the financial sector and an authority which takes care of European monetary policy.

VI. The euro zone and the Stability and Growth Pact: current situation and prospects

[Elena Danescu] I should like to move on to another topic related to Economic and Monetary Union, the Stability and Growth Pact. To make the pact more effective you supported the idea of a budgetary task force, headed by the President of the European Council, which will publish its conclusions in a report due out in October this year. What is your appraisal of the pact since it was adopted and what instruments are needed to revitalise it?

[Luc Frieden] Firstly, I think that the idea itself of having a Stability and Growth Pact was a very good move, because, as we should bear in mind, Europe — the euro zone — has the same currency but different governments, whereas all the world's other major currencies — such as the dollar or the yen — are confronted, if I may put it that way, with just one government. It was consequently necessary, without imposing a single budget on all Member States, for there to be at least some rules which everyone must obey. Among their number, everyone must obey rules on inflation, public deficit and public debt. The idea of a stability pact is essential to ensure we have a currency area conducive to success. So the pact in itself is a good instrument. The fact of the matter is that in recent years some countries have not fully complied with the rules of the pact. This is due to the crisis, but also because during periods of strong growth some countries should have built up bigger reserves in order to be able to deploy counter-cyclical policies in the event of a crisis. So I think we should keep the pact; indeed, I think we should make it stronger. Above all we need to find warning mechanisms to introduce sanctions and warning signs, as soon as a country begins to stray from the principles of the stability pact. At present we have sanctions which come too late, when the problem is already upon us. The other governments need to be able to act sooner. We also need a better culture of discussion on the various national budgetary policies. It should not be seen as a foreign intervention if someone expresses criticism of our budgetary policy. We must remember that we belong to a monetary union and that we have decided to pool sovereign powers over budgetary matters. Budgets will certainly continue to be adopted by national parliaments, but they will not be free to do as they like. The price to pay for monetary union is obedience to certain rules and recommendations which are drawn up by the Eurogroup, the Council of Ministers of the euro zone. So this new approach, the pooling of sovereignty and policy on monetary, budgetary and economic matters, is essential to strengthen the pact. Above all the early-warning and sanctions side of the pact needs to be strengthened.

[Elena Danescu] What do you think about the proposal by the ECB President, Jean-Claude Trichet, to set up a European budgetary federation?

[Luc Frieden] I think we have already have one, in the sense that the Eurogroup discusses the budgets of the various states. Of course it is not a federation in the eyes of international law, because the Eurogroup has only limited powers, but I think we are in the process of achieving what

is meant by a federation. In fact, what is needed is a higher power which can decide a certain number of things. This federal power must therefore be strengthened. I fully agree with that view. It is not possible to build a single market, to deploy monetary policy without also practically having a European budget. We shall carry on with national budgets but they will have to fit into a European framework. And there has to be someone to ensure that they comply with the European framework.

[Elena Danescu] You mentioned that the euro might one day become the currency for all European Union Member States. What would that involve? More flexible criteria or stricter discipline, and an awareness among countries that they must accept the rules this status involves?

[Luc Frieden] The European Union is a political union based on treaties. So obviously any country joining the Union, and all the more so a country joining the currency area or the Schengen area, must obey the rules which have been established by Member States in the European treaties. So if we want to maintain a credible, strong, stable currency, we may under no circumstances relax these criteria. On the contrary, Member States must uphold these criteria and one day the criteria may need to be tightened up or redefined. A country with a substantial debt should perhaps be required to have a smaller deficit than a country with less debt, which may, temporarily, allow itself a larger deficit. A stable currency — and we need a stable, credible currency so that others will also use the euro — requires very strict budgetary discipline.

[Elena Danescu] So, to go back to the Stability and Growth Pact, you do not see the rules being relaxed in any case, but rather the development of preventive measures while maintaining criteria just as strict as they are at present.

[Luc Frieden] I do not agree with those in favour of relaxing the rules, on the contrary I think that the rules are currently at the limit of what is acceptable. Above all public debt in Europe must be reduced, so I would in fact advocate stricter criteria and in an initial phase sanctions. Otherwise the euro will not be the currency for which we campaigned in the 1990s.

VII. The Eurogroup, Ecofin and economic governance after the Treaty of Lisbon

[Elena Danescu] Minister, you represent the Luxembourg Government in the Council of the European Union, in its Ecofin configuration, which you mentioned earlier, and at meetings of the Eurogroup, which are chaired by the Prime Minister of Luxembourg. Established in 1997 under the Luxembourg Presidency and enshrined in the Treaty of Lisbon, the Eurogroup is destined to play an

increasingly active role. How do you see the new role of the Eurogroup, in particular given the arrival of new members of the euro zone?

[Luc Frieden] The Eurogroup has a key role to play, which it already fulfils, in view of the fact that it discusses all the budgetary and economic policies of countries in the euro zone. It should see its powers strengthened because we shall have to move from discussion to decision-making. So it will be necessary to invest the Eurogroup with the requisite powers to intervene in the event of budgetary slippage. Decision-making powers will therefore need to be added, in particular regarding sanctions, to the euro. But the Eurogroup already works very well, because it is the place where, setting aside the many officials ... because we are on our own, just ministers and treasury directors, with the European Central Bank, to discuss the key problems and challenges facing the euro zone. And we have already taken a fair number of decisions in the Eurogroup, including crucial decisions to stabilise the euro zone during the economic and financial crisis in 2010. So it is a fine instrument. Obviously it will open its doors to new countries joining the euro zone and ultimately I believe that most countries in the European Union will join the euro zone. It is up to the Eurogroup to ensure that they meet the criteria for joining the euro zone, as we did, for example, in 2010 with Estonia which is poised to join the euro zone.

[Elena Danescu] Having taken part in both the Eurogroup and the Ecofin Council, how do the two organisations relate to one another? What are their respective roles in coordinating economic policy in the euro zone?

[Luc Frieden] The Eurogroup is the only organisation tasked with coordinating economic and budgetary policy. Meetings of the Ecofin Council are obviously attended by the 27 finance ministers and discussion focuses more on the legislation which governs Economic and Monetary Union. So legislative work tends to be the Council's preserve, whereas political work, specifically the workings of the euro zone, is the preserve of the Eurogroup.

[Elena Danescu] What do you think about the recent Franco-German proposal for a common economic government of all the 27 Member States, which would avoid creating a Europe of first- and second-class countries, as the German Chancellor puts it?

[Luc Frieden] I think this proposal links up with our previous proposals, in particular to the group chaired by President Van Rompuy. The notion of economic government does not mean a great deal. In fact it is the same idea as the one that the President of the ECB outlined, as you mentioned earlier, of a federal budgetary power. In short the Eurogroup must have the necessary powers to discuss and take decisions on the various imbalances which exist, at a budgetary or economic level. So all these ideas, which tend towards the Eurogroup being invested with greater powers for decision-making, sanctions and supervision of national budgets, correspond to what some people call 'economic government'. But as with the term 'federalism', the notion of 'government' does not really correspond, because none of the countries, in particular France and Germany, will ever give up their national state. So it is impossible to imagine a European government, but what needs to

emerge and what we are working on is strong coordination within the Eurogroup, which is a sort of higher decision-making body. What is more I think we are now getting quite close to an ‘economic government’ of this sort, but the terminology does not fit when confronted with international law.

[Elena Danescu] In January this year the President of the Eurogroup said that one of the priorities in his programme of work would be to strengthen the international status of the euro by establishing common positions on certain topics and unified representation in international financial bodies. What are the topics of common interest that may strengthen the international status of the single currency? What do you think about the unified representation of countries with interests which often diverge?

[Luc Frieden] I shall tell you. When you have a single currency, when you talk about economic government or federal budgetary power, it would surely make sense for the euro to be represented by a single, strong voice within international bodies. So I am sorry that the idea, which I fully support, voiced by the Prime Minister of Luxembourg, that the euro should be better represented at a national level, has not yet been realised. We are moving in that direction, because the President of the ECB, the President of the Eurogroup and the Commissioner for Monetary Affairs represent the euro at G7 meetings and discussions with international financial organisations. It is nevertheless still the case that alongside the people I have just mentioned, the other leading European economies also attend these meetings. There is always the risk that their presence in large numbers, with varying views, may lead, in the eyes of the United States, Japan or other countries, to opposing interpretations of the European voice. The political reality is such that major European countries have great difficulty giving up their seat in favour of a single European seat. But I think that issues such as regulating international finance, exchange rates, the lack of balance in trade between various parts of the globe, are topics which should be addressed, on the European side, by a single representative — the President of the European Council, the President of the Eurogroup, the President of the Commission — not by five or six different voices. So we must maintain our commitment in favour of Europe and ensure that our common vision gains ground in Europe, but with just one voice to state our case abroad. A time will come, I hope, when a single voice will speak out for Europe at the International Monetary Fund, at the World Bank and in other international forums. It is not the case at present. Perhaps we shall have to wait 10 more years to see this happen, but first the large states need to realise that in the global arena they too are small states and that Europe is much stronger when it speaks with one voice.

VIII. The European Financial Stability Facility (euro support fund)

[Elena Danescu] The European Financial Stability Facility opened in Luxembourg on 7 June. Its operational headquarters is also located in the Grand Duchy. The law establishing this fund to support the single currency bears your signature, in your capacity as Finance Minister. How does

this mechanism work?

[Luc Frieden] In 2010 we had to face an unprecedented crisis for the euro, the first major crisis since its introduction 10 years earlier. There was a risk that if one or other state in the euro zone defaulted or was unable to raise funds in the financial markets, it might throw doubt on the euro as a whole. The aim of the difficult discussions we had was to ensure that each state in the euro zone, in the event of major financial difficulties or difficulties with refinancing, would have an establishment to which it could turn to obtain the loans it needed to finance its economy, obviously combined with extremely strict budgetary discipline and a nationwide programme of reforms. As there was no basis in the European treaty to set up a mechanism of this sort, the finance ministers of the euro zone discussed a mechanism which would give states access to an organisation where they could lend money. This has now become a private-law organisation. In fact, we — the French minister, the German minister and myself — discussed whether it would not be possible to use an instrument governed by private law to achieve the same objective. And that is why we set up a limited liability company governed by Luxembourg law, which is guaranteed by all the states in the euro zone, in proportion to their share in the capital of the ECB. If in the future a state in the euro zone encounters serious refinancing difficulties in the financial markets, it may turn to this Luxembourg company, which could lend the money to the relevant state, raising the necessary funds itself on the money markets. Repayment would be guaranteed by the other states in the euro zone. It is an exceptional move, a historic step forward. But it is a facility which must not be misused: it is there to stabilise the euro zone and in fact since we set up this company, no states have had to resort to its services, which proves that the markets have noticed that there is extremely powerful solidarity within the Economic and Monetary Union and that in times of crisis our solidarity, including financial solidarity, is fully operational. It worked for Greece, which is not a part of this mechanism, because the Greek solution was found before the mechanism was set up, but the mechanism is there to deal with other similar cases, should they occur.

IX. The international financial centre in Luxembourg

[Elena Danescu] Luxembourg's international financial hub now occupies a prime position. Luxembourg has become the top centre for international private banking in the euro zone, the number two for investment funds after the United States and one of the top 10 financial hubs in the world. To consolidate this position you set up the Haut Comité de la Place Financière (the High Committee of the Financial Centre) in May. What role does this high-level committee play and how does it fit into the Community framework, in particular the Economic and Monetary Union?

[Luc Frieden] I think it is very important to avoid governing in a theoretical manner, to avoid enforcing laws which in practice do not yield the expected results. The High Committee, which I set up and which I chair myself, aims to bring together round one table all the players in the financial

market place. The various organisations which represent the different types of activity here — private banking, international credit, investment funds, business law firms, major consultancy firms — sit down round a table and think about future steps towards developing the market place. And thanks to this body, which is an advisory body, I can take political decisions more easily, drawing on the know-how of the various players. There is no direct link between this committee and European policy, but obviously all the business being conducted here is international. It therefore makes sense for us to see how we should react with respect to certain initiatives by the European Commission, to see how best to transpose [into national law] directives adopted by the European Council and Parliament. So it is an advisory committee reporting to the Finance Minister, designed to ensure that Luxembourg remains a top international financial hub. The prime mission of this committee is not to rest on its laurels but to prepare for the future of the financial market place.

[Elena Danescu] I should like to ask you whether you think that this initiative follows on from the ideas of Pierre Werner in the 1970s, when he instituted an advisory group on the financial market place. Although it was much more confidential in character it did a great deal of work, in particular with respect to the securities clearing house Cedel. Professor Triffin was involved in this group and also, at a European level, in defining the broad lines of the European Monetary Cooperation Fund. So do you think there is a form of continuity between Werner and yourself in this respect?

[Luc Frieden] Yes indeed, because Pierre Werner was certainly one of the founding fathers of this financial market place. He strongly believed in the need to have a well-established financial services sector in Luxembourg, on an international scale, and I know from our many discussions that he never lost contact with the business world, regularly meeting Luxembourg bankers and experts to discuss the future of this financial centre. So the approach, from the days when Werner headed the Finance Ministry to the present day, has stayed the same. We still find much of our inspiration in what Werner did for the financial market here. That is quite clear. And when you read his memoirs it is immediately apparent how much he believed in this financial market in a European context.

[Elena Danescu] How do you see the future of the Luxembourg financial centre? What are its main challenges? What does it need to do to maintain its position? What, if any, shortcomings does it need to remedy?

[Luc Frieden] I think that a Europe with a single market needs international financial centres characterised by cross-border activities. So the key challenge is to ensure that in the future Europe still has several financial centres, and the healthy but very real competition between these markets will be tougher in the years to come. It follows that we certainly need to continuously improve the legislative framework and the overall approach to development of this financial centre. I think that this financial centre, with its various areas of expertise, can look forward to a promising future, providing it can also attract to Luxembourg new customers from countries outside Europe. So opening up to other markets is an essential condition for developing this financial market place, as well as adapting to new products and guarding against protectionism in Europe, which resurfaces from time to time, particularly in a crisis, and preventing it from taking control. Despite the

existence of the single market, competition between financial markets and between countries sometimes resurfaces in the form of protectionist reflexes. It is up to Luxembourg to ensure that Europe eradicates all form of protectionism forever. I think it is the biggest challenge for this financial market. The other challenge is obviously for Luxembourg to attract not only custom but also highly qualified personnel. It is an international market place so it must find the best candidates, in Europe and the rest of the world, so that they can work here. The fact that more than half of the people working in the financial centre are from outside Luxembourg suggests that we already consider that the market for the financial services sector is not just Luxembourg, but the European and global market. Our products, services and legislation must consequently always have this international outlook. We are working on it the whole time.

[Elena Danescu] Minister, thank you very much for your warm welcome and the time you have spent with us, for speaking about Pierre Werner but also about the key moments of the Economic and Monetary Union, and the role of Luxembourg in European integration. Perhaps you would like to conclude.

[Luc Frieden] Luxembourg has been extremely fortunate in having major figures such as Pierre Werner at its head, who showed us that it was worth our while building Europe, that even as the representatives of a small state we could play a leading role in European integration. It is thanks to public figures such as Werner that we have earned the respect of others. Of course we cannot only focus on the past, but drawing on the legacy of those such as Werner we must build the future. I believe that tomorrow we shall find ourselves in a world in which Europe will have to fight to maintain its position. New emerging economies are coming to the fore. Europe and Luxembourg will only be strong if they speak with one voice. Our mission is consequently to ensure that Europe develops, and we must be prepared to make reforms to compete on equal terms with the world's new major economies such as China and India. We cannot restrict ourselves just to our own continent; we must play an international role. Luxembourg, thanks to its tradition of openness, has an important part to play in this work, but it demands a great deal of conviction, great commitment and I believe that our predecessors, Joseph Bech, Pierre Werner, Jacques Santer and Jean-Claude Juncker, have shown us the way forward. It is up to us to continue along that path.

[Elena Danescu] Thank you very much for your time.

[Luc Frieden] It was a pleasure.

[Elena Danescu] Thank you very much.

[Luc Frieden] Thank you.