

RELEASE IN PART B6

**From:** Sullivan, Jacob J <SullivanJJ@state.gov>  
**Sent:** Monday, June 4, 2012 9:52 AM  
**To:** H  
**Subject:** Fw: WSJ: Germany Signals Crisis Shift

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**From:** Nuland, Victoria J  
**Sent:** Monday, June 04, 2012 09:06 AM  
**To:** Gordon, Philip H; 'ESherwood-Randall( [redacted] ); Sullivan, Jacob J  
**Subject:** Fw: WSJ: Germany Signals Crisis Shift

B6

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**From:** PA Clips [mailto:paclips@state.gov]  
**Sent:** Monday, June 04, 2012 06:32 AM  
**To:** PA-Monitoring-Group-DL; EUR-Press; EB-A-PD-DL  
**Subject:** WSJ: Germany Signals Crisis Shift

EUROPE NEWS Updated June 3, 2012, 9:14 p.m. ET

Germany Signals Crisis Shift

Berlin Begins Outlining Conditions for Sharing More Risk With Other Countries in the Euro Zone

Article

By WILLIAM BOSTON

BERLIN—Germany is sending strong signals that it would eventually be willing to lift its objections to ideas such as common euro-zone bonds or mutual support for European banks if other European governments were to agree to transfer further powers to Europe.

If embraced, the move would deepen in fundamental ways Europe's political and fiscal union and represent one of the boldest steps taken by the bloc since the euro was launched. Germany has never before been willing to discuss the conditions it believes necessary to move toward assuming common risks within the euro zone. Now, although the end may be a long way off, it appears willing to discuss those conditions.

"The more that other member states get involved with this development and are prepared to give up sovereign rights to get European institutions more involved, the more we will be prepared to play an active

role in developing things like a banking union," a German official familiar with the discussions told The Wall Street Journal. "You can't have one without the other."

Europe has been blocked from taking bold steps to stem the crisis and calm financial markets because leaders can't bridge two fundamentally different approaches to the crisis. Countries such as France believe Europe must create instruments such as euro bonds to place the burden of debt on many shoulders. Others, especially Germany, say a further economic integration requires a common fiscal policy and transfer of national sovereignty over budgets to Europe. Berlin wants all of these issues to be put into a broader discussion about the future of Europe and the structure of the euro zone. Germany believes the parts of any master plan for Europe can only be introduced together, not in isolation.

Behind the scenes, Europeans are working to pull together a "grand plan" as proposed at May's EU summit, a senior European Union official said. He said Germany was "willing to play ball in a grand design but at the obvious price of more transfer of sovereignty on fiscal matters." That, he said, was a tough requirement in almost all member states and may also require changes to EU treaties. He said governments were seeking to influence the approach to be taken at the next EU summit on June 28-29.

"Bottom line of it all: the game is on," he said.

Many of the ideas under discussion aren't new, but the sheer force of the resurgence of the euro crisis over the past month is forcing European leaders to realize that their piecemeal approach to resolving the crisis is failing.

Still, there is no guarantee that European leaders will overcome the differences they have failed to bridge in the past. Any move to relinquish sovereignty over national budgets would also meet fierce resistance in member states, fueling populist political parties and fierce constitutional battles over the rights of states. But the idea, strongly advocated by German Chancellor Angela Merkel, that the crisis must be used to create a political union to bolster the euro may be gaining traction.

"The European Union needs to reinforce its architecture," said Spanish Premier Mariano Rajoy over the weekend. "And this means a compromise to create a new European fiscal authority which would guide the

fiscal policy in the euro zone, harmonize the fiscal policy of member states and enable a centralized control of (public) finances."

At their informal summit on May 23, European leaders charged Herman Van Rompuy, the European Council president, José Manuel Barroso, president of the European Commission, Mario Draghi, president of the European Central Bank, and Jean-Claude Juncker, head of the Eurogroup, to pull together proposals for the next summit that would help European leaders create a road map for discussion about the future European architecture.

The issues on the table fall broadly into two categories. There are ideas such as creating joint European bonds, a European-wide deposit insurance and more broadly a "banking union," which fall into the category of mutual liability for sovereign debt and European banks. These are ideas French President François Hollande backs, but have been anathema to Ms. Merkel unless power to enforce budget discipline is shifted to Europe, which would mean a sacrifice of sovereignty.

Germany is pushing again for far-reaching European control of national budgets, a fiscal-policy union, which would require member states to cede control of national budgets to some future European fiscal authority, an idea France staunchly opposes. There is little chance of a breakthrough in June, but German officials said a process is beginning.

"There will be no big bang at the June summit," said a German official. "But it would be a big step for Europe if we succeed in creating a structure for the discussion, establishing a method, asking the right questions and putting it all into a certain timetable that would be significant for Europe."

Speaking to reporters at a summit of Baltic Sea Coast leaders last week, Ms. Merkel suggested she is willing to engage in discussion about any idea on the table.

"Of course, it is possible to consider how we are going to develop over the next five to 10 years," she said. "But if we are constantly censoring our ideas it won't work."

German officials say everything is on the table, but no single element can be adopted on its own. To see the whole picture of what Europe will look like in the future, all the pieces of the puzzle are necessary. For the Germans, this means that it will never be possible for any German leader to agree to joint European bonds or

insuring bank deposits from Ireland to the Iberian coast unless Berlin is assured it has a say in the national fiscal policies in Europe. Germany is offering Europe a kind of quid pro quo and may be setting the stage for a huge step forward in European integration.

One piece of the puzzle that is still missing is France. Now that all ideas are being put on the table, it is still unclear if Mr. Hollande will soften his opposition to a tough, German-style fiscal union.

"European institutions have started working and we are mobilized to make sure this process yields results at the late June summit," a senior French official said.

—Stephen Fidler in Brussels and David Gauthier-Villars in Paris contributed to this article.

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