

**For the attention of  
The minister of Finance of the Netherlands  
Jan Kees de Jager**

**Subject: Input to the Council Task force on economic governance discussions regarding mechanisms for sovereign debt resolution**

**Brussels/Amsterdam, 7. July 2010**

Dear mr. De Jager,

I am writing to you with regards to the upcoming meeting of the Van Rompuy Task force on economic governance which will take place in Brussels on 12 July.

In his remarks following the first meeting of the Task force, Mr. Van Rompuy rightly pointed to the need for *"an effective crisis mechanism in order to be able to deal with problems such as those we see today in the Eurozone"*.<sup>1</sup> In his address to the Brussels Economic Forum in May Van Rompuy also underscored that *"in the Greek crisis, we did build a lifeboat at sea, but we can clearly not go on improvising like this. Therefore I intend to put proposals on the table of the Task Force for better coordination between the main actors."*<sup>2</sup>

As a consequence of the global financial crisis, several countries both in Europe and in the global South have experienced renewed sovereign debt problems. The lack of an orderly procedure to deal with debt distress is costly both to the country in question and its creditors. Eurodad (the European Network on Debt and Development) and Jubilee Netherlands have long called for a structured, effective and predictable procedure for sovereign debt resolutions and appreciate that the Council now seems to echo this call. We do however have some concerns about the Council approach.

The European Union currently aims to prevent sovereign defaults among Member States by issuing large refinancing packages. We fear that the EU is now repeating the errors which turned the 1980s debt crisis into a "lost decade" for several over-indebted countries in the global South. Rather than implementing a quick and comprehensive haircut, a protracted process of re-financing current debt service from official and multilateral sources has been undertaken. In the past, this remedy did not prevent large write-offs. To the contrary, the policy of piecemeal refinancing turned the 1980s and 90s into a development disaster for the poorest people in over-indebted countries. The piecemeal and time-consuming process also became costly for the creditors. It is in the interest of both creditor and borrower governments that this painful history is not repeated – neither globally nor within the European Union.

Taking into account the complexity of the sovereign debt of EU Member States, which could potentially cause debt difficulties in the future, and the diversity of these countries'

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<sup>1</sup> [European Council Press Release PCE 118/10, 7 June 2010](#)

<sup>2</sup> [European Council Press Release PCE 105/10, 25 May 2010](#)

creditors, we are convinced that any mechanism which is to deal effectively and comprehensively with an EU Member State's sovereign debt will have to reach beyond the borders of the European Union.

Moreover, to act not only in correction, but in prevention - to repeat Van Rompuy's remarks following the first meeting of the Task force - any procedure to deal with sovereign debt difficulties must assess the underlying causes of the distressed debt, taking both creditors' and debtors' responsibilities into account. This requires clear ex ante rules and responsibilities and an independent procedure for resolving sovereign debt disputes. Only by holding creditors, as well as borrowers, to account for irresponsible behaviour could new debt crises be avoided.

You may be aware that the German government has started to work on the concept of a sovereign insolvency framework for both critically indebted EU states as well as for developing and emerging countries in need of a comprehensive solution to their sovereign debt problems. The Netherlands has also taken initiatives on the debt issue.

Among European and Southern NGOs, we have been working on concepts as well as on the political implementation of proposals for responsible financing and a fair and comprehensive approach to sovereign debt resolution. We believe that an independent procedure in line with the principles outlined in the attached document would provide a more efficient solution for both creditors and countries in debt distress. Please find attached:

- [Eurodad principles for a fair and transparent debt workout procedure](#)
- [Eurodad charter on responsible financing](#)
- [European Trade Union Institute policy brief](#) outlining how the Icelandic 'Icesave' dispute makes the case for a fair and transparent debt workout procedure

The European Union has a unique opportunity to assume leadership in a global reform process with far-reaching consequences with regard to global fiscal and monetary sustainability. The Council should turn the current crisis into an opportunity to discuss which mechanisms should be put into place, not only at a European but at a global level to address sovereign debt problems in an effective, comprehensive and independent fashion.

Yours sincerely,

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Coordinator Jubilee Netherlands

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