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Downgrade threat to France haunts Sarkozy

By Hugh Carnegy in Paris

On the march: teachers protest against government policy in Marseilles on Thursday. Nicolas Sarkozy faces a tough presidential election next year

The threat of the loss of France's triple A debt rating has quickly become the dominant issue of the eurozone crisis for President Nicolas Sarkozy, only days after he claimed success at last week's Brussels summit.

With his main rival in next April's presidential election calling for a renegotiation of the Brussels agreement, and wrangles developing among European Union members over the shape of the proposed new treaty, doubts are emerging about the permanence of Mr Sarkozy's summit victory.

The outcome, with Britain vetoing a full EU treaty to cement fiscal discipline in the eurozone, favoured the French president's preference for enhanced economic and fiscal integration to be concentrated on the 17 countries sharing the single currency – although the proposed new treaty will also include up to nine non-euro members.

While others worried about the implications of Britain's veto, Mr Sarkozy readily embraced the shift that it implied towards a "two-speed" EU.

Hailing the "birth of a new Europe", Mr Sarkozy told the newspaper Le Monde:

"There are clearly now two Europes. One which wants more solidarity and regulation between its members [and] the other which is attached to the sole logic of the single market."

The Sarkozy vision – reflected in the outline terms of the proposed new treaty – is of the eurozone forging a common economic government in areas such as budgetary controls, taxation and financial regulation, driven by regular meetings of heads of government.

Over weeks of negotiations with Angela Merkel, the German chancellor, Mr Sarkozy yielded to pressure from Berlin that imposing budgetary discipline required automatic sanctions embedded in EU law for eurozone countries that broke fiscal rules. But Paris insists that building this inner eurozone core should be based not on transferring more power to the EU's central – and unelected – institutions, such as the European Commission, but on an "intergovernmental" basis of the council of eurozone heads of government.

French officials say this does not mean the creation of new, parallel institutions – although the council will have a permanent president and a "reinforced structure" to prepare summits and carry out decisions. But Mr Sarkozy does stress the central role of the eurozone council, which is now due to start meeting monthly as long as the crisis lasts.

Alain Juppé, foreign minister, said: "By placing the council of the heads of state and government at the summit of the institutional architecture, Europe is entrusting its guidance to democratically legitimate, elected [leaders]. We are not far from . . . a federation of nation states."

Domestically this emphasis on the "new Europe" being an intergovernmental structure is critical.

With the presidential election drawing ever closer, Mr Sarkozy is under pressure from both left and right to show that the new treaty will not include any loss of sovereignty. In the first round of the contest, one of his biggest threats comes from Marine Le Pen, leader of the far-right National Front, who has built a solid platform in the opinion polls with her call for France to quit the euro.

On the left, too, Mr Sarkozy's handling of the crisis has been attacked for yielding too much ground to Berlin.

François Hollande, the opposition Socialist candidate who leads Mr Sarkozy in the polls, pointedly said he would if elected seek to renegotiate the agreement reached at last week's summit.

He homed in on what he said the deal was missing: measures to support growth; allowing the European Central Bank to intervene more decisively to support the sovereign bonds of threatened eurozone countries; the creation of eurobonds to mutualise eurozone debt; and more firepower for the eurozone's rescue funds. The last three were all issues on which Germany refused to budge, despite pressure from Mr Sarkozy's government.

Paris still hopes that the ECB will step up its intervention finally to provide some relief from the relentless pressure from financial markets. But expectations of an ECB "Christmas present" following the summit have so far not materialised.

Instead Mr Sarkozy's aim of a relatively straightforward treaty ratification process may be thwarted by the complexities of reaching agreement, not just with all 17 eurozone members but with non-eurozone EU countries that want to be included.

More ominous is the prospect of the loss of France's triple A status. It would be another lurch in the crisis which Mr Sarkozy had hoped the summit – unlike those before it – would help prevent.