European Commission
2004 – 2014

A Testimony by the President
with selected documents

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European Commission 2004–14

A testimony by the President

JOSÉ MANUEL DURÃO BARROSO

On 26 June 2004, the former Commissioner for External Relations, Chris Patten, described in a BBC interview the role of the President of the European Commission as 'about as difficult a job as there is in the Western world'. After 10 years in the post, I think I can agree.

When I walked into the European Commission headquarters in the Berlaymont building in November 2004 to take up my responsibility as Commission President, I was certainly aware of how challenging it was, but could never have foreseen what lay ahead of us. Over these last 10 years, the EU has gone through the most difficult times in its history, with the rejection of the Constitutional Treaty by France and the Netherlands, a long period of low growth and, in several Member States, high unemployment, the financial crisis evolving into a sovereign debt crisis, constant instability in many governments and one of the most serious political and security crisis since the Cold War erupting with the conflict between Ukraine and Russia.

And yet, we have stuck together and have enlarged successfully. We have incorporated a new way of working after the Lisbon Treaty. **During this decade, the European Union has almost doubled its membership, from 15 to 28, and the euro area has grown from 12 to 17 and soon to 18.** We have adapted to make ourselves stronger and better prepared to deal with the challenges and seize the opportunities that globalisation brings. **Against the odds, and against the predictions of many, we have shown the extreme resilience of the European Union, and the need for political will and leadership as indispensable drivers of action in a more political EU.**

This text is not yet a memoir, but a first personal testimony I want to share still before I complete my mandates, illustrated and complemented by some of the key documents and by a number of political speeches I have made as President of the Commission. It does not pretend to be an exhaustive account of the work of the European Commission throughout these years but tries to give a view — though naturally an impressionistic one — of my experiences, presenting these initiatives in their political context.

Of course, none of the achievements of the European Commission would have been possible without the close cooperation and commitment of my colleagues in the College of Commissioners and our officials. I will not individually mention them here — we have already published a 'record of achievements' to highlight their most important initiatives in these years — but my gratitude goes out to all of them.

I feel that together we have worked hard and successfully **to keep Europe united and open and thereby make it stronger.** Despite all the difficulties, it has been a fascinating and more than fulfilling decade.

A united Europe

From enlargement to economic crisis management

When I took up my job as Commission President, the expectation at the time was that managing the consequences of the biggest enlargement ever would also prove the single biggest problem.

Surely, it was thought, moving from 15 members to 25, to 27 and then to 28 would end up destabilising the College, or fragment it along geographical, ideological or political lines. It didn't, but few people at the time would have bet against it. The enlarged European Commission proved to be stable and effective. I saw it as one of my main tasks to safeguard the Commission's unity, coherence and efficiency, not only as a prerequisite for it to play a leading role in Europe, but also as a symbol of Europe's countries' capacity to live together. For that is what European unity, at its heart, is all about: a home above and beyond our national homes.

It has indeed proved to be my main preoccupation, goal and at times even fear throughout these years: that the **inevitable differences and possible frictions between Europe's members, between North and South, between rich and poor, between large and small, between the centre and the periphery — should never be allowed to divide us and fragment our common project.** European integration has always been a way to close such gaps and overcome differences, and it has been remarkably successful in doing so. The European Union cannot progress politically, nor prosper economically and socially, if we allow division to set in. In Europe, only leadership by building consensus avoids fragmentation. There is simply no other way to move forward. That is the approach I have taken as President of the Commission, and the same conviction has always led me in relations with the Council and the European Parliament.

Increasing in size, keeping coherence

My Commission was the first of the enlarged, reunited Europe. So I took it upon myself to address some of the concerns specific to the new Member States, in order to avoid them being treated just as latecomers. From the beginning, the selection of portfolios and Vice-Presidents was one element in this. I intentionally resisted the temptation to give the big countries the more important portfolios. It was not by accident that my budget commissioners were from new Member States and that politically significant posts were given to Vice-Presidents from the new Member States. It is why I engaged with the Visegrad countries, including by participating in several meetings; why the Commission proposed the Baltic Energy Market Interconnection Plan and other key measures to bolster energy security; why I nominated special representatives to closely follow the Cyprus issue; and why we gave special attention to Romania and Bulgaria.

So when it was decided, in the summer of 2014, to have as new leaders of the European Union my friends Jean-Claude Juncker as President of the Commission and Donald Tusk as President of the European Council, I felt that our investment in European enlargement was more than vindicated. It is the perfect illustration of Europe coming together, from the founding countries to those who joined more recently. Who would have said, only a few years ago, that the President of the European Council would come from Poland?

The enlargement of Europe provided new momentum by injecting a fresh dose of enthusiasm from the new Member States into the European project, up to Croatia's accession in 2013 which is a signal to the entire region. Enlargement did not in any way water down our purpose or slow our momentum. This is not to say it was plain sailing from the start, or that all is perfect. Yet, 10 years on, it has become very clear that, in general, they proved very supportive of deepening European integration. **This is one of the less talked about success stories of Europe, but its importance will only show more clearly with time.** I am pleased to have contributed to that through my approach as Commission President.

Keeping Europe united was a constant challenge in the first years of my first mandate. The risk of division was permanent, between Member States, between institutions and within the Commission itself.

My first Commission was quickly confronted with a series of files that were the source of great tension: the lack of credibility of the 2000 Lisbon strategy, aimed at making Europe the most competitive and dynamic knowledge-based economy in the world; the completion of the revision of the Stability and Growth Pact in 2005; and the stalemate over the European budget and the management of some major divisive pieces of legislation that had been adopted by the previous Commission, such as the Bolkestein services directive. All of this was stirred up by the shockwaves that emerged from the negative referenda in which citizens of two founding countries, France and the Netherlands, rejected the constitutional treaty.

While the reasons for the two votes were different, they both underlined the lack of connection with the concerns of citizens and the unease of an enlarged Europe seeking to adapt to globalisation. (The same could to some extent be said of the negative vote in the Irish referendum on the Lisbon Treaty in 2008). Naturally, the main responsibility fell on Member States to find a workable way forward to keep the most important parts of the constitutional treaty while clearly reflecting and respecting the concerns expressed by citizens in two founding members.

The Commission not only played its role with a consultation campaign, 'Plan D for democracy, dialogue and debate', it was also instrumental in creating the conditions for a solution that was as close to the original treaty as possible. It was with Jean-Claude Juncker and Josep Borrell, then rotating President of the Council and President of the European Parliament respectively, in my office before our press conference, reacting to the result of the French referendum, that we managed to find some common ground for cooperation, which in turn opened the way for gradual progress out of the deadlock that was created by the negative referenda on the constitutional treaty.

Creating such positive momentum was not made easier by the fact that the Bolkestein directive, even if it had been unanimously approved by the previous Commission, proved to be so very divisive. The perceived threat of the *plombier polonais* (Polish plumber) had become proverbial, for instance, in French public opinion. Vice versa, though this part of the story is often underestimated, deep resentment emerged in newly acceded Member States following a number of sharply negative comments on the perceived consequences of enlargement made by leaders from older Member States.

And yet, despite requests, not to say threats, to withdraw the proposal I decided against that. I figured doing so would harm the further development of the single market as a driver of jobs and growth. While we were willing to negotiate changes to the original proposal, accepting an ultimatum to withdraw it altogether would have been a disaster for the authority of the Commission and, as such, would eventually become an even bigger problem for Europe. I was determined to ensure that the authority of the Commission with its sole right of initiative was maintained so that the obvious centrifugal tensions between Member States did not spin out of control.

I faced the same dilemma with the chemicals legislation called REACH. This had also been adopted in the final year of the previous Commission and was deeply divisive. It took countless hours to try to find a reasonable compromise that matched our ambitious environmental agenda with a solid economic case.

Cooperation, not confrontation

The way to overcome these shockwaves has required the Commission, European Parliament and Member States to work together, not as opponents but as real partners in our common project called Europe. European democracy evolves on the basis of open discussion leading to compromise and consensus, in respect of the subtle balances that are indispensable for governance in Europe, between the national and the European interest, between social justice and economic performance, growth and stability, individual responsibility and collective solidarity, as well as the balance between goals and challenges at national, European and global level. I have always been convinced of the need for a *Kooperationsverhältnis*, a cooperative relationship between Europe's institutions and national institutions that reflects such a fine-tuned approach in light of our common goals.

European integration calls for an 'art of governance' that is different from national politics, as I have outlined in my Humboldt speech of May 2014. During my mandate, we had to uphold and renew **the community method**. Naturally, as a result of the demands stemming from the financial crisis we have seen the emergence of intergovernmental approaches in some areas but the European Commission, together with the European Parliament, has been able to defend the community approach, which is a guarantee for a European Union based on the rule of law and equality of Member States. Even when there was no unanimity among governments for a Community-based solution — as was the case for the fiscal compact — it is revealing that the Commission was nevertheless assigned an important role, and that Member States committed to the perspective of eventually incorporating it into the Community framework.

The position of the European Parliament has evolved as a result of its increased powers and the responsibilities that derive from that, which was particularly clear under the Presidency of Martin Schulz, but the trend could be identified even before that, under Presidents Borrell, Pöttering and Buzek, with all of whom I have been able to build up an increasingly fruitful working relationship.

Differently from others, who see the EU as a zero-sum game, I have always found it desirable to reinforce our institutions without this being to the detriment of others, and have espoused a vision of the Commission working not in confrontation but in cooperation, along the lines of the community approach.

One aspect of this is the role of national parliaments, on which I have been very vocal as early as 2006 with what became known as the 'Barroso initiative' of sending Commission proposals also to national parliaments. One of the challenges for the years to come is how to increase ownership of Europe among national representatives without complicating the structures of decision-making to the point of making them unworkable.

It is in this spirit of cooperation that we managed to get Europe out of the doldrums following the negative referenda. I had suggested a declaration as an intermediate step, as there was obviously no appetite yet for a new treaty, to get back to the essentials and agree on some of the basics that make us, as the text famously read, *zu unserem Glück vereint* (united for the better). And indeed**, in 2007, by the time of the Berlin Declaration, celebrating the 50th anniversary of the Treaty of Rome, it was clear that Europe as a whole was ready for a new start.** With added German leverage, we began a constructive discussion on what eventually became the Lisbon Treaty.

These events, which underlined the complexity of the interaction between the Commission and the Member States, have shaped my thinking in these 10 years as I sought to work with Member States as partners rather than opponents. They also strengthened my view that **European integration can only be a success in the eyes of the citizens if national leaders are prepared to make the positive case for Europe**. I have often witnessed that the main difficulty is not so much the opposition of Eurosceptics but the dejection of pro-European forces, their disappointment when their objectives do not gain support.

My engagement with Member States, fundamental as it is, has come with a price. The Commission has sometimes been accused of tabling proposals that were merely the lowest common denominator between the positions of the Member States, but this is, of course, a caricature. The Commission is not and should not be a think tank launching thought-provoking ideas just for the sake of it, but should always strike the right balance between the need for ambition and the realistic chances of adoption. That does not make the Commission the secretariat or the servant of Member States, not even of the big Member States. I have always understood that. While France and Germany are necessary for integration and for the Commission to achieve adoption of its proposals, they are not sufficient. And I was not afraid to test the patience of those big Member States when I thought that the European interest could be at risk. I fought many long and difficult battles, for instance on issues like CO2 cars and aid for deprived persons with Berlin, or on the relationship between the euro area and the rest of the EU, as well as on respect for Roma rights with Paris, and following the Deauville deal. I had serious discussions over "private sector involvement" with both Germany and France. With other big member states like the UK there were also tense discussions, for instance concerning the EU budget. So, to pretend that the Commission was not sufficiently independent is surely baseless.

Engagement with Member States took on a whole new dimension at the start of my second mandate with the creation of a new Presidency in Brussels, the President of the European Council. I vividly remember how this immediately led to a wave of comments, especially in the Brussels beltway, that this would lead to a weakening of the Commission. In fact, this reform was one of the innovations supported by the Commission. Having a permanent President was badly needed for the continuity and stability of the work of the European Council. Throughout these years, Herman Van Rompuy and I have established our distinct roles and created a good and effective working relationship. I'm pleased that we have both been able to prove the doubters wrong.

Jean Monnet's dictum that European unity will be the product of crisis situations and solutions has never sounded more true — *L'Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises* — but on one condition: if and only if leaders are focused to derive results from such moments of crisis. Because **if one thing is clear from my years of experience it is this: whatever the context and conditions, Europe is ours to make or break, never to be taken for granted.**

Responding to the crisis together

The need for unity was also one of the reasons why I fought so hard, often against the odds, to keep Greece in the euro area and by doing so to keep the integrity of the euro. A large part of my second term in office has been spent on keeping the Union together, pushing Member States and EU institutions to show responsibility and solidarity in particular when responding to the financial and sovereign debt crisis.

It was, for instance, the reason why the Commission and the International Monetary Fund (IMF), while generally keeping a good and fruitful relationship, did not always see eye to eye on how to tackle the crisis. The IMF staff tend to think more in terms of national economies. Their focus is not so much on systemic effects across the euro area or the EU — which meant they could more easily contemplate ideas like a Greek exit from the euro area, which was anathema to me. The Commission remained firm in trying to assist Greece and resist pressure for it to leave, because that was in the interest of Greece itself, and also because that would have been a severe blow to the single currency project. We were particularly attentive to the possible cascade effects this could initiate, not just in financial and economic terms, but in political terms. My personal engagement with European leaders at key points in the crisis was critical to ensure that Greece had the political and economic support it needed. From the market perspective, it was key that the euro area stuck together, with all eyes on the German position. So the fact that Chancellor Merkel eventually decided in favour of the unity of the euro area, which I always advocated, was certainly decisive. We were equally firm in convincing the Greek leadership that they needed to do their part to provide the political stability necessary to push through the necessary reforms that could guarantee their responsibility. Since the start of the crisis, I continuously engaged with Prime Ministers Papandreou, Papademos and Pikrammenos and with President Papoulias, and it was rewarding to see that since the summer of 2012 under Prime Minister Samaras the conditions were right for confidence to return.

Safeguarding the unity of the EU and the euro area was my consistent motto in the European Council, in crisis meetings of different formats.

I have spent countless hours on the phone and in meetings talking to leaders and convincing them of these views, equipped with solid material from Commission services and driven by my own political convictions, not only in the meetings of the European Council and the euro area summits, but also in different formats such as the so-called 'Frankfurt Group', together with the leaders of the European Council, European Central Bank (ECB), Eurogroup, of

France and Germany and sometimes the IMF. I recall very dramatic moments, such as the critical meetings in the margins of the G20 in Cannes in 2011, where we had to deal with the Greek crisis at its height while the pressure on Italy and Spain was building up. Today, now that that phase of the crisis is behind us, it is difficult to imagine how tense some of these meetings were, and the political efforts and energy it required — often under heavy pressure to avoid outright disaster — to bring divergent positions closer together for a common goal. Much of the expert and political work of the Commission has been discrete and unpublicised, precisely because of its sensitivity for financial markets. It has not always brought us a lot of media visibility, but together with the efforts of others it has been effective.

The twists and turns and the timing of European decisions also, at times, generated impatience internationally and were not always very well understood by strategic partners. We had very frank exchanges on this, for instance, with the President of the United States and with the Chinese leadership, and with partners like Japan or Brazil, to explain that there was no ready-made model — we were indeed 'building a boat in the middle of a storm' — but that they should not have any doubts about the determination of the European Union and its Member States to do what is necessary to overcome the problems we faced.

The other concern I had in this field was the need to combine the necessary deepening of the euro area while maintaining the integrity of the European Union as a whole. This will remain critical in the near future because of the so-called 'UK question'. This doctrine is now well established by the European Commission — we have set out the principles in the blueprint for a deep and genuine economic and monetary union — and I hope it is generally accepted amongst European political leaders. But it was not always so obvious. For instance, it is well known that some were advocating entirely different institutions to be established for the euro area. I have always remained convinced that a multiple-speed reinforced cooperation in Europe may become a necessity, but a Europe of multiple classes has been — and must always be — avoided at all costs. **While we need to go further in deepening especially in the euro area, this can and should be done in a way that is not divisive.** And a clear demonstration that this doctrine has been widely accepted is the fact that it was now decided that the President of the European Council, from a country that is not yet a member of the euro area, will also preside over euro area summits.

An open Europe

From the benefits of economic globalisation to the need for active external relations

The need to be open to the world has been the other main theme throughout these 10 years. European integration has always been driven at least as much by external factors as by internal ones, and certainly in this century. After the Second World War, when the reconciliation between France and Germany provided the main theme and motive of ideas by outstanding personalities such as Monnet, Schuman, De Gasperi, Adenauer and Spaak, economic integration was seen as a way of achieving a political good for their countries and a tool to make war impossible, unthinkable even. Along with such intra-European reasons, the fundamental rationale for Europe in the 21st century has to be a global one, in the sense that our countries on their own can simply no longer meet the expectations of their citizens, protect their interests and promote the values they stand for. Even larger Member States lack the critical mass to have a balanced relationship with giants like the United States or China if their actions are not concerted and their interests are not inextricably joined in a European framework.

Shaping globalisation

Europe needs to embrace globalisation, both as an economic opportunity and also as a source of knowledge and innovation, as part of the basis for open and culturally thriving societies. Indeed, contrary to perceptions popular in some quarters, Europe as a whole has been a winner from globalisation, as our trade figures attest. We have a lot more to gain than to lose from globalisation, but only if we truly commit to shape it through political leadership.

Threats, however, were undeniably very present all through these years and in particular straight after the financial crisis. The need for the EU to remain open and lead a global response, namely by collectively resisting pressures of naked and ugly protectionism, was more important than ever before. And it was at the instigation of the EU that the world acted against the crisis in a concerted and convincing way. I vividly remember President Sarkozy, then holding the rotating Presidency of the Council, and myself going to Camp David in October 2008 in order to try to convince President George W. Bush to join our call for global action. This led to the G20 in its current form, at heads of state or government level, and the hugely important effort to globalise the response to the crisis at that stage. Despite the United States' initial reluctance to act in a concerted manner, they eventually accepted the need for global action. They too had drawn the lessons from the Great Depression of the 1930s, and we were able to hold the first meeting in Washington in November 2008. A second summit was held only four months later, in London, with Prime Minister Gordon Brown as chair, and since then, the G20 has become the premier forum for coordination of economic policies between its members, giving concrete shape and form to a lot of the concepts that the EU brought to the table, for instance, on a framework for balanced and sustainable growth, on financial regulation and supervision, on action against tax evasion and fraud. **The development of the G20 is one of the most significant transformations of the global system** and its creation certainly helped to avoid much more negative scenarios that might well have happened without it.

An open Europe needs an active trade agenda, and the Commission followed through on that as well. **Our trade deals allow us to reap the opportunities offered by open and emerging markets elsewhere**. To negotiate and sign trade and investment deals that open markets, boost growth and create jobs for Europe was a priority. This commitment to open trade did not stop us from using trade defence mechanisms where and whenever necessary, as we proved on disputes over imported Asian shoes or as shown by the massive solar panels case we opened even in the face of opposition from some governments. In fact open trade needs to go hand in hand with a rules-based system and a level playing field for all nations and economic operators. The truth is that, despite our commitment and efforts to the multilateral negotiations and to the World Trade Organisation (WTO) system, which remains unshakable, the Doha round continued to stall due to differences between other main actors. We have therefore decided to resume our efforts to grasp the opportunities that bilateral trade deals bring. And the results are there. Over the last 5 years, we were able to conclude a new generation of deals with South Korea, Singapore, Colombia, Peru, Central America, and Canada; we finalised economic partnership agreements in Africa, with West Africa and the Southern African Development Community (SADC); we resumed negotiations with the Southern Cone Common Market (Mercosur); we launched important negotiations on free trade agreements (FTAs) with Japan, India, Vietnam and Thailand, and on an investment agreement with China. And we took the unprecedented step to start negotiations with the United States of America on a Transatlantic Trade and Investment Partnership (TTIP).

Facing the geopolitical transformation

Open regionalism has to be the model of our integration: a Europe that is open and acts as a bridge rather than a fortress. I took up my job as President with that open world view in mind, after having been involved in foreign relations in one way or another during most of my life. **The investment of the Commission in external relations, both in good and bad times, has never been so important,** from our global commitments on climate change and development to our agenda on global economic stability and openness, from the G20 and the G8 (later back to the original G7, after Russia's illegal annexation of Crimea), to our support for multilateralism epitomised in the United Nations. Throughout these years, I have developed strong relations with the Secretaries-General, first Kofi Annan and then Ban Ki-moon. I am grateful for the support they have given to the increased role of the European Union in its relations with the UN. Foreign policy needs to be seen as a combination of political and economic action, and economic action has to be placed in its wider geopolitical spectrum. That is why we cannot retreat from the world. The world needs an open Europe and Europe needs to embed itself in the rest of the world. Interdependence is a reality today, but interdependence also needs to be managed, otherwise we risk suffering from it rather than taking advantage of it. This is why we have been very actively engaging with major international partners and organisations.

The most recent illustration of the magnitude of the challenges in the field of external relations came with the threat to the global community of nations and certainly to European interests and values resulting from Russia's unacceptable behaviour regarding Ukraine. The developments are well known, from the pressure not to sign the association agreement it had negotiated with the European Union to the illegal annexation of Crimea and the unrest in Ukraine's eastern regions. The European Union took a principled position throughout. A political and peaceful solution of the conflict remained our first priority. Not any solution, but one that guaranteed the sovereignty, independence and unity of Ukraine. We have recalled time and again that our relations with our eastern neighbours are not detrimental to their relations with their other neighbours. We never sought exclusivity in our relations. In fact the European Union has invested a lot in a strategic partnership with the Russian Federation, convinced that it is in our common interest to cooperate. But the EU could never legitimise what can never be legitimate. We could not accept the explicit return of limited sovereignty to the European continent. We had to show our support for Ukraine, and we did. We make no apologies for the decision to respect the democratic right of a third country to seek a closer relationship with the European Union. We would have been morally bankrupt if we had refused this request of the Ukrainian people. And we had to present Russia with the consequences of its behaviour. The developments are still unfolding. The European Union continues to work for a political negotiated solution. The European Commission has spared no effort in this regard by taking the lead in promoting trilateral talks in sensitive issues such as trade and energy, with me being in constant contact with Presidents Poroshenko and Putin, to bring about a negotiated solution for all these issues. This sometimes gives me a feeling of déjà vu regarding the gas crisis of 2008–09, when I also kept lines open with the Ukrainian and Russian leaderships. If the EU did not react with firmness, what would be at risk would not just be Ukraine's independence but the sustainability and the credibility of a multilateral order based on values, equality and the rule of law.

But it was not just in the eastern neighbourhood that our resolve was tested. Events in the southern rim of the Mediterranean proved to be equally dramatic and historical. **The 'Arab awakening' represented one of the most impressive changes in recent history.** No one predicted it. The toppling of authoritarian regimes was a consequence of people's wish for more democracy and a more dignified life. With them, we bet on democracy, knowing well that the perspectives of having a vibrant and sustainable democracy in countries without a tradition of the rule of law or pluralism, some even without a functioning, modern state such as in Libya, were very challenging. The risks were high but what alternative did we have? Were we to do nothing, or not to support the millions of people, often young people, expressing themselves for change and in favour of democracy? The European Union simply *had* to bet on democracy because, in a political variation of Pascal's wager, we realised that even if we did not win, it would still be worth doing it. This is what we did with our partnership for democracy and shared prosperity presented by the European Commission in 2011 in the aftermath of these revolutions.

But as we all know from our experience in Europe, building mature and stable democracies is more difficult than overthrowing dictatorships. This is a long-term process. We need to remain engaged to avoid that extremist forces with different agendas hijack these processes. Political instability and a security vacuum are feeding radical groups and religious fundamentalists in some of these countries. The 'Islamic State' represents today the biggest threat to civilisation and our model of society. Europe needs to be part of the international efforts to defeat and uproot it.

For the EU, there is no more important partner than the United States. Indeed, we have given new relevance and impetus to this relationship through bilateral developments leading to the opening of the Transatlantic Trade and Investment Partnership (TTIP) talks, which I launched with President Obama in Lough Erne, Northern Ireland, in the spring of 2013. This was a long sought-after objective. For many years, several people had tried but the resistances and difficulties were always stronger. During my Commissions we managed to overcome the difficulties and concentrate on working towards a deal that, hopefully, can bring about the important economic but also political and geo-strategic gains.

Another area of action where I have remained personally committed was **Africa**. My 6 years as Portugal's state secretary for external relations and development, where I had been specifically tasked to deal with developing countries, gave me a special interest in Europe's neighbouring continent. Africa used to be perceived as a problematic continent only, as a zone of instability and conflict, and as a source of illegal migration. And yet, it is also, and above all, an emerging continent that has witnessed over the last decade economic growth of over 5 % a year. Its demographic expansion makes it the youngest continent in the world, which reinforces its enormous potential. We share many priorities, from sustainable economic development to tackling climate change. So Africa needs to be a priority partner for Europe. Through EU–Africa summits, we launched a joint strategy and a true partnership of equals. And we added more flesh to the relationship through permanent consultation between the Commission and the African Union, with regular meetings at political level between the College of European Commissioners and the African Union Commission.

We also delivered immediate support to the countries most in need or under threat, for instance, assisting Mali to consolidate its state structures and implement its roadmap for transition, through the international conference that President François Hollande and I co-chaired, bringing together the Sahel and West African leaders. Or, for instance, through our action regarding Somalia where we developed, together with the High Representative and the European External Action Service (EEAS), a truly comprehensive strategy that helped to eradicate piracy off the coast and promote development onshore.

Latin America also went through major changes in the last decade. I therefore invested a lot in reinforcing our relationship either through bi-regional dialogue or in bilateral format. One of my initiatives was to give strategic partner status to Brazil and also to Mexico with which we have a global agreement. It seemed strange to me that we officially named partners from North America to Asia as being of 'strategic' importance but did not award that status to Brazil, now the sixth most important economy in the world. Together with the Portuguese Presidency, we held the first EU–Brazil Summit in Lisbon in 2007. I also visited and promoted relations with a number of other partners in the region, such as Chile, Peru and Colombia, and we concluded the first bi-regional trade agreement with Central American countries.

One of the most impressive transformations in this period was the economic and political rise of **Asia**, to which we responded through an intensification of our relations with the whole continent. Special attention has been given to our strategic partners in the region, China, India, Japan and South Korea. With China we celebrated in 2014 the 10th anniversary of our strategic partnership with a long-term cooperation package and launched investment treaty negotiations. With India we launched the negotiations on an FTA in 2007 with a view to unleash all the potential of our relation. With Japan, corresponding to a renewed interest to deepen the relationship, we launched negotiations of a framework agreement and an FTA in 2013, and we now see an increased dynamism in this partnership. And with South Korea we concluded the first new generation FTA in 2011 as well as a framework agreement that brought our relationship up to a new level. And we are also actively supporting regional integration, peaceful resolution of disputes and a more political and strategic partnership with the Southeast Asian countries, through our bilateral engagement with the Association of South-East Asian Nations (ASEAN). The transition in Myanmar, a country that I visited in 2012 and which we are heavily supporting, is one of the positive developments of the last years.

European effectiveness and values

Shaping globalisation also meant that we needed to improve our own set-up for dealing with external relations. As I outlined above, we set up a good form of cooperation and a division of labour with Herman Van Rompuy as President of the European Council, in full respect of the competences set out by the Treaty. Most importantly, there was the nomination of a High Representative who is also Vice-President of the Commission, and the creation and development of the EEAS, which I have always supported. As a former foreign minister, I was all too aware of the need for forms of coordination between countries' policies and diplomatic services that go beyond the scope of the action of the European Commission. For that reason I welcomed the idea of a High Representative. With Catherine Ashton, whom I knew well, we tried to create the right conditions to avoid turf wars where they could typically come about and to create a functioning relationship between services. A number of capitals were less convinced of the EEAS' added value, and proved much less convincing in their support, withholding the necessary means, financial or otherwise, to make it work as well as it could.

The potential synergies between diplomacy, common foreign and security policy and community instruments like enlargement policy were amply demonstrated in the historic deal struck between Kosovo[1] and Serbia, mediated by the High Representative. A better indication of Europe's power of attraction and the critical importance of our careful and committed enlargement policy is hard to find.

The European Union also needed to step up the mark in the area of defence, and I have called for it in each of my State of the Union speeches. **We need to reinforce our common foreign and security policy and a common approach to defence matters**, because only together do we have the power and the scale to shape the world into a fairer, rules-based place that upholds human rights. The common security and defence policy should continue to be developed in full complementarity with NATO, but respecting the decision-making autonomy of each organisation. In these last years the strategic partnership with NATO has consolidated and it is very telling that together with the President of the European Council, I was invited and attended all NATO summits since 2007 and that the Secretary-General of NATO also attended the December 2013 European Council devoted to defence. The Commission has contributed to this attention on defence matters within its specific fields of competence, for instance, through the communication, 'Towards a more competitive and efficient defence and security sector'. Defence has a price but our security is priceless.

Finally, **an open Europe is a Europe that brings its value of solidarity to the world scene.**

Europe's commitment to developing countries has stood its ground, even in crisis years. Together with Member States, we remain the single biggest provider of official development aid, and we take our responsibility when we have to, like when the 2007–08 global food crisis struck and the European Commission delivered €1 billion (1 000 million) in emergency funding through the Food Facility. We also announced a number of other initiatives, such as the European Union's millennium development goals (MDG) initiative, launched in 2010 at the MDG summit in New York, providing €1 billion to foster speedier progress towards the MDGs. We created the African Peace Facility, since without development there is no security, but without security there is

1 This designation is without prejudice to positions on status and is in line with UNSCR 1244/99 and the International Court of Justice opinion on the Kosovo declaration of independence.

no development. We have adapted our development policy to the new realities of a globalised world through our agenda for change. And we have been at the forefront of humanitarian action — improving, for instance, our means of delivering aid both inside and outside Europe through the set-up of an Emergency Response Coordination Centre (ERCC) — earning recognition from partners worldwide.

Even in moments of economic downturn, we kept our commitment to development because this is what Europe is about: solidarity inside and outside. It is not only politically and morally right but also in our own strategic self-interest.

Critical for this was our interaction with the private sector and organisations like ONE of Bono and Bob Geldof, or the Bill and Melinda Gates Foundation. I remember discussing with them not only the best way to create momentum around these issues globally but also how to convince governments to be more generous.

The European Union has always stood ready to show concrete acts of solidarity when and where needed — internally and internationally. I have personally witnessed it during many visits to areas struck by disaster, inside or outside the EU: from tsunami-struck Indonesia to the refugees' plight in Darfur or in the Zaatari camp in Jordan; from the flood-stricken areas in Serbia to the forest fires licking at the ruins of Olympia or the devastation provoked by the earthquake in L'Aquila.

A stronger Europe

From economic and institutional reform to energy and climate action

The leitmotif throughout the last 10 years has been to keep Europe united and open to the world, and **to enable Europe to emerge stronger and better prepared for the demands of globalisation.**

In the early years of my first mandate, back in 2005, as the difficult year drew to a close, two major events lay at the basis for a new sense of momentum in Europe, in which the Commission played a central role through a 'Europe of results' approach: notably through the deal struck on the EU budget for 2007–13 and the outcome of the informal European Council at Hampton Court on the future on Europe and the challenges of globalisation. The deals created renewed support among Member States, allowing them to unite around common objectives and changing the mood in the European Union after the depression caused by the negative referenda on the constitutional treaty. Most importantly, both agreements represented major achievements in showing that the EU was able to come to decisions even in the most difficult circumstances. The climate and energy package that followed from this momentum can be considered historic and of strategic importance. We came to these agreements not through a low common denominator, but by injecting more ambition into a deal where mainly two strands were combined, the environmental and the energy policy one, to enable a consensus to be reached.

Negotiating the European budget

In addition to working out a new treaty and finding a renewed degree of consensus to make Europe work in those early years of my first mandate, we needed to agree a new budget too. **The debate around the multiannual financial framework or MFF back in 2005 turned out so hugely difficult that many were not always sure we would get one.**

I knew from previous experience that budget negotiations are not Europe's finest hour. Most governments come at this with the purely national logic of the *juste retour*. Net contributors try to maximise their return, focusing on specific parts of the budget in areas of their concern, while net recipients do everything to maximise their revenues to present their public opinion with an impressive figure, not always giving the necessary attention to the quality of the funding. Such short-sighted positions usually make for long and exhausting debates.

To start with, the budget proposal that had been put on the table under my predecessor was considered unrealistic by most governments from the beginning. I remember well, when I was Prime Minister of Portugal, the cold reception my colleagues in the European Council gave to the proposal. So the problem was that the new Commission could not steer the negotiations properly. Those took place mainly under the Luxembourg Presidency and the fact that an experienced and safe pair of hands such as those of Jean-Claude Juncker would preside, created some hope that nevertheless a compromise would be found. But eventually it proved impossible, because the proposal was simply not accepted as a proper and realistic basis for negotiations.

Whatever the reason, the failure to reach a deal created a sense of bitter frustration and put the burden and the blame squarely on the next Presidency, the British one, in the second half of 2005. That the UK was now tasked to find a deal was seen from contradictory perspectives. On the one hand, the UK was not really a friend of the European budget. The memory of 'I want my money back' is a spectre that still haunts many in the European institutions. Yet on the other hand, a big country like the UK could not fail to deliver a compromise eventually, certainly not after being accused of making an earlier deal impossible.

It was in that spirit that I faced the negotiations. Whatever their thoughts on the Commission proposal, the UK Presidency understood that the Commission as an institution was indispensable to have close to it when conducting the negotiations. For instance, Prime Minister Blair asked me to be associated in the most relevant bilateral meetings on the budget with heads of state or government, where the Commission would normally not be represented, and even my head of cabinet was invited by the Prime Minister to attend many of his bilateral contacts. In the end, an agreement was reached including an increase of funds compared to previous budgets. **The Commission fought hard for an ambitious budget, together with the European Parliament,** the difficulty being how to overcome the simplistic way some governments saw 'old' policies like cohesion funding as opposed to 'new' policies like research and innovation. We wanted — and indeed, succeeded — to avoid a dichotomy between old and new, through new concepts such as the reform of the common agricultural policy and of cohesion policy, **by orienting it on economic reforms and competitiveness and, in doing so, making it a modern tool of economic support.**

The British Presidency had to be restrained from putting the focus on priorities mainly of richer countries to the detriment of those less well off. At some point I even remarked that Tony Blair risked being a kind of 'reverse Robin Hood', taking from the poor to give to the rich. The British Prime Minister took it elegantly, and managed to get a deal in extremely difficult circumstances.

The historic significance of this first move to bridge the political gaps and stand-off by modernising and Europeanising the budget should not be underestimated.

The role played by the Commission was instrumental in forging the deal. We brought to those negotiations what I have often called **the Commission's 'technical charisma'**: the efficiency of its services at all levels to come up with compromise solutions or a working formula. But we also brought to it our political clout and the insight to get the politics right, to build the right alliances and achieve our aims. This political role was not just important in its own right. In those difficult moments in 2005, it was also crucial in increasing the credibility of the Commission with the European Parliament and with the new Member States who strongly relied on the Commission to act as the honest broker with big Member States.

The **role of the Commission was decisive in negotiating the next multiannual budget in 2013, for the years leading up to 2020.** They were even more difficult than the first time around, if only because of the impact the financial crisis had on national budgets.

It was undeniable that the government in London was even more constrained by its national parliament than the previous one and its demand that the overall level of the MFF should be reduced was, given the need for unanimity in Council to get it passed, impossible to ignore. The UK was also much less isolated than in previous budget negotiations. These negotiations took place as the effects of the economic crisis were hitting hard in people's pockets. Member States were eager to show their public opinion that the EU, too, could do with a dose of that medicine — typically, the Netherlands was one, but Germany also turned out to be rather close to the UK position. Whatever the merits of such arguments, the Commission's goal was always to come up with a basis for negotiations that would have a level of ambition unmatched by Member States but nevertheless to put forward a structure and a number of innovations that would hold up throughout the negotiations.

The further rethink of cohesion policy, for instance, was essential. I was myself criticised for taking part in several informal summits of the cohesion countries — an initiative that was supported by Prime Ministers Donald Tusk and Passos Coelho, interestingly from different geographical parts of Europe — but I felt it necessary to show our commitment and the priority the Commission continued to give to cohesion policy at a moment when, in some capitals, it was so popular to attack it. We linked cohesion to smart specialisation and to the climate and energy targets and, even more fundamentally, **we changed what was called the 'culture of entitlement' — governments focusing only on the overall figure of their national envelope — to prioritise programmes and projects that led to innovation, greening the economy and other objectives of the Europe 2020 strategy.** Moreover, cohesion policy was further associated with the overall economic performance of the beneficiary countries. This approach led to the partnership agreements with each Member State and the logic of contracts will be pursued in implementation, thereby improving the quality of funding.

The same attachment to the principle of solidarity, without which the EU cannot exist, was also highlighted by our approach towards outermost regions and overseas countries and territories and in our regional policy, which we have been revising along the priorities for the EU as a whole but with the necessary special attention for weaker regions. A striking example of the importance of our regional policy is the fact that, when I met with the heads of the new, inclusive government of Northern Ireland, the late Ian Paisley and Martin McGuinness, in 2007 — I was the first international leader to do so — they told me that one of the few cross-community dialogues that had remained active throughout the years was precisely the one based on Europe's regional support. So we continued the successful and unique peace programme and set up the Task Force for Northern Ireland to help the region engage better in and benefit more from European policy-making to contribute to the efforts to restore lasting peace and economic development, growth and jobs.

The Connecting Europe Facility was another such innovation, stressing the concept of trans-European networks in transport, energy and also in the digital sector and clearly showing the added value the EU budget can bring to address important gaps in networks that national budgets would not finance. Galileo is another important example of what only joint efforts of the EU and Member States can achieve. And, even if in the digital field — the importance of which was earlier stressed by my decision to create a separate Vice-President post for the digital agenda — there was unfortunately not enough ambition in terms of funding required, it is important to note that the concept is gaining ground in Europe today.

Despite difficult financial conditions, it was also possible to get our Member States closer to our objectives for research, with an increase of 30% through the new research programme Horizon 2020 — around €80 billion, which makes it today one of the most important scientific funding projects in the world — and onboard for an increase for the Creative Europe programme, which includes the reinforced Erasmus programme, Erasmus+, and Media, thus giving concrete meaning to our stated priority for a knowledge economy under Europe 2020. A major area to which I gave a great deal of personal attention was science and research, from the creation of the European Institute for Innovation and Technology to support of new instruments like the highly respected European Research Council and Europe's participation in projects like the International Thermonuclear Experimental Reactor (ITER).

A particularly difficult issue for the overall atmosphere of the negotiations was the push from some capitals arguing for economies to dramatically weaken the conditions for the European civil service. We could understand the demand for savings and had indeed proposed substantial savings since 2004. But I resisted all attempts by capitals to change EU staff rules in aspects that would have weakened the institutions' capacity to deliver on their objectives. Even governments with some sympathy for the European Commission's position had to focus attention on their own national issues and avoided spending negotiating capital in defence of the EU institutions. So it was up to me to argue, in often very lively debates, not to put at risk the quality and effectiveness of the European institutions that were facing ever-increasing tasks.

I believe that the modernisation of the European budget will stand the test of time and be seen as a major innovation. The European budget is in volume a drop in the ocean of national budgets, and it will hopefully increase in time. But from the two rounds of negotiations during my term of office we can say that we have turned it into a modern investment budget that targets growth and jobs and that properly complements national budgets by focusing on the European dimension rather than as a substitute for national budget expenses.

The financial and sovereign debt crisis

It goes without saying that **Europe's strength was most severely tested in the last 5 years by the financial, economic and social crisis.**

But let us not forget that we were facing low growth levels even before the crisis. **The first programme I submitted as Commission President, early 2005, was already built around the priority of growth and jobs, with the accent firmly on the need for economic reform.**

This led to the revision of the Lisbon strategy, which had lost much of its original appeal and suffered from weakened credibility, because of too numerous targets and problems of governance — deficiencies which had already been signalled in the Kok report in the autumn of 2004. That is why we came with a renewed Lisbon strategy, and eventually in my second mandate with the Europe 2020 strategy to build sustainable, smart and inclusive growth. It is more focused in terms of economic targets and better suited to create a sense of ownership within Member States. And it offered a reference point for many other policies, such as the way in which we engage the EU budget, or our decision to modernise policies as part of a holistic view on growth, such as the reform of the traditional fisheries policy into an updated maritime policy.

The tremendous pressures and emergencies resulting from the financial and sovereign debt crisis to some extent drew political and media attention away from the need for structural reform and competitiveness, despite constant emphasis put on this by the Commission and others, notably the OECD. But in fact we now see that the European leitmotif of growth and jobs through reforms was always present and, with differing degrees of commitment, we see that governments have adopted many of these reforms, namely as shown by the survey of economic reforms, which was recently published by the European Commission. Through the country-specific recommendations and regular discussions also in the European Council, a greater awareness for structural reforms has grown, and in particular for the cost-competitiveness of Europe. **Though it is still early days to measure all effects, and even if progress certainly remains uneven, micro-economic indicators reveal the effectiveness of the structural reforms**. Examples include an increasingly flexible labour market; reforms of the pension system, often including an increase in retirement age; the improvement of banks' capital adequacy ratio; shifts toward growth-friendly taxes; and a decrease in the time to start a business. Reforms of public administration, taxation and product markets are well underway. In spite of the progress made, economic reform in the EU remains unfinished business and therefore should continue.

A reform agenda has not only been pursued at national level but also at European level, through further integration of the internal market with the single market Acts I and II. These reforms were far from obvious. **Especially in the middle of the crisis, we had to resist pressure from Member States to undermine the principles of the internal market and fair competition**. But the Commission upheld competition and state aid rules, and I invited Mario Monti to provide a report on the way forward, which helped us to give a new impetus to the single market.

A stronger emphasis on the social aspects of reform was a logical counterpart of that evolution. An indication of the Commission's social commitment was the Fund for European Aid to the Most Deprived we proposed in 2012 to succeed the old food distribution programme for the most deprived persons of the Community. This met with considerable resistance from some capitals, arguing against the fund in terms of subsidiarity, and I have pointed out many times to heads of state or government that they have been more generous in giving the Commission powers of discipline than tools of solidarity.

The resistance to such social initiatives was also clear when we proposed the Globalisation Adjustment Fund for those who do find it hard to cope with the restructuring necessary as a result of global trade. The attention we gave to the fight against youth unemployment and the role of vocational training are other examples of our sensitivity in this field. And after my visits to some of these projects — including in Austria, one of the countries that scores best in this area, together with Chancellor Faymann — my conviction has only strengthened.

I devoted a lot of time and attention to the social partners, from the normal tripartite summits to many informal meetings in the Commission, and in May 2013 the European social partners were invited to attend a regular college meeting for the first time ever. Even when positions between the employers' and the trade unions' side are often very different, the one thing they share is a commitment to Europe. From John Monks to Bernadette Ségol at the European Trade Union Confederation (ETUC), from Philippe de Buck to Emma Marcegaglia at BusinessEurope, we are lucky to have representatives of social partners who are inspired by the European ideal.

As the cliché goes, we have not 'let a good crisis go to waste'. Our first reaction, immediately after the beginning of the crisis, and inscribed in the global macroeconomic response advocated by the G20, was the European economic recovery plan which proposed, 'as a matter of urgency, Member States and the EU to agree to an immediate budgetary impulse amounting to €200 billion (1.5 % of GDP), to boost demand.' We made it timely, targeted and temporary — the famous three Ts, even if not all the governments understood it as targeted and temporary. It was important as part of the comprehensive and counter-cyclical response to the economic downturn. It was also a way to uphold our fiscal rules as in the revised Stability and Growth Pact, recognising we were living in exceptional circumstances, when some governments simply wanted to drop those rules. Scrapping the common fiscal framework would have been a disaster at a time when the interdependence of our economies was highlighted more than ever before.

That was avoided, and indeed the European Union has come out more integrated in terms of economic governance and budgetary surveillance, banking and financial regulation. **The period from 2009 to 2013 can be best characterised as a series of steps forward which, taken together, represent the greatest progress in European integration since the creation of the euro. The reforms changed the way that Europe's different economies and financial sector are legislated, supervised and regulated.**

The crisis had exposed fundamental problems and unsustainable trends in many European countries, their vulnerability as a result of high levels of public debt and the accumulation of significant macroeconomic imbalances, and their spill-over effects into others.

That was why these issues had to be addressed decisively. And the EU did so with action based on three main blocks: the creation of financial mechanisms to safeguard the financial stability in the euro area; deeply reforming and widening economic governance; and taking action to repair the financial system.

In each of the three areas **the Commission played a crucial role, putting forward proposals that were often 'ahead of the curve', not only addressing the urgent matters to be solved but setting out its vision for the medium term, even if Member States were not ready yet to make those steps.** I often found myself urging richer Member States to do more in terms of solidarity for the most vulnerable countries (for instance by arguing in favour of longer maturities and lower interest rates for Greece, Ireland and Portugal) and also asking for bolder steps in a comprehensive response, even if I was aware that the nature of decision-making in the EU condemned us to a gradual and incremental approach. By doing so, the Commission decisively contributed to prevent the euro area, and the EU, falling 'behind the curve' when responding to the financial crisis. At numerous stages during the financial and economic crisis, the European Commission's role was vital, even if we intentionally did not shout about it at the time: we needed to show responsibility because of the volatility of markets that were overreacting in the face of a cacophony of voices that was often deafening.

On Sunday 9 May 2010 **the Commission adopted a proposal for the creation of a mechanism, called the European Financial Stabilisation Mechanism (EFSM), to provide financial assistance to euro area Member States in distress,** backed by the EU budget. This followed the dramatic discussions I had had with the leaders of the euro area countries over a long dinner on the previous Friday, and the commitment we made 'to ensure the stability, unity and integrity of the euro area' and that 'all the institutions of the euro area (Council, Commission, ECB) as well as euro area Member States agree to use the full range of means available' to do so. The Ecofin Council discussed the proposal on the very afternoon of 9 May, deciding to create two financial assistance mechanisms for the euro area countries: the EFSM, of Community nature, which could use all the possible margins of the multiannual financial framework, at the time estimated at €60 billion, and an intergovernmental one, called the European Financial Stability Facility or EFSF, based on guarantees from the euro area countries amounting to €440 billion. The EFSM and the EFSF were soon called upon to enter into action: first to provide financial assistance to Ireland in November of that year and to Portugal in the spring of 2011. Both the EFSM and the EFSF were of a temporary nature. Three years later, with the support of the Commission, they were replaced by the European Stability Mechanism (ESM), the permanent crisis resolution mechanism with a firepower of €500 billion, based on principles already embedded in the Commission's original proposal.

But the creation of financial backstops was in itself not enough. **It was necessary to overhaul the economic governance system to prevent a repetition of the crisis in the future.** On 12 May 2010, just 3 days after the seminal proposal for the financial backstops, the Commission adopted a communication on reinforcing economic policy coordination and on 30 May one on enhancing economic policy coordination for stability, growth and jobs and tools for stronger EU economic governance. These two communications laid out the principles of what were to become the" six-pack" legislation, which coupled with the" two-pack", proposed by the Commission in November 2011, form the current system of EU economic governance, in particular for the euro area: reinforcing the preventive arm of the Stability and Growth Pact, speeding up the corrective arm in a quasi-automatic decision-taking process, widening the surveillance to non-budgetary domains through the creation of the macroeconomic imbalances procedure and strengthening the budgetary surveillance in the euro area.

On financial regulation, already in May 2008, our EMU@10 report had warned of 'inefficiency in the framework for supervision and financial-crisis management, implying the potential for an inadequate response to contagion risks within an integrated financial system.' But there was no willingness to act in those days. So **when trouble hit us in October 2008, we took immediate steps to protect people's savings, avoid bank runs and uphold common rules** on public support to banks and maintain fair competition in our internal market. The banking crisis showed that across the world the way banks were regulated and supervised had not kept up with increasingly integrated capital markets. In Europe, our single market, and our single currency, meant we were even more interconnected than others. But oversight of banks and managing bank failure was still a largely national matter, which is why the banking crisis led to a sovereign crisis. But I also wanted a structural response. So I called upon Jacques de Larosière in October 2008 to chair a high-level group with the task to take a close look at why this had happened and identify the gaps in regulation and oversight that the crisis had exposed. As the mandate I gave to the group clearly set out, 'if financial integration is to be efficient in terms of safeguarding systemic stability as well as in delivering lower costs and increased competition, it is essential to accelerate the ongoing reform of supervision. The Group is therefore requested to make proposals to strengthen European supervisory arrangements covering all financial sectors, with the objective to establish a more efficient, integrated and sustainable European system of supervision.'

Ever since, we have worked hard to close those gaps, with a series of over 40 laws to make bank balance books sounder; to ensure that key actors such as hedge funds and ratings agencies as well as critical infrastructures like central counterparties are brought within the scope of regulatory oversight; to cast light on complex trading practices; and to improve consumer protection. Most of these proposals have been adopted into law in record time.

I wanted to go further and seize the momentum by outlining what was necessary for a real banking union. And indeed, the Commission already used the term 'banking union' in our communication of 30 May 2012, while others still either opposed the very idea or could admit at most a vague 'framework for financial stability'. One national leader told me I should not use the expression 'banking union' because it was not in the Treaty. As I said in the *Financial Times* at the time — the paper headlined 'Barroso pushes EU banking union' (12 June 2012) — 'The European project has always made progress step-by-step. We should continue step-by-step, but now we need a very big step. Either Europe makes a step forward or there is a risk of fragmentation.' We have mobilised political support for such a more thorough approach, and we have time and again delivered the legislative proposals to make it a reality.

One aspect the crisis highlighted was the existence of gaps in a system of governance that kept at national level levers that needed to be at European level, in line with our evident interdependence. As early as December 2004, for instance, the Commission had adopted a communication on general government statistics after it turned out Greece had systematically misreported its national deficit and debt figures, and Eurostat did not even have the power to identify it. The Commission came with proposals that afterwards were delayed and watered down by the Council. Only 8 years later, after the Greek bubble had effectively burst, would Member States come around and agree to our proposals for a substantial strengthening of Eurostat's powers in December 2012.

We have witnessed the same dynamics also when it comes to growth-pursuing policies. The initial Lisbon strategy had quickly become a byword for a European Union producing a lot of paper and plenty of words in the wind, with Member States doing very little in reality. Already in the beginning of 2005, I had proposed 'a new start for the Lisbon strategy'. As I have explained before, I was convinced that the tense political context at the start of my mandate meant the Commission had to be serious about delivering results. Unless we refined our focus and reinforced our commitment to the Lisbon objectives, not just our credibility but also our socioeconomic model would come under pressure. **We understood clearly that if we wanted to maintain our social market model, we needed to reform it.** Significant but uneven progress was made, but due to a lack of support from most Member States, sweeping progress had to wait until after the crisis, when a combination of the Europe 2020 strategy and the systemic governance reforms of a deepened European and monetary union (EMU) did succeed in giving our economic approach the teeth and the focus it lacked before. **For the Commission, it was clear throughout the crisis that fiscal consolidation, structural reforms as well as targeted investment were crucial to tackle Europe's challenges and had to go hand in hand.** The Commission insisted with Member States to combine consolidation and investment by focusing on the quality of spending whilst respecting the fiscal rules. We came forward with a proposal for an ambitious, growth-focused, multiannual budget, and we proposed to explore all possible instruments available and even to create new ones. As I set out in my September 2011 State of the Union address to the European Parliament, governments should support Commission proposals for 'EU project bonds and the implementation through pilot projects' and the 'reinforcement of the EIB's resources and capital base so that it can lend to the real economy'. It took some time, but eventually Member States did approve these proposals. Time and again, the Commission played its role as the driving force of European politics. But it cannot do without the support and assertive action by other European actors to take its proposals forward. That has always been the case, and never more so than in recent years. Let us hope that the conditions are now being created so that the resistance we met when we tabled our proposals can be overcome.

The Commission's relationship with key partners has emerged stronger, none more so than with the ECB. At every major crisis point over the last five years, the Commission and the ECB have stuck together, basically sharing the same analysis and respecting each other's distinct roles. With Jean-Claude Trichet and Mario Draghi, I have shared the belief that a price-stability-oriented monetary policy needs an appropriate mix of fiscal consolidation and structural reforms. I have insisted repeatedly, against the views of some Heads of State or Government, that the independence of the ECB must be respected. The ECB should receive due recognition for helping Europe regain stability namely through the establishment of the securities markets programme in May 2010, later by affirming to 'do whatever it takes' in July 2012 and immediately after that announcing the possibility of using outright monetary transactions. But it was able to take those independent decisions because conditions were ready for them. In order for them to be possible, the economic governance system had to be put in place to guarantee that Member States did the hard work of putting their budgets in order, to tackle their macroeconomic imbalances, increase their competitiveness through reforms, and the instruments to assist countries in distress had been set up and the ensuing adjustment programmes were delivering results. Throughout the crisis, the Commission has been pushing for fiscal consolidation and structural reforms, as well as for targeted investment and, to underpin it all, for a reform of the euro area governance. And I was happy to note that the ECB was as demanding as we were when it came to asking Member States to move beyond their hesitations to deliver on those points.

While the ECB is independent, it does not take its decisions in a vacuum but as part of a system: the euro area system of policy-making. Mario Draghi may not have felt able to make his notable statement of July 2012 if there had not been the far-ranging governance and policy reforms, and a euro area summit the month before where heads of state or government — after a very long and intense debate — had affirmed their 'strong commitment to do what is necessary to ensure the financial stability of the euro area, in particular by using the existing EFSF/ESM instruments in a flexible and efficient manner in order to stabilise markets for Member States, respecting their country specific recommendations and their other commitments including their respective timelines, under the European Semester, the Stability and Growth Pact and the Macroeconomic Imbalances Procedure'. The ECB was very often under attack, namely from certain 'orthodox' sectors that did not understand the need to respond with unconventional measures to very exceptional circumstances. I had to defend the ECB's role several times, for instance in my September 2012 State of the Union address before the European Parliament: 'Securing the stability of the euro area is the joint responsibility of the Member States and the Community institutions. The ECB cannot and will not finance governments. But when monetary policy channels are not working properly, the Commission believes that it is within the mandate of the ECB to take the necessary actions, for instance, in the secondary markets of sovereign debt. Indeed, the ECB has not only the right but also the duty to restore the integrity of monetary policy.'

One of the most relevant effects of the crisis was precisely the reinforcement of this very system not only through new legislation but also through the policy-making process where positions taken by the ECB and the Commission together were decisive to build the necessary consensus. A striking illustration is the process of elaboration of the so-called 'Four Presidents' report' that eventually led to the euro area summit calling on the President of the Council, in close association with the Presidents of the Commission, the Eurogroup and the ECB, to develop a specific and time-bound roadmap for the achievement of a genuine economic and monetary union. And I was happy to note that, whenever the President of the ECB was invited to the European Council, his messages conveyed full support for the global approach suggested by the Commission.

Looking back at the last 5 years of my mandate, I note how considerable the new powers and tasks that the European Commission has gained in the areas of economic, budgetary and financial oversight are. The need to bring these powers to the European level had become evident, given that the crisis showed the interdependence of Member States. The spill-over effects were clear and that helped us make the case for a more integrated system of economic governance, where the Commission as an institution independent from governments can guarantee economic policy is indeed treated as a matter of common concern.

I sincerely believe the European Union is coming out of the crisis stronger than it was before. This may be counterintuitive, at a time when parts of public opinion and of the European Parliament are more clearly and more vocally Eurosceptic. But we should see the whole movie, not just the still, before we draw conclusions. The EU's resilience and resourcefulness in dealing with the crisis has earned us respect across the board. It's a sea change compared with the initial and very marked scepticism I, and my European colleagues, had to confront in earlier phases of the crisis when, in the G20 meetings, a number of third countries, including some who had their own economic and social fragilities, could not resist the temptation to lecture us on our response to the crisis.

Leading on climate and energy

And then there was that other major focal point of renewed political momentum in Europe: the climate and energy package.

The set of proposals we put together in 2007 on climate change and energy was immediately perceived, and is now widely recognised, as the most important contribution in the fight against climate change. It was important in geo-strategic terms, but also in the way that we put East and West together and changed the way that the environment was treated as a political issue. We encouraged the environmentalists to see the economic case for change, and we pushed industry to recognise the economic advantage of climate-friendly innovation and investment. Our package also put the EU in the driver's seat globally on this topic, and we in the Commission created the conditions that eventually led to Europe's ambitious 20-20-20 targets. This was possible by broadening the scope, linking our immediate environmental objectives to sensitivities of those Member States that were above all concerned with energy security because of their dependence on Russia. The first Ukrainian gas crisis of 2006–07 was a sign of things to come. Initiatives like the southern gas corridor — for which I pushed hard through the signature of the declaration in Azerbaijan, together with President Aliyev, in January 2011 and ever since — have gained a lot more traction and have taken a real strategic dimension. And recent problems over our political and military security give them yet more impetus, so that the case for energy security strengthens our overall agenda for climate action more than ever.

It was also one of the areas where the European Commission could be at its very best, precisely because of the different policy areas concerned, from environment to energy and the economic consequences and feasibility of policy alternatives, and the expertise and political deal-making. The fact that the British Presidency at the time supported us was critically important to get the deal done. It also demonstrates well the importance I attach to and the benefits of a science-based approach. For the climate and energy package, I created an Advisory Group on Energy and Climate Change with world-renowned experts like Nicholas Stern to give our actions a clear basis in scientific data. Indeed, in the activities of the European Commission, where we are confronted with decisions of sometimes extreme technical complexity, I think sound, independent scientific expertise is necessary and should be used more systemically. In that spirit I have also created the post of a Chief Scientific Advisor to the President. And since the development of science raises sometimes questions or even concerns in terms of ethics, the European Commission is advised by the European Group on Ethics in Science and New Technologies, an independent, pluralist and multidisciplinary body whose role is now well established.

Europe's action was welcomed by all those involved in the issue. The small minority of climate deniers were an exception that proved the rule. Yet, sadly, our ambition clashed with the political reality at the time of the two most important polluters, the United States and China, not being ready to accept a binding agreement. While public opinion in Europe accepted the 20-20-20 by 2020 targets, even if they were aware of the difficulties in implementing them, they were expecting others to follow suit — and felt let down when that didn't happen. The Copenhagen Summit of 2009 created a deep sense of frustration with the lack of progress on countering climate change worldwide. De facto, we faced an alliance *a minima* between China and the United States. President Obama, to his credit, had always told us it would not be sufficient to move further if it turned out that emerging economies would not do the same. Nevertheless, the summit was seen as a defeat for the EU's objectives and goals. I shared some of the frustration and as the EU representative, together with Prime Minister Reinfeldt, then presiding over the Council, we were quite candid in our analysis of the results. The truth is, it is relatively easy to find an agreement if one is willing to accept an unambitious result. It takes more courage to keep fighting for a higher goal. We certainly did not attain our objectives, yet **in Copenhagen we were on the right side of the argument, even if we have to acknowledge that, realistically, conditions were simply not ready at the time.** Developments afterwards showed that the debate could not be ignored. And now in China and the United States, climate change had gained renewed attention.

With the current discussion on the framework on energy and climate action for 2030 and our proposal for 40% of CO_2 reduction by that date, and by bringing together different policy areas in our resource efficiency proposals, Europe continues to be at the forefront of global efforts. Both climate change and energy security are as high up on our list of priorities as ever before. Looking back now, we can see with clearer eyes why this was so important and such a significant shift for both old and new Member States, and this change will last. Out of division, both within the European Union and internationally, we have revolutionised the thinking and the debate in the area of climate and energy policy.

The climate and energy package captures in a concrete way the main strands of my approach to European politics: a Commission that looks at the important strategic issues and comes with political proposals that are both ambitious and have a chance at success, and that allow the European Union to be united, open and strong.

Upholding the rule of law

Europe is far more than a market — it is a community of values, founded on human dignity, freedom, equality and solidarity. A strong Europe must be firmly based on the rule of law, a concept which is at the heart of the European Union. So over the last decade much has been done by the Commission in the field of justice and home affairs, the impact of which will have lasting consequences for the Union over the decades to come.

At the very beginning of my mandate in the Commission, we took the decision to check all legislative proposals against the Charter of Fundamental Rights, which was at that time not yet a full part of the treaties as it is today. The Lisbon Treaty also committed the EU to join the European Convention on Human Rights, and the Commission has led the negotiations with considerable progress being made. Promoting citizen's rights was also the rationale behind proposals on, for instance, consumer rights or data protection, where both within the EU and in our relations with third countries and in particular the United States, the Commission has driven forward reforms to ensure the highest standards of protection for individual privacy.

But in recent years, we have seen some incidences of problematic developments in certain countries, in areas such as the treatment of minorities like the Roma, independence of the judiciary or media pluralism. The European Commission has never hesitated to act in such cases where it was called upon to monitor and defend the rule of law, where appropriate working in close cooperation with the Council of Europe and its Secretary-General Jagland.

The various debates over threats to the Union's values and in particular the rule of law in certain Member States have shown clearly that in such situations there are limits to the effectiveness of peer-to-peer approaches, and often divergent and passionately held views among stakeholders about the opportunity of action. **The added value of having the Commission as an objective and independent referee has therefore been widely acknowledged**.

A good example was the time when, in the European Council, the Hungarian Prime Minister Viktor Orbán explicitly stated that he could not accept bilateral criticism from other Prime Ministers around the table but was certainly ready to accept the position of the European Commission, because that was sure to be fair and objective, reflecting shared EU values.

Here perhaps more than in any other field, we see the limits of intergovernmental approaches which can never reassure all governments that it is equity and objectivity rather than power and influence that will dictate the assessment. Only the Commission, drawing from its experience in applying Community law, has the necessary trust to forge a consensus on issues that are by nature very sensitive. This is why in these situations all governments and even the European Parliament have systematically turned to the European Commission.

Near the end of my mandate, **the Commission adopted a framework to safeguard the rule of law in the Union, which sets out how the Commission will intervene early and transparently in cases of serious and systemic threats to the rule of law in a Member State** through a sequenced process of assessment, dialogue, and recommendations to prevent the escalation of any threats. This complements the Commission's right to launch infringements proceedings and ultimately Article 7 of the Treaty on European Union remains the last resort to resolve a crisis and ensure compliance with EU values.

Today, more and more European citizens and businesses are exercising their rights to live, work, and do business without regard to national borders. These rights and the opportunities which they open up for individual and commercial benefits should never be taken for granted.

Over the past 10 years, the Commission's proposals have created a European area of justice so that citizens and businesses can be confident that they can get effective access to justice wherever they are in the Union. Over 20 legislative instruments have been adopted which together ensure that national courts cooperate better with each other to resolve cross-border questions affecting citizens and businesses alike.

As concerns free movement, the Commission worked to make it possible to lift internal border controls in a further nine Member States in December 2007. Today, well over 400 million people live in the Schengen area. Most European citizens who move to another Member State do so to work or study, but it is important that this key right — essential for the single market and seen by citizens as one of the EU's greatest achievements — is not put into question, which is why the Commission is also helping Member States to tackle any potential abuses.

Another interesting example of the role of the Commission as an honest broker was when problems emerged between the British and the Spanish governments regarding the free movement of people and goods through Gibraltar. Prime Minister Cameron called me, and through our contacts with both governments — I also spoke to Prime Minister Rajoy — and through our recommendations, we promoted practical solutions in full respect of Community law.

The freedom to move within Europe must also not put at risk other fundamental rights, which is why the Commission has taken further measures to ensure public security is not compromised, by making sure police and criminal justice authorities across Europe work together effectively. The European arrest warrant for serious criminal offences is one example of progress, replacing a complex web of lengthy extradition arrangements between Member States. Another is the integration of the intergovernmental Prüm cooperation into the Community framework allowing police to check the DNA and fingerprint information held in other countries to help detect and prevent serious crime and terrorist attacks such as the tragic Madrid and London bombings in 2004–05. We are fighting human trafficking and sexual abuse of children with a reinforced legal framework updated for today's digital world. And we have proposed to set up a European Public Prosecutor's Office to make sure every case of suspected fraud against the EU budget is thoroughly investigated.

And the Commission has proposed common standards of external border control and a stronger European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union (Frontex) to support governments in managing external borders to confront the major challenge of irregular migration and in particular the situation in the Mediterranean. The tragic events of Lampedusa in October 2013, the deaths of more than 350 people who tried to reach Europe in the hope of a new and better life, signalled and symbolised the difficulty for individual governments to deal with complex migration issues in a globalised world — and pushed us all towards a renewed effort in this area. We have worked out a holistic strategy to address such problems, recommending concrete actions on cooperation with third countries; on regional protection, resettlement and reinforced legal migration; on the fight against human smuggling and organised crime; on proper management and better surveillance of sea borders; and on solidarity with Member States experiencing especially high migration pressures. Sadly, recent events in our southern neighbourhood mean that the flow of people who risk and often lose their lives to cross the Mediterranean continues, and this will remain a key test-ground of solidarity among countries in the coming years.

Throughout such challenging and politically sensitive events, the Commission's commitment to the respect of fundamental rights was unwavering.

Rethinking regulation

Being big on the big things is natural, but it is not so easy to be small on the smaller things. Throughout my mandates, I have tried to focus the Commission's energy on the strategic priorities and challenges for Europe. At the same time, the Commission has also worked hard to reduce administrative burden by having less but better regulation. The EU is often difficult to read and too intrusive. It does not always make life easier for businesses and does not always make itself more popular among citizens. I always understood that trying to turn around a supertanker, automatically programmed to produce new legislation, was far from easy. But the political context in 2004, which I described earlier, convinced me that action on this was needed. My comments in this field initially met with a rather cold reception. That was so in the European Parliament, where most parties and groups are naturally inclined towards more legislation, as they see it as a way to increase their influence. It was also true in the Commission itself, where one senior director-general with whom I had an early discussion on this told me, politely but bluntly, that this would put the Commission on *chômage technique*.

In different corners of European politics, in some of the informal structures, interest groups or non-governmental organisations (NGOs) around the European institutions, this was written off as an agenda for 'less ambition for Europe', as if the more legislation we produce, the more European we are. I beg to differ. So in 2007 I decided to set up the Stoiber Group on administrative burden and I made sure the Commission followed up its conclusions, launching several initiatives throughout the years to prevent, slim down or cut red tape. In the previous 5 years, nearly 6 000 pieces of legislation were repealed. And by cutting red tape we made savings of €41 billion for EU business. Now, we can say that this has become common wisdom in European circles. With our regulatory fitness and performance programme (REFIT), we took this to a new dimension. We constantly reconsider the administrative effects of what we do, make a priority of finding the best way to do it, and systematically screen existing legislation.

Member States liked the idea, but often made the mistake of only thinking it applied to Europe, not to them. The successive British governments certainly made the case for a 'less red tape' agenda, sometimes in a way that was perceived as coming more from an anti-European angle, whereas I felt it was a collective effort of all government levels, including but certainly not exclusively the European one. This made it even more important that the EU and Commission took the initiative of reform, so as not to give the impression that the EU was only reactive, and reluctant to take the point, or let it play into the hands of Eurosceptics.

Today, the irony is that some of the European leaders who did not support the agenda at the time are now making it a mantra to go for lighter, simpler, less costly regulation. The reality is that most of the political forces in the European Parliament opposed these efforts for simplification throughout most of my years in office. So I am pleased to see that the idea, put forward in my State of the Union address in 2013, that Europe needs to be 'big on big things and smaller on smaller things' is becoming part of the consensus. At least in theory. We will have to be watchful as to what happens in practice in the years to come. But again, I feel it is an agenda that will endure, and it has certainly made Europe stronger. I am therefore grateful not only for the efforts of leaders like Cameron and Merkel but also for the commitment of some of the Prime Ministers that have been most active on the reform agenda, from Rutte to Reinfeldt, and Ansip to Katainen, among others.

Conclusion

As I approach the last days of my time on the 13th floor of the Berlaymont and prepare to hand over this wonderful mission to Jean-Claude Juncker, I sincerely believe that Europe is better able to deal with the challenges of this century than before.

To achieve this while going through the Union's biggest ever expansion, dealing with a constitutional crisis and the world's most severe financial and economic crisis, is testament to our resolve and determination to stand together as a continent.

I cherish more than ever the uniqueness of the European project, and I value more than ever the importance of those who are pro-European standing up and defending it. Europe won't be made by pitting different structures against each other, but by doing it together. We have upheld the rule of law and acted in a more united way in our external relations. We are stronger institutionally, economically and politically. And if the prospects for the future always remain open, and if there is doubt as a result of Eurocritical or Eurosceptic voices, we should see that as an opportunity, and an occasion for future generations of European politicians, thinkers and actors to stand up for what they believe in, and convince others of their views. The 'New narrative for Europe', an initiative I launched together with the European Parliament and intellectuals and creatives to answer such questions and fill the gap, described Europe as 'a moral and political responsibility, which must be carried out, not only by institutions and politicians, but by each and every European.' If it is to remain strong and vibrant, **Europe needs to entrench its institutional and economic strength in intellectual and popular political tenacity as well, because Europe is also a cultural project.** Even if there are undoubtedly some who see it purely in terms of economic self-interest, others believe in it emotionally, passionately. My intensive engagement with cultural partners was a way of acknowledging that the cultural foundations and intellectual diversity — even if it is not one of the core competences of the Commission — forms the heart of Europe, and what Jacques Delors called the 'soul of Europe'.

After all these years, **I have been able to see how the European Commission takes up an irreplaceable position at the heart of Europe's institutional complexity**. It is not only the boiler room of Europe, but it plays — and always will play — an indispensable role, matching an acute awareness of the diversity among Member States with an unequalled expertise of European policies and their implementation. It has maintained its right of initiative — and I have no doubt it will continue to do so — and even if it has perhaps more discretion than others, it is empowered with what I call its 'technical charisma' to expertly pilot this community of destiny, which is the European Union, through whatever waters that may be ahead of it.

As Commission President, I have lived through moments of great sadness, such as the visit to Lampedusa soon after the tragedy, together with Prime Minister Letta, as well as moments of great drama, like the most acute phases in the financial crisis, when the economic fate of some of our countries and of our single currency hung in the balance. I had moments of great emotion, like when I visited the refugee camps in Jordan where I could see with my own eyes how our contribution really made a difference, or when visiting Darfur, where the courage of young Europeans working for NGOs kept the spirit of solidarity alive in extremely dangerous circumstances. I cherish the moments of great pride, like when we signed the Lisbon Treaty, when new Member States acceded to the European Union or the euro area. And I will never forget that very special day when, together with the President of the European Council Herman Van Rompuy and the President of the European Parliament Martin Schulz, I had the honour to accept, on behalf of the European Union, the Nobel Peace Prize, that wonderful acknowledgement that the European Union, a project of peace, can be, and indeed is, a powerful inspiration for many around the world.

Let's make no mistake: the European construction can never be taken for granted. We would be wrong to think that solutions impose themselves automatically, without political commitment and without public pressure and support. In the most difficult moments that we have gone through, I have made the appeal as forcefully as I could, never to forget the ethics of Europe's responsibilities. In that sense the worst moments, notably the Greek crisis, were also the most illuminating. Being Portuguese, I was intensely sensitive to the sacrifices made by the people of some countries. More than once, under dramatic circumstances, I have felt — and I was certainly not the only one — that we were staring into the abyss and that certain political decisions, or the lack thereof, could have pushed us over the edge. We simply *had* to follow the right course, **had** to take our responsibility. This goes to show that politics, for better or worse, matters a great deal. Political decisions always have consequences. We have seen this in often extreme conditions. I hope that the lessons of this period have been sufficiently drawn and understood. Worst-case scenarios are never to be excluded. The future might expose us to different challenges, and can confront us with equally difficult choices. Europe is a constant adventure.

Over the last 10 years, we have not always and immediately made the right decisions, yet we have proved the prophets of doom wrong. Contrary to predictions of the disintegration of the euro area or the fragmentation of the EU, we have shown the extraordinary resilience of our Union and confirmed that the forces of integration prevail.

We can rise above ourselves, and we now have a Europe that is united, open and stronger.

A Europe ready to face the future.

Brussels, 15 September 2014

[CLOCKWISE FROM TOP LEFT]

The signature of the Lisbon Treaty: the end of a long process but the beginning of a new kind of Europe as well.

An unforgettable moment: accepting the Nobel Peace Prize on behalf of the European Union with Herman Van Rompuy and Martin Schulz in 2012.

Breaking down borders in 2007: celebrating the enlargement of the Schengen area in the town of Zittau, on the border between Germany, Poland and the Czech Republic.

[clockwise from top left]

Engaging in Europe: with former British Prime Minister Tony Blair.

Meeting the new, inclusive Northern Irish government leaders, the late Ian Paisley and Martin McGuinness.

With Prime Minister Enda Kenny: Ireland was the first country, immediately followed by Portugal, to have a clean exit from the adjustment programme.

[CLOCKWISE FROM TOP LEFT]

Angela Merkel knows that listening can be as important as speaking (at the dramatic G20 Summit in Cannes 2011).

Ready for a new start: The Berlin Declaration to mark 50 years of European unity.

Flowers for Angela Merkel: tribute to a successful Presidency of the Council.

[CLOCKWISE FROM TOP LEFT]

Working together for Europe: with European Council President Herman Van Rompuy — always a very good coordination in defending EU positions globally.

Speaking to the press at my arrival to the Informal European Council in Brussels in 2009.

Delivering my State of the Union address at the European Parliament in Strasbourg in 2013.

It was not perfect at the start, but eventually I developed a very close cooperation with Martin Schulz, President of the European Parliament (Nobel Peace Centre in Oslo, 2012).

[CLOCKWISE FROM TOP LEFT]

Portugal always in my mind: with President of the Republic Aníbal Cavaco Silva and with Prime Minister Pedro Passos Coelho.

'Porreiro, pá! — Damn great!': Prime Minister José Sócrates whispers into my ear — and into the microphone — when we finally reach an agreement on the Lisbon Treaty.

[CLOCKWISE FROM TOP LEFT]

The perfect illustration of Europe coming together: Polish Prime Minister, and future European Council President Donald Tusk.

An emotional moment when, for the first time, the European flag was hoisted in the Prague Castle — with Czech President Miloš Zeman.

Meeting with Visegrad countries, and at the Partnership Agreement handover ceremony in Tallin with Baltic leaders.

[CLOCKWISE FROM TOP LEFT]

Two of my Nordic friends: with Prime Ministers Andrus Ansip from Estonia and Jyrki Katainen from Finland.

Sharing our analysis before the European Council: with President Nicos Anastasiades of Cyprus, Prime Minister Fredrik Reinfeldt of Sweden and Prime Minister Alenka Bratušek of Slovenia.

At the University of Copenhagen with Danish Prime Minister Helle Thorning-Schmidt in 2012.

[CLOCKWISE FROM TOP LEFT]

Showing opportunities for Europe's youth: visiting a vocational training programme with Austrian Chancellor Werner Faymann.

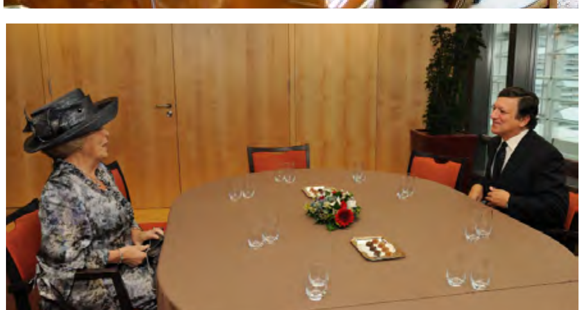
With Prime Minister Antonis Samaras: always standing by Greece's side.

With Prime Minister Matteo Renzi: new energy for Italy.

[CLOCKWISE FROM TOP LEFT]

Neighbours and colleagues: with Prime Minister Mariano Rajoy of Spain, and with his predecessor, Prime Minister José Luis Rodríguez Zapatero, receiving the Grand Cross of the Royal and Distinguished Spanish Order of Charles III.

An Iberian moment — with Portugal's Prime Minister Pedro Passos Coelho and his Spanish counterpart Mariano Rajoy.



[CLOCKWISE FROM TOP LEFT]

King Philippe visiting the European Commission while he still was Crown Prince of Belgium, and with King Albert II at the occasion of the 2000th weekly meeting of the College of Commissioners.

Welcoming Prince Felipe of Spain (now King Felipe VI) to the European Commission in 2008.

Receiving Queen Beatrix of the Netherlands in the European Commission in 2010.

With the former King of Spain Juan Carlos I — a true friend.

[CLOCKWISE FROM TOP LEFT]

Jacques Delors: humour, not only wisdom.

Four Commission Presidents in a row: with François-Xavier Ortoli, Romano Prodi and Jacques Delors.

Brothers in arms: in my office with Jean-Claude Juncker immediately after his designation by the European Council.

The value of teamwork: my first and second Commission.

On Europe — Considerations on the present and the future of the European Union

A SPEECH BY JOSÉ MANUEL DURÃO BARROSO, PRESIDENT OF THE EUROPEAN COMMISSION
HUMBOLDT UNIVERSITY OF BERLIN, 8 MAY 2014

'Nós estamos na Europa e é na Europa que
nós nos salvamos ou nos perdemos todos.'[2]
Eduardo Lourenço

First of all let me thank you very much for your kind invitation to be present here in this great German and European institution, the Humboldt University. I really feel the emotion of being in the university of Hegel, of Max Planck, of Albert Einstein. And thank you for giving me the opportunity to deliver this Humboldt lecture on Europe. I have not done it before because I thought it was appropriate to do as a legacy speech at the end of my ten years of experience in the European Commission. And also because I was told that the students in this university are used to listen to classes of one hour and a half. I will try to make my speech a little bit shorter. But I believe this is the moment and this is the institution where I can outline, in very direct terms, my experience and also my proposals for the future of Europe.

Ladies and gentlemen,

I have been actively involved in the process of European integration over the last 30 years. Not only for the last decade as President of the European Commission but also as Foreign Minister and Prime Minister of my country, Portugal. **I feel that it is my duty, before leaving the office of Commission President, to share my experience and my thinking** on how we can build on what we have achieved so far, and go forward in the future.

I feel this responsibility — not only the responsibility: this passion, because I have indeed a passion for Europe. And I think this is a moment to think and to decide on the future of our continent.

The developments of the past 10 years, both positive and negative, have proved to be no less than spectacular.

2 We are part of Europe and it is in Europe that we all save ourselves or we all lose ourselves.

Indeed, the last decade of European integration was marked by historic achievements, starting with the enlargement since 2004 to Central and Eastern Europe and further countries in the Mediterranean. But it was also marked by unprecedented crises. First, the crisis over the impossibility to ratify the Constitutional Treaty that began in 2005 and which was only overcome with the entry into force of the Lisbon Treaty in 2009. And since 2008, the financial crash that turned into a perfect storm of a combined sovereign debt crisis, an economic crisis and a social crisis. It was a momentous stress test for the solidity of the European Union and for the single currency, the euro, in particular. And it required exceptional measures to address it, including the creation of completely new instruments.

On top of that, we are now faced with new challenges as a result of recent developments in Ukraine and Russia — probably the biggest challenge to security and peace in Europe since the fall of the Iron Curtain and the Berlin Wall.

The lessons learnt throughout the last decade will give the debate on the future of the European Union a sharp perspective, which is why I wish to stimulate it with the considerations that follow.

I call them considerations on the present and the future of the European Union because I am convinced that **the European Union needs to develop further and that such a development must be an organic, not an abrupt one.**

Reform, not revolution.

Evolution, not counter-revolution.

Ladies and gentlemen,

History doesn't move in a straight line, nice and smoothly. It twists and turns. And, every now and then, it unexpectedly accelerates. We are currently living through a time of ever faster developments and, in Europe and internationally, states and other actors are struggling to cope with them.

From the start, European integration was always a way to deal with such changes, a way to help states adapt to historic challenges that surpass their individual power.

Yet again, events over the last decade are testimony to the extraordinary adaptability and flexibility of the European Union's institutions. One could call it their 'plasticity': they adjust shape and form while keeping the substance.

What then is the substance, the essence of the European project?

In its first phase - you could call it 'Europe 1.0' - devised after the Second World War, the European project was about safeguarding **peace and prosperity** in the free part of Europe through economic integration and based on Franco-German reconciliation.

Redesigned after the fall of the Iron Curtain and the Berlin Wall — 'Europe 2.0', you could call it — was focused on extending the benefits of open markets and the open society to an enlarged, reunited Europe.

With the fallout from financial and economic crisis and the emergence of the multipolar world of globalisation, the third phase of European integration set in. We now need to update to what we could call 'Europe 3.0'.

Each step in this process has led to a European Union that was more interactive, more complex, and had a more profound impact because the challenges were greater, more difficult to grasp, and called for more elaborate forms of cooperation.

Now, the third phase is mainly – or should mainly be **– about the power and influence required to safeguard Europe's peace and prosperity under the conditions of globalisation**. The economic and financial crisis showed, particularly, that the improvement of the governance of the Euro Area was indispensable for the long term sustainability of a single currency. Further institutional steps of a more political nature may become indispensable. The challenge is, of course, how to make them in a way that keeps the integrity of the internal market and of our Union as a whole. A multiple-speed reinforced cooperation in Europe may become a necessity. But a Europe of multiple classes has been — and must always be - avoided at all costs. So: flexibility, yes, stratification, no.

Before going more in detail on these institutional challenges, and namely the issue of Europe's power and influence in the world, let us not forget that the main objectives since the creation of the European Communities – peace and prosperity – are still of essence for us today. Recent developments confirm it.

Peace and stability, because the very real threats to the economic foundations of Europe ended up undermining our self-confidence and led to an almost surreal and self-fulfilling panic endangering the very fabric of European unity. The potential unravelling of the euro was seen as the start of the unravelling of Europe. Had it materialized, it would undoubtedly have divided Europe once again into first and second-class economies and hence societies. And it certainly would have ended the vision of a continent of equals, united in an ever closer union.

Now, frictions between North and South, between rich and poor, between debtor and creditor countries, between the centre and the periphery have indeed come up. But we have not allowed them to fragment Europe. On the contrary, we are more than ever in recent history on the road to deepening our Economic and Monetary Union, whilst fully upholding the principles that preserve the integrity of the European Union at large. Indeed, the European Union Institutions, from the European Commission to the European Central Bank, saw their competences and power reinforced. Some of these competences were unimaginable some years ago, before the crisis. The European level has only gained in relevance. Concerning the economic substance, it was the biggest institutional transformation since the creation of the euro.

Those who said the peace narrative for European integration was a thing of the past need only look at Ukraine. Peace is never a given, an absolute certainty. Peace needs to be won over and over again through the generations, through European Unity, through united European actions in the wider region and internationally. The idea of peace is as compelling as ever for European integration.

Prosperity, which has made the European Union so attractive since the beginning of European integration, has also been challenged in the financial and economic crisis. This was a crisis of growth models, unmasking attempts to inflate economic growth through financial wizardry and to sustain growth through public or private debt, as was being tried in respectively the American and the European economy.

Now, we are back to doing it the hard way, through innovation and structural reforms for global competitiveness. The worst hit countries are hitting back remarkably. Ireland, Spain and Portugal have been making notable progress. Just this week, my country, Portugal, announced it will leave the programme without requesting further assistance from the European Union. In spite of all difficulties Greece and Cyprus are also on the right path. Contrary to many predictions, not only did nobody leave the Eurozone but Latvia, after impressive efforts, was able to join. European countries are applying the lessons drawn from the crisis in terms of debt and macroeconomic imbalances. Economies are reforming, even if some, including larger ones, need to speed up delivery. And these efforts are no longer individual but increasingly attuned to the policies and effects seen across borders.

Europe needs such legitimation by results, and these can only come from a continued emphasis on innovation and reform: reform of our economic structures, of public administrations, of labour markets, of the internal market, of energy and climate policies, and so on. Delivering these results is part of our necessary communality.

Of course, some of those adjustments were extremely painful. And we have seen a situation of social emergency in some of our countries. But it is important also to note that with or without the euro, with or without the European Union, those adjustments would have to happen anyhow. And that the euro or the European Union were not the cause of the difficulties. In fact Europe was not the cause of the problem, Europe is part of the solution.

The European social market economy is based on a unique social model. Even with national variations, our welfare state differentiates us from all other major economies and societies, from developed to emerging economies. It is precious for our citizens. A model that embodies the values they adhere to – the unique combination of responsibility for oneself and solidarity with society and across generations. A model that delivers the goals they live up to — such as security in old age and in adversity. And it is only through cooperation and adaptation that we will safeguard our social market economy.

Returning now to the main issue of what we have called the third phase of European integration, that of influence and power, we have to recognize that to safeguard peace and prosperity in Europe we need a European Union that is much more willing to project that power and influence in the world. During the crisis, confidence in Europe's global influence was severely impaired internationally. The global attractiveness of Europe's economic model was temporarily undercut. And with that, our values and our authority as a global player were put in doubt. Now we need to fight back and regain our role and influence. The challenge of globalisation is much broader than economics. Our diplomatic approach needs rethinking. Our defence capacities need to be pooled. Our values need to be upheld more than ever.

The world system is adapting itself as well, forging a new world order. Either we contribute to reshaping it or we miss out on the future. Here too, the developments around Ukraine show the need for us to be vigilant, and the imperative of being united. **Either Europe will advance in its coherence and willingness to project its power and influence – or it will face irrelevance.**

This demands us to make the internal state of the European Union more stable.

We need to address three gaps. There is a governance gap, since Member States on their own no longer have what it takes to deliver what citizens need while the European institutions still lack part of the equipment to do so. There is a legitimacy gap, because citizens perceive that decisions are taken at a level too distant from them. And there is an expectations gap, because people expect more than the political system can deliver. There is no automaticity for Member States to agree the tools to repair these gaps at European level, so there is a clear need to define the communality we want, on which depends our role in the world.

Stability will only come from a new-found balance at a higher level of communality.

Ladies and gentleman,

No one ever said, however, that adjustment was easy — even if it is undeniably necessary.

Profound change is particularly challenging for European countries which, being democracies, have to think not only about what they need to do but also about how to do it. Complying with new realities is not enough, we need to embrace new realities with conviction and offer reassurance that they are to everyone's benefit. I remember listening to Prime Ministers in European Council meetings saying: 'We know what we have to do. The only problem is that if we do it, we will lose the next elections.'

This cannot be an excuse not to do the necessary, not to do the hard work of conviction. 'Rendre possible ce qui est nécessaire' – to make possible what is necessary – is the condition for responsible government.

This is not a test for the European Union only. Governments all across the world, in different ways, are facing similar challenges. Democracy is once again proving to be the best, most stable way of dealing with them. And yet, at the same time democracy, more than any other system, demands statesmanship and courageous leadership.

The drive for earlier phases of European integration — contrary to the perception popular in some quarters — has always come from the bottom up as well as from the top down.

This was the case for the resistance movements, trade unions and entrepreneurs who came together after the horrors of the war. This was the case for the young Germans and French eager to cross mental and actual borders in the 1950s. This was the case for the Greek, Portuguese and Spanish who in the 1970s freed themselves from dictatorships to feel as part of Europe, who saw that the regimes in which they lived were unable and unwilling to adapt while the world turned without them. This was the case for the Central and Eastern Europeans, from *Solidarność* in Poland to the Velvet Revolution in Prague, from the Baltic independence movements to the Hungarians who first opened the Iron Curtain, in the 1980s and 1990s. They saw regaining democracy as to a large extent equivalent with belonging to the European Union. My generation felt that in Portugal, the same was later felt by generations in the Central and Eastern parts of Europe. They knew that, in Vaclav Havel's words, *'Europe is the homeland of our homelands'*.

Speaking in London in 1951, Konrad Adenauer described how such broad understanding of the issues at stake made Germany such a determined actor in European integration's early phases. 'It is not the fear of Bolshevism alone which moves us,' he said, 'but also the recognition ... that the problems we have to face in our time, namely the preservation of peace and the defence of freedom, can only be solved inside that larger community. This conviction is shared by the broad masses in Germany ... I may point out in this connection that the German Bundestag, on July 26th, 1950, pronounced itself unanimously in favour of the creation of a European Federation.'

Today, such broad-based political and societal support is as vital as ever. We cannot move forward without momentum. We cannot – and should not – force public opinion's hand. But we can try and forge the consensus we need. Here comes the issue of political leadership. Leadership is about taking responsibility. Leadership is not about following popular or populist trends. Because the European Union is not what it used to be. It has matured into an ever fuller democratic system of governance, notably through the Lisbon Treaty, and one whose impact on people's lives goes far beyond earlier versions. Indeed, we have been building the much closer union that, before, was only an aspiration.

As a result, mere bureaucratic, technocratic and diplomatic deliberation will no longer do. Even summitry has reached its limits. **We need a new debate, a new dialogue to take this further – a real sense of ownership of the European project both at the national and transnational level**.

This is really the heart of the matter: policy and polity can only function if there is a consensus on the communality agreed, and on the way to get there.

The sui generis, work-in-progress character of the European project is reflected in a series of treaty discussions since Maastricht that have dominated the debate. Since then, the financial and economic crisis has again raised a series of treaty questions. The constitutional question for Europe has not been laid to rest.

I would argue that it is not even answerable in a definitive way, certainly not now.

Those who adhere to the ultra-integrationist paradigm cannot ignore that the vast majority of people do not want European unity to the detriment of the nation state. Those who have a purely national or intergovernmental perspective cannot ignore that nation states on their own no longer suffice to offer citizens what they expect. Trying to identify a conceptual end point to European integration – one way or the other – is pointless.

The sensible course is a different one. At each phase, European integration was based on a clear sense of purpose, a clear idea of the need for Europe. The means to do so, the treaties and institutions, have always followed the political will.

So now, before we discuss the technical details of yet another treaty, we must answer the question: what kind of communality do we acknowledge as necessary, indispensable, unavoidable between the capitals and Brussels? What do we recognize as things we must decide to do together, no matter what? What is the agreed, settled, joint purpose of our Union? To what extent do we join our destinies, irrevocably, and without reserve? In short: what is our vision?

The crisis signaled an end to the era of 'implicit consensus', the quasi-intuitive nature of European integration. Now, the consensus needs to be made explicit. Now is the time to have a political and societal debate on what communality we want in the EU; on how far and how deep we want integration to go; on who wants to participate in what; and for what purpose.

Ladies and gentlemen,

Let me outline the politics, the principles and the policy areas I believe we need to put at the centre of our efforts to build such a consensus.

In April 1978 Roy Jenkins, then President of the European Commission, found himself in a position I would come to know all too well myself, decades later.

'The economics of the Community' he said, 'involves jobs and declining industries, monetary stability, regional policy, energy options. All these are the *stuff of politics* not of bureaucracy.'

And although he seemed to be stating the obvious, he drew an interesting conclusion: 'although there may be some who believe to the contrary, the institutions of the Community have been carefully constructed, and indeed adapted over time, to allow for the interplay of argument and its resolution at both technical and political level. They are not perfect ... but the *framework for decision* is there.'

Indeed, the temptation very often was, and still is, to put the discussion on the 'framework for decision' before what Roy Jenkins called the 'stuff of politics.'

All too often, European debates on policies are waged merely in institutional or constitutional terms. An obsession with polity has led attention away from the policies and politics they needed. Instead of making decisions, we discuss how to make decisions and who gets to make them.

I would warn against that today, just like Jenkins did four decades ago.

The challenges ahead of us in this third phase of European integration must be examined from the point of view of **first, the politics needed; second, the policies needed, and third, the polity needed to achieve the first two. In that order.**

So the debate on the future of Europe must be first and foremost a debate on politics and policies, not one on institutions and treaties. It must be a debate on what we want to do together, and why. Without a consensus on this, we can debate endlessly about subsidiarity clauses and opt-outs without convincing or satisfying anyone. **We must decide, individually and collectively, what we want to do together — and what we do not need or do not want to do together**.

The framework for decision in the European Union has evolved tremendously over the years, not just since Jenkins' time but even in my day. If you compare where we were twenty years ago with where we are today, the evolution is striking.

And I do not mean only in terms of competences, but mainly in the modes and dynamics of the decision-making process. I had the privilege to participate in Council meetings since 1987 and in the European Council from 1992 to 1995. And I can testify that these differences are very important. In some cases the very culture of the institutions went through fundamental changes.

At the beginning of the 1990s, the European Community was still centred around the Council. True, the Commission had the right of initiative, but most decision powers were with the Member States. Since then, our system and process have changed decisively.

Above all, through the increase in the power of the European Parliament, away from a consultative assembly to the indispensable co-legislator. Even if the Parliament itself still often hesitates between its 'rôle tribunitien' as opposed to its 'rôle décisionnel'. The temptation to demand without regard for feasibility – namely the underestimation of the political conditions for some decisions — is not fully overcome by all players in the European Parliament. And we have seen that some prefer a function of protest or even anti-establishment rather than a role more in line with the need to achieve pragmatic results with the other institutions. Probably this also happens because the Parliament lacks its own right of initiative. But we should recognise that, broadly, the contribution of the Parliament has been constructive. In the end, throughout the last decade, the Parliament has played for high stakes but ultimately it has played the game — from the adoption of the European Union's budget to the conclusion of the Banking Union.

The relations among Member States are also very different as a result of the different dynamics between 28 now as compared to 12 in 1992 or 1994 for instance. Contrary to the Brussels myth, this is not so much a question of size and might. It is a question of vision and agenda. I can compare the dynamics of the European Council in 1992 or 1994, when we were 12 members and when foreign ministers participated in those meetings and today. I remember well Helmut Kohl, François Mitterrand or Felipe González in those meetings. So I can establish the difference between the dynamics of those European Councils and those of today.

There are governments that come to the table with a defensive view, others with a single issue, still others without a burning interest. Only a few leaders come with an all-encompassing view, a comprehensive approach. They feel some responsibility for Europe. But not all feel the same level of responsibility. And it is this responsibility that gives the edge in a political process like the EU.

Accordingly, the center of gravity on the Council side has also greatly changed. Once, the treaty concept saw the General Affairs Council composed by the Foreign Affairs ministers as the political pinnacle of the side of the Council. This has completely shifted to the European Council. Europe has become a 'Chefsache'. The body that brings the national chiefs together — the European Council — has been gaining importance even before the Lisbon Treaty made it more operational and stable by the creation of the office of its permanent President. True, some of its dynamics are due to the specificity of the economic and financial crisis: the need to mobilise rapidly financial means that only the Member States could command. This may abate over time. **Heads of State and Governments will need to see their role not only as national, but at the same time as European**.

The shift from the Council to the European Council has, however, brought with it a certain implementation gap. For instance, the initial voluntarism of repeated demands for European Councils or Euro area summits for each and every new development that led to a succession of summits, had the advantage of putting pressure on leaders to decide. But it also trivialised the summits and deepened the sense that decisions were always too little and that implementation was always too late. Because often decisions taken by Heads of State and Government were not really followed through at national level. There was an excess of pressure and a lack of precision.

The Commission emerges from all of this as the indispensable and reinforced focal point. Its right of initiative was always maintained throughout the crisis. And its talent for initiative — if I may say so — as initiated by Walter Hallstein and developed by Jacques Delors, was always present and was indeed the origin of the decisive concepts: from the creation of the EFSM, the EFSF and later the ESM which were ultimately based on the Commission proposals, to the Banking Union[3]; from the initiative to launch project bonds to the Commission legislative proposals on the reform of the economic governance, including a new stability and growth pact. The Commission has always followed a truly European approach in the exercise of its right to initiative.

3 Commission Communication "Action for stability, growth and jobs", 30 May 2012

Interestingly, there is no better illustration of the inevitability of the Commission's role than the intergovernmental Fiscal Treaty. Throughout its negotiation, the Commission was an indispensable source of expertise and creative legislative technique around the table. And in the end, even in this context — the intergovernmental one — it was the Commission that came to the forefront when strong implementation had to be guaranteed. The fact that the Commission, in order to obtain results, is sometimes capable of not claiming all the glory for itself should not be confounded with a fading role. There is no other place in the Union that brings together the horizontal view - awareness of the plurality of Member State situations — with the vertical insight — the expertise of European policies.

But in order to understand fully what has happened between then and now, one must also look at the media scrutiny. It has become deeper, faster, much more comprehensive and critical. No more reverence to summits and to leaders. Success is measured by results – and very often by immediate results. If they do not stand up to media dissection, they melt away, as happened once or twice very publicly throughout the crisis. This also explains to a point the 'stuttering process', the syncopated nature of the crisis response.

This is one of the reasons why the building of the European Union has been compared to scaffolding. It appears as something that is in permanent construction and repair, but the scaffolding very often hides the 'beauty' of the construction behind it.

Indeed, I would suggest that it is in the very nature of the European project to resemble permanent 'work in progress'. And those who are concerned with the lack of coherence and symmetry would do better to adapt to an architectural concept that, to achieve new functions, has to develop new shapes and designs. In the EU 'l'èsprit de système' usually does not work very well.

We can say that the integration process has passed the test of time and the stress of crises because there was always an 'obligation de résultat' that was matched with effective results. We have developed an art of governance to a degree of maturity that allows us to reach decisions based on a broad consensus. **What we have seen, and what we see above all, is that leadership matters**.

Because only leadership by building consensus avoids fragmentation.

This is why I have made sure that the Commissions I presided took collective responsibility for their decisions. The President of the Commission is the guarantor of collegiality, which avoids a silo mentality and tunnel vision. As a rule, we started with sincerely held differences of opinion and real debates. But almost all decisions in these ten years were ultimately taken by consensus. A political executive is not a miniature parliament. And as an executive the Commission must take responsibility for the initiatives it collectively deems necessary. That is why according to the treaties, the decision-making in the Commission is collegiate rather than an individual. It is possible for a college with 28 members to work. Above all, this is a question of a true Community culture and an efficient management of the institution.

Since the beginning of my first Commission almost coincided with the biggest enlargement ever of the European Union in 2004, I was particularly aware of the need to avoid its fragmentation along geographical, ideological or other lines. **I firmly believe that whilst it is important to recognise the political character of the Commission, it is equally important to avoid giving the Commission a partisan nature**.

The Commission does not only have political functions but also administrative and what I call 'quasi-jurisdictional' functions. This requires great wisdom and balance at the decision-making level so that the credibility of the Commission in its different roles is not undermined and that its independence and professionalism are not endangered.

The European Union has moved, in the last two decades, to a much greater level of political and institutional maturity. And it is this political framework that has seen us through the crisis. But what we have today needs consolidation if it is to endure.

It is the manner in which we consolidate and advance that should be discussed today. Because this debate is the precondition for what we need to achieve: growth and employment through the further shaping of our internal market and of our common currency, our trade, energy and climate, infrastructure, science and innovation, industry, and digital economy policies; we need to achieve freedom and security through our common foreign and security policy and our common justice and home affairs; we need to achieve our social wellbeing through our joint efforts in education, culture, youth and addressing the common challenges of our demography and social security systems.

Ladies and Gentlemen,

If the framework for decision is there, we must also acknowledge a number of dysfunctionalities within European politics that impair our capacity to put it to use.

This is a real problem for Europe's democracy.

There is a lack of ownership in European politics, which institutional adjustments by themselves cannot remedy.

When democratic decision-makers refuse to acknowledge, defend and endorse their common decisions, European legitimacy will always suffer.

All too often, political controversies are seen as systemic deficiencies. Rather than confining a debate to the subject matter — is there a better solution, say, to the light bulb or the olive oil can issue? — controversial outcomes are presented as the inevitable absurd result of a flawed 'Brussels' system. This despite the fact that both the debates and the results would be similar, if not identical, if held at the national level. It is not just 'Brussels centralism' that causes regulation on health issues, product standards, workers' rights, environmental rules or transport safety in the first place, but a societal debate and citizens' calls for action to meet their concerns. As a rule, regulatory initiatives do not start in Brussels. They start with societal, business or workers' interests, with public debates and political processes. For instance, the idea to regulate light bulbs and olive oil cans were national ideas. In fact, we took forward the light bulbs because energy efficiency makes sense. But we have stopped the initiative of regulating the olive oil cans, because we believe it does not need a European solution.

There is also an asymmetry between the national political dialectics and European political dialectics. At the national level, there is a government-versus-opposition logic, so that every issue has a 'party against' as well as a 'party in favour'. In Europe, there is no such logic and hence no 'party in favour' of everything that Europe does. It is mainly the Commission, which is conceived by the treaties to be the defender of the general European interest, that is always expected to stand for the collective decisions agreed. But the Commission is all too often left without effective support by a system where everybody else can afford to be a little bit in government and a little bit in opposition.

This means that there is 'cognitive dissonance' between the political processes at the national and European levels. Which in turn makes for the emergence of almost schizophrenic political behaviour. At the European level, national politicians can ask for much more than at home, without needing to take responsibility for subsequent adoption and implementation. The temptations and opportunities to shirk responsibility are manifold. And I could tell you from my experience, it's common to see the same party saying one thing in their capital and completely the opposite – not just something different but the opposite – in the European Parliament in Strasbourg.

And, in the end, the political sanction for all actors – be they national or European – is still in the national electoral dynamics. There is not a real pan-European political sanction, detached from the national level, disposed on its own merits.

Ultimately, the problem is this: all countries would like to see Europe as a big screen projection of their own aspirations, and are ready to say that 'Europe' has a problem when the others don't follow their initiatives. Many Member States hope or pretend Europe will eventually be a bigger version of themselves — but that will never be the case.

Similarly, many politicians like their own pet micro-regulation whilst decrying others doing the same as unjustified meddling. Nothing has done our Union more harm than the tendency of those who fail to convince to blame their lack of success on deficiencies of Europe rather than on their inability to win a majority for their ideas. And this, in turn, leads us into the stark dilemma that is at the heart of the discussion on the future: **when the people do not like a national decision, they usually vote against the decision-maker. If they do not like a European decision, they tend to turn against Europe itself**.

The political issue is indeed the first one that must be addressed. If I get the question 'so, what is the real problem?', I would say '*It's the politics, stupid!*'

In the nation state, the legitimacy issue is in principle solved. Policy disagreement does not normally turn into a challenge to the polity, to the political system. But in the European Union, legitimacy still depends on the delivery of concrete results. This explains why, while the lack of support to national institutions or political parties does in general not become a threat to national unity, the lack of support to Union institutions may become a threat to European integration itself. In fact, any political project needs a minimum of sustained support, be it explicit or implicit. Beyond the general doubt or 'Angst' of common citizens regarding their perceptions of most institutions and elites in the age of globalisation, the specific challenge that the European Union has been facing recently is this: confronted with the growing voices of euroscepticism and even europhobia, some mainstream political forces have internalized populist arguments rather than countering them. From the centre-left to the centre-right, political forces and actors must leave their comfort zone, I would say. Instead of abandoning the debate to the extremes, they have to recover the initiative. They have to make the case for a positive agenda for Europe, both at the national and the Union level.

No treaty change, no institutional engineering can replace the political will for Europe. I am heartened by the fact that this idea is making headway already. As Friedrich Hölderlin once said, 'Wo die Gefahr ist, wächst das Rettende auch.'

Such political handicaps need to be addressed above all in order to reinforce both the legitimacy and the effectiveness of Europe.

To remedy this, we need leadership, action and ownership for and of the European Union's project, understood as part of the political and societal fabric of its Member States. We need to understand that European policies are no longer foreign policies. European policy is internal policy today in our Member States.

We need to develop a new relationship of cooperation, a 'Kooperationsverhältnis' between the Union, its institutions and the Member States. By 'cooperative relationship', I mean a principle whereby the institutions and the Member States go beyond the loyal cooperation already enshrined in the treaties, notably Art. 4 TEU, and work in a way that maximizes compatibility of decisions taken at the different levels.

For too long, the expectation — at least in the Brussels bubble — was that the EU institutions would always try to do more than the treaties allowed them, while the expectation within Member States was that they would push back to make them do less. This immature behavior has to be overcome.

What we need is a mature handling of clear mandates to the different actors and levels of our Union, from the local to the regional to the national to the European sphere. Mandates that are respected fully both in their extension and their limits by all.

To move from a competitive to a cooperative approach between the Union's institutions and between the European institutions and the Member States, we need a reinforced role of the political parties at the Union's level, to aggregate political interests, to structure political priorities and to ensure political coherence throughout.

This is why the electoral dynamics triggered by the nomination of 'Spitzenkandidaten' of the political parties for the office of Commission president can be a step in the right direction.

While acknowledging the limits of the current exercise, I believe that it may reinforce the European nature of these elections. It is a way to help the parties who want to take it up to progressively give shape to a European public sphere. It is strange – or maybe not – that political forces that have always criticised a lack of democratic accountability in Europe now reject such new measures that are designed precisely to strengthen that accountability. For sure, national democracy is indispensable for the legitimacy of the European Union, but we would be wrong to hamper the progress of European democracy in its own right. This is still a system in the making, certainly, but trying to block it would only set us back.

This dynamics must be followed by a post-electoral understanding not only on personalities, but also on political priorities. Not only within each institution. But also between the institutions. On a more concrete level this means an agreement between the Parliament, the Council and the Commission for the priorities – positive and negative – of a new legislature. This could also be followed by a new interinstitutional agreement on better regulation so as to limit excessive administrative burden.

Otherwise, there will never be a convincing and compelling agreement on the issues about which the Union needs to be big, and the issues about which the Union should remain small.

Ladies and gentlemen,

It is on this basis that more than the unavoidable, surgical adaptations to the Union's current legal framework can be done.

In the foreseeable future, I believe there will not be a European 'Philadelphia moment', the creation of a constitution from scratch. The Union's way of developing will continue to be 'permanent reform' rather than 'permanent revolution'.

For this permanent reform to succeed and for each step to be in line with the overall vision behind it, there are a number of principles I believe need to be respected:

First, any further development of the Union should be based on the existing treaties and on the Community method, since moving outside this framework would lead to fragmentation, overlapping of structures and ultimately to incoherence and underperformance.

Second, a clean-up of the existing over-complexities and contradictions within the treaties and between the treaties and other instruments should precede further additions. Crucially, this means that intergovernmental devices like the European Stability Mechanism and the Fiscal Treaty should be integrated into the treaties as soon as possible.

Third, any new intergovernmental solutions should be considered on an exceptional and transitional basis only in order to avoid accountability and coherence problems.

Fourth, the Union should always aim at evolving as much as possible as a whole, with 28 Member States today. Where deeper integration in other formations is indispensable, namely between the present and the future members of the single currency, it should remain open to all those who are willing to participate. The method of choice for closer integration among a group of Member States is reinforced cooperation as provided for by the treaties.

Fifth, any further development of the Union should be based on a clear phasing and sequencing, with future moves constructed primarily through the use of all possibilities offered by the treaties as they stand, without reserves not foreseen by these treaties, so that treaty change must only be embraced where secondary legislation is not provided for by the treaties.

Sixth, the pace of development must not be dictated by the most reticent. The speed of Europe must not be the one of the slowest.

And seventh, when another treaty change is deemed necessary, the case for it must be fully argued and debated, including in the public sphere, before it is negotiated and put up for ratification.

At this stage, it is of course true that we are faced with a particular challenge when it comes to the relationship between the single currency, the Euro area and the EU as a whole. But I believe that the logic of the treaties offers useful guidance in this respect.

According to the treaties, the single currency is meant for all Member States, except for those who have a permanent opt-out. And the truth is, there is only one Member State - the UK - that has such an opt-out.

Even Denmark's status is better described as a 'possible opt-in' than as a permanent opt-out. All the others have committed to join the euro. This will take time, and certainly even more thorough preparation than in the past.

But it would be a mistake to develop a logic of convergence into a structure of divergence. More so since the practical experience during the development of the crisis response has shown that the fault lines in the discussions do not lie between the present and the future members of the Euro. From the Euro Plus Pact to the Fiscal Compact, from the Single Supervisory Mechanism to the Single Resolution Mechanism: whenever the 17 or 18 embarked on a more ambitious project, almost all of the others joined and contributed. **Indeed the centripetal forces have proved to be stronger than the centrifugal ones**.

The tendency of some to dream about a *refoundation* of the Union through a more limited, smaller Euro area than the EU of 28 is not a response to systemic deficiencies or a lack of potential among the 28. It is the expression of a nostalgia for a cosier arrangement, for a return of the — mistakenly so perceived — comfort of the smaller, less difficult and supposedly more coherent times of more intimate integration. But time waits for no one, and history has moved on. **Playing whatever Kerneuropa against whatever periphery will weaken both.**

Here is maybe the moment to make a comment on the relationship between the European Union and the United Kingdom. I passionately believe that Europe is stronger with the UK as its member, and that the UK is stronger as a member of the European Union than on its own. But I do acknowledge that for historical, geopolitical and economic reasons the case of the UK may be seen as a special one. Precisely because of this, it would be a mistake to transform an exception for the UK into a rule for everybody else. We can, and should, find ways to cater to the UK's specificity, inasmuch as this does not threaten the Union's overall coherence.

But we should not confound this specificity – even if in some issues it is shared at some moments by several governments – with an overall situation of the Union.

Ladies and gentlemen,

Based on these principles, a number of policy fields stand out that particularly demand debate, action and decision on concrete institutional improvements in the years to come: (1) The deepening of the Economic and Monetary Union, in line with the Commission's blueprint; (2) More effective external representation of the Union; (3) Strengthening of Union values and citizenship; (4) A better regulatory division of labour; and (5) The need to perfect our political union.

For the deepening of the Economic and Monetary Union, the Commission's *Blueprint for a Deep and Genuine Economic and Monetary Unio*n remains the valid vision. It combines substantial ambition with appropriate sequencing. First, the reformed economic governance needs to be fully implemented. **Once this has been achieved, the gradual development of a fiscal capacity at the level of the euro area, complemented by additional coordination of tax policy and labour markets, should be contemplated.** Such a development, which will ultimately require treaty changes, must be accompanied by commensurate democratic legitimacy and accountability. A more 'fiscal-federal' approach within the euro area must involve not only the present members of the single currency. It must remain open to all future and potential members and respect the integrity of the single market and of the policies conducted by the Union as a whole.

More effective external representation requires a cooperative division of labour between the Union‘s and the Member States‘ office-holders. The present track record of cooperation between the presidents of the European Council and of the Commission provides useful guidance in this respect. The High Representative/Vice-President of the Commission must be provided with effective political deputies from both the Commission and the Council. The potential of joint external representation as foreseen under the Lisbon Treaty must be used to the full. The combination of foreign policy with the external aspects of the internal policies provides the Union with leverage in the world. It allows for a more efficient burden sharing between the Union and its Member States. Crucially, the first steps towards a more joined-up security and defence policy must be followed up. And, very relevantly, the achievement of a more coherent external representation of the Euro Area in international financial institutions is also part of this effort.

The strengthening of the Union's values and citizenship requires the full respect and implementation of the rule of law and the Union's rights, guarantees and freedoms. Instruments like the fundamental rights check in legislative impact assessments and the Commission's 'safeguard of the rule of law framework' need to consolidated. **The fight against abuse of Union rights, notably the right to free movement, can and must be addressed through secondary legislation, not through questioning the principle**.

Regarding regulatory division of labour, the starting point must be the recognition that the Union's Member States are not less regulated than the Union itself. Whilst there are undoubtedly cases of institutional over-zeal, including on the side of the Commission, one must not lose sight of the fact that the real driver of Union regulation is the need to make the detailed regulations of 28 Member States compatible with each other. The question of how to be **big on big things and smaller on smaller things** is therefore not so much one of negative or positive lists for fields of action, but rather the intensity and intrusiveness of specific initiatives. This is best addressed through a new inter-institutional agreement on better law-making that would extend the regulatory fitness check, impact assessment and de-bureaucratisation measures already taken by the Commission throughout the whole legislative process. Ultimately, it is a question of a periodical review of the political consensus on political priorities, which could be helped by the introduction of 'sunset clauses' or a principle of legislative discontinuity at the change of a European Parliament.

Regarding the need to perfect our political union and enhance the democratic legitimacy that should underpin what I call Europe 3.0, it should be based on the Community method as the system of checks, balances and equity between the institutions and the Member States that offers the best starting point for further supranational democracy. Such supranational democracy must not be constructed as a multi-level combination of vetoes, but rather as a system of accountability at the level where executive decisions are taken. Inasmuch as executive decisions are taken by European executives, notably the Commission, it is the European legislature, hence the European Parliament and – in its legislative functions - the Council that need to ensure democratic legitimacy and accountability. Conversely, it falls to national parliaments to ensure the legitimacy and accountability of decisions taken at the level of the Member States, including the action of Member States in the Council. The relations between national parliaments and the European Parliament should also be a privileged part of the 'Kooperationsverhältnis' that I have been advocating.

It is in this logic that the future development should go in the direction of constituting a reformed Commission as the Union's executive, including the Union's treasury function. It would be responsible to a bicameral legislature composed of the European Parliament and the Council as the two chambers. In order to ensure the right balance between the political creation and the functional independence of the Commission, the present way of negative censure for the Commission should be replaced by a mechanism of constructive censure, whereby the European Commission only falls in case the absolute majority of the European Parliament proposes another President for the European Commission.

And finally, in order to ensure full coherence and efficiency between the different executive roles at the Union's level as well as their democratic legitimacy and accountability, further innovations can be considered. In the medium term, the office of the Vice-President of the Commission responsible for economic and monetary affairs and the euro could be merged with the office of the President of the Eurogroup. **A more radical innovation, such as merging the office of the President of the European Commission with the office of the President of the European Council, would undoubtedly be a question for the longer term**.

But with the probable evolution of European integration, namely in the Euro Area, this merger makes sense because it will reinforce the coherence and visibility of the European Union's political system internally and externally. Some transitional phases and intermediate solutions are also possible. What is important to note, however, is that these institutional developments can only be successful if the indispensable progress on the politics and the convergence of policies are achieved first.

Once again: **It's the politics, stupid!**

It's the politics that can make it possible or not, followed afterwards by institutional developments, and not the other way around.

Ladies and gentlemen, let me conclude.

European integration will always be a step-by-step process. We knew that from the start: '*L'Europe ne se fera pas d'un coup, ni dans une construction d'ensemble,*' as the Schuman declaration reads.

Such a pragmatic approach has never been in contradiction with working towards a vision. Our ambition, our dream – what the German philosopher Sloterdijk called 'a lucid dream'.

It remains the most visionary project in recent history. Its energy and attraction is striking. Its adaptability is unprecedented. But only if certain conditions are met: when leadership is unambiguous, when cooperation reaches new levels of maturity, and when the politics of Europe are on the offensive.

That is what's at stake in the coming European elections. They are the best possible moment to stand up for what has been achieved and to build a consensus around what needs to be done, to speak up for Europe as it really is and advocate a vision of what Europe could be.

These elections matter a great deal!

In ten years at the head of the European Commission, I have tried to add to the foundations of a pragmatic, coherent and resilient European Union. While the European Union response may not always have stood up to its initial ambition, I believe that the Commission has played and will continue to play an essential role.

We have worked to preserve Europe's unity, to keep it open and to make it stronger. Stronger because the economies of Member States are becoming more competitive to face global competition. And stronger because at the European level, our economic and financial governance has been spectacularly reinforced.

There is a lot to build on from here. A unique project. A necessary project. A project to be proud of.

I have had the privilege to be there to contribute to the response to some of the most threatening events in the European Union's history, and honoured to be able to initiate reforms based on lessons learnt from that experience. But the true reward for all those involved will come, not from starting but from finishing the efforts necessary.

So now, let us work further.

Let us undertake 'la réforme de tous les jours'.

Let us continue the work with what one of my predecessors, François-Xavier Ortoli, called 'le courage de chaque jour'.

And for those like me — and, I hope, like you — that share this passion, this love for Europe, let's do it with the aim of creating the conditions to live, everybody in Europe, in a decent society. Because, in the end, this is not about concepts, it's not about figures, it's not about economics — it's about values. And I believe that Europe precisely stands for the values of peace, of freedom and solidarity.

I thank you for your attention.

[CLOCKWISE FROM TOP LEFT]

Speaking at the UN General Assembly: after the Lisbon Treaty the EU's role is stronger at the United Nations.

UN Secretaries General Ban Ki-Moon and Kofi Annan: very good friends of the EU in the United Nations.

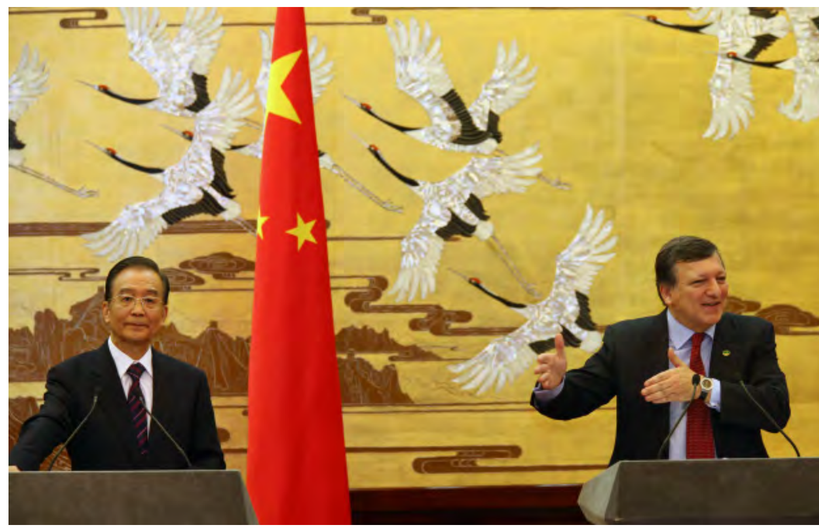
[CLOCKWISE FROM TOP LEFT]

Persuading President George W. Bush to face the crisis together — at Camp David with French President Nicolas Sarkozy in October 2008.

With my wife Margarida and the Obamas at the Pittsburgh's G20 Summit in 2009.

With President Barack Obama at the Lisbon NATO Summit in 2010 and at the G8 in Camp David in 2012.

Launching the TTIP at the G8 in Lough Erne, Northern Ireland in 2013.



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Emerging giant, intensifying relations: with China's Premier Wen Jiabao and his successor Li Keqiang.

Xi Jinping visiting the Commission — a first for a President of China.

[CLOCKWISE FROM TOP LEFT]

The strategic importance of Brazil seemed natural to me — with Presidents Lula da Silva and Dilma Rousseff.

With our Latin American partners in Lima.

[CLOCKWISE FROM TOP LEFT]

A call for support the EU cannot ignore: with Ukrainian President Petro Poroshenko.

Energy security for Europe: with President Ilham Aliyev in Baku after signing the Memorandum of Understanding on the Southern Gas Corridor in 2011.

With President Tomislav Nikolić of Serbia and with the Chairman of the Presidency of Bosnia and Herzegovina, Bakir Izetbegović: keeping our Union open to the Balkans.

[CLOCKWISE FROM TOP LEFT]

Invigorating relations with Japan: with Japanese emperor Akihito, and with Prime Minister Shinzō Abe.

Combined ambitions: OK to the Free Trade Agreement with Canada's Prime Minister Stephen Harper.

Relations with Russia's Vladimir Putin were often tense ...

but not always ...

Speeches

Building a Partnership for Europe: Prosperity, Solidarity, Security

VOTE OF APPROVAL, EUROPEAN PARLIAMENT
STRASBOURG, 21 JULY 2004

Mr President, Honourable Members of the European Parliament

I feel privileged to stand here before the first democratically elected Parliament of an enlarged European Union. You are the representatives of 450 million Europeans. Your election brings an end to half a century of division.

This assembly symbolises the renaissance of freedom and democracy – spreading to every corner of our continent from the Mediterranean to the Baltic Sea.

We are united in our rich diversity - national, regional, cultural, linguistic and political.

Never before has there been an experiment like ours: to forge, democratically, a union out of the diverse nations of Europe.

Over fifty years we have designed a new and unique way of working together. We have pooled limited parts of our sovereignty to face common challenges. We have shown that our Nation-states are stronger when we act together in areas where Europe delivers the best results.

Let us never underestimate this great European achievement. We must be optimistic, visionary and courageous for the future.

Our vision of integration provides an example for other regions. As Jean Monnet has said:, « *la Communauté n'est qu'une étape vers les formes d'organisation du monde de demain.* »

The 1st of May was an event of historic proportions with the accession of ten new Member States. But now we have to work to ensure that the success of a reunited Europe, in order to guarantee prosperity, solidarity and security of our continent.

Mr President, Honourable Members,

I come from a small country which has known the transition from dictatorship to democracy; a country on the edge of our continent, but with its heart in the centre.

I stand for the basic values that underpin our Union:

- Freedom
- Respect for Human Rights
- The Rule of Law
- Equality of Opportunity
- Solidarity and social justice

I have seen the benefits of the Union in my country. But I have also seen that the accession of Portugal has enriched our Union.

My values and my experiences will allow me, if I receive your endorsement, to build bridges across the Union. This is why I believe I received the unanimous support of the European Council.

I am conscious that one of the main tasks of the President of the Commission is to manage the dynamic consensus that Europe needs. Our Union must more than ever have a strong and independent Commission. Only then can we create results that translate into concrete benefits for our citizens.

Mobilising Europe: Meeting expectations

Mr President, Honourable Members,

It is these beliefs, these convictions that lead me today to launch a challenge.

I would like us – together with Member States, the Social Partners, businesses and citizens across the Union - to build a **Partnership for Europe**. A **Partnership for prosperity, solidarity and security** in our Continent.

We must build our Europe together. Words must be transformed into actions. We must argue every day the case for our Union. And the best argument is our results.

We must show to our citizens that Europe can deliver what it promises. Effectively, efficiently, transparently. But we must also be aware of the level at which things are best done - European, national or regional, in full respect of the principle of subsidiarity. What we do we must do well. This means we must concentrate on questions that are most important to our citizens.

Mr President, Honourable Members,

In building our Partnership for Europe, we must recognise that the biggest challenge we face is not the Euro-scepticism of the few, but the Euro-apathy of the many.

We must listen to those that voted in last month's European elections.

But we must also hear the silence of those, who for whatever reason, chose not to vote.

Our goals are prosperity, solidarity and security. And for that we must show concrete results.

- The euro – delivering monetary stability and investment.
- A single market - fuelling growth, competition and jobs.
- A unique social model - protecting the weakest in our society and helping people adapt to changing circumstances.
- Quality public services – offering affordable access for all.
- A sustainable approach to the environment.
- And – perhaps of greatest importance - peace and stability in our region and beyond.

Last month, we put the final touches to our Constitutional Treaty. This is also Europe in practice – delivering a vision and adapting to change.

That Treaty consolidates and simplifies the Union. It strengthens our democratic base, by extending this Parliament's powers, and by finding innovative ways to give a greater voice to national Parliaments and to Europe's citizens.

It will make us more effective in tackling areas where common action is needed.

The challenge now is ratification.

It will be a crucial moment and lead to a broad discussion on the kind of Europe that people want.

The new Commission, this Parliament and the Member States must be ready with answers. We must make the case for Europe and this will be a huge communication challenge. To win that debate we should not have a technocratic approach. We need instead political leadership and courage.

Mr President, Honourable Members

The partnership I propose must, therefore, respond to the concerns of our citizens.

Today is not the moment to unveil a detailed programme. If I receive your backing, I first want to discuss policy ideas within the College and then with you and with the Council.

The new Constitutional Treaty already foresees that we must set our objectives together. If confirmed, I would bring before you and the Council early in 2005 proposals for the overall strategic priorities to guide our work for the years ahead.

Such an agenda – an agenda of prosperity, solidarity and security - must deal with the most pressing challenges for our peoples today:

- **Europe and the world are changing and we need to change too**. Reforms are needed. If we want Europe to work, we must give people jobs. But employment will only be created if we get the right environment for enterprise. And, at the same time, we must invest more in skills and training.

- We must put growth centre stage. Our social ambition must be fuelled by economic success. Wealth creation is the key to our model of social solidarity and sustainability. This is at the core of the Lisbon agenda. Entrepreneurship and innovation must be harnessed to deliver a better quality of life.

- We must never forget the economy is there to serve the people, and not the other way round. This is the spirit in which we must also interpret the stability and growth pact. This means ensuring the flexibility needed to keep us on the path to growth and employment, whilst preserving monetary stability.

- We must meet the **challenges of globalisation**. This means facing up to competition in open, global markets. It also means spreading prosperity and opportunity around the world.

- The Union needs to **match its political ambition with its financial resources.** You cannot have more Europe for less money, especially if we want a similar level of solidarity towards the new Member States as we have shown to the less developed regions in the past. However we must also be able to show to taxpayers that the money they entrust to Europe is prudently spent.

- We need to ensure that we foster stability and invest for growth. This means sound public finances but also twenty-first century networks and strong services of general interest to knit our economies and continent together.

- **Health and social protection systems** need to prepare for an ageing population. And together with education, these services must be more than just a safety net.

- Our future success will depend on our **willingness to take risks, be ready for change and to introduce reforms.** Our scientists, universities and companies should keep us at the cutting edge of technology.

- We must ensure that understandable public fears about new science are properly and democratically addressed.

- We must deliver a **better quality of life**. This means taking decisions now to create the right incentives for cleaner energy and cleaner transport. We must live up to our international agreements in Kyoto and make sure that our partners do the same.

- We must balance decisions today against their impact on growth, jobs and the environment tomorrow if we are to offer coming generations a truly sustainable future.

- The construction of an **area of freedom, security and justice** remains one of our most important strategic objectives. The Commission should remain a driving force, helping to create the conditions needed for the removal of internal borders, and the strengthening of the Union external borders.

- Taking forward policies on immigration, asylum and on the integration of immigrants in our society are other key elements. In addition we must implement the Counter-Terrorism Action Plan. Terrorism is the biggest threat today to freedom in Europe and in the World.

- On the world stage, we must spread peace and stability. This applies as much to our nearest neighbours as to the **support that we give to the role of international institutions** such as the United Nations. We must keep the spotlight on conflict prevention and on the eradication of poverty and disease, particularly in Africa.

These are some of the issues that will provide a policy backdrop for our action.

In all of these, our challenge is one of changing attitudes, not changing values.

What sort of Commission does Europe need?

Mr President, Honourable Members

The European Union represents a bold and unprecedented experiment. The Commission is a unique institutional innovation in our European journey.

A strong Commission must be open. It must consult and listen through a permanent dialogue with civil society, the Social Partners and the regions.

To do all this, the Commission depends on the quality and independence of the Commissioners and on the ability and dedication of its officials.

I can assure you today that I am determined to lead a Commission that acts as a team and combines the very best of national traditions, diverse skills and talents; a Commission that must adhere to the highest standards of public life.

I want the next Commission to have a higher proportion of women Commissioners than any previous Commission, but to achieve this I will need your help. We make this clear to the Council, which shares with me the responsibility for drawing up the list of nominees.

I will make full use of my powers under the Treaty in selecting nominee Commissioners, in allocating portfolios at the start and during our term, and in steering the work of the College.

Underpinning all this is the importance of collegiality within a College and of ensuring that a 25 Member College can act quickly, coherently and effectively.

But let me make one thing clear:

There will be no first and second class Commissioners in my Commission.

Partnership with the Parliament

We need a close positive relationship between the Commission and the Parliament, while respecting their respective roles and responsibilities.

I therefore give you a firm commitment to work closely and in a transparent manner with the Parliament and always to take your views into account, even if there will be times where we do not agree.

I would like to make three specific promises:

- First, if a Commissioner clearly underperforms or fails in his or her duties under the Treaty, I will not hesitate to ask them to resign.

- Second, I recognise the importance of the democratic oversight role of this Parliament. I will work to provide full and timely information on matters needed for you to exercise that control. I also commit to provide the Parliament with information about documents sent to other institutions, as well as information concerning the consultative bodies which provide expertise to the Commission.

- Third, I will continue a regular dialogue with this Parliament. In addition to coming to the first Plenary Session each year to set out the State of the Union, I will meet at regular intervals with the Conference of the Presidents of the Political Groups.

Conclusion

Mr President, Honourable Members,

The Commission is most effective and Europe comes out on top whenever it has your active engagement and support.

You are the voice of the peoples of Europe.

I need your strong endorsement.

My promise is to actively work to build a Europe that is much more than just a simple market place. I want a Europe with a social and cultural dimension; a Europe where everyone can find their place.

Let turn together a new page in European integration and send a strong signal of our joint will to work in the interest of Europe's citizens.

We must not fear the future; the future is in our hands.

Messina, 50 years on: turning the crisis to our advantage

50TH ANNIVERSARY OF THE MESSINA CONFERENCE
MESSINA, 4 JUNE 2005

Cari Messinesi, miei carissimi europei, Ladies and Gentlemen,

It is an honour for me to speak to you here today, just as I did ten years ago as the Portuguese Minister for Foreign Affairs, to celebrate the 40th anniversary of the Messina conference. This time, however, I come in rather unusual circumstances.

The French have rejected a major European treaty with a resounding "non". The newspaper headlines declared Europe to be "in crisis". Politicians called for calm. But that was in 1955, on the eve of the Messina conference.

Mark Twain once said: "History doesn't repeat itself, but it does rhyme". Well, for the 50th anniversary of this conference, history has composed rhymes even Dante would be proud of. Once again, some voices in the press are predicting catastrophe for Europe. This time, France was accompanied by the Netherlands in its rejection of the European Constitution.

How should we react to the French "non" and the Dutch "nee"? What can we learn in this difficult period from the Messina Conference, the anniversary of which we celebrate today?

First of all, I must admit that my first reaction to the rejection of the Constitution by two founding members of the European Union was one of sadness. A negative vote is the sign of a worrying lack of confidence among European citizens. It suggests that some of us fear the future, are resistant to change and no longer believe that the EU can provide solutions to the challenges which we all face today.

Of course, we must take heart from the fact that the concerns of citizens have been expressed by a democratic vote, following a very lively debate. This is positive in itself and we must respect the people's will. However, this debate has often been tied to national issues and, let's be clear, the arguments put forward in the two campaigns often had little to do with the European Constitution. Setting aside purely national considerations, the truth is that the Constitution has become the scapegoat for citizens' fears. Fear of losing the social model. Fear of "relocations". Fear that Europe will go too fast and too far. Fear of the euro or fear of globalisation.

But the vote was not about these matters. It was not concerned with past or future enlargements. It was not about the single market and its four freedoms – the free movement of goods, services, persons and capital – which are as old as the Treaty which resulted from the Messina Conference fifty years ago. All too often during the campaign, this was not made sufficiently clear. One thing which was clearly confirmed, however, was that it is difficult during a referendum campaign to avoid the issue at hand from being tainted by other matters, even when they are not directly linked to the consultation.

Let's take a look at the main issues during the referendum campaigns.

Some are concerned by the erosion of the European social model. And yet, the draft Constitution protects this model. An explicit "social clause" (Article III-117) requires the Union to take into account, in defining its policies, social aspects such as the promotion of a high level of employment, the guarantee of adequate social protection and the fight against social exclusion. Do we really want to give up on these principles?

Many express concern over a lack of democracy within the European institutions. And yet the draft Constitution makes a substantial contribution towards reducing the democratic deficit. It gives the European Parliament a much bigger role in the decision-making process, granting it the power to amend and approve almost all new legislation. The doors of the Council, in its role as legislator, will also be wide open to the public, allowing citizens and national parliaments to become more familiar with the positions of the governments. Indeed, participative democracy is gaining constitutional status, with an entire title of the Constitution (Title VI) dedicated to "The democratic life of the Union". Do we really want to give up on these principles?

Others fear that "Europe" is an elitist project, imposed on citizens despite their convictions. And yet the draft Constitution brings Europe closer to both citizens and the national parliaments. It gives citizens the right to ask the Commission to present proposals on appropriate matters, if they manage to collect one million signatures in a significant number of Member States. And it gives the national parliaments significant new competences in order to put subsidiarity into practice. They will be informed of all new legislative proposals of the Commission and will be able to refer them back to the Commission for review. Do we really want to give up on these principles?

Still others are worried by globalisation and by possible threats to the role of Europe. And yet the draft Constitution strengthens the European Union's influence in the world, and the visibility, coherence and efficiency of its actions. Do we really want to give up on these principles?

Citizens generally fear that Europe is too distant and too complex, with its sometimes protracted procedures which can disconcert even the experts. And yet the draft Constitution would bring about considerable simplification. It makes one legible text out of a confusing collection of overlapping treaties. Almost 36 different types of legal instruments are replaced by only six. Do we really want to give up on such a move?

Have these aspects of the draft Constitution often been discussed? As the President of the European Parliament, the President of the Council and I myself said in our joint declaration last Sunday, following the French referendum:

"National and European policy-makers must do more to explain the true magnitude of what is at stake and the nature of the solutions which only Europe can provide … Each and every one of us must think about our role – national governments, European institutions, civil society – in helping to improve the understanding of this project, whose legitimacy depends on citizens' views being taken into account."

So what are we going to do now? Must we give up on Europe just fifty years after the courageous visionaries of Messina started it off on a new policy of stability and prosperity? Or should we fight to find a new political consensus and use this difficult time as a chance to revive Europe?

First of all, it should be made quite clear that the ratifications are above all a matter for the Member States. It is up to them to decide when and how to ratify and whether they wish to continue with the commitment they undertook, or change their position. Nevertheless, what I consider to be important today is for the Member States to react together and for us to avoid unilateral, disorganised action. That is why I asked them to wait for the European Council of 16 and 17 June to adopt their position. It is important for the Council to discuss ratification and to send a clear message to all Europeans. I am convinced that a message of consensus is possible and desirable. While it is true that we will have to consider the implications of the French and Dutch "no" in due time, we owe it to the Constitution and democracy to allow each Member State to express its opinion. All Member States have the same rights and they must all have the chance to set out their position. We must not forget that ten Member States, representing half of Europeans, have already said "yes" to the Constitution. And Italy is one of them. By ratifying the Constitution, the parliament of Italy, a founding country, sent a strong signal to Europe. Italy must continue to play its traditional role in encouraging the integration process.

At the same time, I have difficulty seeing how we could re-open negotiations with a view to revising the Constitution. Its text is a very delicate compromise which took several years to achieve. It is hard to imagine how a new compromise, noticeably different from the current one, could be approved. And if we tried to take account of the fears of those who voted no, which "no" should we focus on? The Dutch and French who voted "no" had very different reasons for doing so. We must recognise that the "no" in these two countries clearly constitutes opposition to the proposal presented to them, but does not take the form of support for an alternative project.

It is in times like this that we can learn from the events which led to the Messina Conference. All too easily, we forget that, until1954, the French National Assembly voted "no" to the European Defence Community. The shock experienced by the European leaders at the time was comparable to what we are feeling today, faced with the French and Dutch "no" votes.

Yet European leaders did not give up on their European ideals. On the contrary. There was a widespread belief that we need a strong, rapid response. Paul-Henri Spaak, who became Belgian Minister for Foreign Affairs, therefore suggested convening a conference to prepare a relaunch plan. The initiative was well received by Johan Willem Beyen, Dutch Minister for Foreign Affairs, who wanted to go even further, towards "general economic integration". The conference, following a proposal by the Italian Minister Gaetano Martino, took place in Messina and resulted, as we all know, in the European Economic Community and the European Atomic Energy Community.

In 1954, a crisis led to the relaunch and strengthening of Europe. Rather than bringing everything to a sudden halt, European leaders redoubled their efforts to offer a solution tailored to the concerns of their fellow citizens, namely peace and prosperity. It is interesting today to see that, faced with the institutional crisis at the time, the chosen approach was to look for a solution by means of economic integration.

It is therefore our responsibility to keep moving forward. We must show our fellow citizens, who are sometimes a little sceptical, that the European Union is now more than ever able to offer an effective response to their concerns. This week's referendum results are a setback, yes, but Europe is more than ever firmly established; we have to remember that there is life beyond the constitutional debate.

The Commission is continuing, and will continue, to make important decisions which offer real advantages to all European citizens. We have a programme to put into action, a programme supported unanimously by the European Council and the European Parliament, a partnership which specifically responds to citizens' concerns by focusing on prosperity, solidarity and security. Indeed, all the European institutions must be united in their aim to forge ahead in implementing the programme and thus to solve the problems causing concern. We aim to create more and better jobs, foster economic growth and sustainable development, preserve and modernise the European social model and guarantee greater security for citizens. That is how we will restore their trust in Europe and in its institutions.

The first major test will perhaps be to reach an agreement on financial perspectives for the period 2007-2013. The European Union needs a new budgetary framework to finance the policies and activities of the Union, and there is no reason to postpone negotiations. On the contrary, everything prompts us now to show that Europe can act with determination. The Commission will do its utmost to achieve a result which conveys our desire to create a more competitive, solidarity-based Europe.

Ladies and Gentlemen,

As the six Ministers for Foreign Affairs in Messina fifty years ago knew only too well, the construction of Europe is a complex exercise, exposed to occasional crises. However, it was by demonstrating true leadership that they transformed the crisis into an opportunity, and allowed a stronger, improved Europe to emerge, a Europe ready to meet the new challenges and assume its responsibilities.

The fate of the Constitution is now in the hands of the Member States. The ball is in their court. In Rome, just over six months ago, the 25 governments of the Member States signed the constitutional treaty. Now it is crucial for the 25 to analyse the situation together and agree on which path to take. The time has come, once again, to show the Messina spirit, and refuse to baulk at difficulties or abandon the values and principles underpinning our project.

It is vital for us to seize this opportunity to forge a new political consensus. As I see it, the Commission's role is to facilitate consensus and avoid a clash between the various models or perceptions of Europe. Without this new consensus, which is now vital, compromise and solutions will be more difficult.

At the same time, however, there are two dangerous traps which must be avoided.

The first would be to become entrenched in ideological divisions. Divisions based around the two political doctrines of the market and the State are not in Europe's best interests. Neither of the two will solve all the problems, and any attempt to impose one of the two in Europe is destined to fail. What we need now is an effective combination of market and State which can help Europe to win, rather than lose, in the face of globalisation.

The second trap would be to engage in the "blame game", i.e. in useless and dangerous accusations, and in particular to transform the European institutions on the basis of the difficulties encountered either at national level or in the context of global challenges. Admittedly, the European institutions are not perfect. Who is? It is because we acknowledged that certain problems exist that, since taking up office six months ago, my Commission decided to prepare initiatives for better communication and improved legislative quality (the "better regulation" initiative). Indeed, we know that we can do better in terms of trust, transparency and responsibility between citizens and the European institutions, and that they can do more to ensure respect for the principle of subsidiarity and for the simplification of its decisions, when it comes to relationships with citizens and businesses. But the temptation to attribute unpopular decisions to Brussels has caused serious harm in the past, and continues to do so. This is the case when we perceive meetings in Brussels as battles in which the winners and losers confront each other every day, rather than seeing them as opportunities to debate, achieve consensus and find compromises in difficult but shared problems.

If we attack "Brussels" six days a week, from Monday to Saturday, can we hope for a complete reversal of opinion the next day, and expect citizens to support Europe on Sunday?

If today's Heads of State and Government show the same sense of responsibility as the political leaders fifty years ago in Messina, and avoid these two traps, I think that the future looks promising and that we can turn this crisis to our advantage. That is why, here in Messina, I wish to launch a call to rally around European values, the civilisation and soul of Europe, to strive to find the support which will allow us to achieve a dynamic consensus for a Europe capable of adapting to the new challenges of globalisation. Perhaps then, when the European leaders of tomorrow meet here to celebrate the centenary of the Conference of Messina, they will also remember the crisis in 2005 which was transformed into opportunity, and from which a stronger, better Europe emerged.

Thank you for your attention.

France and Europe: a shared destiny

FRENCH NATIONAL ASSEMBLY
PARIS, 24 JANUARY 2006

Mr President, Ministers, Honourable Members,

I am particularly honoured to speak to you today, in this prestigious house, and to respond to the invitation from Mr Jean-Louis Debré, President of your Assembly, whom I wish to warmly thank for this opportunity to engage in discussion with the French national representatives. I am here today to talk to you about the development of Europe of course, but also to look back at a situation which needs to be recalled with strength and conviction, just after the lively, passionate debates in your country. I want to talk about the unshakeable link which creates a far-reaching shared destiny between France and Europe.

I do not need to remind you, the elected representatives of the French people, of the eminent role played by France in the construction of Europe. Europe would not have been created or grown without France and its audacious policy, guided by a bold and generous vision underpinned by solidarity, and driven by men and women who so successfully embodied its spirit.

But France has also been able to count on Europe. Europe has been the melting pot for its economic and cultural influence over recent decades. The challenges which it must face today are common to all European countries, and no one country can meet them alone without the support of Europe. The main flagship projects on which our future competitiveness hinges would not be viable without European cooperation. Without our combined efforts, Galileo would not have come into being and Iter would be in Asia today, not in Cadarache, in the Marseilles region.

The year 2005, which has just ended, marked a turning point. We have of course experienced difficulties but we managed to overcome them together, as shown by the constructive review of the Hampton Court summit and the positive conclusion of the European Council of December, in which I see sound proof of Europe's vitality.

Does our shared history not show that, in times of tension, Europe has always managed to unite, to relaunch its project and reinvent itself, with the unfailing support of France, a founding country and the driving force behind Europe?

It is from the viewpoint of this extraordinary capacity to recover that I see the recent debate which took place in France on the occasion of the referendum. In the French decision, which was reached democratically, I do not see a rejection of Europe but rather the will of citizens to be heard and to shape their shared destiny.

The French debate raised real questions, which require us to provide real answers. Citizens have the feeling that they are not listened to or heard enough regarding the European project. They urge us all – national political leaders and European institutions – to provide specific answers for their concerns, and urge us to shoulder our common responsibility in this respect.

That is why I am calling on politicians, men and women, the active population, French intellectuals: engage in Europe, discuss Europe, explain Europe! We must stop allowing people to believe that Europe does not concern them, that it refers to Brussels. We are all Europe! We are all stakeholders in the construction of Europe!

Some of our citizens fear the future because they fear globalisation. Yet the history of France has always been one of openness to the world and not of withdrawal! The universal values of humanism which quite rightly have been the pride of your country would not have had such influence if France, the country of their birth, had remained closed to the rest of the world!

We have no reason to fear the future. I myself and the European Commission are entirely confident: Europe has the means to impact world developments thanks to our considerable assets.

In view of globalisation, the European dimension is the only one able to make the difference and allow us stay on top of this process. Think about the energy challenges, development aid particularly in Africa, or the fight against crime and terrorism. In all these fields, we need more input from Europe because not even the larger Member States are able today to deal with these issues on their own.

If we prepare to optimise the benefits of globalisation, the global opening of markets and the growth of new technologies – a source of business and therefore of employment – can become a powerful and positive driving force for the economy, social well-being, security and culture.

Now it is time for results. To restore the confidence and support of citizens, we must endeavour to meet their three priority concerns, which we have made our own - prosperity, solidarity and security.

By giving a new boost to growth through innovation, entrepreneurship and research, by supporting in particular small- and medium-sized businesses in order to create more and better quality jobs, we will be fostering the prosperity so essential to the blossoming of our European project. And this campaign for competitiveness will also be waged in partnership with the regions of Europe. The Commission thus welcomes the adoption by the European Council of its regional policy proposals which will make it possible to support development in the regions of metropolitan France and the overseas departments.

By strengthening the social dimension of job-creation through the promotion of equal opportunities and the anticipation of problems linked to restructuring and the management of an ageing population, we will be giving substance to the principle of solidarity, which is at the very heart of the European project.

By improving health and food safety, consumer protection, access to justice, border control and the fight against terrorism, we will be ensuring the safety to which our citizens are entitled.

After the European Council of December cleared our budget horizon, we can now translate the "renewed Lisbon Strategy" into reality. To preserve and strengthen our common values, we urgently need to modernise our policies and reform our economies.

We are all the more determined since the informal summit at Hampton Court last October made it possible to achieve a very strong convergence of opinions on urgent dossiers, on the basis of the Commission proposals and spurred on by France – universities and research, demography, energy, security. Beyond political divisions, we have been able to find consensus and a sense of direction in the common interest of Europe, because we have no time to lose and we want a successful Europe!

I am also convinced that public support for the modernisation of the institutions provided for in the draft constitutional treaty will come in time, when the conditions have been met and confidence restored.

Yes, we need to reform our institutions and equip ourselves with the necessary means to effectively meet the challenges of the 21st century.

But I am convinced that political impetus will give momentum to institutional change, rather than the other way round.

So let's create that political impetus. In 2006, let's stop talking and start achieving results, real results. I have no doubt that France will fully assume its role in the fulfilment of our shared ambitions.

As an avid reader of your national press, I see here and there that France apparently suffers from melancholy, or even malaise. I wonder whether the country of Molière is not falling into the mindset of the "Imaginary Invalid"...

I, on the other hand, think that France has every reason to be confident!

In Europe and throughout the world, France has a voice which is heeded, a voice which counts.

France, a major exporter, is also a leading industrial force and a global player in the services sector, the birthplace of outstanding success stories in the high-tech sector and a hub for international investment. How could we forget resounding world successes like Airbus and Ariane, which owe so much to French initiative?

The choice of being open to the world is therefore a winning choice for France and for Europe.

In order to progress, Europe needs France.

To progress, France must lean on Europe, a Europe determined to promote our common values at global level.

In the joint effort to which we must all contribute, your Assembly, like all national parliaments, has a role and a special responsibility. It is also through you, and with you, that the legitimacy of Europe will be reinforced.

So let's join forces, for the sake of our citizens. Together, we will succeed!

Mr President, Honourable Members,

As Jean Monnet said so appositely: "the roots of the Community are strong now, and they are firmly planted in Europe. They have survived bad seasons, and can survive others. On the surface, appearances change and it is normal that the images of the past fade, that the balance of the world is renewed. Yet when we see the persistence of European sentiment in this evolving context, we cannot doubt the strength of this fundamental movement, which is so in keeping with the various periods in history".

In conclusion, it is a great honour for me to assure you today, in my own name and on behalf of the European Commission, of our attachment and loyalty to the principles and values which were handed down to us by the "founding fathers", the most prominent of whom are your fellow countrymen Jean Monnet and Robert Schuman.

Peace, freedom, democracy and solidarity are more than ever at the heart of the European project, a lucid dream which we wish to transform into reality.

Thank you for your attention.

Seeing Through The Hallucinations

3D HUGO YOUNG MEMORIAL LECTURE, CHATHAM HOUSE
LONDON, 16 OCTOBER 2006

Ladies and gentlemen,

Let me start by saying what an honour it is to be the first non-Briton to be invited to give the Hugo Young Lecture. The first non-Briton but not, I hope, the first European.

And Britain's place in Europe is what I would like to explore today. I will argue that we must set aside what Hugo Young called 'the hallucinations, both positive and negative, that have driven the British debate for so long'. The time has come to recast the whole framework of this debate to take account of the new realities of the 21st century.

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Europe's raison d'être was crystal clear from the beginning. It was not the common market. It was not the CAP. It was certainly not some plot 'blessed' or not, created by foreigners for the sole purpose of eroding the sovereignty of the United Kingdom, or indeed any other country.

No. Its fundamental raison d'être was a noble one, and Robert Schuman, in his declaration of 9 May 1950, made sure everyone knew it. It's there in the very first sentence: 'World peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it.'

The words 'peace' and 'peaceful' appear no less than five times in this historic declaration of a mere few hundred words. This was not some vague aspiration, an empty declaration. This was a pragmatic, muscular, concrete peace.

Schuman said that pooling the production of coal and steel – the raw materials of war – under a supranational authority, 'will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible.'

Schuman, Jean Monnet and the other founding fathers were right, and their plan worked. Today, the success of this strategy is self-evident. Not only has war between France and Germany indeed become unimaginable, but thanks to successive enlargements we have spread peace, stability and prosperity across the European continent.

Those enlargements reinforced another rationale for Europe – freedom. That is an argument for Europe which is easily forgotten, but very important to me personally. When I started university in Portugal, I could not buy the books I wanted, or listen to the music I liked. To buy a copy of "Je t´aime" was a prohibited act; not by the police of political correctness but by the government authorities.

Like many of my age, I rebelled against this dull authoritarianism. My generation saw Europe as an inspiration, a destination for those who wanted freedom and democracy. To my generation in Portugal, to those living in the dictatorships of central and southern Europe which the magnetic power of the European Union helped to overthrow, Europe meant, and still means, freedom.

But, for all its triumphs, the European Union has become the victim of its own success.

60 years of peace has meant that the image of Europe as a bastion against war is losing its resonance. 30 years of pluralist democracy in southern Europe is doing the same to the idea of Europe as a source of freedom.

Equally, the freedoms that Europe offers to its citizens – to travel, to study, to work and to live in any EU Member State are now taken for granted; which is understandable, but perhaps unwise. What the member states of the European Union have created, they can easily destroy. To take fundamental freedoms for granted is to put them at risk. We only have to look at what is happening today to freedom of expression and thought to realise that those dangers are there.

So let me turn to the political landscape of today's Europe. It is one characterised by a basic tension between those who fear the future, who fear the world, and want protection from it, and those who reach out to it. In truth, that is a tension which exists inside each one of us. That tension is played out at a European level in the reactions to the extraordinary changes going on in the world. Should we close, or should we open, our doors to the people, the products, the ideas that come from outside?

My answer is clear. We must have an open Europe. A Europe which is open to each other and to the rest of the world. A Europe which is engaging with the rest of the world, promoting its interests, its ideas and its values beyond its borders. A Europe which is confident enough to promote change in order to sustain its values, its interests, its ambitions.

To achieve an open Europe, we must find a path through two extremes. On one side, 'market fundamentalists' reject any European political action as unnecessary meddling in the business of the nation state or individuals. On the other, 'statist fundamentalists' whip up fear of change and see a plot behind every economic action.

Both are wrong. As Hugo Young described in "This Blessed Plot" the European Union was never just a political project or just an economic project. The two go hand-in-hand.

First, Europe needs a strong and open economy to underpin its political ambitions. That is why this Commission's agenda of jobs and growth is an essential element of a strong Europe, not a distraction from it.

Second, Europe needs a strong political dimension to nurture and sustain its economic achievements. The economic dynamism which this Commission is fighting for will not happen on its own; it needs strong institutions to make it happen. To create, defend and extend the single market, you need the European Commission and the European Court of Justice. You cannot do this without them. If you want an open Europe, you need a political Europe. You will not get one without the other.

But, as I have argued, the European Union needs new foundations. A new core purpose. One which looks forward, recognises new realities, that draws inspiration from but does not depend upon the achievements of the past. One in which, as I said in my first speech as Commission President elect, everyone can find themselves.

And as chance would have it, our purpose is staring us in the face.

In 1950, the challenge was securing a lasting peace. But look at the challenges facing Europe today. Climate change. Growing competition from China and India. Global pandemics. Mass migration. International terrorism. Demographic change. Energy security.

These challenges are shared by all Europeans, from London to Lisbon and Ljubljana. They are also challenges which no nation state can hope to tackle successfully alone. The smaller member states know that. The larger ones may not feel this as strongly. But I think it is true for all EU members, large and small. Size is relative. The United Kingdom looks big next to Ireland. It looks small next to China.

The fact is, the European Union is a uniquely effective instrument for helping the United Kingdom and other European countries to develop solutions to these new, cross-border challenges.

And surely this is the EU's raison d'être for the 21st century: to help Europeans prosper in a globalised world.

There are those who claim that in our interconnected age, it is grassroots politics that matters. That globalisation has liberated the local. There's a lot in this. But there are those who then argue that the EU is rendered irrelevant in this globalised world.

They are wrong. The opposite is true. Globalisation makes the case for the European Union.

Because size matters in the globalised world. The actors of globalisation; the United States, China, India, dwarf any single member of the EU in terms of population, and in some cases in terms of economic size and security strength. The EU has that size; 500 million people, the biggest single market in the world, the biggest exporter in the world, the biggest aid donor in the world.

Yes, countries like the UK will have special relationships with India or China, and it is to the EU's benefit that they do. But one of the reasons that these countries want to keep good relations with the UK is precisely because it is an influential member of the EU. Lose that influence, and you lose some of that interest.

You also lose the leverage which size brings. Let me take a topical example. On Friday Tony Blair, myself and other EU leaders will sit with President Putin to discuss energy policy. There are common energy challenges which all the EU's members face, and which the Commission will address with a package of proposals in January. The UK's influence in tackling those challenges is increased, literally tenfold, by being part of a united European bloc when sitting down with the president of Russia.

In other words, globalisation has reduced the ability of the nation state alone to provide solutions, while failing to provide a realistic alternative at the global level. Europe – with its weight, wealth, shared values, diversity of expertise and unique range of instruments - fills that gap.

This is not to deny an important truth; the nation state is and will, I think, remain the principal source of political power, because it is to the nation state that most Europeans feel greatest allegiance. But in an era when the challenges facing nation states are global, governments can best deliver for their citizens by leveraging our common strength as Europe.

Let me look at what some of those challenges are.

- Tackling climate change and promoting energy security.

- Fighting global poverty, especially in Africa.

- Boosting Europe's security.

- Increasing Europe's ability to compete.

The European balance sheet in all these areas is encouraging.

Take climate change. The EU was the prime mover in the Kyoto Protocol negotiations. It was EU leadership which secured the final agreement on multilateral action to tackle climate change.

Today, the EU Emissions Trading Scheme is a vital instrument to reduce greenhouse gas emissions in a cost effective way. The European Commission designed and proposed the EU Emissions Trading Scheme. We will develop it further. It is exactly the sort of market-based mechanism that British political leaders, across the spectrum, are calling for.

Take energy. The problems faced by the UK - high energy prices, ageing infrastructure, increasing dependency on imported hydrocarbons - are European problems. Having 27 energy mini-markets will get us nowhere.

European problems require European solutions, and as the largest importer and second largest consumer of energy in the world, the EU is well placed to find them. European leaders recognised this at Hampton Court last year when they gave the go ahead to the Commission to develop a common approach to energy policy – a classic example of demand-driven integration.

So the Commission will drive forward consumer choice and competitiveness with a new legislative package to strengthen the energy single market next year. We will build up co-operation with strategically important transit and supply countries. We will extend the principles of the internal energy market beyond the EU's borders. We will adopt this week an ambitious plan to increase Europe's energy efficiency. We will invest more in research in renewable and other forms of low carbon energy. Through all this we will encourage greater diversity - of energy sources, of country of origin, of country of transit. It is through energy diversity that we will get energy security.

Now, take Africa and the fight against poverty. Trade is essential to help the poor get out of poverty. It is at the heart of our development strategy. The European Union is the most open market in the world for the poorest countries, and their largest trading partner.

Those who like to complain about Europe's agricultural policies might be surprised to learn that the European Union buys 85 per cent of all Africa's agriculture exports. In fact, it imports more goods from Africa than all the other G8 countries combined (you can throw in Australia and New Zealand as well, if you like). By 2009, the 50 poorest countries in the world will be able to export all their goods, apart from arms, duty and quota free. No other major trading bloc can match this.

Collectively, the EU also accounts for 55 per cent of all official development aid spent worldwide – a figure projected to rise to 63 per cent by 2010. It has agreed to double aid by 2010, and to provide 80 per cent of the 50 billion dollars pledged to Africa at the G8 Summit in Gleneagles last year.

In all these areas, our aim is to accelerate Africa's progress towards meeting the Millennium Development Goals, and keep development at the centre of global concerns. Where it belongs.

There is a human element to this as well. I was in Darfur last week, on my way to co-chair the first ever meeting of the European Commission outside Europe, in Addis

Ababa – the home of the Commission of the Africa Union. I am amazed at what I have seen in these young people that travel so far to help the people of Africa. I am proud of this Europe, I feel proud to feel European.

Let us look at security. There is a rising demand for a European role in external crises. And the EU is responding. It has doubled the number of peace and security missions in recent years. It is playing a central role in conflict prevention and resolution from Darfur to Palestine, from the Congo to Lebanon.

It is an effective actor because of the range of instruments at its disposal. In Darfur, for example, it is the biggest contributor to humanitarian aid, the main supporter of the African peacekeepers there, and playing a political role in pushing the Sudanese government to avoid another humanitarian catastrophe. The same is true in Congo, further from the eyes of the world's media. So too in Palestine, or in Indonesia, Acheh or closer to home in Kosovo and Bosnia. This work is raising Europe's credibility as a stabilizing force, and raising expectations for even greater commitment. It is happening without a great fanfare. But it is happening. It is a major development in Europe's role. It is a responsibility we shouldn't duck.

Finally, helping Europe compete. We must unleash the full potential of the single market to generate growth and jobs. That is why this European Commission will defend, extend and modernise the single market.

We have an ambitious agenda. Financial services, health services, postal services, copyright levies, and defence procurement are some of the areas that will come under the spotlight in the months to come.

This is important because a competitive single market is a vital ground for sharpening Europe's industries; to enable them to compete not just in Europe but in the global marketplace. So this Commission will fight hard to ensure that Community law is respected, and that this important playing field remains an open, fair and level one, for all our companies.

Of course, some talk of economic nationalism and patriotism. But I ask you to look at the facts before listening to the comments. European markets are opening up. Energy cross border mergers notified to the Commission are up 75% since 2000. The Commission has already looked at ten cross-border energy mergers this year, three more than in the whole of 2005. The rhetoric about protectionism may point one way, but the reality points the other. And, in fact, this rhetoric is resistance. There is resistance because of movement.

So Europe's agenda, this Commission's agenda, is not some alien construction; it is one which responds to the challenges being addressed by the UK and by others in Europe.

Let me put it another way. If the United Kingdom wants to tackle climate change; if it wants to fight poverty in Africa; if it wants to deliver greater external security, if it wants a more open, competitive environment, then the United Kingdom needs the European Union.

But, ladies and gentlemen, let us recognise another very important truth. That the EU needs the United Kingdom.

Because what is striking is that in all these policy areas, Britain is a lead player in Europe.

On climate change, for example, the UK's support was vital for putting the emissions trading scheme in place as quickly as it was. And it will be equally important in its further development.

On energy, the UK is leading the drive for more open markets, more sustainability and greater security.

On security and defence, the UK was there from the beginning, thanks to the Anglo-French St Malo Declaration. Last year you were the biggest contributor of troops to European Security and Defence Policy operations. The British play a significant role within the EU's military structures. The next head of the EU's military staff will be British.

On Africa, Prime Minister Blair has shown a clear commitment, making it a priority of the British Presidency of the EU and the G8. Moreover, Britons have taken a lead on Africa at the grassroots level, too. The Make Poverty History campaign was a driving force behind global efforts by civil society to tackle poverty.

Finally, on open economies and competitiveness, the UK was a driving force for the creation of the single market and for the Lisbon agenda, and has been a leader in pushing for open trade; to the benefit of the EU and? I would suggest, the UK.

So the UK is playing a central role. That is good for the EU; and I think good for the UK. The world has changed. Europe has changed too. And the UK now finds itself at the centre of efforts to build a successful, open and global Europe.

Why? Not out of altruism, or because of a vague notion of "influence", but because you judge that it is in your interest to do so. To pursue British objectives of an open, secure and just world, you need the European Union.

The UK's role in developing Europe is a vital role and the UK can take pride in its contribution. And yet it sometimes seems reluctant to do so. This may be because of your native modesty. But it will never work as a means of convincing the British public of the need for Europe. You will never persuade people to support an organisation which sometimes you pretend does not exist.

The UK will always have influence in Europe. Its size, its economic power and its international networks will ensure that. So the question is: does the UK want to shape a positive agenda which reflects its own agenda, or be dragged along as a reluctant partner? Does the United Kingdom want to continue to drive from the centre; or return to sulking from the periphery?

The choice is yours.

I spoke a few minutes ago about the role of the UK in the launch of the single market. It is an instructive example. It may seem strange to bring Margaret Thatcher into the Hugo Young lecture about Europe, although he wrote excellent books on both subjects. But she accepted, in the Single European Act, the need for effective institutions to drive an ambitious policy agenda. And what was true then remains true now. Europe cannot fight climate change, poverty, threats to security, economic nationalism, without effective institutions. My experience shows that without strong institutions at the centre, even the internal market will be put into question. If you want these ends, then you must have the means to deliver them.

So talk of fulfilling Europe's new core purpose will come to nothing unless the EU is able to adapt to the new rules of the game. Becoming an effective, global Europe requires improving Europe's capacity to act. That is why institutional reform is necessary.

The Constitution would have helped. But perhaps the grand finality of the word 'constitution' set it up as a hostage to fortune, both to *intergovernmentalists* who felt it went too far, and to federalists, who felt it did not go far enough. Let us be clear about the label which should be attached to further institutional reform. What Europe needs is a Capacity to Act.

Of course, there is a lot we can do, and have been doing, on the basis of the existing treaties. I do not subscribe to the view that Europe is stuck. I hope the agenda I have just described to you is evidence of that. And I doubt that many will be convinced of the argument that Europe isn't working, so we need more of it.

But the fact remains that the current set-up is less than optimal. In any event, the Nice Treaty legally obliges us to revise the composition of the Commission as soon as there are 27 Member States - and that day is less than three months away. And finally, the last European Summit set up a process to look at the institutional question in the coming year.

We need this reform. We need this institutional reform for three reasons:

First, we must improve the efficiency of decision-making. As the number of Member States rises, the time it takes to reach a decision increases. Agreement, and action, becomes more difficult to reach. This has to change. There is no point reaching the right policies on globalisation if they arrive 5 years too late.

Second, the distance is growing between Europe and its citizens. Again, that must change. Injecting greater accountability and transparency into Europe's institutions will help to close that gap. That means letting fresh air into the smoke-filled rooms, and developing a more political way of building Europe, rather than a diplomatic, bureaucratic or technocratic one.

I regard our better regulation agenda as central to that. I agree with those who say that the regulatory burden is too heavy. I am trying to reduce it. But don't forget that sometimes this extra burden comes not from the Commission, but from the member states; both when they adopt the regulations and when they implement them.

Third, there can be no global Europe without greater external coherence. There is no single number for the United States to call. The EU is not a federal state. But a European Foreign Minister, who is simultaneously responsible to the Member States and a Vice-President of the Commission, would go a long way to achieving that coherence. But we must go further than that. We need to join together the combined weight of the Community and inter-governmental forces on external policy. Europe must become more than the sum of its parts.

There is another reason I might add; we need reform to enable enlargement to continue. I do not believe we will be able to get popular support for enlargement, or be able to make the institutions of an enlarged Europe work, without reform. And I want enlargement to continue; that is another reason why we need reform.

But if we are to have further institutional reform, we must have a policy purpose behind it. I have put policies before institutions in this lecture for that very reason; institutions cannot exist in a vacuum – they must work for a purpose. In thinking through Europe's capacity to act, we need to examine afresh which policy fields require a further pooling of sovereignty, and also examine which require less.

A new institutional settlement for the EU should be seen within the same intellectual framework as the continued reform of existing EU policies. This Commission is already analysing what reforms are needed to the Single Market, what kind of modern social policies Europe needs and how a budget designed for the political priorities of a previous generation can be reformed to serve the needs of the future.

Let me take a moment to talk about the budget. The budget for 2007 to 2013 points in a more forward-looking direction, thanks to the deal brokered under the British Presidency. It is a deal which reduces agricultural spending by 2013, especially on direct support to production. It is a deal which increases spending in areas that reflect Europe's new agenda – like competitiveness, growth and jobs, innovation and security. And, crucially, it will shift money to where it is most needed; the new member states. They will get 50% of the regional and rural development funds, despite having only around 6% of the EU's GDP. That is an important investment in Europe's future; and one which will benefit all in Europe, just as the UK and others have benefited from the economic development of Ireland, Spain and Portugal.

Ladies and gentlemen,

I have tried to show that Europe's old raison d'être - consolidating peace – must be reinforced by a new sense of purpose. I have tried to show that Europe's new vocation is to be open, global and engaged, delivering 21st century solutions to 21st century concerns.

It is a vocation which I think the UK shares, and which gives it a central role to play. Europe is also an essential instrument for delivering UK policy objectives. The difference is, this is no longer just a UK agenda. It's a European agenda. And it requires a European response. With effective institutions. If there was ever a case to argue that the agendas of the UK and the EU were in conflict that is now, quite simply, absurd.

And let us also get off the old debates about sovereignty. There are those who accept that effective action requires something more than just cooperation, and those who think that cooperation without effective sovereignty sharing is enough. I like the answer which Harold Macmillan gave to that question in 1962. He said, "Accession... would not involve a one-sided surrender of sovereignty on our part but a pooling of sovereignty by all concerned...In renouncing some of our sovereignty we would receive in return a share of the sovereignty renounced by other members".

I am passionate about Europe; its values, its culture, its history, its truly extraordinary achievements in the last fifty years. No-one is forced to love Europe. What I ask is that the United Kingdom demands more from Europe, and keeps giving more in return. It is no longer a question of whether people are for or against Europe. Those are the debates of the last century. The question is – do you want to make the European Union work?

I know that Hugo Young's answer was "yes". In the years to come, let that voice to be heard louder, not less, in Britain's political arena.

Thank you.

A stronger Europe for a successful globalisation

50TH ANNIVERSARY OF THE TREATIES OF ROME
BERLIN, 25 MARCH 2007

Mrs Merkel, Excellencies,

Today we are marking half a century of European union. We have every reason to celebrate, and we are doing so in Berlin, the capital of the united Germany. Right from the start, Germany has been a reliable driving force in this united Europe. Today's European Union - our enlarged Europe - would not have been possible without Germany's commitment and solidarity.

Berlin is thus a symbol of the new, united Europe. The fact that these 27 Member States are here celebrating in Berlin today is in itself symbolic of this free and united Europe. Just 20 years ago, this would still have been unthinkable.

As we celebrate the 50th anniversary of the Treaty of Rome, the past and the future meet. Let us first recognise 50 years of achievement. Peace, liberty and prosperity, beyond the dreams of even the most optimistic founding father of Europe. In 1957 15 of our 27 members were either under dictatorship or were not allowed to exist as independent countries. Now we all are prospering democracies.

The EU of today is around 50 times more prosperous and with 3 times the population of the EC of 1957.

This enlarged European Union gives us not just economic but also political and strategic dimension. This dimension makes each member state stronger, amplifies each of our voices.

Size matters in today's world. Together we can achieve results we could never dream of alone, tackling the challenges of the globalised world: climate change, energy security, terrorism and organized crime, mass migration, a more competitive economic environment and global poverty. The conflicts of the twentieth century made us small, European unity can give our greatness back.

Here, let me be clear. My vision of Europe is not one where only European institutions promote unity and Member States defend diversity. A real partnership is where European Institutions respect diversity and national governments promote unity. That's why we need the community method and subsidiarity.

Our unity is based on deep ties: common roots and common values. It is those values that make us a Community and a Union, not just a market. The triumph of the last 50 years has been the triumph of those values in Europe, of freedom and solidarity, delivered through a Community of law. Our challenge for the next 50 years is to propose, but not to impose, those values beyond Europe's borders. This is the unfinished European adventure.

To complete our unfinished adventure requires not just scale and values. It requires something from each of us, as leaders. Political will. As Robert Schuman put it: "Il n'est plus question de vaines paroles, mais d'un acte, d'un acte hardi, d'un acte constructif."

First, "European Union" is not a "foreign power" invading our countries; it is our common project. Europe is not "them", it is "us". It is tempting, but it is not honest for national politicians to take all the credit and give "Brussels" all the blame. Let us resist that temptation. This is the ethic of European responsibility which we must all share.

Second, the political will to be open, not closed, to be brave, not frightened. To have the courage of our vision to shape globalisation with our values.

Third, the will to give Europe the capacity to act. A Europe of results demands efficient, democratic and coherent institutions. We must equip the European Union for globalisation.

This is the kind of historical test that a generation of political leaders faces once in their lifetime. So let me finish with an appeal. Let's work together: European Commission, European Parliament, Member States and European citizens, to take the great legacy we received from our founding fathers into the 21st century. Together, I believe we can win: Europa gelingt gemeinsam.

Thank you.

The Treaty of Lisbon: a treaty for 21st century Europe

SIGNATURE OF THE TREATY OF LISBON
LISBON, 13 DECEMBER 2007

Lisbon, so often the meeting point between Europe and the world, is today the place where Europeans meet among themselves, and the Treaty of Lisbon is the result of this meeting. In this old continent, a new Europe is being born; a Europe enlarged to 27 Member States, reunited in freedom and democracy. In resolving its institutional issues, Europe is preparing to tackle global problems.

A long time has passed since Europe was the centre of the world. Moreover, it is doubtful that the modern world even has a real centre. Yet, if we match the capacity to act which the Treaty of Lisbon confers on us with a political will to act, Europe will be better placed than any other country or group of countries to propose – rather than impose – global solutions which the world urgently needs.

By signing the Treaty of Lisbon, we are bringing to an end six years of negotiations on our institutions. I wish to applaud the commitment of all the governments and of the European Parliament during the Intergovernmental Conference. The Commission, true to its role of defender of the general European interest, is also proud of the impetus it has lent to this process.

Allow me to highlight the exceptional contribution of the German Presidency of the Council which, following the Berlin Declaration, garnered the political will of the Member States in support of the Intergovernmental Conference's mandate, and the competence and determination of the Portuguese Presidency of the Council, which made this Treaty of Lisbon possible.

In order to achieve this result, all governments had to demonstrate political courage and I would invite you to show the same determination during the ratification period.

It is particularly important to draw attention to the added value of the Treaty and the efficiency gains it brings to our decision-making process, the increased democracy it affords our institutions and the potential for greater coherence it represents for our external action.

Now is the time to move forward. Europe must face many challenges, both external and internal, and our citizens want results. Globalisation is the common denominator for all these challenges.

If we are to ensure that Europeans enjoy prosperity and social justice, freedom and security, the European Union must be able to take decisive action on the world stage.

If we are to have an international order built on open and fair societies and economies, collective security, good governance, human rights and sustainable development to guarantee our planet's future, in particular in face of the major challenge of climate change, the European Union must have adequate tools to shape globalisation.

If we are to have strategic relationships with our partners and the means to firmly defend our interests in our relations with other great powers, the European Union must be strong and united. As the great poet Fernando Pessoa said in 1917, “Europe is thirsting to be created and hungry for the future”. He added “Europe wants to develop from a mere geographical designation into a civilised person”.

The Treaty of Lisbon will reinforce the Union’s capacity to act and the ability to achieve those goals in an effective way. As such, it will help the Union to deliver better results to European citizens.

The Treaty of Lisbon will also strengthen European democracy and the community method, by giving more competences to the European Parliament, but will also reinforce the respect for subsidiarity through an increased role of national parliaments in European matters.

The Treaty of Lisbon will give further legal protections to European citizens through the Charter of Fundamental Rights, thus reinforcing the principles and values which define us as a “community of law”.

The Treaty of Lisbon will also provide increased coherence in our external action. A good illustration of this is the fact that the High Representative will also be Vice-President of the Commission.

But the Treaty of Lisbon also has a very special political significance. It is the Treaty of an enlarged Europe from the Mediterranean to the Baltic, from the Atlantic Ocean to the Black sea. A Europe that shares common values and common ambitions. For the first time, the countries that were once divided by a totalitarian curtain, are now united in support of a common Treaty that they had themselves negotiated.

The enlarged European Union gives us a new economic, political and strategic dimension. This dimension makes each Member State stronger. And it makes Europe, united in its diversity, better equipped to promote its interests and values in the world.

But dimension is not enough. We need increased coherence, which can only be achieved if we are able to match the new capacity to act with a renewed political will.

The Treaty of Lisbon gives the Union this capacity to act. But the determination to act requires political will and committed leadership.

Fifty years after the Treaty of Rome, we can be proud of what we have achieved in the past. Today, as we sign the Treaty of Lisbon, we can be confident about what we will achieve in the future.

Let us now work together – European institutions, Member States – to make freedom, prosperity and solidarity a reality for the everyday life of European citizens.

Political guidelines for the next Commission

A MESSAGE TO THE PRESIDENT OF THE EUROPEAN PARLIAMENT
BRUSSELS, 3 SEPTEMBER 2009

We live in extraordinary times. The crisis that we face is not just a financial or an economic crisis. It is also a crisis for the values of our societies. At the same time, it shows to what extent the world of the 21st century has become interdependent. It confirms what may become fundamental changes in the relations and the balances between world powers.

This is why we need a far-reaching reflection about the kind of society we want to live in.

For Europe, this is a moment of truth. Europe has to answer a decisive question. Do we want to lead, shaping globalisation on the basis of our values and our interests – or will we leave the initiative to others and accept an outcome shaped by them?

The alternatives are clear. A stark choice has to be made. Either Europeans accept to face this challenge together – or else we slide towards irrelevance.

I am convinced that Europe can, and should, together with our partners, provide globalisation with the leadership it needs. In order to play its proper role, Europe must take the acknowledgement of global interdependence as the starting point of its own "declaration of interdependence". Combining the dimension of its internal market with the joint forces of the European institutions and of its 27 Member States, the European Union has the critical mass to project our values and to defend our interests. And the European Union is particularly well-suited to take up this task because of our experience in establishing supranational rules and institutions. The European Union has had almost 60 years as a laboratory for cross border supranational cooperation, making it a natural champion of global governance.

The Lisbon Treaty, which I hope will soon be ratified, will give us the institutional capacity to act. But facing these challenges is also a question of political will. This is not the time for business as usual or for routine – what we need is a transformational agenda.

More than ever, this requires a strong European Union. But let me be clear: this does not mean more centralisation of powers in Brussels. The Lisbon Treaty and the principles of subsidiarity and solidarity it enshrines determine the proper level for efficient delivery.

What needs to be recognized is that the European dimension, the European spirit, the European culture in decision-making at all levels, the Community method are decisive to use Europe's assets to achieve the best results for citizens. To productively deploy our economic and commercial leverage. From the internal market and the Euro to the cohesion policy.

Europe has managed to develop a social market economy and a model of society that surpasses the destructive dichotomy of unregulated markets or over-powerful states. Our common history and experience show that the answers to today's challenges do not lie in the market alone, or in the state alone. They must come from society so that they can respond to people's needs. We must put human dignity at the heart of our endeavours. A values based approach provides the right foundation for the pragmatic task of delivering solutions for our citizens. European policies must be policies aimed at results for the citizens. This is the way to close the gap between the reality of European integration and people's perceptions.

It is obvious that the short-term priority must be the successful exit from the crisis, sustaining demand and stemming the rise in unemployment. This means implementing the European Economic Recovery Programme with vigour, keeping interest rates low, returning banks to viability, and using our state aid rules to support governments in their efforts to revitalise the economy without adverse effects in other Member States – all of this as part of an overall coordinated European strategy. It is too early to withdraw the stimuli and support measures to the economy and the financial sector.

Under the present circumstances, employment is clearly the number one concern. It is essential to use all possible instruments to hold back further job losses and to help those who now find themselves unemployed. Given the uncertainties which people are facing at this moment, we need a new, much stronger focus on the social dimension in Europe at all levels of decision making. At the same time, an effective and responsible reform of financial markets must be implemented swiftly, so as to re-centre markets on the ethical basis essential for both success and legitimacy.

But to lay the foundations for a more sustainable future, we must already look beyond the short term. Setting the priorities for Europe in a ten year horizon will allow us to define better the work the Commission should do in the next five years. Such a framework will help us to make the right decisions for the longer term, guiding our decisions on how and where to invest now in the deep and innovative changes needed to sustain the European model of society and to succeed in an increasingly competitive world.

We already have several of the ingredients in the different strategies and instruments the EU has developed in recent years. What I propose is to bring the different strategies and instruments together, adapting them where necessary. In particular, we need to revise the current Lisbon strategy to fit the post 2010 period, turning it into a strategy for an integrated vision of "EU 2020".

This strategy for the "EU 2020" will comprise a more convergent and coordinated approach for the reform of Europe's economies through investment in new sources of growth. This means boosting research, development and innovation. This means upgrading of skills as the basis for more employment. This means more competitiveness and less administrative burden to strengthen our industrial base, a modern service sector and a thriving rural economy. This means closing the "missing links" in the internal market to realize its full potential. This means action against climate change and for energy security to make our economies and societies sustainable. This means deploying the networks of the future, be it broadband or a new European supergrid for electricity and gas. And this means securing sound public finances. I want a strategy for concrete action – which this paper details further – to deliver the kind of inclusive and sustainable social market economy we want to live in.

The basis for the strategy is our commitment to open and sound markets. Internally, it is based on a staunch defence of the internal market, and the competition and state aid rules, which provide a level playing field guaranteeing access and opportunity for all, irrespective of size or might – namely consumers and SMEs. Externally, it is based on the rejection of all forms of economic protectionism, whilst defending the European interest firmly and without being naïve.

I have a passion for Europe. For me, the European project goes much further than its economic dimension. It is based on the values of peace, freedom, justice and solidarity, and it must mean advancing people's Europe. The European Union offers its citizens rights, protection and opportunities in the marketplace and beyond. And it helps to bring people together, using Europe's cultural diversity as a powerful channel to communicate. The principles of free movement and equal treatment for EU citizens must become a reality in people's everyday lives.

Moving ahead in this way, Europe can promote its values and interests not only in her immediate neighbourhood. Europe can become a true partner in leadership on the global scale. At the multilateral level, in the UN context, with our partners in the G8 and the G20. By engaging with emerging economies and calling them to take on increased responsibility. And Europe can credibly champion the cause of human rights and of development, notably in the fight against poverty in Africa.

To accomplish this, we need a more political Europe. This requires a special partnership of the two European institutions "par excellence" – the Commission and the European Parliament. We hold a joint responsibility for the common European good: it is when we work together, when we have a clear consensus on our vision for Europe, that we can best realise our ambitions for the transformational agenda that the Europe of tomorrow demands of us. I set out in broad terms my vision for Europe for the next five years in a letter to the Members of the European Council in June. In the days to come, I will meet with the different political groups ahead of the debate and vote in the plenary of the EP. This is why I have decided to expand on this vision and to set out not only the policy objectives and ideas that I think should inspire our partnership for the next five years, but also my convictions and beliefs.

This document does not aim at being exhaustive. It is not a Commission work programme. That will have to wait for a new College. The initiatives put forward should be read not as a catalogue, but as illustrations of the political guidelines on which I would like to build a consensus among all pro-European forces. It aims to give all of you – those who have worked with me over the past five years, and those elected to the Parliament for the first time – a direct insight into my ambition for Europe. Should I be approved by the European Parliament on the basis of this vision, I would work with the incoming Commissioners to develop the guidelines set out in this text into the more detailed programme. My first mandate was about consolidating Europe at 27. The enlarged European Union now gives us a springboard to use our reach and strength to best effect. We are now in a position to move on with conviction and determination to a new phase of ambition. If I am reconfirmed by the European Parliament, I will redouble my efforts to do everything possible to make an ambitious Europe happen. I will use the powers of the Commission to the full. I will take the special partnership with the European Parliament to a new level, to ensure that the two Institutions at the heart of the European project together pull their weight for a prosperous, secure and sustainable Europe – a Europe of freedom and solidarity.

J.M.B.

"Nos pays sont devenus trop petits pour le
monde actuel
à l'échelle des moyens techniques modernes,
à la mesure de l'Amérique et de la Russie
d'aujourd'hui,
de la Chine et de l'Inde de demain."[4]
(Jean Monnet, 1954)

"Et la Communauté elle-même n'est qu'une
étape vers les formes d'organisation du monde
de demain."[5]
(Jean Monnet, "Mémoires", 1976)

"The twentieth century — America's
Century — had seen Europe plunge into the
abyss. The old continent's recovery had been
a slow and uncertain process. In some ways
it would never be complete: America would
have the biggest army and China would
make more, and cheaper, goods. But neither

4 "Our countries have become too small for the present-day world, for the scale of modern technology and of America and Russia today, or China and India tomorrow."

5 "The Community… is only a stage on the way to the organised world of tomorrow."

America nor China had a serviceable model to propose for universal emulation. In spite of the horrors of their recent past — and in large measure because of them — it was Europeans who were now uniquely placed to offer the world some modest advice on how to avoid repeating their own mistakes. Few would have predicted it sixty years before, but the twenty-first century might yet belong to Europe."

(Tony Judt, "Postwar: A History of Europe since 1945", 2007)

The Europe I believe in

The world is at a turning point. So is Europe. Our action now will determine the vitality of the European model of society for future generations. It will determine how much influence we have in shaping a new world order, how well we use our assets to assert Europe's interests and values in the age of globalisation. The European Union now has 50 years of experience in how to successfully promote rights, prosperity and solidarity for Europeans. We have, sometimes painfully, learned how to manage interdependence in Europe – we now need to bring this experience in a united European response to the global level. These are no ordinary times. What Europe needs is a transformational agenda. Only by working together can Europe have the critical mass needed. We face a choice: either we collectively shape the new order, or Europe will become irrelevant.

This is of course not the first time Europe has had to reinvent itself: it started out as a peace project, aimed at healing a war-torn continent in the 1950s. With the 1960s and 1970s, it transformed into a project for economic prosperity, and became a freedom project for those Europeans still outside. For my generation, Europe was a beacon of freedom and democracy, the very embodiment of the political and social rights that people aspired to while still living under oppressive dictatorships. I experienced first-hand the capacity of the European project to surpass the aspirations and expectations of Europeans, and I know that this is an experience I share with many of you.

I know that these days it is fashionable to speculate about Europe's decline. I take a radically different view. I am convinced that now is Europe's moment, Europe's opportunity. I want to rekindle a passion for Europe, a new pride and feeling of connection between the EU and its citizens, based on my conviction that the EU with its social market economy is the route to a better future for us, our children and for the wider world. I want to make my contribution to helping Europe to realise its full promise, and to shape a future where Europe exploits its full potential as the leading force for progress in a challenging world.

… is a Europe of ambition, defending and promoting the European interest with vigour

The Europe I believe in is a Europe that:

- puts opportunity, responsibility and solidarity at the heart of a social market economy. An open, competitive, and prosperous Europe which uses the full potential of our internal market and of the euro; which fosters an advanced and high-value added industrial base, and nurtures excellence in our services sector; which promotes the development of our agricultural sector; and which helps create more and better jobs for our citizens;

- invests in its future: in modern infrastructure, in research and development, in innovation, in developing our skills base. A Europe committed to the radical transformation towards a knowledge-based society;

- leads our economies out of the current crisis, and paves the way for smarter, greener and more sustainable growth, promoting economic and social cohesion and ensuring long term fiscal sustainability;

- keeps world leadership in fighting climate change and promoting energy security, while helping European technology and European companies to pioneer the development of a low carbon economy;

- refuses all forms of economic protectionism but is clear in its determination to protect and promote the European interest worldwide;

- continues to lead the drive towards effective regulation and supervision of global financial markets, shaping globalisation with our own values, respecting ethical principles and promoting higher social and environmental standards worldwide; which acts as a champion for the promotion of human rights and development and speaks loud and clear, with one voice, in the world scene.

In short, a Europe of responsibility and action, where citizens can exercise their rights in an environment of justice, freedom and security.

… is a Europe of values

I have a passion for Europe. It is far more than just a market – its achievements inspire pride, its potential rouses the imagination. It is a Community of values, founded on human dignity, freedom, equality, and solidarity. As the world around us changes, these values come under pressure – from changes in society as well as from scientific and technological development. I believe in a Europe that gives every man and woman the freedom and security to develop their potential to the full, free from discrimination. A Europe that celebrates diversity as a major asset and ensures that every human being is treated with the same dignity. A Europe that is proud of its cultural and linguistic heritage, that protects and promotes its diversity as the essence of our identity, the foundation of the values we stand for and the basis on which we engage with the rest of the world.

Solidarity is a cornerstone for European society and its social market economy. When Portugal joined the EU in 1986, I saw at first hand that solidarity in action, helping my country to accelerate its social and economic development and use its potential to the full. We need to continue to give practical expression to solidarity in its different dimensions: political, as we did in the Russia/Ukraine gas crisis; economic, as we do through cohesion policy; and social, where I proposed both the Globalisation Adjustment Fund and the Food Facility, and fought for their passage into law.

Our interdependence, inside Europe and worldwide, has never been clearer. Tackling climate change, putting sustainable energy policies in place, helping our societies to face demographic change, rebuilding the world financial system, tackling the scourge of poverty: in today's complex world, we will only make progress if we join forces. That means we all have the responsibility to play our part: EU Institutions, Member States, civil society – at home and abroad.

… and is a Europe that puts people at the heart of the agenda

Europe's raison d'être is to empower Europeans, to protect their rights and to foster social progress. In the age of globalisation, these tasks can no longer be fulfilled solely by national governments. The EU represents a real plus for Europeans as they try to build a better future, and allows them to shape the world we live in with confidence. In the past, I think the EU Institutions and the Member States have often failed to make clear what European action means concretely for citizens: how do Europeans benefit from the Single Market, from market opening and regulation in energy or telecoms, from competition policy or from structural funds? What exactly are the rights of Europeans as students, workers, businesspeople or consumers? In short, I want the European policy agenda to be built much more clearly around the rights and the needs of Europeans.

Rights and obligations only become a reality when those concerned have easy access to them. I believe the Commission, the European Parliament and the Member States need to put aside time and attention to defining, communicating and enforcing these rights. The Lisbon Treaty, if ratified, will give new opportunities to make this objective a reality.

I have always preferred, and I will always prefer, solid achievements over empty rhetoric. That is how Europe has been constructed – not on castles in the air but on the solid foundations of the basic values which are at the heart of the European Union.

Policy guidelines for the next Commission

The challenges Europe faces are enormous…

This is a time of transformation, a time for the EU to seize the opportunity to find fresh answers to new questions and to use its underlying strengths in new ways. We must act jointly to build a sustainable recovery. People are worried about the future, for themselves and their families. Just continuing with the same policies will not suffice – we need a new approach to provide solutions that work – and last. Only an integrated EU-wide strategy can set Europe on course for a return to strong and sustainable economic growth and employment creation, to the benefit of its citizens.

I see five key challenges confronting Europe today:

1. **Restarting economic growth today and ensuring long-term sustainability and competitiveness for the future.** GDP is forecast to decrease in the EU by around 4% this year. It is clear that global growth will not return to pre-crisis levels for some time – if at all. Those growth rates – and the economic model behind them – were simply not sustainable. Recovery will require a different approach from the past.

2. **Fighting unemployment and reinforcing our social cohesion.** While 18 million jobs were created between 1997 and 2007, the crisis has brought job losses across the EU, with the added risk of increased social problems such as rising poverty. Between 2007 and 2010, the number of unemployed people in the EU is likely to have increased by more than 8 million. These are exceptional times: we need a new, much stronger focus on the social dimension in Europe, at all levels of government. Immediate action will be required to fight unemployment today, but also to look ahead to those facing long-term structural barriers to employment, such as the young and low skilled. At the same time, we need to remember the needs of our ageing population and the most vulnerable in our society. This is the only way for us to ensure strong social cohesion as the hallmark of the European model of society.

3. **Turning the challenge of a sustainable Europe to our competitive advantage.** The EU has shown leadership in international environmental negotiations in areas such as climate change and biodiversity. We have set binding targets for reducing our greenhouse gas emissions by 2020. Now we need to show how fighting climate change can help to modernise our economies, how it offers the right platform to reap the benefits from technological leadership.

4. **Ensuring the security of Europeans.** The fight against terrorism, international crime and human trafficking is a battle we must win. The current crisis creates additional risks, increasing the danger of a rise in extremism, exploiting social and ethnic tensions. A secure Europe also means a Europe confident in its supply of energy, food and other raw materials, in the face of increasing international competition.

5. **Reinforcing EU citizenship and participation.** Revitalising the link between the peoples of Europe and the EU will make it both more legitimate and more effective. Empowering citizens to be involved in decisions affecting their lives, including by ensuring transparency on how they are taken, will help to achieve these aims. This means that the rights of European citizens must have real effect: citizens today should not find that they still face obstacles when they move across borders within the EU.

Europe must work together on these issues. They cannot be solved solely by Member States. But working together, we can succeed.

… but so are the assets we can build on

I have every confidence in Europe's ability to succeed by building on our strengths and remaining true to our values.

- We are a continent of stable democracies, with the largest transnational democratic system in the world.
- We are a community with the rule of law and strong institutions.
- We have a tried and tested social market economy. We have a wealth of human talent, underpinning world class manufacturing, agriculture and services.
- We have a sophisticated single market which has proved its resilience in the toughest of circumstances and has consolidated its position as the key driver for European growth.
- We have a single currency which has proved an anchor of stability and can continue to grow in importance.
- We have well developed Community policies that allow us to share experience, exploit economies of scale and to accelerate economic and social cohesion across all our regions.
- We have made a success of enlargement which has made us stronger at home and abroad.
- We have strong standing in the world: partners from across the globe are looking to the EU for inspiration and leadership.

The current crisis, by showing that we have reached unprecedented levels of global interdependence, has highlighted a particular asset of the EU. No region of the world can match the EU's experience of setting transnational standards and running transnational institutions. This makes us a natural champion for the global governance the world now needs.. I am convinced that if we seize this moment of change, we can propose to the global community some solutions which will answer the challenge of interdependence in the 21st century.

Setting our priorities in a longer term perspective: a vision for EU 2020

The next months and years will determine how quickly and strongly we will recover from the crisis and how much influence we have in shaping a new world order. In order to set the right priorities for the next Commission, we need to take a longer perspective. We have already fixed 2020 as the date for delivery of our ambitious climate change and energy targets. Setting the priorities for Europe in a ten year horizon will allow us to define better the work the Commission should do in the next five years. A longer term framework will help us to make the right decisions on how and where to invest now in the deep and innovative changes needed to deliver a transformational agenda for tomorrow's EU. With the right **vision for the EU in 2020**, we can harness Europe's talents and assets, and reinvigorate the inclusive social market economy that is the hallmark of the European way of life.

We already have several of the ingredients in the different strategies and instruments the EU has developed in recent years – the Lisbon strategy for growth and jobs, the renewed social agenda, the Stability and Growth Pact, competition and state aid policy, the Sustainable Development Strategy, our climate change and energy strategy, the European Research Area, the Hague and now the Stockholm programmes.

But each of these was developed separately: they do not offer a holistic view of the kind of society we want to build for the future. What I propose is to channel these different strategies and instruments, adapting them where necessary, to deliver the kind of inclusive and sustainable social market economy we all want to live in. We need to revise the current Lisbon strategy to fit the post 2010 period, turning it into a strategy for convergence and co-ordination to deliver on this integrated vision of EU 2020. This will require both immediate and longerterm action:

- Making a successful exit from the crisis
- Leading on climate change
- Developing new sources of sustainable growth and social cohesion
- Advancing a people's Europe
- Opening a new era for Global Europe

We need urgent action on all these now, so that results start to flow quickly, even if some will take longer than others to come to fruition.

Making a successful exit from the crisis

… requires a vigorous and coordinated EU wide economic strategy

European and national policies under the **European Economic Recovery Plan** have been crucial in restoring a measure of confidence more quickly than many expected. Confidence is starting to recover, lending is starting to flow. Interest rates are at historically low levels.

Europe has intervened on a massive scale. The huge budgetary effort of European governments will inject up to 6% of GDP into our economy in 2009- 2010. In line with Commission guidelines, guarantees and recapitalisation programmes are stabilising the banks, with the Commission having now approved some €3.6 trillion in state aid for the financial sector since October last year, almost a third of EU GDP.

This has not been designed to bail out bankers, but to avoid economic meltdown, protect savings and prevent job losses. The Commission accelerated structural fund payments of €11 billion, and proposed a €5bn investment programme for innovative energy projects and broadband in rural areas. We also re-programmed the European Social Fund to keep people in work with training or retraining and widened access to the European Globalisation Fund. We doubled the ceiling for balance of payments support to Member States outside the euro zone to € 50 billion.

The EU's core economic assets – the single market and the euro – have weathered the storm and protected Europeans from the worst. It was Europe that set the agenda for global action in the G20 to stabilise financial markets, giving more resources to the International Monetary Fund and revamping financial regulation.

The priority now is to continue to sustain demand and stem the rise in unemployment. This means implementing the European Economic Recovery Programme with vigour, keeping interest rates low, and using our state aid rules to support governments in their efforts to revitalise the economy without adverse effects in other Member States. It is too early to withdraw these stimulus and support measures to the economy and the financial sector, but an exit strategy must be prepared. The room for further stimulus to demand in the EU is very limited, as a further, generalised fiscal expansion could meet with adverse reactions from the financial markets. At the same time, there must be no contradiction between the short-term measures taken today and the long-term sustainability and competitiveness of the European economy.

Most Member States in the EU will have an excessive deficit this year. This is due to cyclical reasons, discretionary action and, in some cases, both. Excessive deficits must be corrected, in a determined and intelligent way, in keeping with the revised **Stability and Growth Pact**. The Commission will analyse carefully the right timing for the deadline needed to correct each excessive deficit, with different deadlines for different Member States – for example, balance of payments assistance means some Member States need to act particularly quickly. Overall it will take time to bring the deficits below 3% of GDP.

This will require broader and deeper budgetary surveillance by the Commission, including the quality of public finances: a typical example of where it is in the interests of all to see **economic policy coordination** taken a step further. Under my leadership, the Commission will use the full range of possibilities in the Treaty to strengthen the convergence of objectives and the coherence of the effects of economic policy, particularly in the euro area. Enhanced coordination will be central to a successful exit strategy. The wide range of existing Community policies can also be used to foster greater policy co-ordination. For example, the Commission has been reviewing its state aids policy to ensure that subsidies are well targeted on Community objectives such as the promotion of research and development, environmentally friendly technologies and the development of new skills. It will continue to ensure that this is done in ways that provide a level playing field across the EU: the exit from the crisis will only be successful if we keep a strong single market at the heart of our strategy.

The timing of the exit strategy should also be coordinated at the global level. The full role now played by the Commission in the G20 as well as in the G8 gives it a springboard to help shape decisions at the global level. It will reassure markets that the recent increase in government debt will be reversed; while also ensuring that a premature exit does not put recovery at risk.

… stemming the rise in unemployment

Unemployment is a personal drama - it also affects the whole of our society. Communities, households and individuals across Europe are facing great hardship or uncertainty as unemployment rises. It is essential to use all possible instruments to hold back further job losses and to help those who now find themselves unemployed. Europe cannot afford the social and economic cost of failing to use our human talent, our prize asset; and it cannot fail to respond to the anxiety felt by so many of our fellow Europeans. The Commission has an important role to play – even if most of the competences for employment policy lie with Member States. We can bring the leverage of the EU budget into play, as we have done in adapting the European Social Fund; we can help national actions to take the EU dimension fully into account; we can use our power to bring expertise together to promote good solutions and practices and find new ways of dealing with unemployment and creating new jobs. Good examples of the positive role the Commission can play here are our proposals to adapt EU funding rules to today's pressing needs, for example by supporting short time working combined with retraining as a way of keeping people in work during the crisis and upgrading their skills so they are ready for the upturn. Our recent work on establishing Community principles on flexicurity to be implemented through national pathways has provided a positive framework to build for the future.

So the EU must step up still further its help to give people the skills they need. But if these skills are to secure jobs for people into the future, with more high quality jobs, the training needs to be well targeted. We need to work already on a significant **upgrading of skills and quality of education**, including much wider take up of lifelong learning. Work gives dignity to people and vitality to communities. Education helps people realise their potential. We can meet and even go beyond our 70% employment target by giving people the skills they need to remain competitive, and by preparing them through high quality traineeships and apprenticeships. Millions of new jobs can be created, with big growth potential for "green jobs" and "white jobs" (in health care and social services for children and the elderly). We can start making this happen by mapping the skills needed for the future and using EU programmes to help Member States to equip people with the necessary education and skills.

… and a new generation of responsible financial regulation

Europe must exit from the current crisis confident that it has a more ethical, robust and responsible **financial system**. This requires permanent, coordinated action by the EU and its Member States. Of course, individual governments remain responsible for how they use their taxpayers' money. But at the European level we can ensure that banks are subject to transparent stress tests, based on common criteria, and that common Commission guidelines govern the work to deal with impaired assets. We need to secure the return of the banks to viability, in the context of an overall coordinated exit strategy. There is a clear role here for the European Commission. National rescue and recapitalisation plans must not distort the single market. The EU's competition and state aid rules provide a guarantee of viable solutions that do not discriminate against healthy institutions or between Member States. Tough decisions might have to be taken as regards the size and business model of restructured banks. As the process of reshaping the banking system in Europe continues, the Commission will ensure that we have a **level playing field** not only between European banks, but also vis-à-vis external competitors which benefited from significant help from their domestic taxpayers.

We must also complete the new era in regulation of financial markets to prevent a repeat of the crisis. This means the full adoption and implementation of the Commission proposals on regulation of capital requirements, hedge funds and private equity, rules on remuneration, rating agencies, and deposit guarantees. We must also improve crisis management systems: . European Deposit Protection System that would insure deposits in cross-border Institutions would re-establish confidence. I also envisage the Commission coming forward with ambitious legislation to regulate derivatives in 2010.

An effective European system of **financial supervision** is essential to restore confidence. We need full and swift implementation of the legislation inspired by the report I commissioned from the de Larosière Group, to maintain the current momentum for reform and as a key signal to our international partners that Europe is determined to act. The next Commission will have to review the results to ensure that our ambitions are met.

Leading on climate change

The crisis struck just as Europe was taking historic decisions on climate change. The Commission's ambitious 2008 proposals agreed by the European Parliament and the Member States were an acknowledgement that Europe had embraced the fight against climate change and is determined to ensure its future energy security. European society now accepts this as a central challenge for decades to come.

The economic and financial crisis and the scientific evidence of climate change have shown us that we need to invest more in sustainability. But this is not just about doing the right thing for the future of the planet – Europe stands to benefit enormously from investing in new low carbon technologies for future jobs and growth. Fighting climate change and the move towards a low carbon economy provide huge opportunities and will enhance our energy security.

This has given Europe the strength to lead on climate change: not just to agree binding targets but to approach the climate change negotiations in Copenhagen this year with a clear vision of how the global community can address the problem it faces, and a clear commitment to climate finance for developing countries. Implementation of this vision and commitments both within Europe and worldwide will be a major challenge for the next Commission.

We have already begun to show that the EU can create new jobs and new industries through low carbon technologies. First-mover advantages can be gained by exploiting the potential of **EU environmentally-friendly industries, services and technology** through fostering their uptake by enterprises, especially SMEs, and designing the appropriate regulatory environment. An industrial base which is modernised to use and produce environmental-friendly technologies and which exploits the potential for energy efficiency is the key to sustainable growth in Europe.

We need to start working now on a radical pathway to reaching a far more sustainable Europe by 2020. We have the political will to do this, now we need to find the right mix of regulation, technological development and funding to make it happen. This means finding ways to transform our energy supply in a well regulated EU internal market, to use our energy much more efficiently, to recognise the true cost of carbon emissions. Technology is critical to this, and we must do more to exploit the potential of research and development on a European scale. But we must do far more than this: we must work together to find ways to smooth the path of change for our societies, to stimulate businesses, public authorities and citizens to seize the chance and to take the leap to the sustainable future we need.

The next Commission needs to maintain the momentum towards a low emission economy, and in particular towards **decarbonising our electricity supply and the transport sector** – all transport, including maritime transport and aviation, as well as the development of clean and electric cars. Decarbonising electricity supply and transport will also bring additional benefits in terms of security of energy supply.

This work is not just about lessening our future impact on our climate. We also need to deal with the legacy of past emissions and the climate change that they will inevitably bring. Each and every Community policy will need to be assessed and if necessary adapted in the light of climate change, whether we are talking about water use in agriculture, how to deal with coastal erosion or the implications for fisheries policy. Therefore I intend to launch a major initiative to help the EU anticipate the changes that need to be made so that we can cope with the climate change that is already happening, at the same time as we reduce our emissions for the future. This work will involve marshalling all the necessary scientific and economic data that exists to help the EU to **adapt its policies to the challenge of climate change**. Here too the EU can lead the search for new solutions to the climate induced problems that we are already beginning to experience.

Boosting the new sources of growth and social cohesion

In the current crisis, part of our economic activity is coming from the stimulus to demand. But we cannot rely forever on short-term stimulus. **New sources of growth** will have to take up the baton – sources of growth that are sustainable. Sustainability means keeping up the pace of reform, targeting our skills and technology on tomorrow's competitiveness and tomorrow's markets; modernising to keep up with social change; and ensuring that our economy can respect the need to protect the European environment, its countryside, its maritime zones, and its biodiversity. This in turn calls for a radical shift in policy making. We need to invest heavily in new skills for the jobs of tomorrow. We need to make technological change and innovation the central theme of how the European economy works. We need to invest in new infrastructure networks for tomorrow's technologies.

This policy shift must be built on open markets and investment regimes at the service of European interests, with smart regulation for sound markets in the EU and at global level.

Every sector of Europe's economy will benefit from such an approach – creating new opportunities, and new jobs.

… requires a strengthening of Europe's industrial base

The EU needs a strong industrial base. Our manufacturing sector is driven by huge investments in technology and a highly skilled and creative workforce. Our industry is transformed in ways we could not have imagined ten years ago. We have built new industries on reusing scarce materials. We are producing high tech, low energy solutions to old problems like heating and cooling and helping our climate change goals in a win-win partnership with industry.

In order to ensure that the EU exploits this potential for change and remains an attractive industrial location in 2020, we need a fresh approach to industrial policy, supporting industry, putting the emphasis on sustainability, innovation and the human skills needed to keep EU industry competitive in world markets. I am committed to a policy that continues to remove unnecessary administrative burdens and provide the legal certainty companies need to make the long term investments. The next Commission should seek new ways of giving new dynamism to small and medium size enterprises, by pursuing issues such as late payments, a private company statute and the implementation of public procurement rules inside the EU, and by supporting the efforts of SMEs to internationalise in major growth markets round the world.

… a modern service sector

More than two thirds of Europeans now work in the service sector, providing a huge range of services both locally and across the globe. The reforms to the financial sector will already help Europe to keep its leading role in financial services. The EU's dominance in other services underpinning the economy – such as tourism, logistics, and business services, as well as IT and environmental services – will also remain a core asset. The changes that are taking place in our society will also bring demand for new services and thus new jobs. For example, with the ageing of our population there will be a need for more health and care services. This implies a need to give a boost to the overall development of the social and health services' sector, for instance by establishing a quality framework for public and social services, thus recognising their importance in the European model of society.

… a thriving rural economy

Europe has a long and proud history as an agricultural producer. Thanks to the efforts of her farmers, a common policy and the investments made in technology, education, research and market development the EU is not only able to feed itself but has become an important agricultural exporter. Agriculture will continue to have an important place in Europe's future development, not only in ensuring food security, preserving the environment and cherishing the countryside, but also in facing new challenges such as climate change while providing a fair standard of living for farmers. But it needs to adapt. Just as the common agricultural policy has proved able to transform itself in recent years, there is a need to decide on the future needs and role of agriculture and rural development in the EU 2020 vision and to gear public investment and innovation efforts to deliver a thriving rural economy.

… as well as the maritime sector

The current Commission has, for the first time, brought together the different policy strands in an integrated approach to the maritime sector. But more needs to be done to further extend our maritime policy. For example, I want to see Europe make the Motorways of the Sea a reality. Europe should develop maritime spatial planning; integrate maritime surveillance across borders and across countries; and build a marine observation and data network.

This Commission has also launched an important review of the common fisheries policy. On the basis of the consultations which are now underway, the next Commission should set out how European fisheries policy can be placed on a sustainable footing.

… a research and innovation revolution for a knowledge society

Europeans have always been pioneers, pushing out the frontiers of knowledge and science, finding new solutions in every generation. We value education and training, recognising that they equip us to achieve our potential and are essential ingredients for a sustainable society. We have already put in place beacons of excellence to help us become a knowledge-based society, like the European Research Council, and launched the European Institute of Innovation and Technology. We have significantly increased the share of the EU budget that is spent on research and innovation and are working with Member States to raise the share of national and private funding in these areas.

The next Commission must take **EU Research policy** to a new level and make it one of the motors of our sustainable development. The United States draws great benefit from its continental scale in research, from a long tradition of close university-business co-operation and from the ease of movement enjoyed by researchers within and to the US. In contrast, despite its excellence, the European research effort remains fragmented. We need to stretch ourselves to achieve world excellence and to find new ways of combining our resources to make a reality of the European Research Area. I would envisage refocusing on key areas to secure:

- world excellence in basic research. Our future agenda for science driven frontier research, should be set by the scientific community, principally working through the European Research Council;

- more industry-driven applied R&D, in areas ranging from nanotechnologies to space, to bring new, leading edge products and clean technologies to markets and to boost the competitiveness of EU industry;

- new opportunities for researchers, extending exchange programmes like Marie Curie, and attracting world class researchers to the EU;

- a bigger focus on spreading R&D capacities to the regions.

We will also need to put much greater emphasis on **innovation** as a cross cutting way of equipping all sectors of our economy to be more competitive so that they face the future with confidence. Innovation is not just about product development: it is about how our society changes and improves. Innovation is about the way we do business, the way we work, the options we choose as consumers and citizens. The next Commission will work to bring together the power of public procurement, a new strategy on intellectual property rights and Community funds and instruments to promote innovation. For example, it will continue to develop its "lead markets" concept, where public authorities facilitate industry-led innovation by creating the conditions for a successful market uptake of innovative products and services in a focused way in areas such as e-health, internal security, eco-innovation and eco-construction.

I also want Europe to develop a **new entrepreneurial culture** to match the knowledge and innovation society. Europe should aspire to increase by 50% the share of its population involved in entrepreneurial ventures, from less than the 10% today to 15% (US: 14%). To achieve this means not only tackling 'hard' factors like access to risk capital and credit, but also 'soft' factors, like mindsets, attitudes towards failure, education and providing role models. Entrepreneur support networks and other connections can make sure that good ideas are spread throughout the EU.

… and an employment agenda for a changing workplace

At the same time as we need to adapt skills in the workplace to guarantee decent work and quality jobs for the future, we also face profound changes in the way we work. Developments like teleworking, flexitime, longer active lives, and faster changing job profiles are felt in the daily lives of millions of Europeans. They raise new questions for an **employment agenda** which must add to workers' rights: work-life balance (the triangle of leave, childcare and flexible working), working conditions, but also active labour market policies, and flexicurity. We need to make sure that our values of inclusion, equity and social justice are carried forward into a new approach. We will not allow **basic social rights**, such as the right of association or the right to strike, to be undermined. They are fundamental to the European model of society. And if globalisation puts pressure on our competitiveness, our response should never be to lower our standards. Rather we need to make the case to other partners to adopt similar standards, in the interest of their own wellbeing, and to continue to advocate decent work and other standards in all parts of the world.

Working closely with the social partners, we should be moving away from the conflictual, old fashioned industrial relations model to a more inclusive approach in the workplace, based on employee engagement and quality of work. This needs to be set within a wider framework based on values and our belief in a fairer, more inclusive Europe. Gender equality and eliminating the gender pay gap, diversity, anti-discrimination, equal opportunities, treatment of minorities – these are core values of the EU and closely linked with the **broader fundamental human rights agenda**.

I want the next Commission to look at these issues in a more integrated manner, looking closely at where the EU's competences allow it to offer a direct contribution to smoothing the path of change.

… where legal migrants are well integrated

Immigration already plays an important role in the growth of the EU population, helping to bridge gaps in the workforce. At the same time, the management of migration flows will be one of the greatest challenges facing the EU in the coming years.

The next five years should see the development and consolidation of a true **common immigration policy**, set in a long-term vision that emphasises respect for fundamental rights and human dignity.

The next Commission will work to implement solidarity in our responses to these challenges, recognising that this is a common problem that our Member States face:

- **Economic migration** should be better matched to the needs of the labour market. This will help to take more account of the skills of immigrants and facilitate their integration. To maximise the positive effects of legal immigration – for the countries of origin and destination, host societies and immigrants - a uniform level of rights for legal immigrants across the EU must be ensured.

- We will step up our work on **integration of migrants**, safeguarding their rights but also underlining their own responsibilities to integrate in the societies they seek to join. Education and training are powerful means to integrate newcomers into European societies, creating a winwin situation for migrants as well as for the European destination countries, and EU programmes should pioneer proactive schemes to promote integration.

- Finally, preventing and fighting **illegal immigration** and related criminal activities as an essential counterpart to the development of a common policy on legal immigration.

... a Single Market fit for the 21st century

The recent crisis showed that there remains a strong short-term temptation to roll back the single market when times are hard. There were attempts to use the crisis as a pretext to attack the single market. The Commission will remain an implacable defender of the single market as a cornerstone of the Treaties, and will do everything in its power to defend it as the best guarantee of long-term prosperity. The experience of the past year has shown once again that the single market is the rock on which European growth is built. But it also needs to be updated to suit the demands of tomorrow's economy.

Setting 1992 as the target date for completion of the internal market was a powerful way of generating new opportunities for growth and social progress in Europe. As we approach the twentieth anniversary of this symbolic date in 2012, we should not just celebrate all that has been achieved but also ask why the original dream has not yet been fully achieved. I intend to launch a major analysis of the "missing links" in the internal market, to find out why it has not delivered on its full potential and thereby to identify new sources of growth and social cohesion. I will seek a wide range of views, involving stakeholders, consumers and eminent persons in identifying problems and helping to find solutions. I want the next Commission to take a more systematic and integrated approach, for instance through its market monitoring initiative. The aim will be to **regain momentum in the internal market** and to make it, once again, the powerhouse of the European economy.

We can do more to open up the market for financial services, including retail finance, e-commerce, environmental services and business services. In particular I want to focus on the retail dimension which is where most consumers experience the internal market. Europeans should not be held back from shopping across borders by concerns that their rights will not be protected properly: we need an **active consumer policy** to give people confidence to participate fully in the single market.

I believe the twentieth anniversary is the right time to bring forward a major package for tomorrow's single market, with proposals for specific actions, including legislative actions, to plug the gaps in today's single market and to ensure that the benefits of the internal market get through to the final consumer.

... based on smart regulation to make markets work for people

Markets do not exist in isolation. They exist to serve a purpose. And that purpose is prosperity for all. That is why the Commission has been unrelenting in its fight against those who abuse the market. That is why the current Commission has levied almost €10 billion in competition fines, on international multi-national corporations and European companies alike. That is why we proposed legislation that delivers price cuts on mobile phone charges of up to 60%. That is why we need to continue building the framework of social, environmental and technical regulation that make markets work for people.

The world has learned the hard way about the cost of leaving markets and market players to determine the rules. The challenge for the next Commission will be to devise a smart regulatory approach in key policy areas. This will require rules to ensure transparency, fair play and ethical behaviour of economic actors, taking due account of the public interest. **Smart regulation** should protect the consumer, deliver effectively on public policy objectives without strangling economic operators such as SMEs or unduly restricting their ability to compete.

This Commission has instigated a revolution in the way policies are made at EU level, with public consultations and impact assessment now the norm for new legislative proposals and a major simplification of existing Community law now underway. By 2012 the next Commission will deliver on our commitment to reduce administrative burden by 25%. But I want to go further. We need to match this huge investment in ex ante assessment with an equivalent effort in **ex post evaluation** – to ensure that our proposals really do deliver what they promise and to enable us to revise and correct them where they fail to work as expected. All of these initiatives are designed to focus EU action on the essentials, removing bureaucratic processes and unnecessary centralisation.

If ratified, the Lisbon Treaty will bring changes in the way the EU takes decisions including through comitology. As part of the smart regulation agenda, I will extend the impact assessment approach to certain key comitology proposals. I will also seek ways of helping the European Parliament to exercise its scrutiny rights over the full range of politically important decisions.

... including global markets

Openness is critical to Europe's future competitiveness. This is not just a question of political preference. It is in our self-interest as the world's leading exporter. Europe faces a particular risk from the damage the crisis has done to **world trade**, so Europe must now take the lead in combating protectionism in all its forms. Of course we cannot be naïve: others must also be open to our exports of goods, services and capital. But openness to trade and investment is an indispensable driver of growth.

Reaching a deal in the Doha round remains the priority. But FTAs and trade arrangements will also have to be pursued. Trade negotiations have to be at the service of EU interest. With tariffs getting much lower thanks to successive rounds of tariff reductions, in many cases non-tariff barriers are now the major obstacle for EU exports. As we have seen with the Single Market, dismantling these and preventing the emergence of new barriers is far more complex than reducing tariffs: it depends not so much on technical expertise but more on the quality of the relationships between the countries concerned. We need to join up the different strands of our external policy much better to use our "soft power" leverage to deliver solid results for EU businesses and for citizens. The European interest has to be promoted in a coherent and determined way.

Regulatory and standardisation cooperation is also an important tool to further our interests in global markets. Cross-cutting dialogues such as the Transatlantic Economic Council (TEC) with the United States, our most important trade and investment partner, are an effective way of structuring relations with key trading partners. The EU has a wealth of experience on product regulation and standardisation. Sharing it with others is a way for the EU to shape globalisation.

… and linked up by the networks of the future

Yesterday's achievement was to provide every household with electricity and a telephone; today they need high speed broadband. This has the potential to spur huge business growth and create up to a million jobs; but it needs regulatory certainty and active intervention to tackle the bottlenecks and combat barriers to market entry. The next Commission will develop a **European Digital Agenda** (accompanied by a targeted legislative programme) to tackle the main obstacles to a genuine digital single market, promote investment in high-speed Internet and avert an unacceptable digital divide. Because of the increasing dependence of our economies and societies on the Internet, a major initiative to boost network security will also be proposed.

Secure energy supply and good interconnections will be crucial to power future growth. One of the next great European projects is to give Europe a new **European supergrid for electricity and gas**. This will help to meet our growing needs for energy in smarter ways, so that we have secure and stable supplies of energy which meet our climate change goals. We have already made progress with Baltic interconnectors, and we have launched the Nabucco pipeline project. This shows what can be done when Commission leadership combines with political will of Member States and we use an intelligent mix of regulation and money to deliver results. The next five years will not only need to see these projects come to fruition, but also new initiatives such as a Mediterranean interconnection plan, interconnections for gas, electricity and oil, as well as links between African suppliers and the EU.

Advancing people's Europe

Preserving and enhancing economic prosperity and social cohesion are at the heart of the EU's mission. This offers the foundation stone for tackling social exclusion and for the European contribution to combating poverty. But the European project goes further than that: the EU offers its citizens rights, protection and opportunities even beyond the marketplace. It also helps to bring people together, using Europe's cultural diversity as a powerful channel to communicate. The principles of free movement and equal treatment for EU citizens must become a reality in people's everyday lives. The empowerment and advancement of women is just one of the areas where the EU still has work to do.

... means promoting rights and providing protection

Over the years the EU has given people many new rights – from equal pay, to free movement, to compensation if airlines fail to deliver for passengers. These have given citizens very concrete benefits from EU membership, though enforcement remains a challenge. We can do more to promote people's rights, and make their access to these rights easier. Promoting rights must go hand in hand with protecting people. We need an EU **domestic security strategy** to better protect the life and safety of EU citizens: we must make sure that open borders do not offer openings to be exploited for crime and terrorism. We must show solidarity as we use instruments like Frontex to ensure that the EU's borders act as an effective check on illegality.

The protection of EU citizens is of course completed by the EU's role in **crisis and disaster prevention and reaction**. From fighting forest fires to dealing with the effects of earthquakes or handling the threat of the flu pandemic: EU action can add value to Member State action through practical solidarity. The further assessment and corresponding implementation of EU added value in crisis management will be an immediate priority for the next Commission.

... removing obstacles for citizens

EU citizens still face numerous obstacles when they try to source goods and services across national borders. They should be able to make use of their rights as EU citizens in the same way as they use their rights as national citizens. The Commission will draw up a comprehensive report on these obstacles for citizens and propose how they can best be removed, together with the report on the obstacles still persisting in the internal market.

... means tackling the demographic challenge

A just society is also one that takes care of its vulnerable members. Ageing is a major future challenge. Longer life is a symbol of success – we need to have healthy, fulfilling longer life spans. But it also brings challenges for sustainability, and we need to do more to respond to change, exploiting new technology-based solutions to preserve to the extent possible the independence of the elderly. This also requires a thriving economy to supply sound public finances, so that we can pay for healthcare for the elderly. Millions of Europeans are wholly dependent on pensions. The crisis has shown the importance of the European approach to pension systems. It has demonstrated the interdependence of the various pension pillars within each Member State and the importance of common EU approaches on solvency and social adequacy. It has also underlined that pension funds are an important part of the financial system. We need to ensure that pensions do the job intended of providing the maximum support to current and future pensioners, including for vulnerable groups.

… supporting mobility for young people

Europe is a reality in everyday life also through exchange initiatives. At a time of economic and social crisis, I feel very strongly that it is of particular importance to further the access of the young generation to the European dimension. To this end, I propose to expand existing instruments like Erasmus into a new EU youth and mobility initiative, as part of the EU 2020 strategy. By 2020 all young people in Europe must have the possibility to spend a part of their educational pathway in other Member States. Such a "**Youth on the Move**" initiative would be a decisive contribution to the promotion of cultural diversity, intercultural dialogue and multilingual learning.

… and enhancing dialogue and information

Last but not least, the people's Europe is also about the accountability and openness of the EU institutions. Dialogue with the citizens and the different actors in civil society, a hallmark of the current Commission, will continue to be of critical importance People have a right to accessible information. The Commission will redouble its efforts to have a real Commission presence communicating on the ground in the Member States and in the regions, in partnership with the European Parliament, listening to citizens and dealing first hand with their questions and concerns. I will also examine ways and means to intensify the dialogue between the Commission and the media. But we should be under no illusions: the gap in awareness of the EU can only be closed in full partnership with national and regional authorities. We must break out of the negative trap where politicians are quick to take the credit for the positive achievements of Europe, and quick to blame "Brussels" or "Strasbourg" for everything they don't like. We need a more mature dialogue with our citizens on decisions that affect their daily lives.

Opening a new era for Global Europe

The world today offers Europe an unprecedented opportunity to shape events. The established patterns of power are shifting again. The factors of influence are becoming more complex, with the crisis showing that military power, population size and economic weight are not the only ways in which to carry global authority. The crisis has shown yet again that the world needs values, it needs models of society to inspire new ideas for new circumstances. It has also shown how global interdependence is irreversible: with decades of experience in transnational cooperation, the EU is a natural test-bed for globalisation and an instinctive champion of global governance. So as the world's largest trading power, the biggest donor of development assistance, a powerhouse of humanitarian aid, a beacon for human rights, and a champion of the global fight against climate change, we have every reason to be positive and confident in the international scene.

The Lisbon Treaty, if ratified, will give us the tools to open up a new era in the projection of European interests worldwide. It directly addresses some of the shortcomings which have held us back. It will help to improve the consistency of our external action. It will allow diplomacy, crisis management and an emerging a European defence capability to be used alongside more traditional tools like trade and development. It brings new powers and an increased role for the European Parliament.

But what will make the real difference is the political will to use these instruments to the full. I am committed to ensuring that the Commission, as the driver of so many key external policies, plays its full part in seizing the moment to give Europe the weight it deserves on the global stage. We must not see external relations today as a separate "box", but as part and parcel of how we achieve our internal policy goals.

The appointment of a new High Representative who is at the same time Vice President of the Commission in charge of External Relations is a major innovation which carries an enormous potential. The same is true for the future European External Action Service which would bring together resources from the Commission, the Council Secretariat and Member States to help leverage the best results from our external action. This will be a break with the past and I am determined to make it work effectively. I look forward to a thorough discussion with the European Parliament on implementing an ambitious agenda on external relations and improving institutional cooperation on these issues.

The importance of the EU's external dimension is reflected in the range of our relations with third countries. Europe must remain a champion of multilateralism and work closely with the United Nations and other multilateral organisations. We should also seize the opportunity of a changing international environment to deepen strategic partnerships with our main bilateral partners such as the United States, and indeed in the G8 and the G20. It is here that the EU can best use the external dimension to further its own objectives in areas like prosperity, security, climate change, energy, and fighting poverty.

For a Europe built on values, the moral challenge of global poverty must remain one of our most compelling goals. We must not allow economic crisis in the developed world to dilute our mission to bring help to those facing the challenge of survival in so many parts of the world. I am determined to continue to make the case that Europe must build on our pioneering work, with Africa in particular, and act as a champion of the developing world. Our focus must remain on achieving the **Millennium Development Goals**, and on making a real impact on the challenges of food and water security, health and education.

We need to actively promote **human rights**, never hesitating to condemn violations of these fundamental rights. We must use our potential to be a civilian power for **peace**, by linking **security** and **development** to help rescue and rehabilitate failed states. We can and must do more to play our role in conflict resolution and peace-keeping and peace-building. Nonproliferation will be a major challenge in the coming years – we must be ready to share our experience from the Euratom Treaty.

Europe has a particular responsibility to promote freedom, stability and prosperity in its **neighbourhood**. We have entered into commitments towards candidate countries that seek to join the EU. We need to honour these commitments – **enlargement** has been a huge source of strength for the Union, and for the promotion of peace and stability in our continent. At the same time, enlargement can only take place when both the EU itself and the candidate country are ready to take on the responsibilities that come with it. And enlargement is not an infinite process. For those neighbours that will not become members of the EU, we need to develop credible and attractive alternatives that satisfy the aspirations of these countries as well as the EU's. The next Commission will take forward the Union for the Mediterranean and the Eastern Partnership to develop a neighbourhood policy that meets the challenges we and our neighbours face.

The means to match our ambitions

One of the risks to exploiting the new sources of growth and social cohesion is a lack of investment. Public budgets will be under pressure for years to come as a result of the unprecedented fiscal effort to combat the crisis. We will therefore have to be creative in mobilising the means to put our priorities into practice. We should work more closely and imaginatively with the **European Investment Bank** and the private sector. Within the existing instruments, we must further improve the blending between grants from the EU budget and EIB loans, in order to increase the overall leverage effect. The Risk Sharing Finance Facility we set up with the EIB in the area of research and development is an excellent example to build on, as is our recent co-operation on energy efficiency projects. I also want to look at other ways to increase the EIB's role in financing essential projects in particular in the areas of green technology, infrastructure and energy security. The Commission will also propose a new framework for **public-private partnerships** to help bring different sources of funding together to maximise investment in the coming years.

We will also have to re-shape the EU budget to respond to the new priorities. This will require a root and branch **reform of the EU budget**. The defining moment for this will be the preparation of the 2014+ Multiannual Financial Framework. I want to use the upcoming budget review as a stepping stone for this exercise. Designing the next financial framework will not be an easy exercise – while everyone agrees in the abstract on the need for reform, as soon as the debate moves to concrete measures, there seems to be a strong bias in favour of the status quo. So before entering into the specifics, such as whether to change the current seven year cycle, I want to get agreement with the European Parliament and Council on three key principles to serve as ground rules for the debate:

- The EU budget must focus on activities which produce genuine European added value. Beyond political considerations, efficiency criteria must help prioritise EU spending activities in terms of their added value (for instance on the basis of cross-border effects, economies of scale, or resolving market failures).

- We need to move away from a narrow focus on net balances and move towards an approach based on solidarity, burden-sharing and equity which is comprehensive and shared by all;

- The stability of the financial framework needs to be counterbalanced by a far greater degree of flexibility so as to enable the Union to respond effectively to new challenges and needs.

This reflection cannot shirk the issue of "**own resources**", a system of EU financing that has evolved piecemeal into a confusing and opaque mix of contributions and rebates. We need to see how the EU can find a more efficient and transparent way of financing its policies, and to simplify delivery in order to maximise the impact of spending while safeguarding the principles of sound financial management.

How Europe should work

The European Commission as the engine of the European project…

The last five years at the head of the European Commission have reinforced my strong conviction that the European Commission is indispensable as the driving force for the European project. Only the Commission has the authority, the administrative capacity and the technical expertise to make proposals that take the interests of all Member States and all citizens into account, and the long term view needed to tackle the big issues we face today. Only the Commission has the authority and the independence to ensure the equal treatment of all Member States in the enforcement of treaty obligations and legislation.

If you look at the policy priorities I have sketched out above, it is clear that regulation and **lawmaking** will remain a core task for any Commission. The task is to ensure that we effectively apply the concept of smart regulation to ensure that it is effective, proportionate, and comprehensive: effective because it must be grounded in the realities of life on the ground for economic operators and other stakeholders; proportionate because regulation must demonstrate a certain level of positive impact to justify legislation and must take all potential side-effects into account; comprehensive because we must make proposals fully conscious of the range of economic, social and environmental consequences they will have. We have also shown that the Commission can spearhead a change in Europe's administrative culture, with the better regulation programme to bring €30 billion in savings for the EU economy. I would like to develop this still further, putting a particular emphasis on the needs of SMEs.

The authority of the President is of critical importance to guarantee **collegiality**, coherence and the Commission's special role in the European system. It is now recognised that the current College, the first of the enlarged EU of 27, has been able to bring together different portfolio interests effectively, to tackle crosscutting, integrated policies like migration, energy and climate change. The next Commission will need to continue to deal effectively with the policies set out in these guidelines, and it is my intention to reflect this in the organisation and work programmes of the College and the services.

The Commission can only be strong if it rests on high ethical standards and if it maintains a high degree of professionalism. I am proud of the progress made over the last years, but I would like to see further steps, for instance in the area of financial management: now that it is well established, OLAF should be given full independence outside the Commission. I would also intend to review the Commissioners' Code of Conduct, and hope that this Code will become a document of reference that will inspire other EU institutions.

… but it cannot power it alone: we need a "Partnership for progress"

These political guidelines set out how the European Commission can work to bring fundamental change for Europeans. But progress in the European Union comes when the different players involved share a common vision and a common direction. Working in real partnership allows the EU's democratic core, its different national interests, and the European interest, to come together and to make a real difference. That is the essence of the **Community method**: to ensure that the specific European interest is at the centre of policy-making, to ensure the transparency and democratic accountability of decisions taken and safeguard the equality of Member States.

To tackle the complex challenges we face, we need to mobilise all sectors of society: EU Institutions, national, regional and local authorities, business, trade unions and civil society. Climate change is a typical example. It has needed political leadership from the European Commission, Parliament and the European Council; it will need the engagement of national, regional and local authorities to drive forward; and it needs the social partners and all parts of civil society to galvanise all sectors of society for change. It would be a disaster to see this challenge as a zero sum game where action by one level of government is to the detriment of others.

The same dynamic works at the international level. The past decade of discussions with our key global partners is littered with examples where when we speak together, we carry weight; and when we are discordant, we fall short of our objectives. That is one reason why we need the benefit of the Lisbon Treaty to give Europe the weight it deserves.

… making subsidiarity work for Europe

We must kill off the idea that the Member States and the EU level are rivals. Everyone should be working to the same goal – to secure the best results for citizens. Too often, mistrust has been the cause of failings in our system: it contributed to the shortcomings in our system of financial regulation exposed so brutally last year. The question is how best to improve this. That means an effective application of the principle of subsidiarity.

For me, subsidiarity is the translation of a democratic principle, part of a very practical doctrine, aimed at making public policy work to best effect in a Union built on solidarity, and at the most appropriate level.

The EU works best when it focuses on its core business. I want to concentrate our limited resources on where we can have most effect, and where we can bring most added value.

At the same time, the continental scale of Europe and the scale of our ambitions points inevitably towards taking the wide view, looking at the bigger picture. This does not mean that the EU always has to make new laws – the Treaties mean we can make laws where this is needed, but they also inspire us to spark debate and spread ideas across the whole vision set out by our founding fathers. I want to be rigorous about where we need to have common rules and where we need only a common framework. We have not always got the balance right, and we have not always thought through the consequences of **diversity in an EU of 27**. In an area like GMOs, for example, it should be possible to combine a Community authorisation system, based on science, with freedom for Member States to decide whether or not they wish to cultivate GM crops on their territory.

The Lisbon Treaty puts in place new procedures to allow national parliaments to intervene if they have concerns about subsidiarity. But more importantly, we should develop a much clearer doctrine of how we decide when action needs to be taken at EU level, where the balance should lie between EU-level tools and national level tools, and what expectations should be placed on Member States implementing EU policy in their own countries.

…and with a special partnership between the European Commission and the European Parliament

The key to Europe's success is defining and implementing the distinct European interest. That is why it is so important for the European Parliament and the European Commission to continue to work hand in hand. These are the two institutions with a specific role to identify, articulate and give reality to the European interest, and these must be the two institutions with a particular responsibility to ensure that the EU is more than the sum of its parts.

This process of shaping the European interest cannot take place in a political vacuum – it has to be the result of political debate in a true European public space. I want to work together with the European Parliament as the decisive locus for European deliberative democracy.

That is why I would like to take our special partnership to a new level, by reinforcing and complementing the mechanisms of co-operation we have in place. I propose the following:

- Inviting the Conference of Presidents to meet the whole College every year, before the approval of the Commission Legislative and Work Programme.

- More regular meetings with the Conference of Presidents to ensure close coordination and exchange of information on topical issues, on the basis of the process we started during the financial crisis.

- Regular participation in a Question Hour in the European Parliament plenary, on predefined themes of particular EU relevance so as to allow for a serious, well prepared and in depth discussion.

- A review of all pending proposals at the beginning of the new Commission's mandate, in order to politically confirm or withdraw them, taking into account the views expressed by the Parliament.

- Provide all necessary information on external action, in full respect of the Council's prerogatives, including on the negotiation of international agreements, making it available to the European Parliament in good time, so that it can play the enhanced role which it will have if the Lisbon Treaty is ratified.

These are concrete proposals to upgrade the special partnership that we need between the European Parliament and the European Commission, so that the institutions at the heart of the European project can drive Europe forward most effectively.

My first mandate was about consolidating Europe at 27. The enlarged EU now gives us a springboard to use our reach and strength to best effect. We are now in a position to move on with conviction and determination to a new phase of ambition. If I am reconfirmed, I will continue to do everything possible to make an ambitious Europe happen. I will use the powers of the Commission to the full. I will continue to work with in partnership with our Member States. I will put the case very clearly when EU action is essential to address the critical issues Member States face. I will challenge them to follow up on the commitment they made in nominating me, just as I challenge the European Parliament to match my ambition. I will take the special partnership with the European Parliament to a new level, to ensure that the two Community Institutions par excellence together pull their weight for a prosperous, socially advanced, secure and sustainable European Union, a Europe based on the values of freedom and solidarity.

The creation of a Euro area instrument for coordinated assistance to Greece

STATEMENT
BRUSSELS, 19 MARCH 2010

The Commission is ready to propose an instrument for coordinated assistance to Greece. Such an instrument would be constituted by a system of coordinated bilateral loans and would be compatible with the no bail-out clause and with strict conditionality. The creation of this instrument does not imply its immediate activation. Our objective is an instrument designed within the euro area, with conditions and management established by the euro area and its institutions. We cannot prolong any further the current situation. I do not want to speculate if there will be a financial contribution from the IMF. What is important is to agree on a Euro area instrument. I urge the EU's leaders to agree on this instrument as soon as possible.

Prior to the meeting of the Heads of State and Government of the Euro Area

STATEMENT TO THE EUROPEAN PARLIAMENT
BRUSSELS, 5 MAY 2010

Honourable Members,

I was asked to make a statement to this house ahead of Friday's meeting of the Heads of State and Government of the Euro area.

But let me first have a word of condolences for the families of the victims of the violence in Athens today. Disagree and protest is a right of citizens in our democratic societies, but nothing can justify the recourse to violence.

Let me first address the financial support package for Greece endorsed last Sunday. Then I will give you some my views on what needs to be done to prevent a repetition of a crisis of this type.

As regards Greece, a multi-annual programme of fiscal consolidation and structural reform has been agreed by the Greek authorities. This was jointly prepared with the European Commission, the European Central Bank and the International Monetary Fund.

The Greek government has put forward a solid and credible package that will steer its economy on a sustainable path and restore confidence. It is important that we acknowledge the courage that Prime Minister Papandreou and his Government have shown.

Greece will undertake painful efforts. But we all know that there is no alternative to these such efforts.

In return, following the recommendation of the Commission and of the European Central Bank, the coordinated European mechanism for assistance to Greece has been activated. This is an unprecedented act of solidarity, unmatched anywhere in the world.

This assistance will be decisive in helping Greece to get its economy back on track, and will preserve the financial stability of the euro area as a whole.

Allow me to stress that the Commission has made sure that the mechanism, whilst being based on bilateral loans, is an European one. The Commission was instrumental in setting it up, and will play an important role in its management and implementation.

The Commission is and will remain central in assessing Greece's compliance with the package's conditionality. The Commission will also manage the bilateral loans from the Member States.

By the end of the week we will already have a critical mass of Member States that have already completed the process to provide those bilateral loans to Greece.

It is my firm conviction that the unprecedented financial support given to Greece - 110 billion Euros! - and the adjustment programme are an adequate response to the Greek crisis. We have no reason to doubt that it will be firmly implemented both by Greece and by the Euro area Member States.

This view is shared by others that matter. I notice for instance the supportive statement of the past, current and future chairs of the G20 Finance Ministers just now issued.

Regrettably, not all market players seem already convinced. We have to say loud and clear that the doubters are wrong. I will come back to this in a moment.

Honourable members,

At the meeting of the Euro area Heads of State and Government on Friday, we will look beyond this deal into what we need to do to draw the right lessons from this situation.

The debate will of course be a starting point, because decisions need to be debated further and ultimately taken with all the 27 Member States - Euro area Member States and all the other Member States And let me say very clearly: discussing and taking decisions at 27 is a source of strength.

Whilst we have to speed up our processes, the fact is that the joint action of the 27 – unparalleled anywhere in the world – provides the best possible fundament for our joint future in an ever more interlinked world.

I see two main strands for reflection and action: first, a reassessment of the rules for economic governance, including the Stability and Growth Pact, and second, financial markets reform.

The Commission has been working intensively on economic governance and is ready to present its proposals on how to improve it next Wednesday.

There are three main building blocks to be considered:

- First, responsibility: we need to reinforce the Stability and Growth Pact – and above all Member States' compliance. The case for reinforcement of both the preventive and the corrective arm of the pact is obvious. I am pleased that most of those who have previously questioned - or even suggested the weakening of the pact now accept the need for stronger rules and – most importantly – for their strict implementation.

- Second, interdependence: we are all in this together. I think the crisis has clearly shown that we need to address the imbalances between our Member States, in particular within the Euro area. This includes divergences in their competitiveness, as this is one crucial element that causes other types of imbalances. This can of course not mean that some become less competitive so that others look relatively more competitive. We are competing, all of us on world markets. What we need is to enhance our overall competitiveness in a balanced, mutually reinforcing way. I also believe we need to look at the other causes of imbalances. To make progress, we will propose increased surveillance and increased economic policy coordination. I am happy we see more openness from Member States when discussing it.

- Third, coherence: we have to ask ourselves whether our system of fiscal rules is complete. I see merit in creating a permanent mechanism for dealing with disruptive situations. After all, it is better to be safe than sorry.

I hope that we can seize the moment - and I count on you to help us deliver these reforms. I believe from a political point of view that in terms of European integration we are in one of those moments that if we don't make more Europe we will become behind. It is a very special moment, the moment we are living today, where our solidarity, our responsibility is being tested every day. I hope that leaders of our members States will be able to rise to the occasion not just to help the others, but to show their responsibility to the common European project.

These reforms will be introduced against the background of unprecedented efforts already under way. It is undisputed that deficit and debt levels in some Member States need to be corrected with determination and faster than targeted before the crisis.

But it must also be said that one cannot ignore that the budgetary deterioration in 2009 was largely due to the working of the automatic stabilizers in the face of an unprecedented decline in economic activity caused by a financial crisis not originated in Europe. In other words, the overall situation in the Euro area was largely the result of anti-recession policies advocated all over the world.

It was always clear that the situation would subsequently be corrected. And most Euro area members have already taken bold reforms, for example of their pensions systems.

The responsibility shown by the governments needs to be matched by financial market players. This is why it is no less urgent to continue delivering a sustainable and responsible financial sector, at the service of the economy and its citizens.

One must bear in mind that financial market players are key actors in driving market sentiment. Psychology also matters in financial markets The financial crisis was born out of short-termism, pro-cyclicality and a lack of responsibility.

That is what we urgently must correct.

We need strong and stable European financial services markets to deliver the investments needed for future growth in line with the Europe 2020 vision. We need responsible behaviour from all our market players.

We have already been doing a lot as regards financial markets reform. I count on this House to make this clear to all!

European institutions are acting, and must be seen as acting together. Parliament , Council and Commission

We have prioritised work on responsible risk management, safer derivatives markets, better financial supervision, and ensuring that banks hold adequate capital to cover their real risks. This work must be speeded up.

In the coming weeks we will need to complete the reforms already underway. As I said to this House only two weeks ago, I hope to see a breakthrough soon on our proposal for hedge funds and private equity.

I would also like early agreement on effective new European supervisory arrangements. The European Systemic Risk Board and the three Supervisory Authorities should start working at the beginning of 2011.

But they must not be mere paper tigers: we have a shared responsibility to ensure they have the tools they need to do their jobs. This includes binding decision-making powers to deal with genuine emergencies, to enforce European rules, and I insist European rues, not only national rules, and settle any disputes within colleges of national supervisors.

It is high time to deliver these decisions and make sure they are ambitious.

More proposals are on their way this year to improve depositor and investor protection, to strengthen measures against market abuse, to further improve the quality and quantity of bank capital and discourage excessive leverage.

Over the past three months, and paradoxically still this week, the situation on the sovereign debt markets has brought new concerns to light.

The Commission is already working on a fundamental overhaul of derivatives markets to increase transparency and safety in these markets.

In a first stage, we will present legislation to standardise eligible derivatives contracts, putting them through central counterparty clearing that is properly regulated and supervised.

We are also now considering whether further specific measures are needed for sovereign derivatives markets.

The crisis has also once again brought the role of credit rating agencies to the fore. These agencies play a pivotal role in the functioning of financial markets.

But ratings appear to be too cyclical, too reliant on the general market mood rather than on fundamentals - regardless of whether market mood is too optimistic or too pessimistic.

Because credit rating agencies have such a key role and influence over the markets, they also have a special responsibility to ensure their assessments are both sound and comprehensive.

That is why in 2008 the Commission quickly put forward new legislation for these agencies, which will come into force in the next few months.

These rules will ensure that credit rating agencies act more transparently, publish their methodologies, and avoid conflicts of interest.

But we need to go further. To strengthen the supervision of these actors of Europe-wide dimension, the Commission believes they should be put under the direct supervision of the future European Securities Markets Authority (ESMA).

And that is exactly what we will propose.

We have also launched a reflection on whether further measures may be needed to ensure the appropriate rating of sovereign debt in particular.

We must get our house in order while pushing others to do the same.

The Commission will do whatever necessary to ensure that financial markets are not a playground for speculation. Free markets constitute the basis for the functioning of successful economies. But free markets need rules and compliance, and rules and compliance need to be tightened if irresponsible behaviour puts at risk what cannot and should not be at risk.

Market behaviour must rest on sound and objective analysis. And financial services must realize that they are exactly that: a service, not an end in itself - they must not become detached from their economic and societal function.

In fact, financial market players are still in business because regulatory authorities and democratic institutions – ultimately the taxpayers – stabilized the markets in the financial crisis.

We acted swiftly then, and precisely for that reason, we will also act swiftly in the future.

So the message from this Friday's meeting of Eurogroup Heads of State and Government should be clear. And it will be clear.

We are doing what is needed. On all fronts.

Thank you for your attention.

Peoples of yesterday, peoples of tomorrow: 35 years of EU/China relations

TSINGHUA UNIVERSITY GLOBAL VISION LECTURES SERIES
BEIJING, 30T APRIL 2010

President Gu Binglin, Distinguished Guests, Ladies and gentlemen,

It's a great pleasure for me to be at Tsinghua University and have a chance to speak to all of you.

Tsinghua symbolises China's rich past and its bright future: it was here on the site of a former imperial garden that this campus was founded 99 years ago. Today it retains the graceful beauty of a Chinese garden even as it is dotted by shiny, high-tech buildings.

As you gear up to celebrate your 100th anniversary, you can take pride in being at the cutting edge of China's scientific and educational progress, leading the country in areas such as nanotechnology and renewable energy.

The European Union is happy to be associated with Tsinghua University through the EU-China Clean Energy Centre, which I inaugurated this morning.

My visit to China, the first during my second term as President of the European Commission, comes at an important moment in the history of EU-China relations, for two reasons:

First, because this very night President Hu Jintao, a Tsinghua alumnus, will inaugurate the 2010 World Expo in Shanghai - the first-ever Expo to feature a European Union pavilion outside the EU's own territory. I consider this a visual symbol of the importance the EU attaches to relations with China.

Chinese people are rightly proud of hosting this event because it symbolises inter-cultural understanding, which I think will be a defining feature of the 21st century. So it is only natural that we should participate with you in this global event, to showcase the achievements of European integration.

The second reason why this visit is a timely one is because 2010 marks the 35th anniversary of the establishment of relations between the European Union and China.

The European Union has undergone remarkable changes since then. At that time, in 1975, the European Economic Community was made up of nine countries. Since then 18 more countries have joined the club and we have become a far more deeply integrated Union, with a single market and a common currency, the euro.

China too, has transformed beyond recognition, raising living standards and pulling hundreds of millions of people out of poverty and becoming a global economic player, following the reform and opening up policy launched by Deng Xiaoping.

During the last 35 years, the European Union has been a reliable partner. Our trade and economic cooperation has been an important contribution to China's development. We have also welcomed China's increased role on the world stage, through bodies like the World Trade Organisation, and more recently the G20.

China too, has consistently supported European integration, even before we established official relations. At the People's Congress of 13 January 1975 Premier Zhou Enlai declared that China was "helping the countries of Western Europe in their efforts to achieve unity".

So our partnership has been a stimulus for progress and a source of economic opportunities. These benefits are a result of good relations between leaders of course, and channelled through institutional mechanisms like our annual Summits and other dialogues.

I hope that, in the next 35 years, Europe and China will continue to support each other. To that end, I believe the moment is right to expand our cooperation in other areas.

A fundamental task is precisely to broaden and deepen cultural understanding by fostering people-to-people exchanges. For the success of our engagement depends on understanding - on holding an open dialogue, and learning about each other and from each another.

Transparency is essential for communication and mutual understanding.. We in Europe believe that freedom of expression and open internet access, for example, can go a long way in fostering such mutual understanding. After all, the internet is the most effective tool for disseminating ideas and information, and China is home to the world's largest population of internet users and the largest pool of human capital.

Aside from mutual understanding and respect, another key principle of our relationship should be complimentarily. What do I mean by this?

Our economies complement each other. Europe's consumers benefit from low-priced, quality Chinese exports. China, as a whole, profits from advanced European technologies and services, as well as management practices.

More generally, our overall strategic economic objectives overlap: our Europe 2020 strategy and your 12th Five Year Plan focus overwhelmingly on green growth and social justice.

I was pleased to hear that Premier Wen will increase efforts to attract foreign investment in China. I have no doubt that China stands to benefit from greater participation in the Chinese market by European companies, which are world leaders in developing the low carbon economy.

But China also recognises that achieving economic prosperity must be accompanied by efforts to promote social equity and justice.

Europeans also believe that equity and justice form the basis of social stability. That is why we developed welfare systems, which shelter citizens' lives from market risks.

We are happy to share our experience and expertise in this field with China; the instruments for doing so are already in place.

This sort of mutual support is the essence of reciprocity, a fundamental tenet in European and Chinese ethics alike, which should be the third key principle of EU/China relations, alongside mutual understanding and complementarity.

Beyond our bilateral cooperation, the European Union and China must work together in a globalized world.

Events over the last year have shown the urgent need for both sides to improve understanding and cooperation on critical global issues. A world that faces many threats and challenges needs both Europe and China to be globally engaged.

Europe, for its part, has not stood still in the face of recent challenges.

As the worst crisis since the Great Depression hit our economies in 2008, the EU has stood by its G20 pledge to keep its markets open. The EU remains an open economy. We are the world's largest importer and exporter, as well as the largest source and destination of foreign investment.

But the crisis has given rise to wider protectionist pressures in the global economy. As two of the world's largest economies, the European Union and China have an interest and a duty not only to resist protectionism, but to continue to open our markets further.

In addition, we have a shared interest in tackling the twin challenges of energy security and climate change.

Both Europe and China take these challenges very seriously.

The Intergovernmental Panel on Climate Change tells us that we must do something about emissions of greenhouse gases. If we continue with business as usual, they say, we will face a rise in global temperatures that could have a disastrous impact on our planet, beyond that we are already facing.

To avoid that, we must move our economies away from their reliance on fossil fuels. That shift is not only good for the environment, but is also sensible from an economic point of view, and will help us to improve the long-term security of our energy supplies.

It is clear to me that we can regulate greenhouse gas emissions without slowing down our economies.

Our experience in Europe shows that adopting market-based solutions to deal with the threat of climate change can achieve effective results at affordable costs.

Apart from pioneering the low carbon economy at home, Europe is also supporting other countries worldwide as they increase their energy efficiency and exploit renewable energy sources. China in particular is Europe's biggest single recipient of financial and technical assistance in the field of energy and climate change.

China is making significant efforts to decouple growth from energy consumption. And this investment is already paying off in economic terms. China is leading in some renewable technologies such as solar panels. This kind of success is part of the reason why Europe believes that an international treaty to tackle climate change can be a win-win solution for all.

Finally Europe and China must cooperate to address the global security challenges of our time. For this, we need comprehensive strategies, strong international organisations and the rule of law, both within countries and between them.

We are each other's strategic partners. As China's policy paper on the EU states, "no fundamental conflict of interest exists between us and neither side poses a threat to the other".

We have examples of good cooperation in new areas like maritime surveillance. And we can expand our cooperation even further, by looking at the broader relationship. We can make a particular contribution, for instance, by addressing regional nuclear proliferation crises.

The demand for Europe to engage globally is huge. The Lisbon Treaty gives the European Union the chance to do this.

We have much to gain in increasing our cooperation on global security issues. Ultimately, I am confident in China's positive response to these challenges because, in the end, international stability and prosperity is in China's own interests. In a globalized world, those interests cannot be defined as narrow national objectives.

No doubt China has a difficult path to navigate between its needs for internal development and the demands that are being made on it to show greater international leadership. But the very scale of China's economy, and its geostrategic importance, means that what China does will affect the rest of the world. And what China does not do will also affect the rest of the world and ultimately also China. That is why China's partners, including the EU, will continue to invite it to play its full role in the new systems of global governance, to share its strategic thinking openly with partners, and to promote this openness also in terms of access to global information.

In all of this Europe stands ready to work in partnership with you.

In closing, let me quote from a speech Sir Christopher Soames, a former Commission Vice-President, gave to the European Parliament on the outcome of his visit to China back in 1975, when our relationship officially began:

"There is one point, and a particularly important one, over which I found myself in complete agreement with my Chinese hosts. This was over the future of the Community. They consider it in the interests of everyone that Western Europe should be strong and united. They…see it as having a vital role to play in the world.

The Commission's view… is that China and the European Community have much to gain from the closer and more confident relationship which now opens before us: both of us a people of yesterday, a people of tomorrow".

Let's make sure that we continue to gain from a closer and more confident relationship for another 35 years!

Thank you.

State of the Union Speech

EUROPEAN PARLIAMENT
STRASBOURG, 7 SEPTEMBER 2010

President, Honourable Members,

It is a great privilege to deliver the first State of the Union address before this House.

From now on the State of the Union address will be the occasion when we will chart our work for the next 12 months. Many of the decisions we will take this year will have long-term implications. They will define the kind of Europe we want. They will define a Europe of opportunity where those that aspire are elevated and those in need are not neglected. A Europe that is open to the world and open to its people. A Europe that delivers economic, social and territorial cohesion.

Over the last year, the economic and financial crisis has put our Union before one of its greatest challenge ever. Our interdependence was highlighted and our solidarity was tested like never before.

As I look back at how we have reacted, I believe that we have withstood the test. We have provided many of the answers needed – on financial assistance to Member States facing exceptional circumstances, on economic governance, on financial regulation, on growth and jobs. And we have been able to build a base camp from which to modernise our economies. Europe has shown it will stand up and be counted. Those who predicted the demise of the European Union were proved wrong. The European institutions and the Member States have demonstrated leadership. My message to each and every European is that you can trust the European Union to do what it takes to secure your future.

The economic outlook in the European Union today is better than one year ago, not least as a result of our determined action. The recovery is gathering pace, albeit unevenly within the Union. Growth this year will be higher than initially forecast. The unemployment rate, whilst still much too high, has stopped increasing. Clearly, uncertainties and risks remain, not least outside the European Union.

We should be under no illusions. Our work is far from finished. There is no room for complacency. Budgetary expansion played its role to counter the decline in economic activity. But it is now time to exit. Without structural reforms, we will not create sustainable growth. We must use the next 12 months to accelerate our reform agenda. Now is the time to modernise our social market economy so that it can compete globally and respond to the challenge of demography. Now is the time to make the right investments for our future.

This is Europe's moment of truth. Europe must show it is more than 27 different national solutions. We either swim together, or sink separately. We will only succeed if, whether acting nationally, regionally or locally we think European.

Today, I will set out what I see as the priorities for our work together over the coming year. I cannot now cover every issue of European policy or initiative we will take. I am sending you through President Buzek a more complete programme document.

Essentially, I see five major challenges for the Union over the next year:

- dealing with the economic crisis and governance;

- restoring growth for jobs by accelerating the Europe 2020 reform agenda;

- building an area of freedom, justice and security;

- launching negotiations for a modern EU budget, and

- pulling our weight on the global stage.

Let me start with the economic crisis and governance. Earlier this year, we acted decisively when euro area members and the euro itself needed our help.

We have learned hard lessons. Now we are making important progress on economic governance. The Commission has put its ideas on the table in May and in June. They have been well received, in this Parliament, and in the Task Force chaired by President of the European Council. They are the basis around which a consensus is being developed. We will present the most urgent legislative proposals on 29 September, so as not to lose the momentum.

Unsustainable budgets make us vulnerable. Debt and deficit lead to boom and bust. And they unravel the social safety net. Money that's spent on servicing debt is money that cannot be spent on the social good. Nor to prepare ourselves for the costs of an ageing population. A debt generation makes an unsustainable nation. Our proposals will strengthen the Stability and Growth Pact through increased surveillance and enforcement.

And we need to tackle severe macro-economic imbalances, especially in the Euro area. That is why we have made proposals early on to detect asset bubbles, lack of competitiveness and other sources of imbalances.

I now see a willingness of governments to accept stronger monitoring, backed up by incentives for compliance and earlier sanctions. The Commission will strengthen its role as independent referee and enforcer of the new rules.

We will match monetary union with true economic union.

If implemented as we propose, these reforms will also guarantee the long-term stability of the euro. It is key to our economic success.

For the economy to grow, we also need a strong and sound financial sector. A sector that serves the real economy. A sector that prides itself on proper regulation and proper supervision.

We took action to increase bank transparency. Today we are better than one year ago. With the publication of the stress test results, banks should now be able to lend to each other, so that credit can flow to Europe's citizens and companies.

We have proposed to protect people's savings up to €100,000. We will propose to ban abusive naked short selling. We will tackle credit default swaps. The days of betting on someone else's house burning down are over. We continue to insist that banks, not taxpayers, must pay up front to cover the costs of their own risks of failure. We are legislating to outlaw bonuses for quick-wins today that become big losses tomorrow. As part of this approach, I am also defending taxes on financial activities and we will come with proposals this autumn.

The political deal on the financial supervision package just concluded is very good news. The Commission proposals based on the de Larosière report will give us an effective European supervision system. I want to thank the Parliament for the constructive role it has played and I hope it will give its final agreement this month.

We will also go further on regulation. Initiatives on derivatives, further measures on credit rating agencies and a framework for bank resolution and crisis management will soon be before you. Our goal is to have a reformed financial sector in place by the end of 2011.

Sound government finances and responsible financial markets give us the confidence and economic strength for sustainable growth. We need to move beyond the debate between fiscal consolidation and growth. We can have both.

Honourable Members,

Sound public finances are a means to an end: growth for jobs. Our goal is growth, sustainable growth, inclusive growth. This is our overarching priority. This is where we need to invest.

Europe 2020 starts now. We must frontload and accelerate the most growth-promoting reforms of our agenda. This could raise growth levels by over a third by 2020.

This means concentrating on three priorities: getting more people in jobs, boosting our companies' competitiveness and deepening the single market.

Let me start with people and jobs.

Over 6.3 million people have lost their jobs since 2008. Each one of them should have the chance to get back into employment. Europe's employment rates are at 69% on average for those aged between 20 and 64. We have agreed these should rise to 75% by 2020, bringing in particular more women and older workers into the work force.

Most of the competences for employment policy remain with Member States. But we won't stand on the sidelines. I want a European Union that helps its people to seize new opportunities; and I want a Union that is social and inclusive. This is the Europe we will build if Member States, the European institutions and the social partners move ahead on our common reform agenda.

It should be centred on skills and jobs and investment in life-long learning.

And it should focus on unlocking the growth potential of the single market, to build a stronger single market for jobs.

The opportunities exist. We have very high levels of unemployment but Europe has now 4 million job vacancies. The Commission will propose later this year a "European Vacancy Monitor". It will show people where the jobs are in Europe and which skills are needed. We will also come forward with plans for a European skills passport.

We must also tackle problems of poverty and exclusion. We must make sure that the most vulnerable are not left behind. This is the focus of our "Platform Against Poverty". It will bring together European action for vulnerable groups such as children and old people.

As more and more people travel, study or work abroad, we will also strengthen citizens' rights as they move across borders. The Commission will address persisting obstacles as early as this autumn.

Honourable Members,

Growth must be based on our companies' competitiveness.

We should continue to make life easier for our Small and Medium-Sized Enterprises. They provide two out of every three private sector jobs. Among their main concerns are innovation and red tape. We are working on both.

Just before the summer, the Commission has announced the biggest ever package from the Seventh Research Framework Programme, worth €6.4 billion. This money will go to SMEs as well as to scientists.

Investing in innovation also means promoting world class universities in Europe. I want to see them attracting the brightest and the best, from Europe and the rest of the world. We will take an initiative on the modernisation of European universities. I want to see a Europe that is strong in science, education and culture.

We need to improve Europe's innovation performance not only in universities. Along the whole chain, from research to retail, notably through innovation partnerships. We need an Innovation Union. Next month, the Commission will set out how to achieve this.

Another key test will be whether Member States are ready to make a breakthrough on a patent valid across the whole European Union. Our innovators are often paying ten times the price faced by their competitors in the United States or in Japan. Our proposal is on the table. It would reduce the cost fundamentally and double the coverage. After decades of discussion, it is time to decide.

We will also act further on red tape. SMEs are being strangled in regulatory knots. 71% of CEOs say that the biggest barrier to their success is bureaucracy. The Commission has put proposals on the table to generate annual savings of €38 billion for European companies.

Stimulating innovation, cutting red tape and developing a highly-skilled workforce: these are ways to ensure that European manufacturing continues to be world class. A thriving industrial base in Europe is of paramount importance for our future. Next month, the Commission will present a new industrial policy for the globalisation era.

We have the people, we have the companies. What they both need is an open and modern single market.

The internal market is Europe's greatest asset, and we are not using it enough. We need to deepen it urgently.

Only 8% of Europe's 20 million SMEs engage in cross-border trade, still fewer in cross-border investment. And even with the internet, over a third of consumers lack the confidence to make cross-border purchases.

At my request, Mario Monti presented an expert report and has identified 150 missing links and bottlenecks in the internal market.

Next month we will set out how to deepen the Single Market in a comprehensive and ambitious Single Market Act.

Energy is a key driver for growth and a central priority for action: we need to complete the internal market of energy, build and interconnect energy grids, and ensure energy security and solidarity. We need to do for energy what we have done for mobile phones: real choice for consumers in one European marketplace.

This will give us a real energy community in Europe.

We need to make frontiers irrelevant for pipelines or power cables.

To have the infrastructure for solar and wind energy.

To ensure that across the whole of Europe, we have a common standard so that charging electric car batteries becomes as natural as filling up the tank.

Over the next year, we will bring forward an energy action plan, an infrastructure package and an energy efficiency action plan to put this vision in place. I myself will travel to the Caspian region later this year to promote the Southern Corridor as a means of enhancing our security of supply.

To build a resource-efficient Europe, we need to look beyond energy. In the 20th century the world enjoyed phenomenal resource-intensive growth. We saw in the 20th century globally a four-fold growth in population accompanied by a 40-fold growth in economic output. But in the same period we also increased our use of fossil fuels 16 times, our fishing catches 35 times, our water use 9 times. And our carbon emissions increased 17 times.

That means we have to deliver on our climate and energy package, as a core driver for change. This means integrating the different strands of policy on climate change, energy, transport and environment into a coherent approach on resource efficiency and a low carbon future.

A forward-looking agricultural sector will play a major role in European measures to address some of the biggest challenges ahead, such as global food security, biodiversity loss and the sustainable management of natural resources. So will our maritime policy.

All of this will not only strengthen our economy tomorrow: it will provide new openings today. Jobs in the eco-industry have been increasing by 7% a year since 2000. I want to see 3 million "green jobs" by 2020, 3 million green collar workers that complement our blue and white collar workers.

We need sustainable growth, and we need smart growth. Half of European productivity growth over the last 15 years was driven by information and communication technologies. This trend is set to intensify. Our European Digital Agenda will deliver a single digital market worth 4% of EU GDP by 2020.

Honourable Members,

Everything we do is for the citizens of Europe. A fundamental dimension of our European project is precisely building an area of freedom, security and justice.

We are working hard to implement the Stockholm action plan. We will make a real push on asylum and migration.

Legal migrants will find in Europe a place where human values are respected and enforced. At the same time, we will crack down on the exploitation of illegal immigrants within Europe and at our borders. The Commission will make new proposals on policing our external borders.

And we will bring forward an internal security strategy to tackle threats of organised crime and terrorism.

Europeans will find that their fundamental rights and obligations exist wherever they go. Everyone in Europe must respect the law, and the governments must respect human rights, including those of minorities. Racism and xenophobia have no place in Europe. On such sensitive issues, when a problem arises, we must all act with responsibility. I make a strong appeal not to re-awaken the ghosts of Europe's past.

An area of freedom, liberty and security, will create a place where Europeans can prosper.

Honourable Members,

Another challenge is sorting out the future budget of the European Union.

Next month, we will come forward with the Commission's first ideas for the budget review. It shall launch an open debate without taboos to prepare our legislative proposals that will be presented in the second quarter of next year.

We need to spend our money where we get most value for it. And we should invest it where it leverages growth and delivers on our European agenda. The quality of spending should be the yardstick for us all.

So it is not only important to discuss the quantity, but also the quality of spending and investment.

I believe Europe offers real added value. That is why I will be pushing for an ambitious post-2013 budget for Europe.

I believe we should pool our means to back our policy priorities.

The issue is not about spending more or less, but spending more intelligently, by looking at European and national budgets together. The EU budget is not for Brussels – it is for the people that you represent: for the unemployed workers being retrained by the Social Fund; for the students that participate in the Erasmus programme; for the regions that benefit from the Cohesion Fund.

Energy interconnections, research, and development aid are obvious examples where a Euro spent at European level gets you more than a Euro spent at national level. Some Member States are seeing this logic even in areas of core national competence, like defence. They recognize that huge savings could be made if they pool some of their means and activities. Pooling money at the European level allows Member States to cut their costs, avoid overlaps and get a better return on their investment.

That's why we should also explore new sources of financing for major European infrastructure projects. For instance, I will propose the establishment of EU project bonds, together with the European Investment Bank. We will also further develop Public Private Partnerships.

As this Parliament has made clear, we must also address the issue of own resources. The present system is stretched to its limits – propped up by a byzantine set of corrections. Our citizens deserve a fairer and more efficient and transparent system. Some will not agree with all the ideas we will raise; I find it extraordinary that some are already rejecting them, even before knowing what they will be.

I know that one issue of interest to this Parliament is the duration of the next budget. Various options exist. I would like to look at a 10-year framework, with a mid-term review of the financial dimension after five years – a "five plus five" option. This will give us longer term planning and a clearer link with the mandates of both our institutions.

Of course, part of a credible European budget is the rigorous pursuit of savings. I am looking at the administrative costs within the Commission and other Community bodies like Agencies. We need to eliminate all pockets of inefficiency. We will build on recommendations from the Court of Auditors to improve financial management.

Honourable Members,

The final challenge I want to address today is how we pull our weight on the global stage.

When we deal with our every day problems, we sometimes lose perspective and forget our achievements. A peaceful and successful transition to a European Union that has doubled in size and is negotiating further accessions. A sound currency, the euro, that is a major currency of the world. A strong partnership with our neighbourhood that strengthens us all. If we act decisively, then we have nothing to fear from the 21st century.

As the strategic partnerships of the 21st century emerge, Europe should seize the chance to define its future. I am impatient to see the Union play the role in global affairs that matches its economic weight. Our partners are watching and are expecting us to engage as Europe, not just as 27 individual countries. If we don't act together, Europe will not be a force in the world, and they will move on without us: without the European Union but also without its Member States. This is why, in my political guidelines, I called for Europe to be a global player, a global leader – a key task and test for our generation.

Together with High Representative and Vice-President Ashton, I will present our vision of how we can maximise Europe's role in the world. With the European External Action Service, we have the means to match our aspirations.

In our globalized world, the relationships we build with strategic partners determine our prosperity. To be effective on the international stage, we need the weight of the European Union. Size matters, now more than ever.

A good example is the fight against climate change. Copenhagen showed that, while others did not match our ambition, we did not help ourselves by not speaking with one voice. Negotiations may have stalled but climate change has not. I want us to intensify our engagement with international partners to turn their press releases into credible commitments to cut emissions and push forward with fast-start funding.

The next two months will see crucial Summits with strategic partners. The more we are able to establish a common agenda with a clearly defined European interest, the more we will achieve. For example, I see huge potential in developing a transatlantic agenda for growth and jobs.

Where we are already punching our weight is the G20, the forum where the key economic global players address common challenges. When President Van Rompuy and I go to Seoul in November and represent the European Union, we want to see concrete results:

- Further progress in global economic coordination.

- More stable and responsible financial markets and agreement on reform of international financial institutions.

- More effective global financial safety nets.

- More progress on a G20 development agenda.

We will continue to show leadership in this forum and work closely with the French G8/G20 Presidency next year.

We also want to see support for the Doha Round. Trade boosts growth and prosperity. We will also pursue bilateral and regional Free Trade Agreements. In October, the Commission will present a renewed trade policy to drive new benefits for Europe.

Being open to the world also means standing side by side with developing countries, especially with Africa. When I go to the Millennium Development Goals High-Level Event in New York in 2 weeks' time, I intend to commit, with your support and on behalf of the European Union, an extra €1 billion to the Millennium Development Goals.

Being a global player also means standing up for our values. Human rights are not negotiable. I am shocked about how the rights of women are being infringed in many countries. I am appalled when I hear that Sakineh Mohammadi Ashtiani is sentenced to death by stoning. This is barbaric beyond words. In Europe we condemn such acts which have no justification under any moral or religious code.

Our values also mean that we must come to the aid of those facing a crisis situation, anywhere around the world.

Our humanitarian aid to Pakistan is the latest example of Europe's solidarity in action. It is a striking example of the need to present the different contributions of the Commission and the Member States as a truly European aid package. The Member States have the helicopters; they have the civil protection teams. We now need to pool them to create a real European crisis response capacity. This is what the Commission will propose in October. And I urge the Member States to show they are serious about the Union punching its weight in this area.

We are making progress on a common foreign policy. But let's be under no illusions: we will not have the weight we need in the world without a common defence policy. I believe now is the moment to address this challenge.

Honourable Members,

We are still bedding down the new institutional set-up of Europe created by the Lisbon Treaty.

What really matters is what the institutions deliver to the people. What matters is the difference Europe makes in their daily lives.

The secret of Europe's success is its unique Community model. More than ever, the Commission must drive the political agenda with its vision and proposals.

I have called for a special relationship between the Commission and Parliament, the two Community institutions par excellence. I am intensifying my political cooperation with you.

Europe is not only Brussels or Strasbourg. It is our regions. It is the cities, towns and villages you come from. When you walk round your constituencies, you can point to the European projects that are so important for their prosperity.

At the end of the day, we are all in the same boat, the European institutions, the Member states, the regions. The Union will not achieve its objectives in Europe without the Member States. And the Member States will not achieve their objectives in the world without the European Union.

Honourable Members,

The citizens of Europe expect us to take the action needed to get out of this crisis.

We must show them that the common efforts we are making today will lead to new jobs, new investments, and a Europe fit for the future.

I am confident that Europe has what it takes. We will get the results we are reaching for.

One thing is certain, it is not with pessimism that we will win this battle. It is with confidence, with a strong common will.

Today, I have outlined how I see the European Union doing that.

I have committed to deliver the proposals to build our economic union.

I have made the case to fast-track our reform agenda.

I have set out how to modernise our social market economy to deliver growth and jobs in a smart, sustainable and inclusive economy through our Europe 2020 flagship initiatives.

I have set out how to achieve a common energy policy in Europe.

I have defended the need for an area of freedom, security and justice, where Europeans will find that their fundamental rights and obligations exist wherever they go.

I have made clear that the Commission will strive for an ambitious budget.

I have proposed to develop EU project bonds to finance major European projects.

I have announced our reinforced commitment to the Millennium Development Goals.

I have made the case clear of why we need a common crisis response capacity and a also a common foreign and a common defence policy.

And I have urged European leaders to act together if they want Europe to be a global player and defend the European interest.

It is indeed a transformational, an ambitious and challenging agenda.

For Europe to succeed, the Commission needs your support for a stronger, a fairer Europe for the benefits of our citizens

Thank you.

Statement ahead of the meeting of the Heads of State or Government of the Euro area

PRESS STATEMENT
BRUSSELS, 20 JULY 2011

Good afternoon Ladies and Gentlemen,

Tomorrow, 24 hours from now precisely, the Heads of State and Government of the Euro area will meet in Brussels to address the present challenges in the Euro area.

Nobody should be under any illusion: The situation is very serious. It requires a response. Otherwise the negative consequences will be felt in all corners of Europe and beyond.

The situation requires full engagement by everyone at the summit, and I believe we will have it.

The elements for a solution are known. Last week's Eurogroup conclusions provide the starting point. The Commission has pushed, and will continue to push, for an ambitious and comprehensive approach.

This being said, the minimum we must do tomorrow is to provide clarity on the following:

- Measures to ensure the sustainability of Greek public finances;
- Feasibility and limits of Private Sector Involvement;
- Scope for more flexible action through the European Financial Stability Facility (EFSF);
- Repair of the banking sector still needed;
- Measures to ensure the provision of liquidity to our banking system.

There should also be a clear and unequivocal signal that the Council will conclude the economic governance package with the European Parliament.

Most of the decisions to be taken tomorrow belong to the competence of the Member States. They have reserved the instruments to themselves. And they have said they will do what it takes to ensure the stability of the Euro area. Well, now is the time to make good on that promise. There is of course also the responsibility of the European Central Bank. A solution will require that all actors exercise their responsibility to the full.

Leaders need to come to the table saying what they can do and what they want to do and what they will do. Not what they can't do and won't do. This is what I ask from them. I urge all the leaders to show the ethics of European responsibility.

Throughout this whole process, I have been making the case that it is in the self-interest of every Member State to commit. It is true for those who have to reduce deficit and debt, and it is also true for those who are asked for support and solidarity.

The truth is: we are inter-dependent. This is not an option. It is a reality. In a globalised world, our partners count on Europe, but without Europe and the European Union, Europeans will not count. In a globalized world, either we act as Europe, or we are not actors at all.

The Euro is one of our greatest assets. Its benefits far outweigh the effort that is required by the Member States on the different sides of the negotiation. We cannot be light about this, or else history will judge this generation of leaders harshly.

The Commission is fulfilling its part. Over the last couple of weeks, I have intensified my contacts with Heads of State and Government. Commissioner Rehn and the services of the Commission have made proposals and suggested options. We are doing everything to bring the different sides together, both through our political contacts and our technical expertise.

In that respect, let me also mention two decisions that the Commission has taken today:

First of all, on Greece. Part of what we need to do is bringing growth back to Greece. The last European Council welcomed my proposal to mobilize technical expertise from the Commission and Member States to the reform process in Greece. I am pleased to announce that, today, the Commission has created the "Task Force for Greece" to deliver on what we have decided. Work on the ground will start immediately.

Secondly, on financial regulation. The Commission has just adopted the proposal for the transposition of the Basel III agreement on bank capital requirements. Once again, with this, Europe will be the first mover.

All of this is part of the wide-ranging exercise of reform and renewal that Europe is undertaking and that Europe has to deepen. But all of our efforts are based on a strong single market and a strong Euro. That is what is at stake.

That is why we must provide a solution tomorrow.

I believe now is the time to decide.

With goodwill on all sides, we can have a solution tomorrow.

Thank you for your attention.

European renewal – State of the Union Address 2011

EUROPEAN PARLIAMENT
STRASBOURG, 28 SEPTEMBER 2011

Mr President, Honourable Members, Minister,

We must be honest and clear in our analysis of the state of the Union.

We are facing the biggest challenge in the history of our Union.

This crisis is financial, economic and social. But it is also a crisis of confidence. A crisis of confidence in our leaders, in Europe itself, and in our capacity to find solutions.

The roots of the crisis are well-known. Europe has not met the challenges of competitiveness. Some of our Member States have lived beyond their means. Some behaviours in the financial markets have been irresponsible and inadmissible. We have allowed imbalances between our Member States to grow, particularly in the euro area.

Tectonic shifts in the world order and the pressures of globalisation, have made matters even worse.

The result is clear: concern in our societies. Fear among our citizens for the future. A growing danger of a retreat into national, not to say nationalist, feeling.

Populist responses are calling into question the major successes of the European Union: the euro, the single market, even the free movement of persons.

Today we can say that the sovereign debt crisis today is, above all, a crisis of political confidence. And our citizens, but also people in the outside world, are observing us and wondering – are we really a Union? Do we really have the will to sustain the single currency?

Are the most vulnerable Member States really determined to carry out essential reforms?

Are the most prosperous Member States really ready to show solidarity?

Is Europe really capable of achieving growth and creating jobs?

I assert here today:

Yes, the situation is serious. But there are solutions to the crisis.

Europe has a future, if we restore confidence.

And to restore confidence we need stability and growth. But also political will, political leadership.

Together we must propose to our citizens a European renewal.

We must translate into deeds what was stated in the Berlin Declaration, signed by the Commission, by Parliament and by the European Council on the occasion of the 50th anniversary of the signature of the Rome Treaties. It was said then: 'Wir leben heute miteinander, wie es nie zuvor möglich war. Wir Bürgerinnen und Bürger der Europäischen Union sind zu unserem Glück vereint.' - 'Today we live together as was never possible before. We, the citizens of the European Union, have united for the better.' It is a declaration. And words count. This expression of will must be translated into everyday courage.

Working with our institutions, and not working against them, we can succeed.

For some, the main consideration is the need for stability. For others, it is growth.

I say we need both.

Some preach discipline. Others, solidarity.

We need both.

The time for piecemeal solutions is over. We need to set our minds on global solutions. A greater ambition for Europe.

Today we are at a turning point in our history. A moments when, if we do not integrate further, we risk fragmentation.

It is therefore a question of political will, a test for our whole generation.

And I say to you, yes, it is possible to emerge from this crisis. It is not only possible, but it is necessary. And political leadership is about making possible that which is necessary.

Honourable members,

Let me start with Greece. Greece is, and will remain, a member of the euro area. Greece must implement its commitments in full and on time. In turn, the other euro area members have pledged to support Greece and each other. As stated at the euro area Summit on 21 July: „We are determined to continue to provide support to countries under programmes until they have regained market access, provided they successfully implement those programmes."

That is why I created the Task Force for Greece.

We have just launched an action plan based on two major pillars:

- Around 100 viable and high-quality projects, investing in all Greek regions, to make the best use of Greece's remaining allocation of the structural funds.

- And a major drive to reduce bureaucratic procedures for European co-funded projects.

€ 15 billion remain to be spent in Greece from the structural funds. This will support the Greek economy with an urgent programme of technical assistance to the Greek administration.

A programme of € 500 million Euros to guarantee European Investment Bank loans to Greek SMEs is already under way. The Commission is also considering a wider guarantee mechanism to help banks lend again to the real economy.

All of this represents a huge support to Greece's fight back and Greece will have to deliver concrete results. It must break with counterproductive practices and resist vested interests.

But we have to be clear about this. This is not a sprint, but a marathon.

The task of building a Union of stability and responsibility is not only about Greece.

The economic outlook that we face is very difficult. We are confronted with the negative effects of an ongoing global re-assessment of risks. It is therefore our responsibility to rebuild confidence and trust in the euro and our Union as a whole.

And we can do this by showing that we are able to take all the decisions needed to run a common currency and an integrated economy in a competitive, inclusive and resource-efficient way. For this we need to act in the short, in the medium and the long term.

The first step is to quickly fix the way we respond to the sovereign debt crisis.

This will require stronger mechanisms for crisis resolution. We need credible firepower and effective firewalls for the euro.

We have to build on the EFSF and the upcoming European Stability Mechanism.

The EFSF must immediately be made both stronger and more flexible. This is what the Commission proposed already in January. This is what Heads of State and Government of the euro area agreed upon on 21 July. Only then, when you ratify this, will the EFSF be able to:

- deploy precautionary intervention;

- intervene to support the recapitalisation of banks,

- intervene in the secondary markets to help avoid contagion

Once the EFSF is ratified, we should make the most efficient use of its financial envelope. The Commission is working on options to this end.

Moreover we should do everything possible to accelerate the entry into force of the ESM.

And naturally we trust that the European Central Bank – in full respect of the Treaty – will do whatever is necessary to ensure the integrity of the euro area and to ensure its financial stability.

But we cannot stop there. We must deepen economic coordination and integration, particularly in the euro area.

This is at least as big a political task as an economic one.

Today, you will vote on the so-called "six-pack" proposals that we put in front of you and the Council one year ago. This "six-pack" reforms the Stability and Growth Pact and widens surveillance to macro-economic imbalances. We are now back very close to what the Commission originally put on the table. You have played a decisive role in keeping the level of ambition of these proposals, and I really want to thank you and congratulate you for that.

This legislation will give us much stronger enforcement mechanisms. We can now discuss Member States' budgetary plans before national decisions are taken. This mix of discipline and integration holds the key to the future of the euro area. Only with more integration and discipline we can have a really credible euro area.

Honourable members,

These are indeed important steps forward, but we must go further. We need to complete our monetary union with an economic union. We need to achieve the tasks of Maastricht.

It was an illusion to think that we could have a common currency and a single market with national approaches to economic and budgetary policy. Let's avoid another illusion that we can have a common currency and a single market with an intergovernmental approach.

For the euro area to be credible – and this not only the message of the federalists, this is the message of the markets – we need a truly Community approach. We need to really integrate the euro area, we need to complete the monetary union with real economic union. And this truly Community approach can be built how? In the coming weeks, the Commission will build on the six-pack and present a proposal for a single, coherent framework to deepen economic coordination and integration, particularly in the euro area. This will be done in a way that ensures the compatibility between the euro area and the Union as a whole. We do not want the euro area to break of course the great acquis of the single market and all our four freedoms.

At the same time, we can pool decision making to enhance our competitiveness. This could be done by integrating the Euro Plus Pact into this framework, in full respect of the national implementation competences.

For all of this to work, we need more than ever the independent authority of the Commission, to propose and assess the actions that the Member States should take. Governments, let's be frank, cannot do this by themselves. Nor can this be done by negotiations between governments.

Indeed, within the Community competences, the Commission is the economic government of the Union, we certainly do not need more institutions for this.

For a reason the Treaties have created supra-national institutions. For a reason the European Commission, the European Central Bank, the European Court of Justice were created. The Commission is the guarantor of fairness. Moreover, the Commission, which naturally works in partnership with the Member States, is voted by and accountable to this House. The directly elected Parliament both of the euro area and of the European Union as a whole.

Honourable members,

It is also time to have unified external representation of the euro area. In accordance with the Treaty the Commission will make proposals for this purpose.

A Union of stability and responsibility built on this basis and with common approach will also allow the Member States to seize fully the advantages of a bigger market for the issuance of sovereign debt.

Once the euro area is fully equipped with the instruments necessary to ensure both integration and discipline, the issuance of joint debt will be seen as a natural and advantageous step for all. On condition that such Eurobonds will be "Stability Bonds": bonds that are designed in a way that rewards those who play by the rules, and deters those who don't. As I already announced to this house, the Commission will present options for such "Stability Bonds" in the coming weeks.

Some of these options can be implemented within the current Treaty, whereas fully fledged 'Eurobonds' would require Treaty change. And this is important because, Honourable Members, we can do a lot within the existing Treaty of Lisbon. And there is no excuse for not doing it, and for not doing it now.

But it may be necessary to consider further changes to the Treaty.

I am also thinking particularly of the constraint of unanimity. The pace of our joint endeavour cannot be dictated by the slowest. And today we have a Union where it is the slowest member that dictates the speed of all the other Member States. This is not credible also from the markets' point of view, this is why we need to solve this problem of decision making. A Member State has of course the right not to accept decisions. That is a question, as they say, of national sovereignty. But a Member State does not have the right to block the moves of others, the others also have their national sovereignty and if they want to go further, they should go further.

Our willingness to envisage Treaty change should not be a way or an excuse to delay the reforms that are necessary today but I believe that this longer term perspective will reinforce the credibility of our decisions now.

A Union of stability and responsibility means swiftly completing the work on a new system of regulation for the financial sector. We need well-capitalised, responsible banks lending to the real economy.

Much has been said about the alleged vulnerability of some of our banks. European banks have substantially strengthened their capital positions over the past year. They are now raising capital to fill the remaining gaps identified by the stress tests in summer. This is necessary to limit the damage to financial market turbulence on the real economy and on jobs.

Over the last three years, we have designed a new system of financial regulation.

Let's remember, we have already tabled 29 pieces of legislation. You have already adopted several of them, including the creation of independent supervising authorities, which are already working. Now it is important to approve our proposals for new rules on:

- derivatives;

- naked short selling and credit default swaps;

- fair remuneration for bankers.

These propositions are there, they should be adopted by the Council and by the Parliament. The Commission will deliver the remaining proposals by the end of this year, namely rules on:

- credit rating agencies;

- bank resolution;

- personal responsibility of financial operatives.

So we will be the first constituency in the G20 to have delivered on our commitment to global efforts for financial regulation.

Honourable members,

In the last three years, Member States - I should say taxpayers - have granted aid and provided guarantees of €4.6 trillion to the financial sector. It is time for the financial sector to make a contribution back to society. That is why I am very proud to say that today, the Commission adopted a proposal for the Financial Transaction Tax. Today I am putting before you a very important text that if implemented may generate a revenue of about € 55 billion per year. Some people will ask "Why?". Why? It is a question of fairness. If our farmers, if our workers, if all the sectors of the economy from industry to agriculture to services, if they all pay a contribution to the society also the banking sector should make a contribution to the society.

And if we need – because we need – fiscal consolidation, if we need more revenues the question is where these revenues are coming from. Are we going to tax labour more? Are we going to tax consumption more? I think it is fair to tax financial activities that in some of our Member States do not pay the proportionate contribution to the society.

It is not only financial institutions who should pay a fair share. We cannot afford to turn a blind eye to tax evasion. So it is time to adopt our proposals on savings tax within the European Union. And I call on the Member States to finally give the Commission the mandate we have asked for to negotiate tax agreements for the whole European Union with third countries.

Honourable members,

Stability and responsibility are not enough on their own. We need stability but we also need growth. We need responsibility but we also need solidarity.

The economy can only remain strong if it delivers growth and jobs. That's why we must unleash the energy of our economy, especially the real economy.

The forecasts today point to a strong slowdown.

But significant growth in Europe is not an impossible dream. It will not come magically tomorrow. But we can create the conditions for growth to resume. We have done it before. We must and we can do it again.

It is true that we do not have much room for a new fiscal stimulus.

But that does not mean that we cannot do more to promote growth.

First, those who have fiscal space available must explore it – but in a sustainable way.

Second, all member states need to promote structural reforms so that we can increase our competitiveness in the world and promote growth.

Together, we can and must tap the potential of the Single Market, exploit all the benefits of trade and mobilise investment at the Union level.

Let me start with the Single Market.

Full implementation of the Services Directive alone could, according to our estimates, deliver up to € 140 billion in economic gains.

But today, two years after the deadline for implementation, several Member States have still not adopted the necessary laws.

So we are not benefiting from all the possible gains from having a true services liberalisation in Europe.

But we can also do more.

We must adopt what is on the table. We have adopted the Single Market Act in the European Commission. A number of key initiatives are ready.

We are close to having a European patent which would cut the cost of protection to 20% of current costs. I expect this is to be concluded by the end of this year.

Moreover, for the Single Market Act, we should consider a fast track legislative procedure. By the way, in many areas we should take a fast track legislative procedure because we are living in real emergency times. This will allow us to respond to these extraordinary circumstances.

And growth in the future will depend more and more on harnessing information technology. We need a digital single market, which will benefit each and every European by around €1500 per year – by using the possibilities of e-commerce to ending, for instance, mobile roaming charges.

An extra 10 % in broadband penetration would bring us between 1 and 1.5 % of extra annual growth.

In a competitive world we must be also well-educated with skills to face these new challenges. We must innovate. And we must act in a sustainable way.

We have already presented detailed proposals on innovation, resource-efficiency and how we can strengthen our industrial base.

Modern industrial policy is about investing in research and innovation.

We need to accelerate the adoption of our efforts to boost the use of venture capital to fund young, innovative companies across Europe.

Sustainable jobs will come if we focus on innovation and new technologies, including green technologies. We must see that "green" and growth go together.

For example, the renewables sector has already created 300,000 jobs in past 5 years in the European Union. The global green technology market will triple over the next decade.

We must focus our action on where it makes a real impact. Growth of the future means we must actively pursue also our smart regulation agenda, which will give a saving of € 38 billion for European companies, particularly for SMEs. But Member States must also do their part in reducing the administrative burden.

But we also need investment. These reforms are important but we also need some kind of investment at European level.

A Union of growth and solidarity needs modern, interconnected infrastructures.

We have proposed for the next Multi-Annual Financial Framework (MFF) to create a facility to connect Europe – in energy, in transport, in digital.

This innovative part of our MFF proposal has to be seen together with another very important innovative idea: the project bond.

In the coming weeks the Commission will publish its proposals for EU project bonds. We are also proposing pilot projects, so that we can fund that growth. We can do it even before the MFF is adopted. In this way we can frontload some of the major infrastructure investments Europe needs.

The Union and its Member States should urgently consider how to allow our own policy-driven bank, the European Investment Bank to do more – and possibly much more – to finance long-term investment.

To do so, we need to explore ways to reinforce the EIB's resources and capital base so that it can lend to the real economy.

In the year 2000, there was € 22 billion of venture capital in Europe. In 2010 there was only € 3 billion. If we want to promote entrepreneurship we must reverse this decline and we need that support namely for SMEs.

We can also get more growth out of the Structural Funds, by increasing absorption capacity, using the Structural Funds to support macroeconomic performance. They are essential for innovation, for training and employment, and for SMEs.

I would also like to urge this House to adopt by the end of the year the proposals we made in August to increase cofinancing rates to those countries with assistance programmes. This will inject essential funding into these economies, while reducing pressure on national budgets.

Honourable members,

Reforms to our labour markets, public finances and pension systems require a major effort from all parts of society.

We all know these changes are necessary, so that we can reform our social market economy and keep our social model. But it is imperative that we hold on to our values – values of fairness, of inclusiveness and of solidarity.

Right now we need to give concrete hope to the 1 in 5 of our young people who cannot find work. In some countries, the situation of our young people is simply dramatic. I want to call on companies to make a special effort to provide internships and apprenticeships for young people. These can be supported by the European Social Fund.

By getting businesses, the social partners, national authorities and the Union level working in a "Young Opportunities Initiative", we can make a difference. This I believe is the most urgent social matter to respond to the anxiety of our young people that cannot find a job and it is much better to have an apprenticeship, a traineeship, than to be with that anxiety in the streets expressing that lack of confidence in the Union as a whole.

We must accelerate the most urgent parts of our Growth and Jobs Plan, Europe 2020. The Commission will focus on the situation of young people in each and every Member State in its Country-specific recommendations for next year.

I believe we must give our future a real chance.

Right now we also need to act to help the 80 million Europeans at risk of poverty. This means that the Council must finally approve our proposal to safeguard the programme for the supply of food for the most deprived persons. I would like to thank this Parliament for the political support it has given to our proposed solution.

Honourable Members,

Fifty years ago, 12 countries in Europe came together to sign the Social Charter. It was exactly in October 50 years ago. Today, that Charter has 47 signatories, including all our Member States.

To guarantee these fundamental values in Europe, I believe we need to boost the quality of social dialogue at European level. The renewal of Europe can only succeed with the input and the ownership of all the social partners – of trade unions, of workers, of businesses, civil society in general.

We should remember that our Europe is a Europe of citizens. As citizens, we all gain through Europe. We gain a European identity and citizenship apart from our national citizenship. European citizenship adds a set of rights and opportunities. The opportunity to freely cross borders, to study and work abroad. Here again, we must all stand up and preserve and develop these rights and opportunities. Just as the Commission is doing now with our proposals on Schengen. We will not tolerate a rolling back of our citizens' rights. We will defend the freedom of circulation and all the freedoms in our Union.

Honourable Members,

The Commission's activities, as you well know, cover many other fields. I cannot discuss them all here, but they are mentioned in the letter which I sent to the Parliament's President and which you have all received.

Before I conclude, however, let me speak about the European Union's external responsibilities. I want to see an open Europe, a Europe engaging with the world.

European action in the world is not only the best guarantee for our citizens and for the defence of our interests and our values: it is also indispensable to the world. Today it is fashionable to talk of a G2. I believe the world does not want a G2. It is not in the interests of the Two themselves. We know the tension that bipolarity created during the Cold War. If we want to have a just world and an open world, I believe that Europe is more necessary than ever.

The rapidly-changing world needs a Europe that assumes its responsibilities. An influential Europe, a Europe of 27 - with the accession of Croatia soon to be 28. A Europe that continues to show the way, whether in matters of trade or of climate change. At a time when major events await us, from Durban to Rio +20, Europe must retain its position of leadership on these questions.

Let us also turn our attention to our southern neighbours. The Arab Spring is a profound transformation which will have lasting consequences not only for those peoples but also for Europe. Europe should be proud. We were the first to stand alongside those Tunisians, Egyptians and Libyans who wanted democracy and freedom. Europe is supporting these legitimate aspirations, namely through our Partnership for Democracy and Shared Prosperity.

The Arab Spring should give hope for peace throughout the region. Europe wishes to see a Palestinian State living in peace alongside the State of Israel.

Let us also turn our attention to our eastern neighbours. On Friday I shall take part in the Eastern Partnership Summit in Warsaw. I shall go there with the ambition to forge a closer political relationship and tighter economic integration between us and our partners in the region. The EU has extraordinary transformational power. It is an inspiration for many people in the world, and if those countries embark on a thorough process of reform we can help them. We can further political and economic ties.

Finally, let us not forget the most deprived of all and let us live up to our commitments in attaining the Millennium Development Goals.

We must also be realistic and recognise that, if Europe is to exert its influence fully, if Europe really wants to be a power, we must strengthen the Common Foreign and Security Policy. It must be credible. It must be based on a common security and defence dimension if we are really to count in the world.

Long gone is the time when people could oppose the idea of European defence for fear that it might harm the Transatlantic relationship. As you have noticed, today it is the Americans themselves who are asking us to do more as Europeans. The world has changed, the world is still changing fundamentally. Do we really want to count in the world?

Hence, at a time when defence budgets are under pressure, we must do more together with the means at our disposal.

The Commission is assuming playing its part: we are working towards a single defence market. We are using our under the Treaty with a view to developing a European defence industrial base.

Honourable Members,

Let us not be naive: the world is changing and if Europe is to count in the world and defend its citizens' interests we need the political dimension and the defence dimension to give us weight and a say in the world's future.

Honourable Members,

I conclude.

At the end of our mandate, in 2014, it will be exactly a century since the Great War broke out on our continent. A dark period which was followed by the Second World War, one of the most dramatic pages in the history of Europe and the world. Today such horrors are unimaginable in Europe, largely because we have the European Union. Thanks to the European vision, we have built a guarantee of peace in our continent through economic and political integration. That is why we cannot allow this great work to be placed in jeopardy. It was a gift from previous generations. It will not be our generation that calls it into question. And let us be clear: if we start to break up Europe, if we start to backtrack on Europe's major achievements, we will doubtless have to face the risk of fragmentation.

As I said, the root of the crisis we are now facing is a political problem. It is a test of our willingness to live together. That is why we have built common institutions. That is why we must safeguard the European interest.

The reality today is that intergovernmental cooperation is not enough to pull Europe out of this crisis, to give Europe a future. On the contrary, certain forms of intergovernmentalism could lead to renationalisation and fragmentation. Certain forms of intergovernmentalism could be the death of the united Europe we wish for.

Let us not forget that the decisions we take now, or fail to take, are going to shape our future. I feel hurt when I hear people in other parts of the world, with a certain condescension, telling us Europeans what we should do. I think, frankly, we have problems, very serious problems, but I also think we do not have to apologise for our democracies. We do not have to apologise for our social market economy. We should ask our institutions, but also our Member States, Paris, Berlin, Athens, Lisbon and Dublin, to show a burst of pride in being European, a burst of dignity, and say to our partners: 'Thanks for the advice, but we can overcome this crisis together'. I feel that pride in being European.

And pride in being European is not just about our great culture, our great civilisation, everything to which we have given birth. It is not pride only in the past, it is pride in our future. That is the confidence that we have to re-create among ourselves. It is possible.

Some say it is very difficult, it is impossible. I would remind them of the words of a great man, a great African, Nelson Mandela: 'It always seems impossible until it is done'. Let's do it. We can do it with confidence. We can do it, we can renew our Europe.

Thank you for your attention.

The State of Europe

DIE EUROPA REDE

BERLIN, 9 NOVEMBER 2011

Mr Lammert, Mr Pöttering, Mr Berg, Mr Hassemer, Ladies and Gentlemen,

I would like to thank the creators of the Berliner Europa-Rede, the Konrad-Adenauer Stiftung, the Robert-Bosch-Stiftung and the Stiftung Zukunft Berlin, for this invitation to speak to you today. I thank you, but I also congratulate you for choosing this date, 9th November. With the establishment of the Berliner Europa-Rede, you have not only created a new European public space. By placing it every year on this day, a German and a European "Schicksalstag", you express the strong link between the destiny of Germany and the destiny of Europe.

This date reminds us of both painful and joyful moments of the recent history of your country, and with it of our continent.

It is the day when the German Kaiserreich came to an end. Two days later, the First World War armistice brought insufferable carnage to an end but failed to pave the way for enduring peace. It is the day of the Nazi's burning of the synagogues in 1938, one of the events that announced horrors yet to come. But then, it is the day of the fall of the Berlin wall in 1989, when freedom prevailed over totalitarian rule. This date symbolises the fact that our actions have consequences. That political decisions are not indifferent. That history is shaped not by fatality, but by what we do. That by taking the right decisions, we can build hope, humanity, and freedom.

I remember clearly the 9th November 1989. At that time I was Deputy Foreign Minister of my country. I was following with attention the developments here in Germany from the South-Western tip of our continent. Yet things felt so close, and emotions were so strong.

It reminded me very much of the celebrations in the streets when Portugal won its democracy in 1974. When you are 18 years of age and you see a regime, a dictatorship fall in one day, you never forget what democracy means. I instinctively believed that something extraordinary was happening - that the opening of the Berlin wall meant the reunification not only of Germany but also of Europe.

That is why I am really so honoured to be here today, in this country, in this city, just a few metres from where the destiny of Europe changed – to talk to you about the challenges Europe faces today. And once again my apologies for arriving late. Usually, as Hans-Gert Pöttering knows it, I am very punctual, but I could not control the fog in Berlin that delayed all the planes that came from the other parts of Europe.

Ladies and gentlemen,

Europe is indeed very different today to how it was in 1989, not only with the European Union growing from 12 Member States we were then to 27 Member States, having a today a truly continental dimension and a global outreach.

But we are also different in the world because the forces of globalisation, combined with information technology, have resulted in a new dimension of interdependence that affects every European country and every European citizen.

In 1989, the Internet was not yet part of our reality. Markets were not in a position to trigger within seconds chain-reactions to events that spilled all around the globe.

This is our reality today. This is the reality that informs our policy and shapes our political challenge.

This reality sits alongside the emergence, the rapid development, of many economies and nations whose influence on world affairs was much more limited than it is today. The bi-polar system of the world before 1989 has been replaced by a multi-polar, more unstable and more unpredictable world.

If Europe wants to play its role in this new world, our Member States must realise that they do not have the power or influence to do so alone.

Already in 1954 Jean Monnet predicted that: “Our countries have become too small for today’s world, when compared to the potential of modern technical means and in relation to the dimension of America and Russia today, China and India tomorrow”. Jean-Monnet, 1954.

Over half a century later, Europe’s challenges are even greater. And so our ambition must be stronger, not weaker.

More or less at the same time, Konrad Adenauer defined the task of the generations to come in four simple words: “Europa muss geschaffen werden.” So I think we can say that the generations that have preceded us have done their part – now is the time for us to do ours.

Only a united Europe has the leverage and strength to defend our values and promote our interests in the world.

And let’s be clear – those values and interests must be promoted.

I know that in the current tendency towards negativism – something I often call the 'intellectual glamour of pessimism', people tend to underline Europe's problems. Every commentator wants to show that he is more intelligent than the others by being more pessimistic. Yes, it is clear that we are facing difficulties and serious difficulties. But we must not diminish the fact that since the Second World War, and in large part thanks to the development of European integration, we have established in this continent, here in our Europe, the most decent societies known to mankind.

In no other place on earth has it been possible to put together this combination of civic, political and economic freedoms. Equality of rights between men and women. Respect for the environment. The ambition for higher levels of social cohesion and social protection. The solidarity with other parts of the world less fortunate than ourselves. In other words, also what was created here in Germany, and it is now part of our model in Europe, and it is in the Lisbon Treaty – the social market economy we have consolidated through the process of integration.

A model that is based on values with a transformational and inspirational power. A model that is indeed an inspiration for many other parts of the world.

We can be proud of our model. It deserves to be defended and developed. But to do so, we must ensure Europe's continued prosperity. And for that, we must make ourselves more competitive. We need a greater degree of economic discipline and convergence, and we need to match our monetary union with an economic union.

In other words, in the globalisation age, the unification of Europe is more essential than ever if we want to preserve our way of life, to protect our values, to promote prosperity of our citizens.

By acting together we can gather strength through numbers.

We can create a European dimension. This is not detrimental to the Member States, as it is sometimes said in some debates. Putting the European Union in opposition to the interest of our democratic countries. Rather it is in their interests. Germany counts more in the world today not only because of its economic power, the force of its industry, of its exports, of its technology, the greatest democracy ever established here, your culture, Germany counts more in the world because it is a force in Europe. And this is why we can at the same time reinforce what is so important for us – the European dimension and also our national interest inside this European dimension.

So Europe is our destiny. Strength through unity is our fate. That is why we must stand together and forge a stable union, a deeper union, a stronger union.

Ladies and gentlemen,

The case for Europe, I believe, is a dynamic one. Europe is not a concept that can be finished once and for all. It is a concept that must be, and that can be, adapted to changing circumstances – politically and economically.

Talk of emerging powers has become now commonplace. Let me say this: provided there is the political will the greatest emerging power in the world will be the European Union. In reality, if you compare the European Union today, and I am not now speaking about the power of Europe in the past, the power of the different political empires that Europe had created, or the power of different nations in the world. But if you compare the European Union today with its continental size, the European Union counts more today than the European Union of the six, of the nine, of the twelve. So indeed, as a Union we are now an emerging power. The important and relevant question is to see if we have the political will to deepen this union. Because the unique nature of the European Union makes it a power of transformation through cooperation not imposition. We have been painfully aware in recent months that it carries imperfections that we must address. But I can tell you this: our partners in the world urge us to strengthen this project – they emphatically do not encourage us to abandon or even weaken it. The world needs a stronger Europe. More Europe, not less.

Yet there are some in Europe who claim that their country does not need the rest of Europe. Populism and sometimes even nationalism raises its head across our continent, claiming that too much Europe is the cause of our current difficulties. Claiming that less Europe or even non-Europe would bring solutions.

This is ignoring the global realities as well as our common history that teaches us that this continent is simply too small and too inter-dependent for us to stand apart. To turn our backs to each other. There cannot be peace and prosperity in the North or in the West of Europe if there is no peace and prosperity in the South or in the East.

But the argument for going it alone also defies economic rationality. Just an example, in 2010, Germany exported more goods and services to the Netherlands (around 15 million inhabitants) than to China, to France than to the US, to Poland than to Russia, to Spain than to Brazil, to Hungary than to India. In the same year, Germany exported almost five times as many goods to the rest of the European Union than it did to the BRICs countries altogether (China, India, Russia, Brazil, all of them). Its imports from the BRICs countries stood at just 20% of those from its EU neighbours. I could continue with many other examples that show how deep is our integration and our interdependence.

Were the Euro area or the European Union to break apart, the costs have been estimated at up to 50% of GDP in an initial phase. It is estimated that Germany's GDP would contract by 3% and it would lose one million jobs if the Euro area were to shrink to a few core member countries. This study was made by a very important financial institution here in Germany. What is more, it would jeopardise the future prosperity of the next generation. That is the threat that hangs over us, and it is that threat that guides our commitment to resolving the situations in Greece and elsewhere, provided that those countries play their part as well.

That is why all responsible leaders must now make the case for Europe. Make the case for strength through unity. We must engage our citizens in an honest and frank debate about Europe. About its assets, but also about its shortcomings. About its potential and its future. We must show our citizens what is at stake. We must choose the path of strength over weakness. Unity over fragmentation. The hard choice over the easy one.

To do otherwise will be to consign ourselves towards what Paddy Ashdown stated recently "a collection of perfectly sovereign corks bobbing along in the wake of other people's ocean liners".

Ladies and gentlemen,

The European Union does not promise paradise. But it is indeed our best chance for prosperity. It is institutionally and politically in international relations the single greatest achievement of our time, probably also of human history. When you think what was the past of war and conflict not only in Europe but in so many parts of the world. Our best means to use the crisis as an opportunity for creativity out of destruction. This is the European Union. The European Union was created precisely for moments such as we have now. It is in moments of difficulty that we can see those who are really ready to defend the European Union as a project. What we need are Europeans for all seasons, not only when seasons are easy. It is precisely in moments of difficulty that we have to show our commitment to Europe. Of course I hope that we will stand collectively behind it and give it the tools it needs to make Europe stronger.

Let me be clear - that is not about power grabbing. Very often our discussions are dominated by this paradigm. Of course, as the President of the European Commission people would expect me to argue for a European approach.

But as I say very often to my interlocutors, I am not here as a trade union for the European Commission. After more than 30 years in politics in my Parliament in my country, but also in the government 12 years in the government, including as Foreign Minister and Prime Minister, and now after seven years in the Commission, I want to tell you I have never seen politically anything so clearly as the need for a stronger Europe. We are witnessing fundamental changes to the economic and geopolitical order that have convinced me that Europe needs to advance now together or risk fragmentation. We are in one of those moments when we cannot stand still. There are some moments when we can keep business as usual, but now the dynamic of globalisation in financial and economic terms, but also in geopolitical terms, put Europeans in front of a choice – do they really want to live together and to share a common destiny and count in the world, or do they really want to face the prospects of fragmentation and decline. So Europe must either transform itself or it will decline. We are in a defining moment where we either unite or face irrelevance. If I may use a Latin expression, we are in those moments where "Non progredi est regredi".

Ladies and gentlemen, Europe is indeed at a crossroads.

That is why it is so vitally important now to ensure that we get it right. That we build the kind of Europe we want and we need for the future. To give it the tools to make it strong. To use the current crisis as an opportunity to modernise and dynamise Europe and how it is run. Our goal must not be to restore the status quo ante, but to move on to something new and better.

For that to happen, we need a stability union, but also a solidarity union. To get the growth that Europe so badly needs for any of this to survive, we need more discipline but also more convergence.

We need a union of responsibility but also of solidarity. If we agree that we share a common destiny, these all belong together.

Reinforced governance of the Euro area must be a central pillar of this and is the focus of my intervention today. But this should not detract from the importance of strengthening European integration in other areas, namely Common Foreign and Security Policy and Defence. Europe can only count in the world if it is strong and united around an active promotion of its values and interests. And let's not be naïve, without a political dimension, without a diplomatic dimension and without also the capacity to project power, we will not be up to the challenges of today's and future world.

But today let us focus on strengthening our method for economic governance. It is clear that the markets make decisions that can affect us all within seconds. In response, we cannot continue to take decisions as we have been doing until now.

The speed of the European Union, and a fortiori of the Euro area, cannot be the speed of its slowest member or its most reluctant member. There are and must be – indeed there are! – safeguards for those who do not want to go along. But it is one thing not to go along, and another thing entirely to hinder others to move forward.

Neither should Europe veer backwards to the kind of developments that would run it through intergovernmental cooperation alone.

That would take us back to the 19th century, not even to the 20th century, but to the 19th century, where peace and prosperity were supposed to be guaranteed through a precarious balance between a limited number of powers – great powers, medium powers, small powers in Europe. We know very well that this kind of balance of powers did not work then.

That is why, after the Second World War we created common, supranational institutions and methods.

Jean Monnet once wrote that: "nothing is possible without men, and nothing is lasting without institutions." Legitimate institutions, created and upheld by the Member States, must have a strong role in the governance of the Union system. They are the only entities mandated and instructed to act in the interest of all Member States and they are the guardians of transparency, of fairness and of democracy in the Union.

In the European Union we have institutions where the Member States are represented, namely the European Council and the Council.

But we also have institutions of an innovative, supranational nature: the democratically elected European Parliament; the European Commission; the European Court of Justice; the European Central Bank; the Court of Auditors.

It is precisely these supranational institutions that are the best guarantee for the respect of the agreed principles and rules in a union of sovereign states. Because the sovereign states entrust the institutions with certain powers but also with the mandate to uphold the best interests of all its members. Bigger – or smaller.

It is precisely these supranational institutions that have the independence and objectivity to ensure that all Member States – those in the Euro area and those outside – are treated equally before the Treaties.

It is precisely these institutions that are entrusted to take some decisions outside the realm of political bargaining. Thus ensuring that financial stability cannot be held hostage to politics.

This is the meaning of the role of the Commission as economic government of the European Union in the fields of the Union competencies. This is the reason why we have decided to create and independent European Central Bank.

At a time when Europe is completing its monetary union with an economic union, and at a time when convergence and discipline are increasing, the independent and objective role of the institutions is more necessary than ever.

It is in this perspective that in the upcoming discussions regarding the deepening of European integration, including through possible changes to the European Union Treaties, the Commission will steadfastly uphold its role as guarantor of the interests of the European common good, the general interest of Europe, including of course the interest of all our Member States. And we will defend the integrity of the single market and the integrity of the single currency. The EU as a whole and the Euro area belong together and should not be divided.

The Commission welcomes - and urges, in fact we have been asking for a long time - a deeper integration of policies and governance within the Euro area. Such integration and convergence is the only way to enhance discipline and stability and to secure the future sustainability of the Euro. In other words we have to finish the unfinished business of Maastricht – to complete the monetary union with a truly economic union.

But stability and discipline must also go together with growth. And the single market is our greatest asset to foster growth.

Let me be clear - a split union will not work. This is true for a union with different parts engaged in contradictory objectives; a union with an integrated core but a disengaged periphery; a union dominated by an unhealthy balance of power or indeed any kind of directorium. All these are unsustainable and will not work in the long term because they will put in question a fundamenta, I would say a sacred, principle – the principle of justice, the principle of the respect of the quality, the principle of the respect of the rule of law. And we are a Union based on the respect of the rule of law and not on any power or forces.

It would be absurd if the very core of our project – and economic and monetary union as embodied in the Euro area is the core of our project – so I say it would be absurd that this core were treated as a kind of "opt out" from the European Union as a whole. No, the euro area is not an "opt out" from the European Union. In fact all the European Union should have the euro as its currency. So the challenge is how to further deepen Euro area integration without creating divisions with those that are not yet in it.

Let us recall that whilst two Member States – only two Member States – negotiated an "opt out" from the monetary union, the Treaties foresee accession to the Euro area both as an obligation and as a right for all others. Provided that the conditions are met, of course.

That requires strict verification. Stricter than in the past. But to create the idea now that we have two unions in Europe means disunion, means, in fact, a separation of the members of the euro area from those who are not yet members of the euro area. Let's take a country like Poland. They have already stated very clearly that they want to join the euro as soon as all the criteria are met. So why should we now put more conditions for the countries that want to be in the core of the European project feel that they are left some time behind. I don't think it is fair for those countries.

So let us be clear: the Treaties don't define the Euro area as something that is distinct from the European Union. The Treaties define the Euro area as the core of the European Union.

Belonging to the Euro area or striving into the Euro area should constitute European Union normality – not belonging to it is the derogation from the rule.

It would be absurd if the part of our integration that is deepest on the substance would be lightest on the form.

The difficulties we face today have not been caused by the respect of the Community method, but rather by the lack of respect for it. The truth is that economic and monetary union is ultimately incompatible with the logic of pure inter-governmentalism: because economic and monetary union requires commitments, rules and respect of commitments and rules going beyond mere peer pressure or mere cooperation among governments. And those rules cannot be subject to the unstable logic of political influence or manoeuvring, of diplomatic negotiation or of backroom bargaining.

And this means that the deepening of the Euro area integration including by Treaty change must preserve the EU's political, legal and institutional coherence. This means that the deepening of the Euro area integration must be done through the Community method, preserving and developing the role of the Community institutions.

But already in the terms of the current Treaty the European Union can go further in this direction and this direction is indeed necessary.

Before the end of this month, the Commission will come forward with a package of further measures to deepen European Union and Euro area economic governance.

This will include the following five elements:

First, a co-decision regulation linking EFSF and ESM assistance with country surveillance, on the basis of article 136 of the Treaty. By placing the governance of the Euro area within the overall Treaty framework, and thereby in the Community method, this would ensure the legal and institutional coherence and the compatibility between the Euro area and the EU as a whole. This regulation will, on the one hand, provide an interface between financial assistance under the EFSF and the future ESM - the nature of which as you know is intergovernmental - and also Treaty-based surveillance on the other. It will step up surveillance for euro Member States receiving precautionary assistance and assistance under an adjustment programme, and will also ensure post-programme surveillance.

Second, we are going to present a further co-decision regulation on deeper fiscal surveillance, also on the basis of article 136 of the Treaty. For euro area Member States in excessive deficit procedure, it will set out graduated steps and conditions for monitoring national budgetary policies. It should enable the Commission and the Council to examine national draft budgets ex-ante and to adopt an opinion on them before adoption by the national parliaments, requesting a second reading in serious cases. In addition, the Commission will monitor budget execution and, if necessary, suggest amendments in the course of the year.

Thirdly, we will present a communication on the external representation of the euro on the basis of article 138 of the Treaty. The crisis continues to show that the euro area needs to speak with one voice in international institutions and fora. We otherwise risk diluting our messages and our credibility. The more we improve our internal Euro area economic governance the more pressing is also the need for a strong and efficient external representation of the Euro area. Does anyone know that the Euro area Member States taken together are the biggest contributor to the IMF? Most people don't know that precisely because we do not appear as the euro, we appear as different Member States in different constituencies. That is why the Commission will make proposals towards a more consolidated European voice and representation in international fora and institutions such as the IMF.

Fourthly, we will present (I know this is controversial) a green paper on euro stability bonds. As I said in my State of the Union speech in the Parliament on 28 September, once the euro area is fully equipped with the instruments necessary to ensure both integration and discipline, the issuance of joint debt will be seen as a natural and advantageous step for all. On condition that such Eurobonds will be "Stability Bonds": bonds that are designed in a way that rewards those who play by the rules, and deters those who don't. Our Green Paper on euro stability bonds will present the options for the joint issuance of bonds in the euro area, together with further steps of reinforced economic governance options that would need to be developed depending precisely on the different options. Some of them can be implemented within the current Treaty, whereas fully fledged 'Eurobonds' would of course require Treaty change.

The fifth and last element of our economic governance package will be the 2012 Annual Growth Survey. Against the backdrop of a waning economic recovery in Europe, the

Annual Growth Survey will set out the priorities for policies towards more growth and jobs in the European Union.

It is also the starting point for the second European Semester which is our framework for monitoring and coordinating fiscal and economic policies at European level. The Annual Growth Survey will assess progress in the implementation of national commitments during this year in the framework of country-specific recommendations and under the Euro Plus Pact, and help with the preparation of next year's economic policies.

In addition to these upcoming initiatives (I am sorry they are rather technical, but they are extremely important if we really want to have convergence and discipline in the Euro area) I announced some days ago that I had decided to entrust Commissioner Olli Rehn with a reinforced status as Commission Vice-President for economic and monetary affairs and the Euro.

Having a Commissioner especially dedicated to the Euro shows our determination to have Euro governance take place inside the community institutions and in respect with the community method. The political and symbolic importance of this measure could not be clearer and is furthermore underpinned by internal Commission arrangements which will reinforce the structural guarantees of fully independent and objective decision-making.

Let me tell you very frankly, ladies and gentlemen, after seven years now in Brussels in the Commission, that one thing we don't need in Europe is more institutions and more agencies and more entities to manage the euro. We don't need more. One of the problems we have sometimes, also in terms of communication, is the very complex and not only complex but complicated system. If we are not happy with the way this institution or that institution works, we have to correct it. We have means to do it, using precisely the institutional framework - we have the European Parliament that is directly elected. But the idea that we solve problems creating every time a new institution, is an idea that will make things more opaque, more time consuming, less coherent and less readable for the common citizens, and precisely we want to make our Europe better understood also from our citizens and from the rest of the world.

Ladies and gentlemen,

Deepening convergence and integration of the European Union must also involve deeper democracy. And I know the debate that is taking place here in Germany. I am afraid I could not listen to all the comments by President Lammert, but I am sure that I would have agreed with everything he said, because we share the same values for democracy and for Europe. I think democracy must be deepened at national level but also at European level and this is indeed an extremely challenging task.

Let me tell you that: to have a democracy at European level, it is indeed very complex, but I am sure that all of you and also you, President Lammert, will agree that even at national level consolidating democracy is sometimes not without difficulties.

I believe that European democracy must be furthered by enhancing the relationship between national democratic processes and the European democratic process. This will be the best way to involve our citizens in the decisions we take. The Community approach will continue to be essential in this by ensuring the principle of subsidiarity. That is a democratic principle.

Our Union is – and will remain for the time to come – a creation "sui generis". Its constitution and its action cannot be measured by the criteria of the nation state. And it cannot be measured by the criteria of an international organisation.

The European Union is a new creation for a new reality. This means that we cannot – as it is sometimes done – oppose the national democratic processes to the European democratic process. We cannot substitute national democracies with the European democratic process. Nor can we replace the European democratic process with the national ones. We need both for the Union to work in a way that is seen as a legitimate way by our citizens.

This is the essence of the Community method, of the "Gemeinschaftsmethode". In the domain of the judiciary, your "Bundesverfassungsgericht" has found a good term to describe the co-existence of the national judiciary with the European judiciary: they call it a cooperative relation, a "Kooperationsverhältnis".

I think that it is well worth reflecting on the transposition – mutatis mutandis, of course – of this idea to the relationship between the national and the European legislatives. Both have their spheres in which they are irreplaceable. I repeat: irreplaceable. Neither can substitute the other. Both the national democracy and the European democracy have to respect each other.

It is well worth investing into such a "Kooperationsverhältnis", rather than postulating a competitive relation, a "Konkurrenzverhältnis".

I emphatically disagree with the assertion that democracy is only possible within the limits of a nation state. I know that some people think like that. They are completely wrong. They have not yet understood that they are living in the 21st century – a world of globalisation. Globalisation and the crisis we are going through shows us the limits of democracy if it is confined to the nation state. Of course our first political community of reference is our country. This is normal. But to think that we can only solve the difficult issues we have at stake in our countries and not to accept the principles of democracy for the wider Europe, it will be a mistake, because it will mean that we will not use the tools of democracy to solve questions at our European dimension.

If we want to preserve democracy also for the global order, we need to complement the democracy of the nation state with the democracy of the European Union. Otherwise, we will hand over material sovereignty, the real sovereignty, to markets; it will no longer be the sovereignty of our Member States, it will be the sovereignty of the markets, the sovereignty of financial speculators, the sovereignty of global operators not subject to any kind of democratic scrutiny. That is why we need strong European democracy.

Ladies and gentlemen,

Over the last months, Germany has been called to demonstrate this drive for Europe more than ever before and perhaps more than any other country in the European Union. In the face of tremendous pressure – and sometimes criticism - Germany must take its responsibilities seriously.

Yet, such responsibility can be a heavy weight. It can divide opinion.

Especially when Germany must also bear this weight for a long period of time.

The path towards a more prosperous and sustainable Europe, let's be honest, is far from over. I have been using (it was a coincidence) a Greek expression: "This is not a sprint, it is a marathon". It is a marathon. We have to be prepared for a marathon to test our resilience, our commitment. There will be no miracles.

So, just as the founding fathers of Europe had a vision after the two devastating world wars, we must also now act with resilience and with vision towards a Europe that is strong but open. That is prosperous and sustainable. And that continues to offer our citizens peace, prosperity and opportunities for generations to come.

Now is Germany's time to show that it is fighting the cause of a strong, integrated, competitive, united Europe.

Now is Germany's time to uphold the principles that underpin the European Union and most especially the democratic legitimacy and transparency that come from the Community approach.

Over the last 18 months, the European Union, and in particular the economic and monetary union has started to undergo a process of wholesale renovation. We have made mistakes, but we are not staying where we were.

Germany is making a very important contribution in terms of the financial guarantees that it is giving. I would like to extend my warmest thanks to Germany and the German people for their strong commitment to our Europe.

Along the European integration history, Germany has been the biggest contributor in financial terms towards our project. That is why I never miss an opportunity to say thank you.

Yet, let's be completely frank, there is a paradox. The perception of the outside world is not always in tune with this. And this is something I think very often, because when I see the debate here in Germany, and I compare the debate in Germany with other countries, I see that the perceptions sometimes are almost opposite. Perceptions and misperceptions. So we should ask why this happens. Why Germany, that has been giving the biggest financial contribution to the response to this crisis, is not always perceived as doing precisely that.

If I may offer a thought on this, it is the following.

In politics, the issue is sometimes not what we do but how we do it. It is about explaining and communicating what we truly believe to be in the best interest of our citizens.

This is why the agenda for Europe must be a positive one. It must be about aiming for a higher goal. The agenda for Europe must not be a reluctant intervention to avoid the worst, but an enthusiastic plan to create the best. It must be an agenda based on the idea of the common good.

Four years ago, the Heads of State and Government of the European Union, the President of the European Parliament – who was then my dear friend Hans-Gert Pöttering who is hosting us tonight, Chancellor Merkel as the President of the European Council, and myself as the President of the European Commission, we have signed right here the Berlin precisely the Berlin declaration on the occasion of the 50th anniversary of the Treaty of Rome. Following the negative vote on the constitutional Treaty, I proposed this Declaration as a way of creating a new consensus for a way forward among Member States. You remember that, at that time, some Member States were saying that they did not want a new Treaty. They were opposed to any kind of revision of the Treaties and it was possible to have a new start, a new consensus.

The Berlin Declaration stated a simple yet fantastic truth:

We have united for the better.

For the better. It is true. On a day such as 9 November this is immediately clear to us. But it is true not only on 9 November. It must be our inspiration for each day, for our everyday lives.

We have united for the better.

This is a precious gift, one that we must cherish and preserve, and that requires more than just duty and skill. It requires reason and passion. It requires commitment and – yes – enthusiasm.

As we move forward, as Europe continues to chart its way out of the crisis, my appeal to Germany is this: to show leadership in partnership; to show leadership in the Community spirit. I know that some of the choices we ask our citizens to make are not easy at all. But if we want the Euro to survive and if we want Europe to thrive, they are necessary. And leadership is about making possible what is necessary. To do so in the knowledge and certainty that the actions we take today to transform Europe are the guarantees of peace and prosperity for future generations. Because none of what we have achieved is irrevocable. Everything can be taken away much more rapidly than it was built.

The crisis is far from over. But we have the resources; we have the means, if only we have the spirit and the will.

So let us not look at the challenge before us with a faint heart, but with commitment and conviction. Conviction for a Europe that is prosperous, that is open, that is strong and that shapes global governance in line with European values, and I underline the word values. Values of responsibility, of solidarity, of democracy. If we want Europe to go on being a beacon of hope to people in other parts of the world, we must not let its candle go out. We must be inspired by the soul of Europe. We must breathe life into it again. A breath of hope and of confidence, as it is so exemplarily embodied in our European anthem, Friedrich Schiller‘s „Ode an die Freude“.

Let me tell you that in the recent debate about the euro sometimes I feel very uncomfortable. Some days ago I was together with others in the G20 in Cannes where the discussion about global economy was more a discussion about problems of the Euro area. Once I said to myself (when I was listening to all the leaders from the rest of the world telling Europe what to do) that it is much easier to solve the problems of the others than our own problems. Of course, one thing we have learned in Europe, form its history, and we are a very old continent, a very old civilisation, is that arrogance is the worst form of stupidity. And that is why we listen amply to all the advice. But at the same time we listen to all the advice and most of the advice was very good, I have to say. I was saying to myself the following: yes, we must listen to the advice of the others, but there are some things we don‘t want to change in Europe. We don‘t want to apologise because we are democracies, we prefer it to be a democracy, we prefer to take more time for our decisions than to be a dictatorship that would impose decisions on its citizens and we don‘t have to apologise because we are a social market economy; because we believe that if someone is poor, it is not necessarily because it is his fault; because we believe we should help those who are left behind. So, yes, we have to correct what is not going well in Europe and there are many things that are not going well, but at the same tie I hope that all of us in Europe are able to show the dignity of being Europeans – some pride to be Europeans, not arrogance, but pride to defend our model, to say this the Europe we want and we are ready to defend it. And while we accept lessons of the others, we are able also to propose advice to the rest of the world.

So my final message, ladies and gentlemen, is the following: let us remain loyal to the vision of the founding fathers. Speaking here at the invitation of the Konrad Adenauer Foundation, let us not betray the legacy of Konrad Adenauer. Let us live up to their ambition by taking a federative leap forward for a deeper, stronger, united Europe.

Let us welcome this challenge so that the next generation of Germans and Europeans can say: we have united for the better.

Thank you.

Speech at the opening session of the Rio+20 conference

EARTH SUMMIT – RIO+20
RIO DE JANEIRO, 20 JUNE 2012

Ladies and Gentlemen,

Allow me to begin with a word of sincere thanks to Brazil, the host country of this summit, not only for receiving us in the wonderful city of Rio de Janeiro but also for the country's commitment to sustainable development.

I should also like to thank the United Nations, and particularly the Secretary-General, for all of the efforts they have put into ensuring the success of Rio+20.

As many others in this room, I remember vividly that twenty years ago, the then 12-year-old Severn Suzuki addressed the plenary session at the Earth Summit here in Rio.

Twenty years ago this 12-year-old girl coming from Canada and speaking on behalf of the Environmental Children's Organisation (ECO) and "for all generations to come", as she put it, "silenced the world for 6 minutes".

She concluded her speech by telling delegates: "I challenge you please make your actions reflect your words."

Twenty years later progress towards sustainable development has been achieved in a number of areas and in many regions.

But still considerable challenges remain in eradicating poverty and in fully integrating the economic social and environmental dimensions of sustainable development.

Many environmental challenges have become even more acute. Increasing demand for resources has led to growing resource depletion while climate change, biodiversity loss and deforestation continue at an alarming rate.

At the same time, despite all the progress made, several of the Millennium Development Goals are off-track, notably hunger eradication.

One sixth of the world's population is undernourished. And Sub-Saharan Africa with more than one in four of its 856 million people undernourished remains the most food-insecure region.

Twenty years ago I was here in Rio as Portuguese State Secretary for Foreign Affairs. At that time, Severn Suzuki said "I'm only a child yet I know we are all in this together and should act as one single world towards one single goal."

Twenty years later I am here again, this time as President of the European Commission to express Europe's unwavering commitment to sustainable development, to the attainment of the Millennium Development Goals, and to deliver with all of you a clear message on a common vision and an agenda for change.

We must indeed work together to address these problems and move towards sustainable development.

In a world where the population is expected to rise up to nine billion by 2050, sustainability is also about intergenerational solidarity and responsibility.

It is about changing the way we consume and produce today to adapt our economies to the boundaries of our planet and allow future generations to meet their own needs tomorrow.

For the European Union, this is what green economy is all about.

We believe that promoting the right kind of growth, that is inclusive and environmentally friendly, is the most effective pathway to achieve sustainable development.

For this reason, I warmly welcome that the Conference has acknowledged that the Green Economy will enhance our ability to manage natural resources sustainably and with lower environmental impacts and increased resource efficiency. This is an important first step in the right direction.

Obviously this will be done differently in each country. We may all have different capacities and focus areas. But we share a common objective, a common vision to progress towards more sustainable development.

This means to promote an economy that respects the boundaries of our planet, creates decent work and green jobs, fosters social cohesion, tackles poverty and enhances food security.

An economy based on an efficient management of resources and natural capital and which taps into the full ecological and social innovation potential.

This includes, among others, the sustainable management of water, arable land, healthy and productive oceans and seas, biodiversity, as well as the provision of sustainable energy for all, improved resource efficiency and in particular, management of waste.

These areas underpin millions of livelihoods and can help alleviate poverty. They could become areas for future economic growth and global markets.

That is why the European Union focussed on developing clear and concrete global commitments on five priority areas: sustainable energy, water, sustainable land management and ecosystems, oceans, and resource efficiency, in particular waste.

Experience shows that we get better results when we agree on specific and quantifiable goals. And I am happy that the EU's efforts to make the outcome document more action-oriented has attracted increased support and is now better reflected in the outcome document.

We believe that the five priority areas I just mentioned are also key themes for the Sustainable Development Goals. All of them have a prominent place in the outcome document. We therefore very much welcome that the conference has agreed that we will be guided by this document when defining the future SDGs.

We consider that Sustainable Development Goals should be in full complementarity with the Millennium Development Goals, and strengthen the global commitment towards their achievement. The European Union wants a post-2015 overarching framework with specific goals that address the three dimensions of sustainable development -environmental, economic and social- in a holistic and coherent manner.

But to have a common objective is not enough. We also have to decide on the best ways to get there. And in this regard, Rio+20 is the occasion to better mobilise and focus the resources – national and international; public and private – necessary to meet our priorities.

And allow me to stress here three aspects on which we should focus our efforts to deliver concrete results.

First and foremost, each and every country must take the necessary measures to put in place an enabling environment of domestic policies that is designed to be self-sustaining.

As regards developing countries, Official Development Assistance (ODA) will continue to represent a significant resource for sustainable development. The European Union and its members will remain the world's largest donor, with a significant share of our aid around the globe already going to "Rio-priorities".

We remain staunchly committed to reaching our collective objective of 0.7% of Gross National Income (GNI) on aid by 2015, and we will mainstream sustainability considerations into our cooperation programs and all other EU policies even more in the future.

For 2012-2013 alone, our EU aid to all three dimensions of sustainable development already amounts to almost 8 billion Euro – more than 10 billion US Dollars.

And on the front of sustainable energy, I will propose to mobilise 400 million Euro over the next two years to support concrete new investments in this key area. In this regard, we very much welcome the Secretary General's initiative to ensure Sustainable Energy for All.

Secondly, progress towards sustainable development entails providing the right financing instruments. ODA alone is not the answer. Public and private funding and business expertise should go hand in hand in establishing appropriate financing strategies. Innovative sources of financing should be encouraged. And emerging economies should take a stronger role, proportionate to their evolving international status.

Thirdly, to move towards more sustainable development also depends on skills, know-how and technology diffusion. And in this regard the European Union is proud that its research framework programmes are open to all countries, including support to researchers in developing countries.

We are convinced that democracy, human rights, rule of law, good governance, and gender equality and empowerment of women are indispensable for achieving sustainable development. We therefore welcome that these values are firmly anchored in the outcome document of this conference.

We recognize the fundamental role of civil society and other stakeholders in the realization of sustainable development and we will work to increase their participation in decision making processes.

Finally, as no time can be lost to move towards a greener and more sustainable economy and to eradicate poverty, better and more efficient global governance is strongly needed.

I am therefore happy with our agreement to strengthen sustainable development governance within the UN. We are satisfied that the new High Level Forum for Sustainable Development will build on the inclusive participation modalities of the Commission on Sustainable Development. We are confident that the new forum will secure the regular participation of Heads of State in reviewing progress of all our commitments.

And I also welcome the agreement to reinforce the international environmental governance by strengthening and upgrading UNEP. It will now have universal membership and must become our common home to set the global environmental agenda. With this in mind, we will continue to work, together with our partners,

for the creation a full fledged United Nations Environment Organization. We believe that the people of the world need it.

Mister/Madam President, Excellencies,

We share the same planet. We face the same challenges. We share a common responsibility towards the future generations.

None of us has achieved in full what was wanted initially. But we have all worked together to develop common ground. Let me reassure you that the EU will continue to strive for more ambitious actions that our planet and its people require.

We need now to press ahead with the implementation of what has been achieved with a greater sense of urgency because the planet and the poorest in the world cannot afford delays.

Today Severn Suzuki is not a child anymore. She is a young mother of 32 years old, worried as all mothers with the future of their children. This is what sustainable development is about: to make sure that our actions not only do not thwart our children's dreams, but rather enable future generations to live a better life.

We have shown in the past that we have the will to change the course of our destiny for the better. Time has come now to close the gap between this ambition and resolute action to make it happen.

I thank you for your attention.

State of the Union Address 2012

EUROPEAN PARLIAMENT
STRASBOURG, 12 SEPTEMBER 2012

Mr President, Honourable Members,

1. Analysis of the situation

It is an honour to stand before you today to deliver this third State of the Union address.

At a time when the European Union continues to be in crisis. A financial and economic crisis. A social crisis. But also a political crisis, a crisis of confidence.

At its root, the crisis results from:

- Irresponsible practices in the financial sector;
- Unsustainable public debt, and also;
- A lack of competitiveness in some Member States.

On top of that, the Euro faces structural problems of its own. Its architecture has not been up to the job. Imbalances have built up.

This is now being corrected. But it is a painful, difficult, effort. Citizens are frustrated. They are anxious. They feel their way of life is at risk.

The sense of fairness and equity between Member States is being eroded. And without equity between Member States, how can there be equity between European citizens?

Over the last four years, we have made many bold decisions to tackle this systemic crisis. But despite all these efforts, our responses have not yet convinced citizens, markets or our international partners.

Why? Because time and again, we have allowed doubts to spread. Doubts over whether some countries are really ready to reform and regain competitiveness. Doubts over whether other countries are really willing to stand by each other so that the Euro and the European project are irreversible.

On too many occasions, we have seen a vicious spiral. First, very important decisions for our future are taken at European summits. But then, the next day, we see some of those very same people who took those decisions undermining them. Saying that either they go too far, or that they don't go far enough. And then we get a problem of credibility. A problem of confidence.

It is not acceptable to present these European meetings as if they were boxing events, claiming a knockout victory over a rival. We cannot belong to the same Union and behave as if we don't. We cannot put at risk nine good decisions with one action or statement that raises doubts about all we have achieved.

This, Honourable Members, reveals the essence of Europe's political crisis of confidence. If Europe's political actors do not abide by the rules and the decisions they have set themselves, how can they possibly convince others that they are determined to solve this crisis together?

Mr President,

Honourable Members,

2. The challenge – a new thinking for Europe

A crisis of confidence is a political crisis. And, the good thing is that, in a democracy, there is no political problem for which we cannot find a political solution.

That is why, here today, I want to debate with you the fundamental political questions - where we are now and how we must move forward. I want to focus on the political direction and the vision that shall inspire our policy decisions.

I will of course not list all these individual decisions. You are receiving the letter I addressed to the President of the European Parliament, and that sets out the Commission's immediate priorities. We will discuss them with you before adopting the Commission Work Programme later in the autumn.

My message to you today is this: Europe needs a new direction. And, that direction can not be based on old ideas. Europe needs a new thinking.

When we speak about the crisis, and we all speak about the crisis, have we really drawn all the consequences for our action? When we speak about globalisation, and we all speak a lot about globalisation, have we really considered its impact on the role of each of our Member States?

The starting point for a new thinking for Europe is to really draw all the consequences of the challenges that we are facing and that are fundamentally changing our world.

The starting point is to stop trying to answer the questions of the future with the tools of the past.

Since the start of the crisis, we have seen time and again that interconnected global markets are quicker and therefore more powerful than fragmented national political systems. This undermines the trust of citizens in political decision making. And it is fuelling populism and extremism in Europe and elsewhere.

The reality is that in an interconnected world, Europe's Member States on their own are no longer able to effectively steer the course of events. But at the same time, they have not yet equipped their Union - our Union —with the instruments needed to cope with this new reality. We are now in a transition, in a defining moment. This moment requires decisions and leadership.

Yes, globalisation demands more European unity.

More unity demands more integration.

More integration demands more democracy, European democracy.

In Europe, this means first and foremost accepting that we are all in the same boat.

It means recognising the commonality of our European interests.

It means embracing the interdependence of our destinies.

And it means demanding a true sense of common responsibility and solidarity.

Because when you are on a boat in the middle of the storm, absolute loyalty is the minimum you demand from your fellow crew members.

This is the only way we will keep up with the pace of change. It is the only way we will get the scale and efficiency we need to be a global player. It is the only way to safeguard our values, because it is also a matter of values, in a changing world.

In the 20th century, a country of just 10 or 15 million people could be a global power. In the 21st-century, even the biggest European countries run the risk of irrelevance in between the global giants like the US or China.

History is accelerating. It took 155 years for Britain to double its GDP per capita, 50 years for the US, and just 15 years for China. But if you look at some of our new Member States, the economic transformation going on is no less impressive.

Europe has all the assets it takes. In fact much more so than previous generations faced with similar or even greater challenges.

But we need to act accordingly and mobilize all these resources together.

It is time to match ambitions, decisions, and actions.

It is time to put a stop to piecemeal responses and muddling through.

It is time to learn the lessons from history and write a better future for our Europe.

Mr President,

Honourable Members,

3. Response to the situation – the 'decisive deal for Europe'

What I demand and what I present to you today is a Decisive Deal for Europe.

A decisive deal to project our values, our freedom and our prosperity into the future of a globalized world. A deal that combines the need to keep our social market economies on one hand and the need to reform them on the other. A deal that will stabilise the EMU, boost sustainable growth, and restore competitiveness. A deal that will establish a contract of confidence between our countries, between Member States and the European institutions, between social partners, and between the citizens and the European Union.

The Decisive Deal for Europe means that:

We must leave no doubt about the integrity of the Union or the irreversibility of the Euro. The more vulnerable countries must leave no doubts about their willingness to reform. About their sense of responsibility. But the stronger countries must leave no doubts about their willingness to stick together. About their sense of solidarity. We must all leave no doubts that we are determined to reform. To REFORM TOGETHER.

The idea that we can grow without reform, or that we can prosper alone is simply false. We must recognise that we are in this together and must resolve it together.

This decisive deal requires the completion of a deep and genuine economic union, based on a political union.

3.1. Economic union:

Let me start with Europe's economy.

Firstly, we need growth. Sustainable growth

Growth is the lifeblood of our European social market model: it creates jobs and supports our standard of living. But we can only maintain growth if we are more competitive.

At the national level it means undertaking structural reforms that have been postponed for decades. Modernising public administration. Reducing wasteful expenditure. Tackling vested interests and privileges. Reforming the labour market to balance security with flexibility. And ensuring the sustainability of social systems.

At the European level, we need to be more decisive about breaking down barriers, whether physical, economic or digital.

We need to complete the single market.

We need to reduce our energy dependence and tap the renewable energy potential.

Promoting competitiveness in sectors such as energy, transport or telecoms could open up fresh competition, promote innovation and drive down prices for consumers and businesses.

The Commission will shortly present a Single Market Act II. To enable the single market to prosper, the Commission will continue to be firm and intransigent in the defence of its competition and trade rules. Let me tell you frankly, If it was left to the Member States, I can tell you they will not resist pressure from big corporations or large external powers.

We need to create a European labour market, and make it as easy for people to work in another country as it is as home.

We need to explore green growth and be much more efficient in our use of resources.

We have to be much more ambitious about education, research, innovation and science.

Europe is a world leader in key sectors such as aeronautics, automotives, pharmaceuticals and engineering, with global market shares above a third. Industrial productivity increased by 35% over the last decade despite the economic slowdown. And today, some 74 million jobs depend on manufacturing. Every year start-up firms in the EU create over 4 million jobs. We need to build on this by investing in our new industrial policy and creating a business environment that encourages entrepreneurship and supports small businesses.

This means making the taxation environment simpler for businesses and more attractive for investors. Better tax coordination would benefit all Member States.

We also need a pro-active trade policy by opening up new markets.

This is the potential of Europe's economy. This is the goldmine that is yet to be fully explored. Fully implementing the Growth Compact agreed at the June European Council can take us a long way.

And we could go further, with a realistic but yet ambitious European Union budget dedicated to investment, growth and reform. Let's be clear. The European budget is the instrument for investment in Europe and growth in Europe. The Commission and this Parliament, indeed all pro-European forces, because most member States support our proposal, must now stand together in support of the right multi-annual financial framework that will take us to 2020. It will place little burden on Member States, especially with our proposed new own resources system. But it would give a great boost to their economies, their regions, their researchers, their students, their young people who seek employment, or their SMEs.

It is a budget for growth, for economic, social and territorial cohesion between Member States and within Member States.

It is a budget that will help complete the single market by bridging gaps in our energy, transport and telecoms infrastructure through the Connecting Europe Facility.

It is a budget for a modern, growth-oriented agriculture capable of combining food security with sustainable rural development.

It is a budget that will promote a research intensive and innovative Europe through Horizon 2020. Because we need this European scale for research

This will be a real test of credibility for many of our some Member States. I want to see if the same member States who are all the time talking about investment and growth will now support a budget for growth at the European level.

The budget is also the tool to support investment in our growth agenda, Europe 2020, which we need now more than ever before.

Europe 2020 is the way to modernise and preserve the European social market economy.

Honourable Members,

Our agenda of structural reform requires a major adjustment effort. It will only work if it is fair and equitable. Because inequality is not sustainable.

In some parts of Europe we are seeing a real social emergency.

Rising poverty and massive levels of unemployment, especially among our young people.

That is why we must strengthen social cohesion. It is a feature that distinguishes European society from alternative models.

Some say that, because of the crisis, the European Social model is dead. I do not agree.

Yes, we need to reform our economies and modernise our social protection systems. But an effective social protection system that helps those in need is not an obstacle to prosperity. It is indeed an indispensable element of it. Indeed, it is precisely those European countries with the most effective social protection systems and with the most developed social partnerships, that are among the most successful and competitive economies in the world.

Fairness and equity means giving a chance to our young people. We are already doing a lot. And before the end of the year, the Commission will launch a Youth Package that will establish a youth guarantee scheme and a quality framework to facilitate vocational training.

Fairness and equity also means creating better and fairer taxation systems.

Stopping tax fraud and tax evasion could put extra billions into the public purse across Europe.

This is why the Commission will fight for an agreement on the revised savings tax directive, and on mandates to negotiate stronger savings tax agreements with third countries. Their completion would be a major source of legitimate tax revenues.

And the Commission will continue to fight for a fair and ambitious Financial Transactions Tax that would ensure that taxpayers benefit from the financial sector, not just that the financial sector benefits from taxpayers. Now that it is clear that agreement on this can only happen through enhanced cooperation, the Commission will do all it can to move this forward rapidly and effectively with those Member States that are willing. Because this is about fairness. And fairness is an essential condition to make the necessary economic reforms socially and politically acceptable. And above all fairness is a question of justice, social justice.

Mr President,

Honourable Members,

In the face of the crisis, important decisions have been taken. Across the European Union, reform and consolidation measures are being implemented. Joint financial backstops are being put in place, and the European institutions have consistently shown that they stands by the Euro.

The Commission is very aware that in the Member States implementing the most intense reforms, there is hardship and there are – sometimes very painful – difficult adjustments. But it is only through these reforms that we can come to a better future. They were long overdue. Going back to the status quo ante is simply impossible.

The Commission will continue to do all it can to support these Member States and to help them boost growth and employment, for instance through the re-programming of structural funds.

Allow me to say a word on Greece. I truly believe that we have a chance this autumn to come to the turning point. If Greece banishes all doubts about its commitment to reform. But also if all other countries banish all doubts about their determination to keep Greece in the Euro area, we can do it.

I believe that if Greece stands by its commitments it should stay in the Euro area, as a member of the European family.

Securing the stability of the Euro area is our most urgent challenge. This is the joint responsibility of the Member States and the Community Institutions. The ECB cannot and will not finance governments. But when monetary policy channels are not working properly, the Commission believes that it is within the mandate of the ECB to take the necessary actions, for instance in the secondary markets of sovereign debt. Indeed, the ECB has not only the right but also the duty to restore the integrity of monetary policy. It is of course for the ECB, as an independent institution, to determine what actions to carry out and under what conditions. But all actors, and I really mean all actors, should respect the ECB's independence.

Honourable Members,

I have spoken about the economic measures that we must implement as a matter of urgency. This is indispensable. But it is not sufficient. We must go further.

We must complete the economic and monetary union. We must create a banking union and a fiscal union and the corresponding institutional and political mechanisms.

Today, the Commission is presenting legislative proposals for a single European supervisory mechanism. This is the stepping stone to a banking union.

The crisis has shown that while banks became transnational, rules and oversight remained national. And when things went wrong, it was the taxpayers who had to pick up the bill.

Over the past four years the EU has overhauled the rulebook for banks, leading the world in implementing the G20 commitments. But mere coordination is no longer adequate – we need to move to common supervisory decisions, namely within the Euro area.

The single supervisory mechanism proposed today will create a reinforced architecture, with a core role for the European Central Bank, and appropriate articulation with the European Banking Authority, which will restore confidence in the supervision of the banks in the Euro area.

It will be a supervision for all Euro area banks. Supervision must be able to look everywhere because systemic risks can be anywhere, not just in so-called systemically relevant banks. Of course, this in a system that fully engages the national supervisors.

The package comprises two legal texts, one on the ECB and the other on the EBA, which go together. It is clear that this parliament will have a crucial role to play in the adoption of the new mechanism, and after that in its democratic oversight.

This is a crucial first step towards the banking union I proposed before this House in June. Getting the European supervisor in place is the top priority for now, because it is the precondition for the better management of banking crises, from banking resolution to deposit insurance.

In parallel the Commission will continue to work on the reform of the banking sector, to make sure it plays its role in the responsible financing of the real economy. That means improving long term financing for SMEs and other companies. It means rules on reference indices, so we do not again see the manipulation of bank interest rates affecting companies and mortgage holders alike. It means legislation to ensure that banks give a fair deal to consumers and another look at the structure of banking activities to eliminate inherent risks.

In all of this, the role of this Parliament is essential. The Commission endeavours to work in close partnership with you.

But there is a second element of a deeper economic union it is the move towards a fiscal union.

The case for it is clear: the economic decisions of one Member State impact the others. So we need stronger economic policy co-ordination.

We need a stronger and more binding framework for the national decision making for key economic policies, as the only way to prevent imbalances. While much has been done here, for instance through the six-pack and the Country-Specific Recommendations, further steps are crucial to combine specific conditions with specific incentives and to really make the economic and monetary union sustainable.

To deliver lasting results, we need to develop a fully equipped Community economic governance together with a genuine, credible Community fiscal capacity.

We do not need to separate institutions or to create new institutions for that. Quite the contrary: for this to be effective and quick, the best way is to work with and through the existing institutions: The European Commission as the independent European authority, and overseen by the European Parliament as the parliamentary representation at the European level.

And it is in such a framework that over time, steps for genuine mutualisation of debt redemption and debt issuance can take their place.

So economic reform coupled with a genuine economic and monetary union: these are the engines to get our boat moving forward.

The Commission will publish a blueprint for deepening the economic and monetary union still this autumn.

This blueprint will be presented to this House. Because these questions must be discussed with and by the representatives of the people

At the same time, it will inform the debate at the December European Council that will be prepared by the report that the President of the European Council, myself and the Presidents of the European Central Bank and the Eurogroup have been asked to present.

Our blueprint will identify the tools and instruments, and present options for legal drafting that would give effect to them, from policy coordination to fiscal capacity to debt redemption. And, where necessary – as in the case of jointly and severally guaranteed public debt – it would identify the treaty changes necessary, because some of these changes require modifications to the Treaty. It will present a blue-print for what we need to accomplish not only in the next few weeks and months, but in the next years.

Mr President,

Honourable Members,

3.2. Political union:

Ultimately, the credibility and sustainability of the Economic and Monetary Union depends on the institutions and the political construct behind it.

This is why the Economic and Monetary Union raises the question of a political union and the European democracy that must underpin it.

If we want economic and monetary union to succeed, we need to combine ambition and proper sequencing. We need to take concrete steps now, with a political union as a horizon.

I would like to see the development of a European public space, where European issues are discussed and debated from a European standpoint. We cannot continue trying to solve European problems just with national solutions.

This debate has to take place in our societies and among our citizens. But, today, I would like to make an appeal also to European thinkers. To men and women of culture, to join this debate on the future of Europe. And I make this appeal to you. This is the house of European democracy. We must strengthen the role of the European Parliament at the European level.

And we need to promote a genuine complementarity and cooperation between the European and national parliaments.

This also cannot be done without strengthening European political parties. Indeed, we have very often a real disconnect between political parties in the capitals and the European political parties here in Strasbourg. This is why we have to recognise the political debate is cast all too often as if it were just between national parties. Even in the European elections we do not see the name of the European political parties on the ballot box, we see a national debate between national political parties. This is why we need a reinforced statute for European political parties. I am proud to announce that the Commission has adopted a proposal for this today.

An important means to deepen the pan-European political debate would be the presentation by European political parties of their candidate for the post of Commission President at the European Parliament elections already in 2014. This can be done without Treaty change. This would be a decisive step to make the possibility of a European choice offered by these elections even clearer. I call on the political parties to commit to this step and thus to further Europeanise these European elections.

Mr President,

Honourable Members,

A true political European Union means we must concentrate European action on the real issues that matter and must be dealt with at the European level. Let's be frank about this not everything can be at the same time a priority. Here, some self-criticism can probably be applied

Proper integration is about taking a fresh look at where is the most appropriate level of action. Subsidiarity is an essential democratic concept and should be practiced.

A political union also means that we must strengthen the foundations on which our Union is built: the respect for our fundamental values, for the rule of law and democracy.

In recent months we have seen threats to the legal and democratic fabric in some of our European states. The European Parliament and the Commission were the first to raise the alarm and played the decisive role in seeing these worrying developments brought into check.

But these situations also revealed limits of our institutional arrangements. We need a better developed set of instruments– not just the alternative between the "soft power" of political persuasion and the "nuclear option" of article 7 of the Treaty.

Our commitment to upholding the rule of law is also behind our intention to establish a European Public Prosecutor's Office, as foreseen by the Treaties. We will come with a proposal soon.

Mr President,

Honourable Members,

A political union also means doing more to fulfil our global role. Sharing sovereignty in Europe means being more sovereign in a global world.

In today's world, size matters.

And values make the difference.

That is why Europe's message must be one of freedom, democracy, of rule of law and of solidarity. In short, our values European values.

More than ever our citizens and the new world order need an active and influential Europe. This is not just for us, for the rest of the world it is important that we succeed. A Europe that stands by its values. And a Europe that stands up for its belief that human rights are not a luxury for the developed world, they should be seen as universal values

The appalling situation in Syria reminds us that we can not afford to be by-standers. A new and democratic Syria must emerge. We have a joint responsibility to make this happen. And to work with those in the global order who need to give also their co-operation to this goal

The world needs an EU that keeps its leadership at the forefront of development and humanitarian assistance. That stands by open economies and fights protectionism. That leads the fight against climate change.

The world needs a Europe that is capable of deploying military missions to help stabilize the situation in crisis areas. We need to launch a comprehensive review of European capabilities and begin truly collective defence planning. Yes, we need to reinforce our Common Foreign and Security Policy and a common approach to defence matters because together we have the power, and the scale to shape the world into a fairer, rules based and human rights' abiding place.

Mr President,

Honourable Members

4. Treaty change, 17/27 dimension and expanding public debate

4.1. Federation of nation states - Treaty change

A deep and genuine economic and monetary union, a political union, with a coherent foreign and defence policy, means ultimately that the present European Union must evolve.

Let's not be afraid of the words: we will need to move towards a federation of nation states. This is what we need. This is our political horizon.

This is what must guide our work in the years to come.

Today, I call for a federation of nation states. Not a superstate. A democratic federation of nation states that can tackle our common problems, through the sharing of sovereignty in a way that each country and each citizen are better equipped to control their own destiny. This is about the Union with the Member States, not against the Member States. In the age of globalisation pooled sovereignty means more power, not less.

And, I said it on purpose a federation of nation states because in these turbulent times these times of anxiety, we should not leave the defence of the nation just to the nationalists and populists. I believe in a Europe where people are proud of their nations but also proud to be European and proud of our European values.

Creating this federation of nation states will ultimately require a new Treaty.

I do not say this lightly. We are all aware how difficult treaty change has become.

It has to be well prepared.

Discussions on treaty change must not distract or delay us from doing what can and must be done already today.

A deep and genuine economic and monetary union can be started under the current Treaties, but can only be completed with changes in the treaties So let's start it now but let's have the horizon for the future present in our decisions of today.

We must not begin with treaty change. We must identify the policies we need and the instruments to implement them. Only then can we decide on the tools that we lack and the ways to remedy this.

And then there must be a broad debate all over Europe. A debate that must take place before a convention and an IGC is called. A debate of a truly European dimension.

The times of European integration by implicit consent of citizens are over. Europe can not be technocratic, bureaucratic or even diplomatic. Europe has to be ever more democratic. The role of the European parliament is essential. This is why the European elections of 2014 can be so decisive.

Before the next European Parliament elections in 2014, the Commission will present its outline for the shape of the future European Union. And we will put forward explicit ideas for Treaty change in time for a debate.

We will set out the objectives to be pursued, the way the institutions that can make the European Union more open and democratic, the powers and instruments to make it more effective, and the model to make it a union for the peoples of Europe. I believe we need a real debate and in a democracy the best way to debate is precisely in elections at the European level on our future and our goals;

4.2. 17/27 dimension

Mr President, Honourable Members,

This is not just a debate for the Euro area in its present membership.

While deeper integration is indispensable for the Euro area and its members, this project should remain open to all Member States.

Let me be very clear: in Europe, we need no more walls dividing us! Because the European Union is stronger as a whole in keeping the integrity of its single market, its membership and in its institutions.

No one will be forced to come along. And no one will be forced to stay out. The speed will not be dictated by the slowest or the most reluctant

This is why our proposals will be based on the existing Union and its institutions, On the Community method. Let's be clear – there is only one European Union. One Commission. One European Parliament. More democracy, more transparency, more accountability, is not created by a proliferation of institutions that would render the EU more complicated, more difficult to read less coherent and less capable to act.

4.3. Expanding public debate:

This is honourable members the magnitude of the decisions that we will need to make over time.

That's why I believe we need a serious discussion between the citizens of Europe about the way forward.

About the possible consequences of fragmentation. Because what can happen some times is to have, through unintended consequences, to have fragmentation when we do not want it.

About what we could achieve if leaders avoid national provincialism what we can achieve together.

We must use the 2014 election to mobilise all pro-European forces. We must not allow the populists and the nationalists to set a negative agenda. I expect all those who call themselves Europeans to stand up and to take the initiative in the debate. Because even more dangerous than the scepticism of the anti-Europeans, is the indifference or the pessimism of the pro-Europeans.

Mr President, Honourable Members,

5. Conclusion: is this realistic?

To sum up, what we need is a decisive deal to complete the EMU, based on a political commitment to a stronger European Union.

The sequence I put before you today is clear.

We should start by doing all we can to stabilise the euro area and accelerate growth in the EU as a whole. The Commission will present all the necessary proposals and we have started today with the single supervisor to create a banking union, in line with the current Treaty provisions.

Secondly, we will present our blueprint on a deep and genuine economic and monetary union, including the political instruments, and this will be done still this autumn

We will present here again all proposals in line with the current Treaty provisions.

And thirdly, where we cannot move forward under the existing treaties, we will present explicit proposals for the necessary Treaty changes ahead of the next European Parliamentary election in 2014, including elements for reinforced democracy and accountability

This is our project. A project which is step by step but with a big ambition for the future with a Federation as our horizon for Europe.

Many will say that this is too ambitious, that it is not realistic.

But let me ask you - is it realistic to go on like we have been doing? Is it realistic to see what we are seeing today in many European countries? Is it realistic to see taxpayers paying banks and afterwards being forced to give banks back the houses they have paid for because they can not pay their mortgages? Is it realistic to see more than 50% of our young people without jobs in some of our Member States? Is it realistic to go on trying to muddle through and just to accumulate mistakes with unconvincing responses? Is it realistic to think that we can win the confidence of the markets when we show so little confidence in each other?

To me, it is this reality that is not realistic. This reality cannot go on.

The realistic way forward is the way that makes us stronger and more united. Realism is to put our ambition at the level of our challenges. We can do it! Let's send our young people a message of hope. If there is a bias, let it be a bias for hope. We should be proud to be Europeans. Proud of our rich and diverse culture. In spite of our current problems, our societies are among the most human and free in the world.

We do not have to apologise for our democracy our social market economy and for our values. With high levels of social cohesion. Respect for human rights and human dignity. Equality between men and women and respect for our environment. These European societies, with all its problems, are among the most decent societies in human history and I think we should be proud of that. In our countries two or three girls do not go to prison because they sing and criticise the ruler of their country. In our countries people are free and are proud of that freedom and people understand what it means to have that freedom. In many of our countries, namely the most recent Member States, there is a recent memory of what was dictatorship and totalitarianism.

So Previous generations have overcome bigger challenges. Now it is for this generation to show they are up to the task.

Now is the moment for all pro-Europeans to leave business as usual behind and to embrace the business of the future. The European Union was built to guarantee peace. Today, this means making our Union fit to meet the challenges of globalization.

That is why we need a new thinking for Europe, a decisive deal for Europe. That is why we need to guide ourselves by the values that are at the heart of the European Union. Europe I believe has a soul. This soul can give us the strength and the determination to do what we must do.

You can count on the European Commission. I count on you, the European Parliament. Together, as Community institutions we will build a better, stronger and a more united Europe, a citizens' Union for the future of Europe but also the future of the world.

Thank you for your attention.

Speech to the European Union Heads of Delegation

ANNUAL CONFERENCE OF EU HEADS OF DELEGATION, EUSR AND CHARGÉS D'AFFAIRES
BRUSSELS, 4 SEPTEMBER 2012

Dear Ambassadors, Heads of Delegation, Colleagues,

I very much welcome the opportunity to address you here today.

It is over 600 years since the Italian statesman Francesco Guicciardini, first stated that: "Diplomats are the eyes and ears of the state."

This is still true. But the days are long gone when an ambassador could consider himself well equipped if he was a good host and a ready listener.

Today, you are much more than that, particularly as Ambassadors of an organisation and a project as sui generis and as inspiring as the European Union.

It cannot be overstated that you are pioneers in a new and unprecedented project in mankind's history, that of representing not a nation and not an empire but a group of free willing nations that have decided that by pooling their sovereignty and acting together they would be more effective in defending their interests and promoting their values.

I wished to recall this at the start of my intervention, because it is important to always keep in mind our starting point, which models and shapes all our actions, including diplomatic action. This is also something that is important to recall, at a point where Europe is faced with very important challenges and very important choices that have a clear impact on our external action and on our capacity to shape the 21st century world.

The financial and economic crisis which struck the EU as well know was ignited by excessive debt, by the irresponsible behaviour by some in the financial sector and also by the failure in national supervision systems. However its root causes are the tectonic changes that have been taking place in the world and the deep seated imbalances that have been building particularly over recent decades.

History is accelerating and we cannot afford to become bystanders. Some figures illustrate these changes: in the 20th century we witnessed a 4 fold growth in global population and a 40 fold increase in economic output. It took thousands of years - from prehistory to 1960 - for mankind to reach 3 billion people. But then it took only 39 years - until 1999 - to add the next 3 billion. And now it has taken just 12 more years to move from 6 to 7 billion. It took 155 years for Britain to double its GDP per capita, 50 years to the US and only 15 years for China.

These are the real developments that have shaken the structures of our societies and that force us to rethink whether the way we operate is fit for the purpose of promoting our interests and our values. It is fair to conclude that our model has revealed inefficiencies that need to be corrected. However, it is important not to draw the wrong conclusions.

Some pretend that the crisis has proven that the EU is no longer necessary, that supranational cooperation does not work and that the nation states are the only entity that can address the challenges with which our societies are confronted. This is wrong. It suffices to say that if current trends were kept no European country would feature in the world's top ten economies after 2050. In a world where production chains are global, where capital knows no borders, where ideas and communication flow at the speed of a mouse click, to pretend that self-sufficiency is the solution is indeed self-defeating. We need the scale of Europe.

We need the continental scale of the EU also for our member states to count in the world. Not against our member states, this is extremely important to understand. It will certainly be a mistake particularly in times of anxiety like the ones we are living, in these times of turbulence, to try to build the EU against the nation states. The nation is seen by many of our citizens as the refuge, especially in times of uncertainty. So it would be a mistake for the pro-Europeans to give that argument for the ultra-nationalists or the populists. But at the same time we have to make it clear that for our nations to count in the world, and for Europe as such to count in the world, we need this scale of shared sovereignty.

That is why the European Commission and if I may say also I personally have been pushing for action, for collective action. This is the only way to overcome the current problems: determined action by individual countries but also by the Union as a whole, including in the field of foreign policy and external relations that you represent.

Dear Ambassadors, dear friends,

There is no magic wand, no silver bullet that will in an instant lead the European economy to recovery. For Europe to regain its economic strength we have at least four challenges to address, excessive sovereign debt, the indebtedness of the private sector - both companies and individuals - a lack of international competitiveness of some of our Member States and also a transformation of our governance system namely in the Euro area.

We are doing this. We have taken our economic and political future in hand, we are delivering and we will continue to deliver. But this takes time. At the same time it needs determination.

The June European Council was a decisive meeting; a meeting which has opened up the prospect of a more united, more integrated, European Union and Euro area. But our work is not complete and, until it is, our system will lack stability. We have a monetary union, but the crisis has demonstrated that there is a cumulative logic to the integration process: monetary union cannot function without a banking union, and without further fiscal and economic union.

The last European Council broadly endorsed a paper prepared by the President of the European Council, by myself, the President of the European Central Bank and the President of the Euro group, examining how best to move along this path. And that is exactly what we are doing and preparing now for the next steps.

Of course the logic of integration cannot be purely economic. Banking union requires a single European supervisor, further economic union too requires supervision of the member states economic policies, joint supervision. Not supervision made by them in Brussels over our economies but our joint supervision over our economies because it is clear that in a currency, in a monetary union one country should not have the right to do harm to others as it is happening today.

It is therefore logical, but also right and just, that there is further political or institutional integration as well. This is needed to ensure democratic oversight of the process and to reassure the citizens of Europe that they are a part of the process. More integration, more democracy, more accountability. We should not be afraid of the words. We should move forward in our project to consolidate a truly political union.

The European Commission will shortly, in fact it will be on the 12th of this month, table proposals to create a European banking union, namely a single supervisor for our banks, but we must be under no illusions that deepening economic integration and especially political integration are long term projects. Yes, they provide a vision which is needed to generate confidence in the long term future of Europe, but Europe also needs action now.

So the key here is to combine ambition with a proper sequencing. It would be a complete mistake to suggest that to get out of this crisis Europe can do it only by Treaty change. We know that Treaty change takes time so we need to have short term responses to financial instability we are now feeling in the Euro area. But short term is not enough because the so called markets know very well that in the longer term the stability of the currency depends also on the political construct and on the solidity of the institutions that are behind it. That is why as the same time we are giving short term answers to the instability we need to have a horizon for the medium and long term. So these issues – short, medium and longer term – should not be seen as incompatible and we have to act on the several areas.

That is why Europe to overcome its present crisis needs further fiscal consolidation, deep structural reform and smart targeted investment so that we can return to long term growth and create the jobs our citizens need. The last European Council committed to work in all these areas and the European Commission is leading or co-leading this work.

I know that you are increasingly asked by our partners to explain all these steps and the latest measures taken by the European Union, so I will make sure that the EEAS and our delegations get more regular economic briefings, in particular after important decisions are taken. And this is important because I would like you to be equipped with all the elements, the objective elements to make the case for Europe.

There are some things you can say even without further documents that sometimes our partners underestimate. The point is the following: if you look since the crisis there was no move until now to get back, to undo the economic integration. If you see the debate now in Europe is how far and how fast are we going for the next steps but no one really at least in the governments that are on Europe is proposing to undo the European integration. And if you look at the decisions, the decisions have all been for reinforcement of the economic and monetary union and further integration of the institutional apparatus and even more supranational powers. Ok we can always say that probably it is not fast enough or we can say in some cases it was the intergovernmental route not the community method route but it was always for more and not less integration.

Another point some of pour partners underestimate is level of integration among Europe. They have the typical let's say state centred approach what in the Europe we sometimes call the souverenist approach and so they see and believe they are intelligent because they see it in realistic terms, sometimes expressing lots of cynicism about the capacity of the Europeans to go forward. I think this is the result of lack of understanding of the way Europe integrates.

I want to give you my personal testimony after eight years in this position, and the last three years in the crisis mode day and night with this Euro crisis, that I am fully confident about the willingness of our member states and their leadership to integrate further. It is a negotiation, extremely complex, where you of course there are different teachers and different perceptions and different cultures, but at the end I have no doubts about the interest of all member states to go forward in terms of sharing more sovereignty for the economic and monetary union, at least for the countries of the EMU and with the support of those who are not yet, or they do not intend to be in the Euro.

Another issue is the lack of understanding of the role of the institutions, namely of the European Central Bank. Of course the ECB will do whatever is necessary to sustain the Euro. By definition. The first mandate of the ECB is the very existence of Euro, it is not only price stability. So when there are threats to the integrity of the monetary union the ECB has of course the right to intervene and reintervene. But of course rightly the ECB does not want to give the message that the member states can go on with, let's put it frankly, irresponsible fiscal policies, unsustainable levels of debt and lack of supervision as we have seen recently when we have discovered that the reality of the financial sectors was not exactly the one that they were pretending to be.

So this is the game. That is why I am confident, not underestimating the difficulties that we know very well where they are, but I am confident and I want to convey to you my perception that we are going to overcome these difficulties. Of course there are risks and serious risks because we have seen in the past and in history that sometimes even when there is not the intention to create a problem it may happen that interrelation of independent consequences can provoke the problem. Yes, this risk exists.

Of course there is a very important problem is that at the time when we are required to take further steps in terms of integration it is exactly the time when there is less support in the public opinion for this integration. This is why we need also to act politically for the member states and the European institutions to act together to keep the population of Europe broadly supporting the European integration which may be at a risk in the current circumstances when we see the economic situation deteriorating and when we see the very high levels of unemployment.

So I am not at all pretending that the result exists, but I want, after careful consideration of the risks, to convene to you my perception that we are going to overcome the current difficulties. But it will take time, there is no magic solution, there is no panacea, it is not this or that solution by miracle to result the problems. It requires constant, persistent, coherent determination along a path of a comprehensive response that has to address different and sometimes complex elements.

I wonder if I could also speak about foreign policy! You probably want me to give you more elements about the current situations so in the period of questions and comments I will be available if you wish to put me any question that I could try to respond, but nevertheless I thought about making one or two points about external relations because the foreign policy and the external dimension is also a very important element of this response. And precisely one of the consequences - one of the negative responses that I am sure you feel every day of the current crisis at the European union since you are in the spotlight because of the Euro crisis - is in some extent be seen losing credibility and authority for the good things we can do and we are doing for the global community.

This is why we have to acknowledge that Europe's role in the world is also a function of its economic success. But this should never mean that we are now turning inwards, on the contrary, foreign policy is part and parcel of the response to the crisis.

We need to keep Europe open and engaged in the world. If our internal market is one driver of growth, then our external market, the rest of the world, should be another. The European Union is indeed the world's largest trader but we can still benefit from access to third country markets and we are working hard to achieve precisely this.

But this is not simply because this openness brings economic benefits which are vital to our future growth. It is also because in the future to defend and promote our common values Europe will have to play an ever more active international role.

In order to be able to shape global decisions we will only count if we act together, the Commission, the External Service, under the leadership of the High Representative/Vice-President, and the Member States; there is just one EU and we will be judged as EU and not as separate institutions. The citizens, not only the citizens of the world, citizens of Europe, will not make a distinction, most of them, between Commission, External Service, Council, European Council – it is the EU. And this is very important to understand. That is why we need to unite the geographical outreach and presence of the European External Action Service to the thematic knowledge and expertise of the Commission.

Let me turn to the importance of this for our two primary foreign policy priorities: our neighbourhood and our relations with strategic partners.

Concerning our Neighbourhood, in response to the events of the Arab Spring we adopted last year a joint communication from the High Representative/Vice President and the Commission. This reaction to the mass movements for democracy in the Mediterranean have demonstrated, one major advantage of the Lisbon Treaty: the strengthened ability to seamlessly combine all of the instruments at the disposal of the European Union to roll out a package of support measures centred on the so-called three Ms; money, market access and mobility.

We know that the end will always be uncertain and that these countries' journey is just beginning but we need to "make a bet on democracy". But we also need to remain vigilant to make sure that those who oppose democracy do not hijack these transitions.

Next week I intend to receive here the new President of Egypt, in fact he comes to the EU very soon after his election. It is an important occasion to speak with him about what his intentions are regarding what is happening in Egypt and in the wider region.

Free elections were held not only in Egypt but also in Tunisia and Libya and the will of the people needs to be respected. The European Union will deal with any government legitimised by free and fair elections, provided that they remain faithful and loyal to the principles of democracy, human rights and human dignity. I was last year in Tunis and in Cairo, and I will meet in the next weeks as I said Egyptian President but also the Tunisian Prime Minister. I also intend to travel to Jordan and Morocco to explore our support to reforms.

History has shown us that those who make peaceful evolution impossible render violent revolutions inevitable. This is what is happening in Syria. The world cannot turn a blind eye to the carnage in the country. Security Council members need to assume their responsibilities. Inability to act will only discredit the United Nations and make actions outside its framework more likely. We need to put an immediate end to the killings of innocents, the human rights abuses, and to agree on a path towards a political transition.

This commitment to reform expends across the countries of the neighbourhood policy, not just to the south but to the east as well. Here too, we are supporting those who wish to consolidate democracy and open economies through a joined up approach EEAS/Commission. We have started negotiations on Association Agreements, including Deep and Comprehensive Free Trade Areas, with 4 out of our 6 Eastern partners.

We have concluded negotiations with Ukraine but the signing of the Agreement will depend on Kiev's commitment to the European values. I hope that by the 3rd Eastern Partnership Summit, which will take place next year, more of these Agreements will be concluded, notably with Moldova.

These countries need an active and influential Europe and the rest of the world also needs an outward looking Europe that is able to play its full role in the neighbourhood and in the global affairs.

As I said, the neighbourhood is one of our priorities; the other is strengthening relations with our strategic partners. Here too, the combination of Commission instruments, EEAS action and Member States cooperation can make a real difference.

With the United States, we are partners in the world's single most important relationship. Last year we have initiated with President Obama a High Level Group to discuss our future Trade ties, with the aim to launch a transatlantic free trade area. This should be a beacon and a catalyser of 21st century agreements. This would also dovetail with the Comprehensive Economic and Trade Agreement that we hope to conclude soon with Canada.

I am sure that these initiatives will reinforce what is already a powerful bond between the two sides of the Atlantic, a bond underpinned by a community of shared values.

With China, which is already our second economic partner, and growing faster than any other, we are building a solid partnership based not only on this economic interdependence but also on a growing conscience of the need to tackle common challenges together.

An example, just one example is the Urbanisation Partnership that I have launched with Chinese Vice-Premier Li Keqiang, where China, which is experiencing an increasing level of urbanisation, will be able to draw on the experience of the EU and the Member States to master this process.

We should forge with China a long-term vision of our relations based on mutual respect and balanced benefits, enabling us also to settle our differences – and there are differences - in a constructive manner.

But in Asia we have other important and strategic partners that are central to our external relations.

India, an economic giant with great untapped potential with whom we are negotiating a free trade agreement that would be the biggest in the world - benefiting 1.7 billion people – and which could become a driver for the economic reforms the country needs to pursue.

Japan, a longstanding like-minded partner with which the Commission has just tabled negotiating directives for a Framework Agreement and an FTA that I hope the Council can swiftly agree.

Korea, which has been affirming itself as a global player. And Southeast Asian States, whose integration process, through ASEAN, can become a reference for regional cooperation and peaceful settlement of disputes. This will all be part of my message to the next ASEM meeting in Vientiane: the EU is a committed partner of Asia. I will also travel, at least I intend to go, to Myanmar, Thailand and Indonesia to reiterate this message and our engagement in the region. As you know many of our partners in Asia are asking precisely for that, and I remember in our seminar last year precisely some of you mentioned this. In the available time I will do my best to give some contribution.

With Russia we have achieved an important common objective, which was the country's accession to the WTO. This will allow for Russia's economic diversification and better integration in the world economy.

We should now make progress on the negotiation of a New Agreement that fully reflects the rich and substantive nature of our relations, from trade to energy, from political cooperation to people to people contacts. We will also continue our Partnership for Modernisation, which involves 25 out of 27 Member States, aiming at modernising both economic and social structures; economic and societal modernisation.

Brazil has managed in the last decade to grow and also to reduce its internal inequalities, which were a brake to the country's progress. The strategic partnership that we have launched in 2007 has allowed us to make progress on our bilateral relations, but has not yet realised its full potential as regards cooperation on global matters.

We still intend to close an agreement with Mercosur; however, it is fair to recognise that the recent protectionist stance by some of the block's members does not bode well. The next EU-LAC Summit in Chile in January 2013 should send a strong message against protectionism and also some forms of populism.

With Mexico with whom we also have regular bilateral Summits I have recently proposed to update and upgrade our Economic Partnership, Political Cooperation and Cooperation Agreement.

Last but not least, Africa, the continent with the fastest growth rate in the world, the youngest population, and the biggest changes. The figures are there to confirm it: over the past decade six of the world's ten fastest-growing countries were African; in eight of the past ten years, Africa has grown faster than Asia.

But it is not just the economy, also the societies are changing. This year, 23 multiparty elections should take place in the continent, not perfect elections, but some form of pluralism is gaining strength in Africa. Democracy is spreading. And we should be proud of our contribution to this progress through our political support to institutions such as the African Union, which has been taking the lead in upholding democracy and rule of law in the continent.

However, poverty is not receding at the pace of economic growth and some countries will not reach their MDGs objectives. This is why we have to keep our leadership of the global community on development assistance and to make efforts to turn it more effective. It is therefore crucial to step up our engagement with Africa, both bilaterally and through the joint partnership EU-Africa. We must remain supportive of democratic change and accountable governments, of development efforts and together seize existing economic opportunities. In this regard it is paramount to conclude the negotiations on the Economic Partnership Agreements.

This year I was already twice in Sub-Saharan Africa, Central and East, and I intend to visit West Africa next October, provided there is no more turbulence in the euro zone.

Dear colleagues,

I have just outlined to you how I see our geographical priorities. The substance that will fill them is provided by our horizontal priorities, the promotion of democracy, rule of law and human rights; a rules based multilateral system; cooperative and interdependent economic systems; free trade and open economies that abide by common rules; free and open societies; and cooperative action on the common goods, from climate protection to natural resources management.

All this can only be effectively pursued through a good articulation between the Commission services and the EEAS, working closely together with our Member States. Political relations without a substantive agenda are empty rhetoric; substantive priorities without a political framework and a diplomatic network are abstractions. It is precisely the combining of these two that gives us our strength and our capacity to act.

The challenges of this century are unprecedented in their scale and scope. We will be able to make progress only through common action both bilaterally and in multilateral fora; first and foremost the United Nations for peace and security issues, but also others such as the G20 and the OECD for economic and financial matters.

But I also sincerely believe that the effectiveness of our foreign policy also depends on a credible defence capability. Our capacity to act as a global security provider cannot become collateral damage of current economic hardship. Our Member States have to embrace more forcefully the pooling and sharing initiative launched by the High Representative/Vice-President. We need to make progress on a common defence policy. Also here the Commission can and is playing a role by deepening the internal market on defence and Europe's industrial base.

Ambassadors, colleagues

Let me conclude with a quote by Jean Monnet, a great inspiration for our work: "People only accept change when they are faced with necessity, and only recognize necessity when a crisis is upon them." This is a very timely quote.

That time is now: the European Union is engaged in a process of profound, necessary change in order to face up to the current crisis and to the challenges of the 21st century.

In order to maintain our European model and to retain our influence in our neighbourhood and at the global level we must increasingly work together and combine all our policies in a comprehensive and coherent manner.

The EEAS is an important element in this approach and is one of the best creations of the Lisbon Treaty. Myself, the European Commission, of which the High Representative is Vice-President, are fully committed to making the Service a success and to ensuring that we develop an external presence which is greater than the sum of its parts, a service which is underpinned by the weight of a unified European Union in so many policy areas. Precisely during those missions I have just mentioned, I was in contact with some of you and I could appreciate the kind of work that you are doing and I really want to congratulate you. I also saw the very good level of cooperation with our Member States and I think this is important and should be recognised. You are the builders or the founders of a new very important construction that is the External Action Service. We cannot expect from the beginning everything to be perfect, because we know that when we change habits it takes some time to see the results, but my personal assessment when I visited some of you in the delegations was that there was in fact very good progress in terms of the capacity of the European Union to be present in those areas.

We are all a part of that process of change and we all also have a role to play in explaining the process to our citizens and to the world at large. This is a joint endeavour.

Our founding fathers did not simply look inwards, they saw a united Europe as a force for good in the world, even in this time of crisis we must not lose sight of this vision.

Let me therefore thank you for your support, your work at the "sharp end", and for your dedication, which is allowing the most inspiring political project of all, the European Union, to increasingly play its role as a pivotal global actor and a force for good.

I thank you for your attention.

From war to peace: a European tale

ADDRESS BY HERMAN VAN ROMPUY, PRESIDENT OF THE EUROPEAN COUNCIL & JOSÉ MANUEL DURÃO BARROSO, PRESIDENT OF THE EUROPEAN COMMISSION

ACCEPTANCE OF THE NOBEL PEACE PRIZE AWARD TO THE EUROPEAN UNION
OSLO, 10 DECEMBER 2012

[President Van Rompuy takes the floor]

Your Majesties, Your Royal Highnesses, Heads of State and Government, Members of the Norwegian Nobel Committee, Excellencies, Ladies and Gentlemen,

It is with humility and gratitude that we stand here together, to receive this award on behalf of the European Union.

At a time of uncertainty, this day reminds people across Europe and the world of the Union's fundamental purpose: to further the fraternity between European nations, now and in the future.

It is our work today.

It has been the work of generations before us.

And it will be the work of generations after us.

Here in Oslo, I want to pay homage to all the Europeans who dreamt of a continent at peace with itself, and to all those who day by day make this dream a reality.

This award belongs to them.

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War is as old as Europe. Our continent bears the scars of spears and swords, canons and guns, trenches and tanks, and more.

The tragedy of it all resonates in the words of Herodotus, 25 centuries ago: "In Peace, Sons bury their Fathers. In War, Fathers bury their Sons."

Yet, … after two terrible wars engulfed the continent and the world with it, … finally lasting peace came to Europe.

In those grey days, its cities were in ruins, the hearts of many still simmering with mourning and resentment. How difficult it then seemed, as Winston Churchill said, "to regain the simple joys and hopes that make life worth living".

As a child born in Belgium just after the war, I heard the stories first-hand.

My grandmother spoke about the Great War.

In 1940, my father, then seventeen, had to dig his own grave. He got away; otherwise I would not be here today.

So what a bold bet it was, for Europe's Founders, to say, yes, we can break this endless cycle of violence, we can stop the logic of vengeance, we can build a brighter future, together. What power of the imagination.

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Of course, peace might have come to Europe without the Union. Maybe. We will never know. But it would never have been of the same quality. A lasting peace, not a frosty cease-fire.

To me, what makes it so special, is reconciliation.

In politics as in life, reconciliation is the most difficult thing. It goes beyond forgiving and forgetting, or simply turning the page.

To think of what France and Germany had gone through…, and then take this step… Signing a Treaty of Friendship… Each time I hear these words – Freundschaft, Amitié –, I am moved. They are private words, not for treaties between nations. But the will to not let history repeat itself, to do something radically new, was so strong that new words had to be found.

For people Europe was a promise, Europe equalled hope.

When Konrad Adenauer came to Paris to conclude the Coal and Steel Treaty, in 1951, one evening he found a gift waiting at his hotel. It was a war medal, une Croix de Guerre, that had belonged to a French soldier. His daughter, a young student, had left it with a little note for the Chancellor, as a gesture of reconciliation and hope.

I can see many other stirring images before me.

Leaders of six States assembled to open a new future, in Rome, città eterna…

Willy Brandt kneeling down in Warsaw.

The dockers of Gdansk, at the gates of their shipyard.

Mitterrand and Kohl hand in hand.

Two million people linking Tallinn to Riga to Vilnius in a human chain, in 1989.

These moments healed Europe. But symbolic gestures alone cannot cement peace.

This is where the European Union‘s „secret weapon“ comes into play: an unrivalled way of binding our interests so tightly that war becomes materially impossible. Through constant negotiations, on ever more topics, between ever more countries. It‘s the golden rule of Jean Monnet: „Mieux vaut se disputer autour d‘une table que sur un champ de bataille.“ („Better fight around a table than on a battle-field.“)

If I had to explain it to Alfred Nobel, I would say: not just a peace congress, a perpetual peace congress!

Admittedly, some aspects can be puzzling, and not only to outsiders.

Ministers from landlocked countries passionately discussing fish-quota.

Europarlementarians from Scandinavia debating the price of olive oil.

The Union has perfected the art of compromise. No drama of victory or defeat, but ensuring all countries emerge victorious from talks. For this, boring politics is only a small price to pay…

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Ladies and Gentlemen,

It worked.

Peace is now self-evident.

War has become inconceivable.

Yet ‚inconceivable‘ does not mean ‚impossible‘.

And that is why we are gathered here today.

Europe must keep its promise of peace.

I believe this is still our Union‘s ultimate purpose.

But Europe can no longer rely on this promise alone to inspire citizens. In a way, it‘s a good thing; war-time memories are fading.

Even if not yet everywhere.

Soviet rule over Eastern Europe ended just two decades ago.

Horrendous massacres took place in the Balkans shortly after. The children born at the time of Srebrenica will only turn eighteen next year.

But they already have little brothers and sisters born after that war: the first real post-war generation of Europe. This must remain so.

Presidents, Prime Ministers, Excellencies,

So, where there was war, there is now peace. But another historic task now lies ahead of us: keeping peace where there is peace. After all, history is not a novel, a book we can close after a Happy Ending: we remain fully responsible for what is yet to come.

This couldn‘t be more clear than it is today, when we are hit by the worst economic crisis in two generations, causing great hardship among our people, and putting the political bonds of our Union to the test.

Parents struggling to make ends meet, workers recently laid off, students who fear that, however hard they try, they won‘t get that first job: when they think about Europe, peace is not the first thing that comes to mind…

When prosperity and employment, the bedrock of our societies, appear threatened, it is natural to see a hardening of hearts, the narrowing of interests, even the return of long-forgotten fault-lines and stereotypes. For some, not only joint decisions, but the very fact of deciding jointly, may come into doubt.

And while we must keep a sense of proportion – even such tensions don‘t take us back to the darkness of the past –, the test Europe is currently facing is real.

If I can borrow the words of Abraham Lincoln at the time of another continental test, what is being assessed today is „whether that Union, or any Union so conceived and so dedicated, can long endure“.

We answer with our deeds, confident we will succeed. We are working very hard to overcome the difficulties, to restore growth and jobs.

There is of course sheer necessity. But there is more that guides us: the will to remain masters of our own destiny, a sense of togetherness, and in a way… speaking to us from the centuries … the idea of Europa itself.

The presence of so many European leaders here today underlines our common conviction: that we will come out of this together, and stronger. Strong enough in the world to defend our interests and promote our values.

We all work to leave a better Europe for the children of today and those of tomorrow. So that, later, others might turn and judge: that generation, ours, preserved the promise of Europe.

Today's youth is already living in a new world. For them Europe is a daily reality. Not the constraint of being in the same boat. No, the richness of being able to freely share, travel and exchange. To share and shape a continent, experiences, a future.

Excellencies, Ladies & Gentlemen,

Our continent, risen from the ashes after 1945 and united in 1989, has a great capacity to reinvent itself. It is to the next generations to take this common adventure further. I hope they will seize this responsibility with pride. And that they will be able to say, as we here today: Ich bin ein Europäer. Je suis fier d'être européen. I am proud to be European.

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[President Barroso takes the floor]

Your Majesties, Excellencies, Ladies and Gentlemen,

"Peace is not mere absence of war, it is a virtue", wrote Spinoza: "Pax enim non belli privatio, sed virtus est". And he added it is "a state of mind, a disposition for benevolence, confidence, justice".

Indeed, there can only be true peace if people are confident. At peace with their political system. Reassured that their basic rights are respected.

The European Union is not only about peace among nations. It incarnates, as a political project, that particular state of mind that Spinoza was referring to. It embodies, as a community of values, this vision of freedom and justice.

I remember vividly in 1974 being in the mass of people, descending the streets in my native Lisbon, in Portugal, celebrating the democratic revolution and freedom. This same feeling of joy was experienced by the same generation in Spain and Greece. It was felt later in Central and Eastern Europe and in the Baltic States when they regained their independence. Several generations of Europeans have shown again and again that their choice for Europe was also a choice for freedom.

I will never forget Rostropovich playing Bach at the fallen Wall in Berlin. This image reminds the world that it was the quest for freedom and democracy that tore down the old divisions and made possible the reunification of the continent. Joining the European Union was essential for the consolidation of democracy in our countries.

Because it places the person and respect of human dignity at its heart. Because it gives a voice to differences while creating unity. And so, after reunification, Europe was able to breathe with both its lungs, as said by Karol Wojtyła. The European Union has become our common house. The "homeland of our homelands" as described by Vaclav Havel.

Our Union is more than an association of states. It is a new legal order, which is not based on the balance of power between nations but on the free consent of states to share sovereignty.

From pooling coal and steel, to abolishing internal borders, from six countries to soon twenty-eight with Croatia joining the family this has been a remarkable European journey which is leading us to an "ever closer Union". And today one of the most visible symbols of our unity is in everyone's hands. It is the Euro, the currency of our European Union. We will stand by it.

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Your Excellencies, Ladies and Gentlemen,

Peace cannot rest only on the good will of man. It needs to be grounded on a body of laws, on common interests and on a deeper sense of a community of destiny.

The genius of the founding fathers was precisely in understanding that to guarantee peace in the 20th century nations needed to think beyond the nation-state. As Walter Hallstein, the first President of the European Commission said: „Das System der Nationalstaaten hat den wichtigsten Test des 20. Jahrhunderts nicht bestanden („The system of sovereign nation-states has failed the most important test of the 20th century"). And he added „ through two world wars it has proved itself unable to preserve peace."

The uniqueness of the European project is to have combined the legitimacy of democratic States with the legitimacy of supranational institutions: the European Commission, the European Court of Justice. Supranational institutions that protect the general European interest, defend the European common good and embody the community of destiny. And alongside the European Council, where the governments are represented, we have over the years developed a unique transnational democracy symbolised by the directly elected European Parliament.

Our quest for European unity is not a perfect work of art; it is work in progress that demands constant and diligent tending. It is not an end in itself, but a means to higher ends. In many ways, it attests to the quest for a cosmopolitan order, in which one person's gain does not need to be another person's pain; in which abiding by common norms serves universal values.

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That is why despite its imperfections, the European Union can be, and indeed is, a powerful inspiration for many around the world. Because the challenges faced from one region to the other may differ in scale but they do not differ in nature.

We all share the same planet. Poverty, organised crime, terrorism, climate change: these are problems that do not respect national borders. We share the same aspirations and universal values: these are progressively taking root in a growing number of countries all over the world. We share „l'irréductible humain", the irreducible uniqueness of the human being. Beyond our nation, beyond our continent, we are all part of one mankind.

Jean Monnet, ends his Memoirs with these words: „Les nations souveraines du passé ne sont plus le cadre où peuvent se résoudre les problèmes du présent. Et la communauté elle-même n'est qu'une étape vers les formes d'organisation du monde de demain." („The sovereign nations of the past can no longer solve the problems of the present. And the [European] Community itself is only a stage on the way to the organised world of the future.")

This federalist and cosmopolitan vision is one of the most important contributions that the European Union can bring to a global order in the making.

Your Excellencies, Ladies and Gentlemen,

The concrete engagement of the European Union in the world is deeply marked by our continent's tragic experience of extreme nationalism, wars and the absolute evil of the Shoah. It is inspired by our desire to avoid the same mistakes being made again.

That is the foundation of our multilateral approach for a globalisation based on the twin principles of global solidarity and global responsibility;

That is what inspires our engagement with our neighbouring countries and international partners, from the Middle East to Asia, from Africa to the Americas;

It defines our stance against the death penalty and our support for international justice embodied by the International Court of Justice and the International Criminal Court;

It drives our leadership in the fight against climate change and for food and energy security;

It underpins our policies on disarmament and against nuclear proliferation;

As a continent that went from devastation to become one of the world's strongest economies, with the most progressive social systems, being the world's largest aid donor, we have a special responsibility to millions of people in need.

In the 21st century it is simply unacceptable to see parents powerless as their baby is dying of lack of basic medical care, mothers compelled to walk all day in the hope of getting food or clean water and boys and girls deprived of their childhood because they are forced to become adults ahead of time.

As a community of nations that has overcome war and fought totalitarianism, we will always stand by those who are in pursuit of peace and human dignity.

And let me say it from here today: the current situation in Syria is a stain on the world's conscience and the international community has a moral duty to address it.

And as today marks the international human rights day, more than any other day our thoughts go to the human rights' defenders all over the world who put their lives at risk to defend the values that we cherish. And no prison wall can silence their voice. We hear them in this room today.

And we also remember that last year on this very podium three women were honoured for their non-violent struggle for the safety of women and for women's rights. As a Union built on the founding value of equality between women and men, enshrined in the Treaty of Rome in 1957, we are committed to protecting women's rights all over the world and supporting women's empowerment. And we cherish the fundamental rights of those who are the most vulnerable, and hold the future in their hands: the children of this world.

As a successful example of peaceful reconciliation based on economic integration, we contribute to developing new forms of cooperation built on exchange of ideas, innovation and research. Science and culture are at the very core of the European openness: they enrich us as individuals and they create bonds beyond borders.

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Your Majesties, Your Royal Highnesses, Heads of State and Government, Members of the Norwegian Nobel Committee, Excellencies, Ladies and Gentlemen,

Humbled, and grateful for the award of the Nobel Peace Prize, there is no better place to share this vision than here in Norway, a country which has been giving so much to the cause of global peace.

The „pacification of Europe" was at the heart of Alfred Nobel's concerns. In an early version of his will, he even equated it to international peace.

This echoes the very first words of the Schuman Declaration, the founding document of the European Union. „La paix mondiale". „World Peace," it says, „cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it."

My message today is: you can count on our efforts to fight for lasting peace, freedom and justice in Europe and in the world.

Over the past sixty years, the European project has shown that it is possible for peoples and nations to come together across borders. That it is possible to overcome the differences between „them" and „us".

Here today, our hope, our commitment, is that, with all women and men of good will, the European Union will help the world come together.

Thank you.

Europe as Solution: Facts and Myths

AMBASSADOR'S SEMINAR
LISBON, 3 JANUARY 2013

Minister for Foreign Affairs, State Secretaries, Secretary-General, President of the Champalimaud Foundation, Ambassadors, Heads of Mission, Dear friends,

It is a great pleasure for me to be associated with this initiative of the Ministry of Foreign Affairs where, as the Minister for Foreign Affairs has said, I too spent a part of my life which I consider an important part of my political and public career, where I still have many friends and where I had the privilege to witness the great quality, professionalism and patriotism of Portuguese diplomatic officials.

I am also especially pleased to participate in the Diplomatic Seminar, an event which, as Minister for Foreign Affairs, I launched exactly 20 years ago, in 1993. I therefore wish to thank the Minister for the invitation which enables me to mark this occasion with you.

Twenty years is a considerable period in our lifetimes but barely a fraction of a second in the history of the world or of a nation as ancient as Portugal.

These two decades were not just any 20 years, however. In that time we saw the turn of a century and profound transformations in Europe and in the world.

Twenty years ago Portugal had just successfully taken on its first Presidency of the Council of the European Community. The country was growing economically and socially (4.6% a year in the first five months after joining the EEC) thanks to the opening up of the Portuguese economy, but also thanks to the First Community Support Framework. In Europe, the Single European Market was born and the Maastricht Treaty came into force, creating the European Union. In the world, George Bush and Boris Yeltsin signed the second Strategic Arms Reduction Treaty (START II) and Yitzhak Rabin and Yasser Arafat concluded the Oslo Peace Accords.

How remote these events now seem! One might say, 'The past is a foreign country' (L.P. Hartley).

Nowadays, history no longer moves at the leisurely rate of the days when news from the world came by diplomatic telegram and the CIFRA operator set the pace.

History has sped up, and that acceleration has brought profound changes to the world.

In the twentieth century, economic output multiplied 40-fold and the world's population quadrupled. It took many thousands of years, from prehistory to 1960, for humanity to number 3 billion. But the 39 years up to 1999 were enough to add the next 3 billion. And then, in only 12 years, our numbers increased from 6 to 7 billion people. The United Kingdom took 155 years to double its per capita GDP; but 50 years were enough for the United States to do the same; China did it in 15.

These examples are a good illustration of the scale and the speed of the changes we are facing and which oblige us to rethink our models and our policies.

The current crisis is just one result of these structural changes in global geo-politics and geo-economics. That is why the responses also need to be structural, and in many cases that implies a paradigm shift. Where the countries of Europe are concerned, such responses also need to be articulated over a broader area than the traditional borders of the nation-state.

That is why I sincerely believe that, in spite of the difficult economic situation we are experiencing, we Europeans and we Portuguese have the means to confidently rise to the challenges of globalisation, because, among other reasons, we have an instrument that is essential to that end in the process of regional integration which is currently coming to fruition in the European Union.

And that is what I want to talk to you about today: the European Union as a solution to the problems which our continent and our country are going through. The need to make this case is all the more pressing at times like the present, when many are seizing on this crisis to call the European project into question and some are even predicting its end.

That is why it is worthwhile beginning by giving the lie to some of the myths in circulation that portray Europe as a problem, and then setting out some facts on Europe as a solution.

Let us look at the myths first:

Myth number 1: Europe and the European Union caused this crisis. Not so. The crisis was born on the far side of the Atlantic, caused by practices in the financial sector that were irresponsible – in some cases even criminal – which in a second stage spread to Europe by virtue of the global nature of the banking and financial system. And what started as a problem of the high-risk subprime sector degenerated into a crisis for the real economy that then exposed the various weaknesses of the banking system and of some European countries' economies and in particular the intolerable excessive indebtedness and their lack of competitiveness.

Myth number 2: Europe is the 'sick man' of the global economy. Not so. If we look at the debt-to-GDP ratio, the European average (of 82.5% in spite of all this crisis) is decidedly better than the United States' (almost 103%) or Japan's (almost 230% of GDP).

Something which fewer may know is that, for the first decade of the twenty-first century, in spite of the redistribution of power and the emergence of extremely competitive new economies, Europe's share of the world market remained stable at 20%, while the USA's and Japan's recorded significant falls, to 13% and 9.5% respectively.

Myth number 3: The euro caused the crisis. Not so. Our currency did not cause the crisis. I remind you, moreover, that the European country in which the financial crisis took on the greatest proportions from the outset was Iceland, which is not even a member of the European Union (although it is currently a candidate for membership). The euro has remained strong and stable and is still a reference currency globally.

The so-called euro crisis should not be confused with what is in fact certain Member States' sovereign debt crisis. The euro is, I repeat, a stable, strong, credible currency.

Myth number 4: The European institutions did not act in time. Not so. There should be no confusion regarding the role of the European Institutions, which is to propose solutions, with the role of the Member States with which the final decision on these very matters lies. So one of the problems that this crisis revealed and which we are now seeking to correct was precisely the lack of powers at European level to correct the imbalances which began to emerge.

Let us remember that banking supervision was conducted at national level and that there were no powers at European level. Let us remember that the mechanisms for applying the Stability and Growth Pact were weak, particularly the preventive part. And, should we wish for a more specific example, let us recall that the Member States did not approve a Commission proposal, made at the very start of my first term of office, to give Eurostat additional powers to investigate and collect data directly, without going through the national statistical bodies, which would for example have permitted us to identify serious irregularities in the Greek accounts.

Myth number 5: Europe has not shown solidarity with the countries in crisis or, in another common variant, 'We need a new Marshall Plan'. Not so. If we take the example of Greece, even excluding the new plan recently approved for the country, the total European and international assistance (including loans, private debt write-offs and funds from the Community budget) amounts to 380 billion euros. That is the equivalent of 177% of Greek GDP, or around 34 000 euros per Greek citizen. The Marshall Plan corresponded to some 2.1% of the GDP of the countries it supported, and was therefore on an entirely different scale to the 177% of Greek GDP.

Myth number 6: The European Union – or membership of the euro – is imposing austerity on the Member States and their citizens. Not so. Policies to reduce public deficits are inevitable and have to be pursued regardless of whether countries are in the euro zone or not, although their rhythm will obviously depend on each country's economic and financial health. Even the countries which do not belong to the euro and are not bound to balance their budgets by the recent Treaty on Stability, Coordination and Governance in the MEU are following similar policies. This is yet further proof that the problem is not specific to the euro. Take the example of the United Kingdom, which recently approved one of the most rigorous budgets in its history. That is what would normally be called a real austerity budget. And, let me say it again, it has nothing to do with either the financial assistance programme or belonging to the euro.

And I could go on. These explanations are needed because it seems to me that there is very often a lack of awareness and poor information: in some cases one might even say that there is a degree of intellectual dishonesty in many of the comments and analyses - more comments than analyses - being made concerning the current situation.

This does not mean that developments at European level have not also revealed shortcomings in the management of the crisis; they most certainly have revealed shortcomings, some of which are serious. On top of the structural imbalances that persisted for far too long – particularly where the deficit is concerned – the financial crisis has laid bare the inadequacies in the design of the economic and monetary union.

It became clear that it was an imperfect construction; that while we had a shared currency, we did not have any truly coordinated economic policies; and that we did not have the necessary tools to deal with situations of financial instability. In other words, we had a ship that was fit for calm waters, but proved far too fragile when the storm came. Fundamentally speaking we had - and still have - a system where the Member States are no longer able to take autonomous action to resolve their problems on their own and where Europe as a whole is still not fully equipped to address the same problems effectively.

This is the state of flux in which we currently find ourselves and which explains many of today's anxieties.

The response currently being given at European level is intended to make good these shortcomings: we are building a ship with greater capacity and power in the middle of the storm. And I think we can all agree that it is no easy task to build a ship in the middle of a storm.

Therefore, if we wish to return to sustainable growth, I would reiterate what I have stated many times: the solution lies in growth itself. If we wish to return to sustainable growth it is essential that we take action on no fewer than three distinct fronts: in the Member States, by making structural reforms that will enable them to balance their public accounts and increase the competitiveness of their economies; in the eurozone, by taking specific measures that will make it possible to improve the governance, action and effectiveness of the budgetary policies of the various countries; and in the 27/28 Member States, by reinforcing the accountability and solidarity mechanisms, which will include a deepening of the Economic and Monetary Union as well as progress towards a political union, with heightened scrutiny and democratic control of the new functions attributed at European level.

Even though the pace of the decisions is slower and their ambitions lower than the Commission would like – and I would note here that I am the first person in the European

Council to point out the urgency of taking action and the need for a greater community spirit, greater ambition and greater solidarity, we must also note that democracies operate at an entirely different rhythm from the markets. Take the recent example of the protracted debates about the fiscal cliff in the USA. It was demonstrated once again that discussions of expenditure and revenue, redistribution and restraint are never easy, even within a single country. This has also become clear from the debates ongoing in some European countries concerning intra-regional solidarity and transfers from and to central governments. It is interesting to note that, in some cases, the ones who call for more solidarity from Brussels are not prepared to practise this same solidarity within their own countries.

Here, as on European level, greater consistency in discussions of specific forms of solidarity would certainly be most beneficial.

But despite a slow start — as it was necessary to consolidate the idea that the solution would only be possible with responsibility and solidarity policies — European determination is beginning to produce results. It is thus important not to devalue what has already been done and the significant steps that have been taken. Financial assistance programmes were approved for three countries: Greece, Ireland and Portugal. And a specific programme was approved for the banking sector in Spain.

An Assistance Fund was created in the shape of the European Stability Mechanism. The financial capability of this fund for intervention in the eurozone is no less than the IMF's total financial capacity for the entire world (approximately one trillion dollars if we include the funds coming through the EFSF). Significant legislation was adopted to reinforce the powers of the European instances — and of the Commission in particular — when it comes to budgetary control at national level. And the new Treaty reinforcing budgetary discipline came into force two days ago. The foundations are being laid for the essential banking union which — for some time now — both I personally and the Commission have been calling for. The adoption of the Commission's proposal for a common supervisor of the eurozone financial system was, in fact, of great importance here. This essential agreement not only enabled us to resolve one of the issues that the "markets" considered most important, but also set a pattern for future decisions with a view to taking concrete action reflecting the need to deepen the integration of the eurozone while maintaining the integrity of a European Union with 27 or 28 Member States.

The European Central Bank announced its programme – Outright Monetary Transactions – providing for unlimited intervention in the secondary sovereign debt market, wherever necessary, under specific conditions. And we are taking steps to deepen the Economic and Monetary Union in line with what is known as the "report of the four Presidents" (the President of the European Council, the President of the European Commission, the President of the Eurogroup and the President of the European Central Bank), an exercise to which the European Commission contributed its own ideas and proposals in greater detail in the "blueprint" adopted in November last year.

And the more vulnerable States are also continuing to roll out their adjustment programmes with some encouraging results, although a few cases still give cause for concern. Greece is now taking decisive action to implement its reforms, and funding for the second programme has now been released. I would emphasise this point because, as you are no doubt aware, the vast majority of analysts and commentators were predicting that Greece would not only default but would leave the euro during 2012. They were wrong, and should at least concede that they were wrong.

In Ireland, long and short-term interest rates are now lower than those of countries that did not require assistance programmes. The Irish economy will show positive growth this year. The unemployment rate remains high, but the country now has a current account surplus.

In Portugal's case, short- and long-term interest rates on debt have fallen significantly. For instance, long-term interest rates on debt fell from around 20% to below 7%. The current account is gradually becoming balanced (according to figures from the Banco de Portugal and from the INE the country has, for the first time in many years, achieved trade balance). And the reforms and these positive results have been recognised by the outside world, contributing to the country's credibility at European and global level. For example, in the latest World Bank Doing Business Report, Portugal has risen from 48th to 30th position.

However, it is true that, both in Portugal and in other countries, these results and efforts do not immediately translate into improvements to the daily lives of the man and woman on the street. This year, Europe's GDP is expected to contract by 0.3%, and for [next] year the European Commission forecasts that it will rise slightly, by 0.4%. As you are aware, it is difficult to make correct predictions during times of great financial instability, but they have been made nonetheless.

Levels of unemployment will, unfortunately, remain high. It was inevitable that consolidation measures would result in the economy contracting. Adjustment programmes have a recessionary effect in the short term but create the conditions for more solid, sustainable growth in the medium and long term. Not artificial growth, like that we experienced for a long time, stimulated by the issue of public debt and easy credit, but growth rooted in a solid foundation. Growth in the framework of a more competitive economy. And regaining confidence is truly essential. Without it, there can be no possibility of investment, and without investment growth will be no more than a mirage.

It is true that this situation manifests very differently from one Member State to another. And in some, such as Portugal, we must call it as we see it: there is a genuine social emergency. It is therefore vital that we manage the costs of the economic downturn, in particular its impact on people, in a sociably responsible manner. Because this, as well as the social imperatives, is also important for the success and acceptability of any adjustment programme. We must invest selectively in a range of sectors of the economy, shoulder the burden equally, and adopt a policy to combat the scourge of unemployment — all of which are also European priorities. The European Commission is of course willing to analyse the completion of programmes and to make the adjustments and fine-tuning necessary to minimise social costs. I would recall here that the country has already been given an additional year to achieve its deficit-reduction objectives, thereby slowing the pace of adjustment for 2012 and 2013.

There is also an additional key political issue. For adjustment programmes to be successful, they require sustainable political and social conditions and, in turn, prudence is needed in political decision-making and in the way that those decisions are communicated. Such prudence can and must go hand in hand with determination.

Where necessary, compromises must be made and consensus must be sought at all times – either between the main institutions and the politicians or among the social partners. I repeat, the key conditions for ultimate success are political and social conditions.

Such an approach is of paramount importance if the programmes are to be successful, along with speedy implementation. The 'front loading' of adjustment offers a greater chance of success than delayed implementation.

Let us take Greece, for example, which is heading into its sixth year of recession. The problems were caused by the programme's implementation, which was tentative, piecemeal or, sometimes, non-existent. For example, in terms of structural reforms and privatisation there was no implementation at the start of the programme, the Greek authorities focused solely on the budgetary side. In addition we were faced with a long-standing political crisis, the threat of a referendum on the euro, two general elections and highly unstable coalitions. It is only with the current government, in place since the summer, that Greece is starting to regain the partners' trust.

On a broader European level, our objective is to reform the social market economy in order more effectively to protect it and to meet the demands of a new, far more competitive, world. There are those who say that the European social model is dead. This is not our opinion. This is not my opinion.

I feel we must do all we can to maintain our social market economy whilst acknowledging that, in a much more competitive context, reforms are required if we want to maintain the 'social State', a vital component, especially at a time of great social tension. I also feel that the reforms and the shouldering of responsibility that we have seen at national level must be mirrored by greater solidarity at European level. Responsibility and solidarity are two sides of the same coin. This is what I have been fighting for at European level: for a project of reform and solidarity. This is the European Commission's policy, a policy of solidarity.

This solidarity must be reflected in aid programmes for countries in difficulty; it must also, in a financial framework, foster greater investment in the areas of the future such as science, education and research (at this point, I would make special mention of the fact that this is my first time in this magnificent auditorium of the Champalimaud Foundation, a Portuguese science and research institute that has garnered well-deserved European and worldwide recognition in a short space of time) and investment in social and territorial cohesion as one of the cornerstones of our Union. It must be solidarity that underpins the programmes launched by the Commission such as the European Globalisation Adjustment Fund (which I had the honour of launching), which helps workers who have been made redundant find new jobs, the Food Aid Programme for the most disadvantaged, which has been a major source of support for national food banks – unfortunately under threat from some governments – and the 'Youth Guarantee', which will seek to ensure that all young people up to the age of 25 are offered jobs, or the opportunity for further study, apprenticeships or work placements within four months of completing their education or becoming unemployed, partly financed by the European Social Fund.

It is true that there are times when I do not see such a commitment on the part of European governments, a vital commitment to this dimension of solidarity and to supporting investment for growth. This was demonstrated in the recent discussion on the future EU multiannual financial framework. We cannot argue in favour of growth and at the same time hinder the chances of such growth with an unambitious budget that actually limits public development. In terms of the powers that have been conferred on the Community, there is in reality an imbalance between control and discipline mechanisms and cohesion and solidarity instruments. These must also be strengthened at European level if Europe itself is to maintain vital support. European leaders cannot be surprised to see a decline in support for the European project if all they are seen to be doing is imposing discipline and inflicting punishment, or if they continue to project the idea that any successes are national and any failures European. Europe – as I have said on countless occasions – means all of us, not just Brussels or Strasbourg.

Ladies and gentlemen, dear friends,

Despite the criticism and despite its shortfalls, Europe has been an anchor of stability and cohesion. And the task of building a closer Europe needs to continue. I say this not just out of a sense of duty or because of my personal beliefs; I am saying it because I am convinced that the European project is the solution to many of the problems facing our societies and countries today. I say this on the basis of analysis of the facts, and observation of trends and realities. Let us move on to the facts and realities of Europe as a solution.

Fact number 1: Interdependence between European Union Member States is very strong. The internal market is one of the biggest assets of each country of the European Union. To give some examples: before the crisis Spain exported to Portugal more than double of what it sold to all Latin American countries together. The United Kingdom exports more to Ireland than to all the BRIC countries. I mention this because sometimes journalists, particularly from outside of Europe, tend to underestimate the level of interdependence in the European Union. This may be the reason for the errors of analysis made by some.

Fact number 2: In a world of giants, size matters. The European Union as a whole has the biggest economy in the world with 26% of global GDP, followed by the US with 23% and China with 9% (although the Chinese economy is growing rapidly). However, if considered separately, Germany as the largest European economy merely comes in fourth place. And in 2050, judging by the growth rates in recent years, no single individual European economy will be among the top ten world economies. It seems obvious to me that we must work together as one.

Fact number 3: As power is dispersed between States and regions of the world, it is more necessary than ever to have a European pole in the multipolar international system of the future. This necessity becomes clear when we talk to our partners in Asia, Africa and Latin America who are asking for more, not less, Europe.

Fact number 4: Power is currently shifting not only between States, but also over and above those States. The internationalisation of the financial sector, for example, shows that only supra-national regulation (which for Europe would be through the EU) can restore real decision-making power to European citizens. The key is to exchange formal sovereignty for real influence. Those who believe that democracy can only work at national level have not grasped that we are now in the 21st century. Nor do they realise that national democracies alone do not possess the necessary tools to regulate the international financial system, for example.

Fact number 5: As I mentioned, many of the great challenges of the 21st century are not confined to national level. Climate change, energy security, scarcity of natural resources – all these issues can be tackled more effectively at continental or global level. On the other hand, only the critical mass that the European Union gives each of its Member States can make the difference in multilateral negotiations, whether it be on financial regulation issues in the G20, trade issues in the WTO, or environmental and climate change concerns in the context of UN conferences.

Fact number 6: Other continents are seeking to develop regional integration projects, although without the depth and breadth of the European project. From CELAC and UNASUR in the Americas to ASEAN in South-East Asia, from regional economic African communities to the African Union, the other regions of the world too are forming regional and even continent-wide projects in order to overcome many national limitations.

I could continue to list individual arguments, but it is more important not to lose sight of the fact that the European Union is a project of peace, freedom and democracy. Which makes it an irreplaceable project. This is what the Nobel Committee noted on awarding the 2012 Nobel Peace Prize to the European Union. The 60 years of peace, reunification of the continent and promotion of values such as freedom and democracy which continue to reverberate throughout our southern and eastern neighbourhoods. Despite all of the difficulties, the European Union is still a beacon of freedom and prosperity, whose light shines far beyond our borders.

I would therefore like to take this opportunity to thank Portugal and the Portuguese diplomatic corps for their steadfast commitment to the project of European integration and to the concept of an open Europe of solidarity and responsibility.

Portugal has contributed greatly to Europe and I would like to acknowledge this here publicly in my capacity as President of the European Commission. It is not just with regard to the European project as such, to its essential values; Portugal has also given the EU a greater strategic dimension and depth through its special relationships with Africa and Latin America.

This depth, which is largely due to Portugal's Atlantic dimension, has been institutionalised with support from the European Commission and now also from the European

External Action Service in the framework of a strategic partnership with Brazil, a special partnership with Cape Verde and privileged relationships with Angola and Mozambique. I am proud to have contributed personally in this regard and feel that it is important to highlight the major role that the European Commission has played in these actions. The fact that Portuguese citizens are the heads of delegation in some of the main strategic partnerships, for example with the United States, Brazil and India, is testament not only to the high standard of Portuguese officials and diplomats, but also to the role that the country is able to play in building a stronger, more cohesive and ambitious European foreign policy.

I am convinced that the Atlantic corridor – North and South – must maintain a central strategic position in the global power structures of the future and Portugal will certainly have a say in this regard.

Portugal's universal vocation has been reinforced and consolidated with the European project. The European Union, as an open and cosmopolitan project, has specifically broadened its universal nature as attested by Portugal's election to the UN Security Council and the work carried out therein over the last two years.

Ladies and gentlemen,

I would like to conclude by saying that 2012 ended on a positive note for the euro area and, consequently, for the European Union as a whole. I believe it is fair to say that there is no longer a perception of the risk that the euro area will fall apart. Once and for all, and not before time, investors have realised that when European leaders say that they will do everything possible to safeguard the integrity of the euro they mean it. Does this mean that the problems have been overcome and that we can rest on our laurels? No! Far from it. Reforms and adjustment must be pursued with determination, without overlooking the important aspect of social justice.

We must rebalance policies of responsibility with mechanisms and measures of solidarity. It is necessary to have balanced public accounts and to consolidate reforms in order to ensure competitiveness. But in order to attain sustainable economic growth it is also necessary to invest in the sectors that will allow us to rise to the challenge of globalisation.

History belongs to those who advance it with the conviction of the decisions made in the present day and not to those who nostalgically hold on to it, often idealising the past and almost always giving up on the future. I would therefore like to finish by saying that I am counting on Portugal, on its government and on its diplomatic corps to continue to advance European history, the best chapters of which, I am convinced, are yet to be written.

The European Union and Latin America and the Caribbean: Global Partners for the 21st Century

EDITORIAL BY JOSÉ MANUEL DURÃO BARROSO AND HERMAN VAN ROMPUY
EU-BRAZIL SUMMIT 2013, 24 JANUARY 2013

The Santiago summit, to be held on 26-27 January, between the European Union and the new Community of Latin American and Caribbean States will bring together leaders from 60 countries in the two regions. The summit comes at a pivotal moment for the global economy and both regions can play a key role in restoring strong and sustainable growth worldwide.

We are now turning a corner in the financial crisis that has seriously affected the European Union's economy. Our response to the crisis has been decisive and competitiveness and confidence are being slowly restored in Europe. We are taking the tough but necessary decisions to prevent similar problems from occurring in the future. Countries are undertaking unprecedented structural reforms and we are overhauling our economic governance at EU level. Despite this crisis the European Union remains the largest economy in the world and an indispensable partner for the international community in promoting peace, democracy and the respect of human rights, as well as development, eradication of poverty and the fight against climate change.

Latin America and the Caribbean are also living through profound changes, albeit of a different nature. Governments and citizens are facing choices that will shape their countries' future development path for decades to come. For much of the region, the last few years have brought robust economic growth. Nearly 50 million people have been lifted out of poverty. Democracy has been further consolidated and the region's voice in international affairs has also been strengthened. Yet there are still huge challenges in terms of poverty, inequality, security or environmental issues. Abundant natural resources have proved an asset for some countries, but only a more diversified economic model will sustain growth in the longer term.

Against this backdrop, the Santiago summit comes at a time when the relationship is more important than ever. Its central theme is both a challenge and a call – an 'alliance for sustainable development: promoting investments of social and environmental quality' – and focuses attention on a crucial pillar of the relationship. The European Union accounts for no less than 43% of the total stocks of Foreign Direct Investment (FDI) in Latin America and the Caribbean. In 2011, annual FDI flows from the European Union to the region reached record levels. How many people realise that European FDI in Latin America and the Caribbean is in fact higher than in Russia, China and India combined?

But it is not just about quantity. It is also about quality. For Latin American and Caribbean countries pursuing a more sustainable and inclusive growth model, European investment is decisive, contributing to more competitiveness and social development. European companies are at the origin of almost two-thirds of all R&D investment projects in the region, with a particular commitment to protecting the environment and observing labour standards.

But the summit in Santiago will also cover other issues beyond investment. Our partnership has always embodied a genuine community of values – in terms of human rights, democracy and social cohesion. Gender equality will be discussed and become a new pillar of the common action plan that guides our cooperation between our biennial summits. We will seek ways to work more closely together on security challenges – for instance, how best to support the regional strategy developed by Central American countries. And we will also try to work together more closely and more effectively in multilateral organisations, for instance on climate change and sustainable development.

The Mexican poet Octavio Paz famously once said that (Latin) America is 'not so much a tradition to be continued, more a future to be made into reality'. This saying neatly captures the purpose and spirit of our partnership between the European Union and the new Community of Latin American and Caribbean States. A common future, which we want to build together.

The logic of interdependence and its consequences

BUILDING BRIDGES CONFERENCE
BRUSSELS, 7 MARCH 2013

Mr President, Ladies and gentlemen,

It is a great honour and pleasure to welcome to Brussels President Shimon Peres. I am glad he has accepted the invitation I addressed him to visit Brussels when we both met last July in Jerusalem.

During the talks we held back then, we immediately agreed that besides the traditional bilateral meeting which we had this morning, we should also have a public conversation on wider issues, on the challenges that the world faces today and the best ways to address them.

One of the biggest problems political leaders have today is the lack of time to communicate policies, decisions and their vision of the world, which in the end is what guides our everyday choices.

And some of the biggest problems with which our societies are confronted are I believe the fragmentation of knowledge, the lack of memory and the lack of time to think.

It is therefore a privilege to reflect on these matters together with a man of such merit, a Nobel Peace prize laureate who is proof of the strength of personality in politics, of the power of ideas. Someone who has shown that finding and creating the middle ground is the hard but honourable task of political leaders.

In today's world, we need the power of ideas more than ever. We need new thinking, a new narrative to tackle the new challenges facing us all.

President Peres will certainly forgive me if I share with you that back in July he told me candidly 'he remembered to have met one of my predecessors… his name was Jean Monnet'.

And it is inspired by Jean Monnet that I would like to speak to you today about the undisputable logic of interdependence, and how we can manage this interdependence, namely through education, science and technology, to build bridges and secure peace.

Ladies and gentlemen,

Europe was born from an idea.

The very idea of European unification was there long before the political mind-set and reality were.

When Victor Hugo, the great French poet and novelist, chaired the International Peace Congress of Paris in 1849, he already spoke of European unity as both a prediction and an aspiration.

'A day will come,' he said, 'when war will seem as absurd and impossible between Paris and London, … between Vienna and Turin, as it would be impossible and absurd today between Rouen and Amiens, between Boston and Philadelphia. A day will come when you France, … you Italy, you England, you Germany, you all, nations of the continent, without losing your distinct qualities and your glorious individuality, will be merged closely within a superior unit and you will form the European brotherhood… A day will come when the only fields of battle will be markets opening up to trade and minds opening up to ideas.'

He was right - but he was also much ahead of his time. Sad to say, it took another century for minds to open up; for the nation-states of the continent to agree slowly but surely to create one European community, the European Union. This only came about after the blackest page in the history of mankind, after a century of absurd and impossible wars; of crimes against the brotherhood of humanity; of which the Shoa was the most horrendous.

European integration only followed once the old nations of Europe started to realise that the degree of interdependence had surpassed and eroded their national sovereignty and that nation-states needed mechanisms and structures that made cooperation inevitable and war impossible.

The man who first came up with the idea to pool Europe's industrial resources, thereby making the linkage of states a political reality, was precisely Jean Monnet. At a time when many politicians – the kind of great statesmen for whom countries erected statues – were still celebrated as fathers of independence, Monnet became what one of his biographers called 'the first statesman of interdependence'.

That is the main idea behind European unification. And it is probably the greatest contribution that post-war Europe has given to the world.

A shared future is built by international cooperation, regional integration and common structures where differences can be overcome.

This logic is as relevant today as it was 60 years ago; relevant for Europe, now 27 member states, very soon 28, instead of the original 6; and relevant for the world, so long dominated by 2 blocs succeeded by 1 hyperpower, and now so much changed that even the idea of a 'G20-world' doesn't adequately reflect its multipolarity.

That, for me, is the main lesson to draw from the crisis since 2008. Our economic interdependence was never as obvious as it was in the middle of the financial crisis.

In a world of global supply chains, global financial streams, global companies, global competition for raw materials and so on… there is no country, large or small, that can ignore the international context in which it operates.

And this economic interconnectedness is just one example of the issues we must confront together: climate change is by its very nature blind to political borders; terrorism cuts across national frontiers as never before; underdevelopment is a threat to developed economies; and internal instability in one country can unbalance neighbouring countries as well.

Limited environmental resources, as President Peres well knows, may pose a threat to peace and security in the whole region. If we try to tackle collective problems individually, we end up failing - or indeed, even making them worse. But if we work together, delivering concrete results for everyday problems, we make political institutions and minds rise above local, regional or national limitations.

That is why we, as European Commission, are supporting exchanges in the field of science and technology, of trade and investment across our Southern Neighbourhood and the Middle East region.

I hope that one day shared water, food and industrial goods will do for the Middle East what coal and steel have done for Western Europe many years ago: promoting cooperation, preventing conflicts, turning the logic of interdependence into a force for good.

I hope to see one day Israel and Palestine living side by side in secure and recognised borders, sharing Jerusalem as their capital. I hope that one day walls and checkpoints will be replaced by bridges. I hope that one day parents will be able to send their children to school in the morning with the certainty that they will embrace them again in the evening.

This is possible with strong political leadership and by working from the bottom up, because we need to gain our public opinions and popular support for this endeavour.

Ladies and Gentlemen,

The world has become more globalised than ever before. We need to welcome such evolutions and make the most of them.

The narrow-mindedness and the Westfallian vision of sovereignty that some still have in official chancelleries is being challenged by business leaders, scientists, researchers, artists and creator, intellectuals, but also by common citizens, especially young people.

There is today already a global community that moves beyond the official and political interactions between States.

Technology makes it easier now for young people to follow trends and friends around the world, and for citizens of any country or any regime to voice their concerns and claim their rights.

Collaborative science and international cooperation is also fundamental to address tomorrow's challenges. This is a deep belief that I share with President Peres (and I remember the very good exchanges we had in the past about this), the role of science in shaping a better world. That is why the European Union has developed international scientific cooperation (INCO) as one of its key priorities in its research framework programmes. And international cooperation in research and innovation will remain a cross-cutting priority of our new programme Horizon 2020.

Some of the problems we are facing in the world stem precisely from the resistance of a few to modernisation and science, opposition to industrial revolution in the past and to scientific progress in the present, opposition to other revolutions like democratic revolution.

So we must find ways to adapt our political institutions and policies - and most of all our mindset - to this new reality, for it will never work the other way around.

We are all in this together – and the people we represent realise this very well.

We need to join forces, political leaders, but go beyond political leaders - businessmen, researchers, artists, youth and work together to promote common public goods at world level, with peace certainly being the first of these common public goods.

19th century nation-states are powerless against 21st century challenges.

20th century thinking will not save us from 21st century problems.

Ladies and gentlemen,

While Europe has brought about peace between nations we need to remain vigilant as ever to our inner peace. The current situation in Europe is fertile ground for populism and nationalism. But the strength of Europe is not only based on peace among its members, but also on making the diversity of our societies an asset for all.

Anti-Semitism or xenophobia have no place in European society. We are a Union that treasures diversity and protects the rights of the individual to lead the life they wish to lead – as long it is in line with our European values of democracy, freedom and human rights.

As President of the European Commission, let me reassure you that, together with the other European institutions and the governments of the member states, we will stand up against all forms of Anti-Semitism, Racism and Xenophobia.

That too is part of the mindset needed to overcome the divisions of the past and tackle the issues of the future.

Ladies and Gentleman,

The process towards European unification was never meant to be an end in itself, or even the final stage of the integration process. As Jean Monnet wrote in his Memoirs, a sentence that I also recalled when on behalf of the European Union I was speaking at the ceremony of the awarding of the Nobel Peace Prize, Jean Monnet said: 'The Community itself is just another step towards the forms of organisation of tomorrow's world.'

European political integration was always considered to be a stepping stone towards more forceful multilateral cooperation, the start of multipolar global governance: one region in the world that was joined together more closely, in order to work more effectively with other countries and regions in the world. It was an exercise in building bridges, starting from our part of the world and hoping to meet others halfway. And I believe this is still the meaning of European integration.

In that sense the EU has played and is playing the role of a kind of laboratory of globalisation, and we can share this experience with others – not to give lessons, but to share experiences and propose partnerships that can build a conscious and managed interdependence.

One example is how our trade policy and the web of trade agreements we are developing around the world can bring not only economic and social development, but also play a role in securing world peace. This is not something new - already 300 years ago Montesquieu wrote his famous sentence that 'Peace is the natural effect of trade'. But today, in this globalisation time more than ever, trade is part of the solution to foster peace in the world.

By linking Europe's economy with our partners' economies we are promoting integration, fostering human contacts, creating a common set of rules and building interdependencies.

For instance, there can be no peace across the Southern Mediterranean as long as prosperity seems beyond reach. And neither peace nor prosperity can be achieved as long as countries look inwards. Regional cooperation can bring people, businesses, researchers and intellectuals closer together. Regional trade and investment across the Mediterranean can release the creative and constructive forces that were so long repressed by the old regimes. This is why I would like to call on business leaders. I believe business leaders have for this a better understanding that many politicians. I believe that that ideal of the global community can, to a large extent, be driven by the civil society. If we are waiting only for political leaders, we may be waiting for too long. It is extremely important that also in the Mediterranean region and in other parts of the world we are able to understand what is going on in terms of the shaping of the global community.

And Europe, which is the biggest trading partner for Mediterranean countries, including Israel, can play a key role in bringing this about.

Interdependence should not be a side effect of globalisation but a conscious policy choice of today's leaders. It is the way to seal our future, to seal a cooperation that can create unbreakable bonds, to tie our destinies together. It is the way to make cooperation inevitable and war impossible. Finally, it is the way to consolidate the idea of a 'global citizenship', a single mankind. And let me tell you how much we owe to the classic secular Jewish thinkers for this, from Isaiah Berlin to George Steiner, how many great secular Jewish thinkers brought to this idea of a global citizenship of mankind and how important this idea was also as a source of European integration as well. It is present also in the DNA of European integration.

President Peres,

Dear friends and guests,

When Victor Hugo made his appeal for European unity, people were not yet ready to accept it and put it in practice. They could imagine peace between nation-states, but anything that transcended national boundaries was beyond people's imagination.

And yet, Victor Hugo was right. And he also knew that 'an invasion of armies can be resisted, but not an idea whose time has come'. Eventually, the time for the European idea came through.

Similarly, today, the undeniable logic of interdependence is only starting to really reach people's minds. I believe we can do something for that to happen. I believe that we can, namely through education, science, technology to create more conditions for this idea of interdependence and peace to flourish.

We need to convince our citizens – with the strength and conviction that matches President Peres' engagement throughout his life – that we must not hesitate to adapt our mindsets, our behaviour and our political attitudes to the unquestionable power of an idea whose time has come.

I thank you for your attention.

Moving into a Partnership of Choice

RUSSIA-EUROPEAN UNION – POTENTIAL FOR PARTNERSHIP CONFERENCE
MOSCOW, 21 MARCH 2013

Prime Minister Medvedev, Excellencies, Ladies and Gentlemen,

First of all I want to thank and congratulate the Russian International Affairs Council and Igor Ivanov for organizing this conference at such a timely moment.

It is a pleasure and an honour to be here with such a distinguished audience. I recognise many friends, I cannot mention all of them, but some of them with whom I have been working very closely from Javier Solana to Wolfgang Schüssel to François Fillon, to Paavo Lipponen, to Franco Frattini, and some others I see in the audience. Some of you that have done so much over the years for the process of partnership and friendship between the European Union and Russia.

The world is indeed changing fast. I believe we should not take old partnerships for granted and we need to nurture all our partnerships.

For the strategic partnership between Europe and Russia this is a double challenge, because our relationship is simultaneously centuries old and very recent, with a fresh restart just a couple of decades ago. And some of the protagonists are here today. This relationship cannot be taken for granted and needs constant nurturing. It is a relation that needs to be thought, understood, recreated and I can think of no better place to think, understand and recreate this very important partnership than here in the Russian International Affairs Council in your company and of course in the company of Prime Minister Medvedev.

Let me start with a simple premise: there is no doubt that Russia and the European Union are deeply intertwined. We share a continent, a history, a rich and diverse cultural heritage forged throughout the centuries.

European and Russian intellectual and creative life from science to philosophy, from arts to music and literature have been enriching and influencing each other to the point of being one and the same.

Tolstoy, Dostoyevsky, Chekhov are part of the European collective memory. Mayakovsky and Malevich were influenced by and have influenced the European avant-garde movement. I also remember for instance the extraordinary correspondence between Rainer Maria Rilke, Boris Pasternak, Marina Tsvetaeva, which is now common part of our shared literary history.

And on this very day we celebrate the birth of Modest Mussorgsky, 174 years ago. It is impossible to forget his strong influence on Debussy, Berg, Poulenc. His major work, Boris Godunov is an illustration of "our" cultural melting pot, with a skilful balance between Russian music identity and classical Western conventions, giving a new life to a story written by Pushkin and with inspiration of Shakespeare and Karamzin.

Even more importantly, these ties are not just history or culture; they are strongly entrenched in today's life. They are alive in strong human bonds, in the hearts and minds of our people, in the warmth of many family unions, in the enthusiasm of young students, workers or tourists discovering each other's countries and ways of life; exchanging experiences, opening up to new perspectives.

And even in the years when the difference of political regimes and an iron curtain drove us apart, the voices of Solzhenitsyn and Sakharov, the poetry of Anna Akhmatova, the music of Shostakovich and Stravinsky, the dance of Rudolf Nureyev, the cinema of Tarkovsky reminded us that what unites us is much, much deeper than what separated us.

In short, European history and civilization would be incomplete without Russia. Yes, Russia is a European country and Russian history and civilization cannot be dissociated from Europe and the cross fertilization that happened over the centuries.

But our close relationship is not just based on our long and solid bonds of history, culture and kinship, crucial though they are. Over the years and in particular after the developments in Russia in the 90s, there is a hard and sustained effort to build a wide-ranging partnership for the sake of greater prosperity, predictability and security for the European Union and Russia, and for the world and also for the region at large.

Economic bonds are often regarded, and rightly so, as one of the most important factors to bring people and nations together, to lay sound foundations for broader and strengthened relations and improve stability over-time. The European Union in itself is indeed a case in point!

And here, the European Union and Russia have a particularly impressive story to tell. Trade is really part of the heartbeat of our relationship. The European Union is by far Russia's biggest overall trade partner. And Russia is the European Union's third largest trade partner. In 2012 alone the total volume of trade between the European Union and Russia reached 336 billion euro and around 75 % of foreign direct investment in Russia is of European origin. In 2010 the European Union stock of foreign direct investment in Russia amounted to 120 billion euros. More than China and India combined!

And we should not forget either that the European Union is the first customer of the main Russian export: energy. 80% of all Russian oil exports; 70% of all Russian gas exports; 50% of all Russian coal exports go to the European Union.

This shows that history and kinship have been underpinned by a solid and structured relation that has a direct bearing in our people's prosperity and well-being.

Ladies and gentlemen,

The case for European Union-Russia engagement is overwhelming. Clearly we have a strong interest in building upon our economic interdependence and working ever-closer together in so many areas from trade and investment to energy and mobility, to good governance, human rights, humanitarian and world security issues.

The core question is whether we are doing as much as we can to ensure that our partnership delivers on its full promise. I think the honest answer is: not yet. The fact is that we should work closer together not only because we have to, but also because we want to. Not just because we are condemned to be neighbours but because we have chosen to be partners.

In other words to realize the full potential of our relationship, we should add to our partnership of necessity a Partnership of Choice.

We already share a vision for such a Partnership, the long-term vision, and I think it is important, even when we take concrete decisions be it in daily life, in politics or business, to have a long-term vision. The long term vision is a common economic and human space from Lisbon to Vladivostok with free travel of people, free exchange of goods and services, very close overall cooperation. This is our long-term vision.

But I think all of us agree that this genuine common objective will remain somehow conceptual unless we define together how we get there. Certainly not in one go. The gap is too broad between short-term issues and long-term consensus. So to help bridge this gap, we ought to adjust our political ambition and focus on the midterm with a set of credible and realistic objectives that we can achieve in the years to come. And indeed the meeting that I am going to have later today, with President Putin and Prime Minister Medvedev, and tomorrow, between the Commission and the Russian government, are part of this process.

A key first step in this mid-term agenda should be to agree on a proper institutional framework. A new EU-Russia Agreement is intended to fulfil that task. It would be highly symbolic if we could conclude the negotiations on it by next year when we will celebrate the 20th anniversary of our Partnership and Cooperation Agreement of 1994. The PCA has served us well and has given a solid legal basis to our relations, being further elaborated in 2003 with the Four Common Spaces and the respective roadmaps.

But now the time has come for a modernized and upgraded agreement fit for a 21st century relationship and commensurate with our strategic partnership and having in mind this long-term vision.

An ambitious and comprehensive New Agreement, which includes a developed regulatory framework with common standards and norms, trade and energy provisions would help to create wider cooperative approaches with clear win-win situations.

It would also underpin our common objective of bringing our peoples even closer together in a visa-free travel regime.

Secondly, if we are serious about the deepening of our strategic partnership and establishing a partnership of choice, the sine qua non is certainly mutual trust. This entails that mutual commitments, be they bilateral or multilateral, have to be respected. A strategic relationship needs to be underpinned with strategic trust.

Both of us, Russia and the European Union, share global responsibilities as members of the G8, the G20 and the World Trade Organization. As you know the European Union, and the Commission directly, has fully supported Russia's accession to the WTO. We see it as a truly historic step.

We obviously understand that an important process of adaptation of internal rules is necessary for Russia to fully comply with WTO's commitments. But this should be about moving forward and not backward. This should be about applying the letter and the spirit of the commitments made and not about breaching them. This should be about a genuine and mutually beneficial level playing field. And in this regard the G20, currently under Russia's chairmanship, must certainly continue its fight against all forms of protectionism and in defence of open markets.

Both of us also have binding commitments as members of the United Nations, the Council of Europe and the OSCE: commitments to respect democracy and human rights, rule of law and freedom of expression and of assembly. The respect of these values is key for a solid and trusting relationship.

Ladies and Gentlemen,

Winston Churchill, in a very quoted sentence once said that Russia is "a riddle, wrapped inside a mystery, inside an enigma". But what people know less is what he said following that sentence and he said that "there is a key to understand it and that key is Russian national interest". The Russian national interest is certainly for Russia to decide.

But if we look back in history we can see that the greatest moments of this great country and the great Russian history were when it opened up to the world, when it embraced Europe, when it successfully modernised.

Let's think of Peter the Great advised by the great German mathematician and philosopher Leibniz on the founding of an academy of science in Russia or Catherine the Great who corresponded with so many leading Western European intellectuals from Diderot to the English economist Arthur Young or the Swiss mathematician and physicist Leonhard Euler. Great moments of civilisation were the moments of interaction between Russia and Western Europe.

Modernisation still is a strategic objective of today's Russia. And the European Union still is the first partner of choice in this process. I am therefore particularly glad to have launched, together with Dmitry Medvedev, in our 24th EU-Russia Summit some time ago, an important Partnership for Modernization, which was formalized the following year, 2010, at the Rostov Summit.

Since then we have made progress. Our regulatory frameworks are being approximated; Russian participation in EU research and development programmes has increased. 475 Russian research organisations are involved in more than 300 projects, receiving an EU contribution of 60 Million euros.

And the European Investment Bank has given a 200 million euro loan for the internationalisation of SME's, to give just a few examples, I could add several more. With more trade and more investment also come new ideas and more innovation, leading to products and services that create jobs and economic growth. This means more opportunities for all of us to prosper together. We are indeed set to benefit significantly from a greater integration of trade, investment and technology exchange.

Today's world is driven by knowledge, innovation and technology. This is why we have declared 2014 as the EU-Russia Year of Science, Technology and Innovation and we have proposed to establish a European Union-Russia Strategic Partnership in Research and Innovation. This will be a very important step forward in the deepening of our relationship because research and innovation is much more than product development. It is about how our societies change and improve. It is about our capacity to adjust together to new economic and social realities and to create the future we aspire to.

It is about confronting together new challenges. And energy, a crucial field for both of us, is clearly one of these challenges.

At the core of the European Union's energy policy are consumer choice, fairer prices, cleaner energy and security of supply. It is on this sound basis that we are developing our internal energy market. And we have moved a long way towards this aim over the last years.

This is an area where there is sometimes tension in our relationship. And I still feel that our objectives were probably not sufficiently explained or not fully understood by our Russian partners.

The reality is that within an open, interconnected and competitive EU energy market, Russian supplies will remain a very important component. A fully liberalized EU market will also mean more opportunities for more Russian suppliers. We have a common interest in keeping energy supplies and markets stable and in helping to promote competition and prevent monopolies. This is also part of the modernisation agenda that we are both engaged in.

But an effective economic modernisation process can only rely on talented, innovative and dedicated people. A thriving, sustainable economy goes hand in hand with a thriving society. This requires respect of the rule of law and ensuring citizens' rights, fighting corruption and developing a level playing field for companies. Moreover, sustainable economic prosperity and lasting social stability depend on the full implementation of such commitments. This is a question of well understood self-interest.

Ladies and Gentlemen,

Russia is a continent disguised as a country, Russia is a civilization veiled as a nation. However, in today's world even the biggest and the mightiest are not capable of addressing current challenges all alone. This is the biggest lesson to draw from the recent economic and financial crisis. And in Europe we are overcoming this crisis through a deepening of our regional integration project, through completing our Economic and Monetary Union and filling in the missing links of our internal market.

Russia has recently embarked on a regional integration project which is leading to the formation of the Eurasian Economic Union. As a regional integration project itself the European Union can only support regional integration elsewhere.

It is however important that these integration projects are constructed in a manner that enhances our bilateral relations instead of hampering them. That they serve the purpose of further opening up our countries to the rest of the world, instead of self-retrenchment. And that they are based on open regionalism instead of regional protectionism.

That is why it is crucial that we start working to make our respective projects compatible and convergent, in terms of principles, values and regulations. We have a wealth of expertise in this area that we can share with Russia and the Eurasian Commission, if we can be reassured on these principles.

In fact, our vision for the European continent is one of openness to all partners and to the world, cooperation based on common values and principles, free and integrated economies, and respect of the free will of the people.

It is on this vision that we have built our enlargement policy and our Eastern partnership. It is on this vision that we want to deepen our strategic partnership with Russia and other counties in the region. We have much to gain from it and our common neighbourhood can only benefit if there is collaboration between our approaches rather than competition.

We also need to continue aligning our positions on the most critical international matters. The constructiveness that guides already our joint work in the framework of the Iran talks, or in the Middle East Peace Process, should also allow us to converge our positions on Syria. I have said many times that the situation in Syria is a stain on the world's conscience. The international community has a moral duty to address it.

Excellencies,

Ladies and Gentlemen,

Just a word on a matter that I know is of your interest: the Cyprus issue. I'm very concerned with the latest developments in Cyprus, namely because of the consequences for the citizens of Cyprus. Consequences that are the result of an unsustainable financial system that is basically eight times bigger than the GDP of that country - a system that certainly has to adapt. And as you know, there was not the possibility to implement the agreement reached unanimously in the Eurogroup between Cyprus and the other countries in the eurozone. The European Commission stands ready to assist finding an agreement, and in fact, as you know, consultations are going on between Cyprus and the other members of the Eurogroup to find a solution. We have in the past solved bigger problems; I hope that this time a solution can also be found.

I am also aware of the interests of Russia in this issue. And in fact we as European Commission have been in consultation with Russia for some time. I spoke about this issue with President Putin after the European Union-Russia Summit on 21 December in Brussels. The Commissioner responsible, Vice-President Rehn, in the Saint Petersburg G20, met the Finance Minister of Russia, and just on the 7 March there was a phone call conversation between the Commissioner and the Finance Minister of Russia.

Regarding the conclusions of the last Eurogroup, Russia was not informed because the governments of Europe were not informed - let's be completely open and honest about that issue. There was not a pre-decision before the Eurogroup meeting. The Eurogroup meeting concluded, I think, in the very early hours of Saturday and the decision was the result of a compromise between the countries in the Eurogroup. But of course here in Russia, today, I will be, of course, as always, open to listen to the concerns of our Russian partners.

Ladies and gentlemen,

My vision of world politics is not one of a zero sum game, but rather of a win-win approach. This should also apply to our relationship. I have tried to develop today very briefly the pillars and principles for what I think should be a partnership of choice between the European Union and Russia, founded on strategic trust.

This is certainly a long-term process. But Leo Tolstoy reminded us in his great work War and Peace, that "the two most important warriors are patience and time".

And in this same spirit I invite all our Russian partners in the government, in business and in civil society to dedicate their time to this outstanding great project of making the European Union-Russia relations a Partnership of Choice, a great partnership based also on the principles of friendship between the peoples of the European Union and the people of Russia.

I thank you for your attention.

A new era of good feelings

BLOOMBERG & EUROPEAN AMERICAN CHAMBER OF COMMERCE CONVERSATION
NEW YORK, 12 APRIL 2013

Ambassadors, Distinguished guests, Ladies and Gentlemen, Dear friends,

It is indeed a great pleasure for me to be here in the European-American Chamber of Commerce in New York in this event organised by Bloomberg.

There is a period in American history, around two hundred years ago, that is known as 'The Era of Good Feelings'.

It was a time when political parties put aside the deeply-felt differences between them, when politicians in Washington buried the hatchet and shared with their ever more vocal citizens a sense of national purpose; a time of peace, of reconciliation and prosperity.

This Era of Good Feelings started in Europe, with an agreement signed in a place not far from Brussels, the Treaty of Ghent of 1814, that ended the war between Britain and the United States.

At a time when we are about to negotiate an unprecedented trade agreement between the EU and the US, it's good to remember that the reason why the British finally accepted the terms of peace was not merely military, moral or diplomatic but largely economic. Britain came to realise it needed American markets more than anything, and that peace, rather than an obstacle, was a key enabler of trade and joint prosperity. In fact it was one of the founding stones of modern free trade.

Let us make sure that the Transatlantic Trade and Investment Partnership, two hundred years later, will be a trade agreement of the new generation, inaugurating an era of 21st century free trade deals.

Let us hope that, once again, it is the start of a new era of prosperity, purpose and, above all, of good feelings.

Ladies and gentlemen,

There are certainly good feelings between the United States and Europe.

Our partnership, which has such a long and rich tradition, has developed into the most prosperous and dynamic economic bond in the world ever, and it still is, accounting for nearly half of global GDP and almost one third of world trade. A phenomenal 2.7 billion dollars' worth of trade flows between the two of us on a daily basis. Over 3.7 trillion dollars is invested across the Atlantic, creating powerful links between companies and researchers, creating business and employment opportunities on a scale that remains incomparable.

For decades, this bond between the two most developed economic blocs in the world has been the driver for growth and jobs on both sides of the Atlantic.

It has set the example for economic openness and entrepreneurship elsewhere. And it will continue to do exactly that in the future.

That is the logic behind the Transatlantic Trade and Investment Partnership on which negotiations should begin before the summer.

The agenda for these negotiations is clear, the ambition is certain. We have made thorough preparations that have mapped out the way ahead.

Conventional barriers to trade in goods, such as tariffs and tariff-rate quotas, are obviously on top of the list. Even if these are already fairly low at the moment - transatlantic tariffs are between 3.5% and 5% - - because of the massive trade flows involved, even the slightest reduction has considerable impact, and we want to get as close as possible to the removal of all duties, with a special treatment for the most sensitive products.

Non-tariff barriers, regulatory issues or 'behind-the-border' measures are even more important, because these are even more costly to businesses and consumers alike. Indeed, such barriers are estimated to be the equivalent of a tariff of between 10 and 20% on traded products.

Currently, producers often have to comply with two sets of rules and go through two procedures on either side of the Atlantic, both aimed at the same result - for instance raising safety standards and limiting the environmental impact of cars, or increasing health and hygiene standards for food.

We want to cut such unnecessary costs and shorten delays for businesses. But rest assured: unnecessary costs and procedures only. We, on both sides, will not compromise on our high levels of health and safety standards, on consumer and environmental protection. Our citizens and our societies would not allow that to happen.

That is what makes these issues so complex, so we need to be realistic. We will not be able to eliminate all regulatory divergences in one round. For that reason, we aim to negotiate what you could call a 'living agreement' - one that not only removes the main trading obstacles of the past, but that looks just as much towards the future:

working on the prevention of regulatory barriers; establishing mechanisms that enable a further deepening of economic integration over time; enhancing cooperation for the development of rules and principles on global issues of common concern.

We will work towards new, global standards for business. And we should set the benchmarks of an open, modern trade policy as well.

If the agenda and the ambition are undeniable, so are the potential benefits of such a deal. If we manage to come to a comprehensive agreement, the overall gains could add up to a 0.5% increase in GDP for both sides.

We need that growth more than ever. Our businesses need more opportunities, and our citizens need those jobs more than ever. Therefore, the political push for a transatlantic free trade zone has never been this powerful. Let us seize this opportunity.

Ladies and gentlemen,

Let me briefly mention the multilateral impact of this trade deal as well.

All too often, we hear that this type of agreement is another nail in the coffin of the WTO, that bilateralism on this scale means the end of multilateralism. That should not be the case. That will not be the case.

In fact, regional agreements have paved the way for multilateralism in the 1990s, when the signature of the North Atlantic Free Trade Agreement and the integration of the European Single Market set a new standard and gave a new impetus for trade liberalisation. Regional efforts made multilateral discussions more manageable. And once that train was underway, everyone was anxious to be on it, leading to a multilateral breakthrough in the Uruguay Round. Free trade needs leadership, and it was the transatlantic partnership that delivered it - then as now. The European Union, for one, will continue to be the most forceful and vocal supporter of any balanced and ambitious deal that can be reached within the WTO. The European Union has resumed its bilateral FTA negotiations in 2006, when it was clear that unfortunately a deal on Doha would not be forthcoming. And the trade agreements that we have initiated and concluded should be seen as a stepping-stone for future liberalisation, not as a stumbling-block. Agreements that are 'Doha-plus', that tackle issues which are not ready for a multilateral settlement and that go much beyond multilateral commitments.

The already highly developed and integrated transatlantic trade and investment relationship, by its very nature, is part of that sphere – and therefore not in competition with multilateral discussions.

Indeed, we are expressly committed to using these negotiations to go beyond bilateral issues, taking advantage of our combined weight to strengthen the multilateral trading system. For instance, we will cooperate to strengthen the protection of Intellectual Property Rights; we will together assess possibilities to deal with social and environmental aspects of trade and sustainable development; and together, we will tackle trade-related aspects of customs and trade facilitation, competition and state-owned enterprises, raw materials and energy and so on.

Trade liberalisation needs global political engagement, and with this effort both the European Union and the United States have given a clear and constructive signal: we believe free trade has a future, and we are willing to invest in it.

Ladies and gentlemen,

We take this step at a time of economic crisis, as a way to get through the crisis, and I want to take this opportunity to say a few words about Europe's evolution as a result of the financial crisis – which is often misunderstood and usually underestimated, our effort.

Our economy was hit particularly hard by the global economic downturn. And yet, as an economic bloc, we will emerge from it stronger, more united and more competitive than we were before. The crisis has forced us, more than ever, to reassess our economic policies, to fundamentally revise our public finances and to deepen our economic and monetary union in a way that we were unable – in some cases unwilling - to do before the crisis.

Our economic fundamentals remain strong. Europe is still the largest economy in the world. With over 500 million consumers, it represents a €12.6 trillion economy. Only the United States is in the same league, worth €11.3 trillion, while even China remains considerably smaller, at €4.6 trillion.

We have managed to hold our own in the face of strong competition from emerging economies. Europe has a manufacturing trade surplus of almost 300 billion euro, five times as large as it was in 2000. Sometimes people tend to forget this, that even in the crisis, Europe is in fact increasing its surplus. Our services surplus has expanded to over 100 billion euro. And our agricultural trade has shifted from a deficit to a surplus.

Europe remains the world's largest importer of both manufactured goods and services. And not only do we still have the largest stocks of foreign direct investment abroad, we are also the largest host of foreign direct investment in the world.

If you compare our overall public finances to those of the US and Japan, you come to a surprising conclusion: in terms of the debt-to-GDP ratio, the European average of 82.5%, even if it is too high, is decidedly better than the United States', which is almost 103%, or Japan's, whose debt is close to 230% of its GDP. I don't underestimate the current difficulties; and as I've been saying very often, we should not be complacent with them. And there are still many challenges ahead . But we are making progress, in spite of all the difficulties. WE have seen the recent developments in Cyprus. And let me tell you, I'm very happy with the results of today's Eurogroup meeting where the programme for Cyprus was confirmed and approved for all members of the euro area. I was also noting with satisfaction the agreement on the extensions of maturities for Ireland and Portugal, which will help those countries in their so far successful steps to re-enter the markets.

There are in fact some difficulties; there were always responses. And I really believe we are now better equipped to face any kind of accidents. We had to build the life boat in the middle of the storm and, while not entirely finished yet, I believe this lifeboat is sufficiently strong to face the headwinds.

And if we go further on the road to real economic and monetary unification, as we are doing, if we further strengthen the credibility of our reform efforts, we will be building the most solid of boats based on our common interdependence and our combined strengths.

Ladies and gentlemen,

I believe that the EU-US trade negotiations are a game changer and can be the start of a new era.

They will further intensify the economic relationship between the United States and European Union, two economic giants eager to be as successful in the future as they were in the past.

They will add to the international push for trade liberalization, hammering out a new framework for open, transparent and balanced trade that fits the realities of the global economy.

But most of all, they will reaffirm the global role and responsibility of both partners, which goes much beyond economics. Together, we share a world view based on democracy, human rights and the rule of law. We share an engagement and the ambition to cooperate across borders, to think and act multilaterally, to look for global solutions to global problems.

We can only support and advance that world view if we are consistent and bold in applying it, even in times of crisis. Especially in times of crisis.

That, for me, is what is at stake.

Margaret Thatcher, who passed away last week, once said that EU and the US are different because Europe is a product of history and America is a product of philosophy.

Our common aim should be to write the next chapter of what is in fact now a common history, forged by a sense of sharing the same principles and values.

I thank you very much for your attention.

The State of the EU in 2013: Heading towards Federalism or Fragmentation?

BRUSSELS THINK TANK DIALOGUE
BRUSSELS, 22 APRIL 2013

Chairman, Ladies and gentlemen, Distinguished guests, Dear friends,

Let me first thank you for the invitation to open what is indeed a very important debate. And let me congratulate you, some of the most important think tanks that work on European affairs all over Europe for having taken this initiative.

I agree that, at times when Europe often seems to shift between integration and fragmentation, we need to come clear about our political plans, options and intentions. Today's programme shows that this is much more than a semantic discussion: it is a fundamental choice we have to make if we want the European idea and the European values to succeed both within and beyond our borders.

I for one have not been afraid to use the forbidden word: federalism.

In last year's State of the Union speech in the European Parliament, I have clearly described the need to move towards a federation of nation states. I felt I had to put forward this idea at this point in time because that should be our political horizon, that is what we need to tackle the challenges of the future, and we should not be afraid to use that particular expression. Indeed, one of my distinguished predecessors, Jacques Delors, has used the term as well, and I believe with the same rationale behind it. So we can say that at least the European Commission has a consolidated doctrine on the matter.

A half-hearted attitude towards the project of European integration only serves to strengthen its opponents; to concede the political momentum to those on the side of nationalism and populism. Only by calling it by its name do we get a chance to debate the real issues, to make clear what is behind the word federalism.

To begin with, it has precisely the opposite meaning of what a lot of people suspect or fear. As I said in the State of the Union, what is meant by such a federation is 'not a superstate (but) a democratic federation of nation states that can tackle our common problems, through the sharing of sovereignty in a way that each country and each citizen are better equipped to control their own destiny.' So what I said is clear, even if I know that federalism sometimes is ambiguously read in different languages. It implies an explicit acknowledgement - about which I feel very strongly, coming from a country with a long and living history - that we cannot unite Europe against the member states, so we need to build it with the Member States. As I said in my speech at the time: 'I believe in a Europe where people are proud of their nations but also proud to be European and proud of our European values.'

Speaking of Europe's federalism is all about clarifying the way ahead for Europe without denying the past and the present; about openly, realistically and democratically discussing the medium and long term.

Ladies and gentlemen,

One of the reasons why the term federalism is so sensitive is of course the idea or the suspicion that countries would be overshadowed by a unified, centralised federal state.

For European countries, most of which have fought long and hard to become united and/or independent, the thought of being a mere sub-federal entity is unbearable. This aversion to centralisation is both understandable and unsurprising. One of the classic 19th century Irish nationalist songs goes: 'and Ireland, long a province, be a nation once again'. It is only natural that such a nation does not want to go back to being, even if only symbolically, 'a province once again', and the same feeling lives just as strongly in many, if not in all Member States.

Whether or not we agree or appreciate that sentiment, is not the point. The point is: we cannot deny it. We could not cast off the weight of history, even if we wanted to.

That should not be news for us. In 1900, the French École Libre des Sciences Politiques devoted a whole conference to a debate about 'Les États-Unis d'Europe' - one of the first systematic approaches to the issue, exactly with this expression, 'Unites States of Europe' - and already then explicitly recognised and explained the fundamental difference between the not-yet-united states of Europe at the time and the federal union on the other side of the Atlantic:

'Pour qui veut réfléchir à tous les traits physiques, politiques, historiques qui différencient les deux continents,' its final declaration read, 'en Europe, à l'opposé des anciennes provinces coloniales dont sont issus les Etats-Unis d'Amérique, il existe des peuples multiples et divers, des nations différentes ayant chacune une individualité nationale ancienne et vivace, illustrée par une passé glorieux, possédant le plus souvent une langue de haute culture et une littérature originale.

Entre ces nations diverses, à charactère si tranché, on ne conçoit pas une fusion politique qui absorberait les glorieuses nationalités de l'Europe dans une unité nationale nouvelle, et de tous ces peuples, si justement épris de leur personnalité historique, ne ferait plus qu'un seul et même peuple.'

So the problem is not the political integration, the problem is to have an integrated single national unity at European level. This was said 113 years ago, when the American civil war was still fresh in people's memories and the most turbulent part of the different, antagonistic histories of the European states was yet to come.

Already then it was clear that Europe's unity would be formed along a different, specifically European model.

Any federal system is to a large degree original, sui generis, different from all the others and developed from within.

A standard definition of federalism simply reads: 'A system of government in which power is divided between a central authority and constituent political units; an encompassing political or societal entity formed by uniting smaller or more localized entities.' When I was in Geneva in the early 80s, working with a great European federalist, Denis de Rougemont, in his Dictionnaire Internationale de Federalism, that was posthumously published, this was the current definition of federalism. So federalism is in itself a concept with two faces: searching for unity whilst recognising, respecting and reconciling genuine autonomy. At its very core is the idea of unity in diversity. Now, what can be more European than that?

The European Union as we know it today already has a number of undeniably federative elements: a supranational European Commission with a mandate to promote the general European interest, a directly elected European Parliament, an independent European Central Bank and a European Court of Justice based on a system of law, the primacy of which is recognised over national law. All of these institutions have supranational powers which increased over time.

This division of power between the central level and the component states is never set in stone and will always be disputable and disputed. Even in established federal states, from the US to Germany, there is an ongoing debate about subsidiarity, about what the federal government can and must do, and about where its power ends, and should end.

This too is an integral part of federal democracy.

Ladies and gentlemen,

The financial crisis has underlined the weaknesses and inconsistencies in our institutional design and since then, step by step, we have come a long way to addressing these problems. In terms of economic governance - with the legislation known as the 'six pack', the 'two pack' and the Treaty on Stability, Coordination and Governance – in all these legislations, the balance of power has shifted further towards the European level, with new competences and a much stronger role for the European Commission. Institutionally, we are now more integrated than we were before.

The progress we have made over the last few years, since the crisis, in these institutional political issues, is not always acknowledged. We have taken major steps towards more and better integration, towards a real economic and monetary union. Despite the crisis or rather: because of the crisis, against the odds and contrary to the thinking in some circles, we have countered the risks of fragmentation precisely by uniting against common challenges, applying what amounts to a federal approach. And while there is some tension between the intergovernmental and the community method, it is interesting to notice that the European Commission is even given a role in intergovernmental instruments as foreseen in the Fiscal Treaty.

This goes beyond economic governance even. For instance, the European Commission's authority is now relied on not just to review the compatibility of national law with European community law but even to check the compatibility of the constitutional order of Member States with the values of the European Union.

When needs, expectations and demands are federalised, so to speak, institutions are bound to follow. That is so far one lesson of the crisis.

Ladies and gentlemen,

Federalism is also a dynamic concept. The idea of a federation as a process, an evolving and incremental political and institutional reality, an ever closer union, has always been part of the European idea.

I personally see no contradiction between a functionalist approach and federalist aspirations. The two are perfectly compatible. They very often go together.

Indeed, Jean Monnet's method has also been called 'functional federalism'. He realised better than anyone that Europe, precisely because of its problematic history, its colourful national identities and plural public opinions, would never be built 'all at once, or according to a single plan,' as it was described in the Schuman declaration. Nevertheless he, and the other "founding fathers" of the European Community, like Schuman himself, or Konrad Adenauer, and others, found a way to break down the concrete walls of impenetrable national sovereignty and change the logic of the relationships between states, replacing international power politics by a law-based order; turning the fata morgana of strict national independence into a wake-up call for Europe's interdependence; opening the way to European unity 'through concrete achievements which create a de facto solidarity'.

This dynamic was present at every step of the European integration process, because the logic behind it has proved to be correct: from the European Coal and Steel Community to the European Economic Community; from the Single Market to the Economic and Monetary Union; from the incomplete Economic and Monetary Union to the further integration efforts we have seen since the crisis and we will develop further in the years to come…

Time and again practical cooperation has reinforced the trend to political integration; shared problems have led to shared solutions; small steps for Member States could indeed be giant leaps for Europe as a whole.

The process towards an ever closer union continues. With the Blueprint for a Deep and Genuine EMU, the Commission has put forward its ideas on how this dynamic should be dealt with. It raises the hard questions on how to strengthen cooperation and integration in the financial, fiscal, economic and also in the institutional political field. It positively addresses the challenge to combine the indispensable deepening of the EMU with the integrity of the single market and of the European Union as a whole. And it provides some of the answers and aspirations as we see them - some concrete and short-term; others ambitious and long-term. Some depend on political will only now; others require treaty change later. All of them demand a profound political commitment to better cooperation and more integration.

Beyond the Blueprint, the Commission intends to present the broad contours of its outline for the shape of the future European Union in good time to allow the issue to be debated by European citizens and other stakeholders ahead of the next European Parliament elections in 2014. As I have said earlier, and it is also in the Blueprint presented by the Commission, for further steps to achieve the goals, yes, we will need later a treaty revision.

All this is what functional federalism means in practice: we take one step at a time, yet we can only do that successfully if we have the larger context and a long-term vision in mind.

The question is always: how do we apply the general, holistic federalist method to specific, current issues and how do we keep the institutional dynamic going forward in order to deal with them effectively.

Ladies and gentlemen,

In a sense, federalism is also an attitude: a political commitment to see things through together, to find common solutions to common challenges, no matter how serious they are.

This political unification of Europe has also taken another giant leap forward as a result of the crisis. That is why successive statements of the Euro area Heads of State and Government (let me just quote this example from March 2012) where they affirm their 'determination to do whatever is needed to ensure the financial stability of the euro as a whole and their readiness to act accordingly'. These are representing a breakthrough. Every one of these statements is an undeniable and unmistakable Declaration of Interdependence. Those who thought that Europe was a fair-weather friendship only, thought wrong.

And yet, on the political front, we must admit we still have a long way to go. In reality, there is also resistance, delays, hesitation; contradictions between decisions taken at the highest level and their implementation; and sometimes contradictions between the principles professed and the policies followed. But there is resistance, because there is movement.

Public opinion is still fragmented along national borders; political debate is still too much guided by national interests and national perceptions only; the political mindset is often behind on the institutional realities.

This too is a historical constant. Despite its success the incremental, realistic, 'neo-functional' approach towards European unity has always been met with criticism for lacking in heart and soul. Even from those who strongly supported it.

Count Coudenhove-Kalergi, the illustrious founder of the Pan-European Movement in the 1920s and one of the fathers of the idea of European unity, voiced this critique already in 1953:

'Europe is uniting without the majority of the Europeans being ready for it,' he said, 'Europe becomes one on the level of parliamentarians and state chancelleries but not within the hearts of the Europeans.'

The same lament was heard throughout the European Union's history. Democratic integration was slower than administrative integration, and we have reached the limits of this imbalance long ago. The Lisbon Treaty was a huge step forward in correcting this, in promoting a more democratic Europe.

Now it is up to us, as engaged Europeans, to breathe life into this European political sphere. I believe the European Parliament elections are a unique opportunity to do so.

That is why I feel strongly about European political parties taking a bigger, more pro-active and coherent role. If we have a genuine and open debate about Europe, citizens will feel their voices and opinions are heard and reflected in Brussels and Strasbourg. Instead of having 27, now 28 national campaigns, as usually happens when there is a European election that in fact is an addition to national elections, we should have a truly European debate. If we have a broader debate on the challenges for Europe, we are one step further towards the unity we need to tackle those challenges. If we make a closer link between the outcome of the elections and the running of the EU, voters will understand their choice really counts. The political accountability will be reinforced.

Ladies and gentlemen,

European integration has at times been driven forward by engaged citizens, by committed trade unions, by business communities who knew where their interests lay and by citizens who spoke their minds. Today, facing the economic and social crisis, we need them more than ever. We need to fully engage them in the European process.

Of course I know that this is not without risk. Most likely, in the next European elections, the eurosceptic and europhobic forces will have their share of the vote, also exploiting the current difficult context Europe is facing. But the times of implicit consent are over, and it's better to have a real European democratic debate where mainstream pro-European forces leave their comfort zone than to try to manage European challenges only in bureaucratic or even diplomatic terms trying to avoid the hard questions.

Last but not least a federation, as I see it, is also a meeting of minds.

Europe would never have succeeded and will never succeed if there is not a community of ideas to back up these initiatives.

The academic, cultural and intellectual narrative about European unity has played a key role in its history, from its inception. If the political breakthrough after the Second World War initially seemed much too distant to some, the intellectual push for genuine European integration was widespread and well-founded even at the time.

Europe was already an aspiration and a cause with popular appeal before the first political steps were possible. Numerous intellectuals - philosophers, scientists, artists and writers - formed an ideological avant-garde of creative thinking about Europe and, as their voices grew louder, their influence increased both on political leaders and on public opinion.

Then, as now, intellectuals realised that Europe needed to form a closer bloc to play its role internationally, to defend not just its interests but its values, the very ideas and ideals on which Europe's societies and cultures are built.

For the next decades, I believe the European Union will be more forward looking and more outward looking.

It will be a powerful instrument for European citizens and Member States to unite their efforts in shaping globalisation and in defending our common values. The world is changing very fast and, together, European Member States can play a fundamental role. Only united and with stronger common institutions, will we be able to tackle the challenges of economic and financial crises, of resource scarcity and climate change, of the situation in the world about poverty and underdevelopment. And, together, we will also create better conditions to protect our shared values and to keep, while reforming, our social model, our social market economy and the most important features of the European way of life.

The case for more European unity is clear:

More European integration is simply indispensable for our economy, to shield us from international rough weather, to face strong competition and to maintain the trust of markets and investors. Politicians who still doubt the arguments supporting the push for more European unity, towards a deep and genuine Economic and Monetary Union, should ask financial markets, should ask international institutions, should ask our major economic partners what they think of it.

Globalisation itself is a key driver for European unification. As the programme of this conference underlines, issues like energy supply and climate action, our global role in a changing world and our trade interests in a global economy... these issues demand a more coherent approach and a stronger voice than any Member State alone can offer. They demand a strong European Union.

Our citizens also realise that many of the problems, the risks and the threats to their welfare and well-being go beyond the level of the nation state, and so the solutions must do so as well. European integration can support national policies and strengthen European citizens' freedoms. Only Europe can provide a guarantee that the mistakes of the past will not happen again and the challenges of the future will be better dealt with.

The real risk of fragmentation comes from not hearing citizens' concerns. The real stress test today is the polarisation that is threatening to be the end result of the crisis. So there is a real risk of polarisation in Europe. I am deeply concerned about the divisions that we see emerging: political extremes and populism tearing apart the political support and the social fabric that we need to deal with the crisis; disunion emerging between the centre and the periphery of Europe; a renewed demarcation line being drawn between the North and the South of Europe; prejudices re-emerging and again dividing our citizens, sometimes national prejudices that are simply unacceptable also from an ethical point of view.

One of the effects of the crisis and the shock waves it has sent from one Member State to another, is that the finer points of the jurisprudence of the Bundesverfassungsgericht are now discussed in Greek coffee houses, while popular German TV shows debate the state of the Cypriot banks' balance sheets. This debate can be divisive, but it can also be instructive. It can be a step towards a European public sphere. And it can certainly not be ignored. The worst thing for the EU is the political indifference of moderate forces that leaves the initiative to all kinds of populism and narrow nationalism.

And here comes the role of democratic debate and political vision. It will take leadership to counter these troubling trends. It will take a broad and open discussion on what Europe really means, on where its potential and its pitfalls lie. A debate beyond swear words and taboos, in which the general European interest is defended and mobilised as clearly and forcefully as possible, where a positive and forward-looking vision is voiced as strongly and enthusiastically as ever before.

We need a reflection, indeed, on the real state of the European Union today – in the beginning of a century that promises to be as transformative for Europe as the last one was.

Let me conclude by saying that, knowing all the difficulties and challenges, I am confident that the European Union will once again rise to the occasion. But that will not happen automatically, just because of some "spill-over" effects or historic fatalism. As Denis de Rougemont said speaking about Europe "L'avenir c'est notre affaire," and yes, the Europe of tomorrow, depends on the choices we will be able to make today.

I thank you for your attention.

Statement on the EU-US trade agreement

WITH U.S. PRESIDENT BARACK OBAMA, THE PRESIDENT OF THE EUROPEAN COUNCIL HERMAN VAN ROMPUY AND UK PRIME MINISTER DAVID CAMERON, G8 SUMMIT PRESS CONFERENCE
LOUGH ERNE, 17 JUNE 2013

Today is a special day for the relationship between the European Union and the United States.

Today, we announce that we will start the negotiations of a comprehensive Transatlantic Trade and Investment Partnership agreement.

Very frankly, three years ago very few would have bet that today we will be in the position to launch negotiations on an ambitious European Union-United States free trade agreement.

And when the teams of the European Commission and the United States will meet for the first round of negotiations next month, it will be the start of a joint undertaking of real strategic importance.

Our joint endeavour is part of our overall agenda for growth and jobs to both sides of the Atlantic by boosting trade and investment.

It is also a powerful demonstration of our determination to shape an open and rules-based world.

We intend to move forward fast. We can say that neither of us will give up content for the sake of speed, but we intend to make rapid progress.

I do not underestimate the core challenge: moving our regulatory regimes closer and addressing the harmful effect of behind-the-border trade barriers. Huge economic benefits are expected from reducing red tape and avoiding divergent regulations for the future. I would rather have our companies invest in new innovative products and services and job creation than in double testing and multiple inspections or even separate manufacturing lines.

Our regulators need to build bridges faster and more systematically. The current economic climate requires us to join forces and to do more with less. More importantly, in doing so, we will remain strong global players who set the standards for the 21st century.

Therefore, I call on our legislators on the European side, especially the European Parliament, our regulators, our civil society to play a constructive and engaged part in these negotiations.

The business communities on both sides of the Atlantic, in particular, have been a strong advocate of free trade and investment between Europe and the United States.

And this is also good for the rest of the world. Given the integrated supply chains in today's global markets, everyone can benefit from this agreement.

Integrating two of the most developed, most sophisticated and certainly the largest economies in the world can never be an easy task.

But we will find convincing answers to legitimate concerns,

we will find solutions to thorny issues,

we will keep our eyes on the prize, and we will succeed.

So even if these negotiations may not always be easy, I am sure they will be worth it.

For the sake of the jobs it creates, and because of the strategic dimension of what we are doing: to write the next chapter of what is our common history, forged by the sense that we share the same principles and values, the principles and values of open economies and open societies.

A united, strong and open Europe

ADDRESS TO EUROPEAN UNION HEADS OF DELEGATION
BRUSSELS, 3 SEPTEMBER 2013

Ladies and gentlemen,

It is a great pleasure to once again address the Seminar of the Heads of Delegation of the European External Action Service.

I know that I am not addressing just everyone here in this room but also more than five thousand five hundred Commission and EEAS staff in our delegations around the world. And through you I am reaching out to heads of state and government, politicians, leaders of faith, civil society activists, businesspeople, the media and ordinary citizens from the very oldest to school children in the countries in which we operate and you are accredited.

Today is, therefore, an opportunity to say a big "thank you" for your hard work and to express my personal appreciation for your efforts. I am a firm believer in the virtues of diplomacy. In fact one of the criticisms that I often hear is that I would be "too diplomatic". Well to me that it is not a criticism, it is actually a compliment.

Of course, diplomacy is essentially about getting things done in a complex global environment. And in life you have two basically ways of getting things done: against the others, or with the others. Only things which are done with people, communicated properly and transparently, and ultimately accepted by others stand a chance of passing the test of time and making real change.

This is precisely what diplomacy is all about. And not only I have been preaching the virtues of diplomacy, I have also been practicing them. As many of you know, whenever my heavy internal responsibilities allow it – and the last years were not easy in this regard, I have been engaging with partner countries, travelling to different continents, meeting both political leaders and civil society, visiting our projects that are making a difference on the ground, and also meeting our excellent teams in our delegations to show my appreciation for their hard work.

At this crucial moment, we need to demonstrate more than ever that our diplomacy plays an essential role in shaping the future of Europe, and that it delivers to our citizens: from underpinning our economic recovery, to facing up to global challenges such as climate change, from promoting and defending the values on which our Union is based to securing regional and global peace: Our Europe will only succeed if it remains united, strong and open on the international stage.

Dear colleagues,

I remember telling you last year that the effectiveness of our foreign policy is a function of our internal well-being and of the success of our integration project. Hence the solution to the economic difficulties, the pace and quality of future growth and the demographic prospects of the Union are among the key factors that will affect our international profile and capacity to influence world affairs. It is, therefore, useful to highlight where we are now as compared to when the crisis started.

Throughout these last 4 years we have taken very tough measures to deal with what has become a crisis of confidence in the European model, as the financial crisis of 2008 mutated into first an economic and then a social and political crisis.

Of course, there can be no overnight success. How could there be when the structural weaknesses which the crisis exposed and exacerbated; excessive public borrowing, corporate and individual indebtedness and erosion of the EU's [or certainly of many Member States'] global competitiveness have been building up over decades?

But our efforts to ensure stability, through fiscal consolidation combined with deep structural reform and targeted investment to lay the foundations for smart sustainable inclusive growth, are beginning to bear fruit.

The results of the last quarter show a modest, but encouraging growth of 0.3%, breaking with two years of recession. The rebalancing of the euro area is underway: the improvement in the net export performance of the countries hardest hit by the crisis is driven not only by a fall in domestic demand but also by an increase in their competitiveness.

The challenging reform programmes being undertaken by those countries most under pressure is leading to a turnaround in economic sentiment. Greece has made major structural reforms; Ireland regained access to capital markets in the summer of 2012 and the economy is expected to grow for a third consecutive year in 2013. And this year, for the first time in over 40 years, the Portuguese current account is expected to be broadly balanced.

We have also overhauled and dramatically strengthened the mechanisms for the coordination and surveillance of economic and budgetary policies inside the European Union.

A Banking Union is in the making. The Commission proposal for a Single Supervisory Mechanism was approved and I hope that the proposal for a Single Resolution

Mechanism which we recently tabled will meet the same degree of urgency and support. The logic is simple: if the financial sector has become trans-border and European, supervision and resolution cannot remain national.

This a basic premise of the institutional overhaul that we are carrying out. We need to bridge the governance gap that currently exists. Member States are no longer capable of facing up to some of the challenges that a globalised economy puts them; so we need to empower the European level to do it. This is not about losing sovereignty; it's about pooling it to be stronger, about sharing power to regain it. And it is not about giving up on politics, it is about adapting our political toolbox to make a difference and help shape globalization.

In stark contrast to the views of the professional pessimists and of those who think that doom-saying is somehow intellectually glamorous, the European Union and the euro area has not imploded - it has in fact expanded. In July this year Croatia became the 28th member of our Union, and from 1st January 2014 Latvia will be welcomed as the 18th euro area Member State.

Ladies and gentlemen

Despite all these efforts, we are not yet out of the woods. This is not the time for complacency or to slacken off in the intensity of our reforms. Many challenges remain: first and foremost that of unemployment, especially youth unemployment, which stands at over 50% in some Member States.

The EU is meeting this challenge head on with a comprehensive approach based on the Youth Guarantee – to ensure that all young people up to 25 receive a good quality offer of employment, an apprenticeship, a traineeship or the chance to continue their education within four months of leaving formal education or becoming unemployed.

We need to prevent the risks of a jobless recovery. Europe's young men and women need to be given an opportunity to succeed.

Our capacity to defend our interests and values in the world also hinges on our internal cohesion and solidarity, between citizens and between Member States, on the effectiveness of our integration model and on the legitimacy of our political construct.

Dear colleagues,

In a world where size matters and scale is an asset, both economically and politically, we have to use our collective weight to shape a rules based international order and to promote our interests. We stand tall when we stand together but we lose stature when we stand apart.

In all of this we have a good story to tell: a story to which you have all made, and will continue to make, a significant contribution.

The EU with its 507 million inhabitants accounts for 7.3 % of the world's population but accounts for over 23% of global GDP. Our combined GDP is greater than that of the United States and twice that of China.

Please note that I said "our combined GDP", we live in a world of globalising giants; a world where the economy of our largest member state is only 40% the size of China's and less than a quarter the size of the United States; a world where the GDP of each of our next two largest economies is comparable to that of Brazil.

It is not, however, just about size and scale. It is also about the model.

In an interdependent and polycentric world, the Union is endowed with powerful assets including great human capital, vibrant civil societies, a social market economy with high labour and environmental standards, world-class companies and, last but not least, a model of governance that reconciles national sovereignty with inter-state cooperation and political integration.

We have been witnessing demonstrations and social unrest in several countries around the world. Democracy is being tested everywhere. Change has also come to the other parts of the world, not just in Europe. The huge rise of global middle class – from 1.8 billion today to 3.2 billion in 2020 and 4.9 billion in 2050 – is an enormous factor of transformation in the world. Better services, housing, healthcare, environment and political accountability will be in high demand. Everyone needs to adapt and reform. We understood this quickly in Europe; it is important that other countries and other regions of the world do the same.

Dear colleagues,

Ultimately the world needs smart, sustainable and inclusive economic growth. This is what I will be discussing later in the week when I will travel to Saint Petersburg, together with President Van Rompuy, to represent the EU at the G20 Summit.

Trade is one engine for such growth: we need to remain open and tap into the growth potential of other regions of the world. Thanks to the openness of our trade regime the EU remains the biggest player on the global trading scene. Latest figures indicate that the European Union has a trade surplus of 10 billion euros with the rest of the world [17.3 billion euro surplus in the case of the Euro area].

The EU is the largest exporter and the largest importer of goods among the G20. And we are the leading trading partner of more than 80 countries, among them the United States, China, Russia, India, Brazil and South Africa.

We remain the most important global player precisely because we are united. We want trade to be open and fair, abiding by international norms and rules. Free trade for all must not be a free ride for some. We will only achieve that if we remain ambitious in opening and concluding trade deals that promote growth and jobs for our economy and if we remain cohesive when upholding European and international norms to ensure a level playing field.

Such deals can have a significant impact. For instance, the annual budget of an average European family should increase by some €500 once the EU-US negotiations launched in June 2013 are successfully concluded. The rest of the world also stands to benefit from the positive impact of this trade agreement, as it is set to produce a spill-over effect adding an extra €100 billion to the world economy.

And despite our ambitious bilateral trade agenda, which also includes FTAs with Japan, Canada, India, Southeast Asian countries, neighbouring countries and Mercosur we remain committed to the Doha agenda and to the multilateral process. We expect that these agreements can serve as an incentive to progress in global trade talks.

Energy is another essential element of our competitiveness and economic security. A chain is as strong as its weakest link, and our Union is only as "energy secure" as the most exposed of our members. This is why we need to complete our internal energy market by the end of next year – and I have worked hard to get Member States to agree on this, and eliminate any energy islands that still might exist in the Europe. This is, by the way, also a major driver of growth in Europe.

And on the external front, we have also improved our game and reinforced our diversity of supplies – the important recent decisions taken on the Southern Gas Corridor, a key priority for the Commission, being an illustration of that progress.

Just as globalisation has accentuated new economic challenges, it has also led to other global issues for example, climate change and ensuring sustainable development.

Here the internal policies of the Union play a strong role in shaping our external actions.

Let me take the example of climate change – one of the most critical challenges we face. The greenhouse gas emissions of the EU account for only around 11% of global emissions, and our continued success in reducing them through our ambitious energy and climate package until 2020 means this share will fall further in the future. Already today, our per capita emissions amount to less than half those of the US and are at similar levels to the, rapidly increasing, per capita emissions of China.

Therefore, it is obvious that we need a truly global climate agreement to really protect our planet. We need a comprehensive, legally binding arrangement that covers all emitters. The next two years will be crucial in fleshing out this global agreement, and we must remain at the forefront of this work with our green diplomacy.

In particular, we must continue supporting developing countries in their efforts to combat climate change. They are key allies here! The EU is the world's largest donor of climate finance to developing countries. As you know, we already provided over €7.3bn in 'fast start' finance to developing countries in 2010-2012, more than originally pledged. As of next year, at least 20% of our external aid under the new MFF will go to sustainability purposes.

Beyond global climate action, there will be a second key "rendez-vous" in 2015: meeting the Millennium Development Goals and agreeing on a new global development agenda which should combine the fight against poverty with the fight for sustainability.

Europe is and remains the world's most generous donor of development aid and accounts for more than half of the global aid, even in difficult economic times. Our new Multi-annual Financial Framework from 2014-2020 will maintain our high levels of external aid. I have fought hard for this, not just because it is the right thing to do from a moral perspective but also because it is central to our strategic credibility, as our Delegations which implement our many projects know better than anyone else.

We are also actively working to develop the export potential of developing countries in a fair and equitable manner. This is key, as development can only be achieved via the gradual integration of all countries into the global economy.

Dear Colleagues,

Each one of you knows that day in, day out, we do make a difference on the ground. Through the prospect of EU membership, through our power of attraction, we are slowly but surely bringing about change in the key area of South Eastern Europe. This year, through the tireless efforts of Cathy Ashton and her team, we achieved a historic deal between Serbia and Kosovo which was only possible because it was complemented by parallel steps of setting a date for opening accession negotiations with Serbia and starting negotiations for a Stabilisation and Association Agreement with Kosovo.

Later in the year we will have a historical rendezvous in Vilnius for our third Eastern Partnership Summit, launched during my tenure as President of the Commission. We are close to concluding the main objective of political association and economic integration with most of these countries.

This should be a decisive step for anchoring their reform process and their gradual approximation to EU. But this is just a step, albeit an important one. They will have to show that they want to travel the rest of the journey. It will ultimately depend on them and on their will and determination to live by EU principles and norms. Their sovereign decisions need to be fully respected and they should decide free of any external pressures.

The tragic situation in some countries of our Southern Neighbourhood is a powerful reminder that we have not reached the end of history. History is being lived and fought in the quarters of Damascus and Homs, in the squares of Cairo and Alexandria and in the streets of Tunis.

Syria remains a stain on the world's conscience; we are now witnessing things which we thought were long eradicated from human behaviour. The use of chemical weapons is an abhorrent act that deserves our firm condemnation. It cannot go unnoticed or unpunished. But we should also focus on a comprehensive solution for the conflict. The chance of peace is fading quickly it is our collective duty to restore it.

Egypt also shows that democracy is not a calm river that always flows in a straight line. There are many twists and turns. For democracy to be built we need people and forces committed to its principles and to the fundamental freedoms that underpin it. It is essential that in Egypt both the interim authorities and the opposition show this commitment.

In my last State of the Union address I spoke of my commitment to a united, strong and open Europe. With an influential and more effective foreign policy at its heart. This also requires a stronger and more effective EU defence policy. We need to reinforce our capacity to participate in military and civilian missions aimed at stabilising regions in conflict. We need to assume our responsibilities in the world as a force for stability. We need to reinvigorate an important sector of our industry with a high innovation and technology content. And we need to make the most of our taxpayers' money.

These were the principles that have guided the Commission recent communication on Defence which I hope will be matched by a similar degree of ambition by the European Council when it meets in December to discuss European Defence.

We want a world of international cooperation based on a rules based global order. Our partnership with the UN is fundamental in this respect. Just last weekend, I co-sponsored with UN Secretary General Ban Ki moon a strategic retreat with global leaders from various walks of life exactly to reflect on global challenges and reinforce this common vision of an effective multilateralism. But let's not fool ourselves. Competition still exists and will exist for a long time: competition for growth, competition for resources, and competition of models. These are all compelling reasons why the EU needs to hang together if it does not want to be hung high and dry separately.

Ladies and gentlemen,

In previous speeches I referred to all of you who started this project of the EEAS as true pioneers. But with these three years of hard work I think you have already moved from pioneers to settlers.

We have achieved a lot together in the short time since the creation of the EEAS. There is much more to be done. I am certain that building on the foundations which have been created the external dimension of the European Union will continue to be reinforced. This is the dimension you represent in terms of daily work, commitment and intellectual input; this is the dimension which will continue to be one of the pillars on which the future of our Union is built: a Union which meets the aspirations of citizens and plays a full and constructive role in the world.

I thank you for your attention and look forward to your comments and questions.

State of the Union address 2013

EUROPEAN PARLIAMENT PLENARY SESSION
STRASBOURG, 11 SEPTEMBER 2013

Mr. President, Presidency of the Council, Honourable Members, Ladies and gentlemen,

In 8 months' time, voters across Europe will judge what we have achieved together in the last 5 years.

In these 5 years, Europe has been more present in the lives of citizens than ever before. Europe has been discussed in the coffee houses and popular talk shows all over our continent.

Today, I want to look at what we have done together. At what we have yet to do. And I want to present what I believe are the main ideas for a truly European political debate ahead of next year's elections.

Honourable Members,

As we speak, exactly 5 years ago, the United States government took over Fannie Mae and Freddie Mac, bailed out AIG, and Lehman Brothers filed for bankruptcy protection.

These events triggered the global financial crisis. It evolved into an unprecedented economic crisis. And it became a social crisis with dramatic consequences for many of our citizens. These events have aggravated the debt problem that still distresses our governments. They have led to an alarming increase in unemployment, especially amongst young people. And they are still holding back our households and our companies.

But Europe has fought back. In those 5 years, we have given a determined response. We suffered the crisis together. We realised we had to fight it together. And we did, and we are doing it.

If we look back and think about what we have done together to unite Europe throughout the crisis, I think it is fair to say that we would never have thought all of this possible 5 years ago.

We are fundamentally reforming the financial sector so that people's savings are safe.

We have improved the way governments work together, how they return to sound public finances and modernise their economies.

We have mobilised over 700 billion euro to pull crisis-struck countries back from the brink, the biggest effort ever in stabilisation between countries.

I still vividly remember my meeting last year with chief economists of many of our leading banks. Most of them were expecting Greece to leave the euro. All of them feared the disintegration of the euro area. Now, we can give a clear reply to those fears: no one has left or has been forced to leave the euro. This year, the European Union enlarged from 27 to 28 member states. Next year the euro area will grow from 17 to 18.

What matters now is what we make of this progress. Do we talk it up, or talk it down? Do we draw confidence from it to pursue what we have started, or do we belittle the results of our efforts?

Honourable members,

I just came back from the G20 in Saint Petersburg. I can tell you: this year, contrary to recent years, we Europeans did not receive any lessons from other parts of the world on how to address the crisis. We received appreciation and encouragement.

Not because the crisis is over, because it is not over. The resilience of our Union will continue to be tested. But what we are doing creates the confidence that we are overcoming the crisis – provided we are not complacent.

We are tackling our challenges together.

We have to tackle them together.

In our world of geo-economic and geopolitical tectonic changes, I believe that only together, as the European Union, we can give our citizens what they aspire: that our values, our interests, our prosperity are protected and promoted in the age of globalisation.

So now is the time to rise above purely national issues and parochial interests and to have real progress for Europe. To bring a truly European perspective to the debate with national constituencies.

Now is the time for all those who care about Europe, whatever their political or ideological position, wherever they come from, to speak up for Europe.

If we ourselves don't do it, we cannot expect others to do it either.

Honourable Members,

We have come a long way since the start of the crisis.

In last year's State of the Union speech, I stated that 'despite all [our] efforts, our responses have not yet convinced citizens, markets or our international partners'.

One year on, the facts tell us that our efforts have started to convince. Overall spreads are coming down. The most vulnerable countries are paying less to borrow. Industrial output is increasing. Market trust is returning. Stock markets are performing well. The business outlook is steadily improving. Consumer confidence is sharply rising.

We see that the countries who are most vulnerable to the crisis and are now doing most to reform their economies, are starting to note positive results.

In Spain, as a signal of the very important reforms and increased competitiveness, exports of goods and services now make up 33% of GDP, more than ever since the introduction of the euro. Ireland has been able to draw money from capital markets since the summer of 2012, the economy is expected to grow for a third consecutive year in 2013 and Irish manufacturing companies are re-hiring staff.

In Portugal, the external current account, which was structurally negative, is now expected to be broadly balanced, and growth is picking up after many quarters in the red. Greece has completed, just in 3 years, a truly remarkable fiscal adjustment, is regaining competitiveness and is nearing for the first time in decades a primary surplus. And Cyprus, that has started the programme later, is also implementing it as scheduled, which is the pre-condition for a return to growth.

For Europe, recovery is within sight.

Of course, we need to be vigilant. 'One swallow does not make a summer, nor one fine day'. Let us be realistic in the analysis. Let us not overestimate, but let's also not underestimate what has been done. Even one fine quarter doesn't mean we are out of the economic heavy weather. But it does prove we are on the right track. On the basis of the figures and evolutions as we now see them, we have good reason to be confident.

This should push us to keep up our efforts. We owe it to those for whom the recovery is not yet within reach, to those who do not yet profit from positive developments. We owe it to our 26 million unemployed. Especially to the young people who are looking to us to give them hope. Hope and confidence are also part of the economic equation.

Honourable members,

If we are where we are today, it is because we have shown the resolve to adapt both our politics and our policies to the lessons drawn from the crisis.

And when I say 'we', I really mean: 'we': it has really been a joint effort.

At each and every step, you, the European Parliament, you have played a decisive role through one of the most impressive records of legislative work ever. I personally believe this is not sufficiently known by the citizens of Europe, and you deserve more credit and recognition for this.

So let us continue to work together to reform our economies, for growth and jobs, and to adapt our institutional architecture. Only if we do so, we will leave this phase of the crisis behind us as well.

There is a lot we can still deliver together, in this Parliament's and this Commission's mandate.

What we can and must do, first and foremost, let's be concrete is delivering the banking union. It is the first and most urgent phase on the way to deepen our economic and monetary union, as mapped out in the Commission's Blueprint presented last autumn.

The legislative process on the Single Supervisory Mechanism is almost completed. The next step is the ECBs independent valuation of banks assets, before it takes up its supervisory role.

Our attention now must urgently turn to the Single Resolution Mechanism. The Commission's proposal is on the table since July and, together, we must do the necessary to have it adopted still during this term.

It is the way to ensure that taxpayers are no longer the ones in the front line for paying the price of bank failure. It is the way to make progress in decoupling bank from sovereign risk.

It is the way to remedy one of the most alarming and unacceptable results of the crisis: increased fragmentation of Europe's financial sector and credit markets - even an implicit re-nationalisation.

And it is also the way to help restoring normal lending to the economy, notably to SMEs. Because in spite of the accommodating monetary policy, credit is not yet sufficiently flowing to the economy across the euro area. This needs to be addressed resolutely.

Ultimately, this is about one thing: growth, which is necessary to remedy today's most pressing problem: unemployment. The current level of unemployment is economically unsustainable, politically untenable, socially unacceptable. So all of us here in the Commission – and I'm happy to have all my Commissioners today here with me - all of us want to work intensively with you, and with the member states, to deliver as much of our growth agenda as we possibly can, we are mobilizing all instruments, but of course we have to be honest, not all are at European level, some are at national level. I want to focus on implementation of the decisions on youth employment and financing of the real economy. We need to avoid a jobless recovery.

Europe therefore must speed up the pace of structural reforms. Our Country Specific Recommendations set out what the member states must do in this respect.

At EU level - because there is what can be done at national level and what can be done at European level -, the focus should be on what matters most for the real economy: exploiting the full potential of the single market comes first.

We have a well-functioning single market for goods, and we see the economic benefits of that. We need to extend the same formula to other areas: mobility, communications, energy, finance and e-commerce, to name but a few. We have to remove the obstacles that hold back dynamic companies and people. We have to complete connecting Europe.

I'd like to announce that, today, we will formally adopt a proposal that gives a push towards a single market for telecoms. Citizens know that Europe has dramatically brought down their costs for roaming. Our proposal will strengthen guarantees and lower prices for consumers, and present new opportunities for companies. We know that in the future, trade will be more and more digital. Isn't it a paradox that we have an internal market for goods but when it comes to digital market we have 28 national markets? How can we grab all the opportunities of the future that are opened by the digital economy if we don't conclude this internal market?

The same logic applies to the broader digital agenda: it solves real problems and improves daily life for citizens. The strength of Europe's future industrial base depends on how well people and businesses are interconnected. And by properly combining the digital agenda with data protection and the defence of privacy, our European model strengthens the trust of the citizens. Both with respect to internal and external developments, adopting the proposed legislation on data protection is of utmost importance to the European Commission.

The single market is a key lever for competitiveness and employment. Adopting all remaining proposals under the Single Market Act I and II, and implementing the Connecting Europe Facility in the next few months, we lay the foundations for prosperity in the years to come.

We are also adapting to a dynamic transformation on a global scale, so we must encourage this innovative dynamism at a European scale. That is why we must also invest more in innovation, in technology and the role of science. I have great faith in science, in the capacity of the human mind and a creative society to solve its problems. The world is changing dramatically. And I believe many of the solutions are going to come, in Europe and outside Europe, from new science studies, from new technologies. And I would like Europe to be leading that effort globally. This is why we - Parliament and Commission - have made such a priority of Horizon 2020 in the discussions on the EU budget.

That is why we use the EU budget to invest in skills, education and vocational training, dynamising and supporting talent. That is why we have pushed for Erasmus Plus.

And that is why, later this autumn, we will make further proposals for an industrial policy fit for the 21st century. Why we mobilize support for SMEs because we believe a strong dynamic industrial base is indispensable for a strong European economy.

And whilst fighting climate change, our 20-20-20 goals have set our economy on the path to green growth and resource efficiency, reducing costs and creating jobs.

By the end of this year, we will come out with concrete proposals for our energy and climate framework up to 2030. And we will continue to shape the international agenda by fleshing out a comprehensive, legally binding global climate agreement by 2015, with our partners. Europe alone cannot do all the fight for climate change. Frankly, we need the others also on board. At the same time, we will pursue our work on the impact of energy prices on competitiveness and on social cohesion.

All these drivers for growth are part of our 'Europe 2020' agenda, and fully and swiftly implementing it is more urgent than ever. In certain cases, we need to go beyond the 2020 agenda.

This means we must also pursue our active and assertive trade agenda. It is about linking us closer to growing third markets and guaranteeing our place in the global supply chain. Contrary to perception, where most of our citizens think we are losing in global trade, we have a significant and increasing trade surplus of more than 300 billion euro a year, goods, services, and agriculture. We need to build on that. This too will demand our full attention in the months to come, notably with the Transatlantic Trade and Investment Partnership with the US and the negotiations with Canada and Japan.

And last but not least, we need to step up our game in implementing the Multiannual Financial Framework, the European budget. The EU budget is the most concrete lever we have at hand to boost investments. In some of our regions, the European Union budget is the only way to get public investment because they don't have the sources at national level.

Both the European Parliament and the Commission wanted more resources. We have been in that fight together. But even so, one single year's EU budget represents more money - in today's prices - than the whole Marshall plan in its time! Let us now make sure that the programmes can start on the 1st of January 2014. That the results are being felt on the ground. And that we use the possibilities of innovative financing, from instruments that have already started, to EIB money, to project bonds.

We have to make good on the commitment we have made in July. From the Commission's side, we will deliver. We will, for example, present the second amending budget for 2013 still this month. There is no time to waste, so I warn against holding it up. In particular, I urge member states not to delay.

I cannot emphasise this enough: citizens will not be convinced with rhetoric and promises only, but only with a concrete set of common achievements. We have to show the many areas where Europe has solved problems for citizens. Europe is not the cause of problems, Europe is part of the solution.

I address what we have to do still more extensively in today's letter to the President of the European Parliament, which you will also have received. I will not go now in detail regarding the programme for next year.

My point today is clear: together, there is a lot still to achieve before the elections. It is not the time to thrown in the towel, it is time to roll up our sleeves.

Honourable Members,

None of this is easy. These are challenging times, a real stress test for the EU. The path of permanent and profound reform is as demanding as it is unavoidable. Let's make no mistake: there is no way back to business as usual. Some people believe that after this everything will come back as it was before. They are wrong, This crisis is different. This is not a cyclical crisis, but a structural one. We will not come back to the old normal. We have to shape a new normal. We are in a transformative period of history. We have to understand that, and not just say it. But we have to draw all the consequences from that, including in our state of mind, and how we react to the problems.

We see from the first results that it is possible.

And we all know from experience that it is necessary.

At this point in time, with a fragile recovery, the biggest downside risk I see is political: lack of stability and lack of determination. Over the last years we have seen that anything that casts doubt on governments' commitment to reform is instantly punished. On the positive side, strong and convincing decisions have an important and immediate impact.

In this phase of the crisis, governments' job is to provide the certainty and predictability that markets still lack.

Surely, you all know Justus Lipsius. Justus Lipsius is the name of the Council building in Brussels. Justus Lipsius was a very influential 16th century humanist scholar, who wrote a very important book called De Constantia.

He wrote, 'Constancy is a right and immovable strength of the mind, neither lifted up nor pressed down with external or casual accidents.' Only a 'strength of the mind', he argued, based on 'judgment and sound reason', can help you through confusing and alarming times.

I hope that in these times, these difficult times, all of us, including the governments' representatives that meet at the Justus Lipsius building, show that determination, that perseverance, when it comes to the implementation of the decisions taken. Because one of the issues that we have is to be coherent, not just take decisions, but afterwards be able to implement them on the ground.

Honourable members,

It is only natural that, over the last few years, our efforts to overcome the economic crisis have overshadowed everything else.

But our idea of Europe needs to go far beyond the economy. We are much more than a market. The European ideal touches the very foundations of European society. It is about values, and I underline this word: values. It is based on a firm belief in political, social and economic standards, grounded in our social market economy.

In today's world, the EU level is indispensable to protect these values and standards and promote citizens' rights: from consumer protection to labour rights, from women's rights to respect for minorities, from environmental standards to data protection and privacy.

Whether defending our interests in international trade, securing our energy provision, or restoring people's sense of fairness by fighting tax fraud and tax evasion: only by acting as a Union do we pull our weight at the world stage.

Whether seeking impact for the development and humanitarian aid we give to developing countries, managing our common external borders or seeking to develop in Europe a strong security and defense policy: only by integrating more can we really reach our objectives.

There is no doubt about it. Our internal coherence and international relevance are inextricably linked. Our economic attraction and political traction are fundamentally entwined.

Does anyone seriously believe that, if the euro had collapsed, we or our Member States would still have any credibility left internationally?

Does everyone still realise how enlargement has been a success in terms of healing history's deep scars, establishing democracies where no one had thought it possible? How neighbourhood policy was and still is the best way to provide security and prosperity in regions of vital importance for Europe? Where would we be without all of this?

Today, countries like Ukraine are more than ever seeking closer ties to the European Union, attracted by our economic and social model. We cannot turn our back on them. We cannot accept any attempts to limit these countries own sovereign choices. Free will and free consent need to be respected. These are also the principles that lie at the basis of our Eastern Partnership, which we want to take forward at our summit in Vilnius.

And does everyone still remember just how much Europe has suffered from its wars during the last century, and how European integration was the valid answer?

Next year, it will be one century after the start of the First World War. A war that tore Europe apart, from Sarajevo to the Somme. We must never take peace for granted. We need to recall that it is because of Europe that former enemies now sit around the same table and work together. It is only because they were offered a European perspective that now even Serbia and Kosovo come to an agreement, under mediation of the EU.

Last year's Nobel Peace Prize reminded us of that historic achievement: that Europe is a project of peace.

We should be more aware of it ourselves. Sometimes I think we should not be ashamed to be proud. Not arrogant. But more proud. We should look towards the future, but with a wisdom we gained from the past.

Let me say this to all those who rejoice in Europe's difficulties and who want to roll back our integration and go back to isolation: the pre-integrated Europe of the divisions, the war, the trenches, is not what people desire and deserve. The European continent has never in its history known such a long period of peace as since the creation of the European Community. It is our duty to preserve it and deepen it.

Honourable members,

It is precisely with our values that we address the unbearable situation in Syria, which has tested, over the last months, the world's conscience so severely. The European Union has led the international aid response by mobilising close to 1.5 billion euros, of which €850 million comes directly from the EU budget. The Commission will do its utmost to help the Syrian people and refugees in neighbouring countries.

We have recently witnessed events we thought had long been eradicated. The use of chemical weapons is a horrendous act that deserves a clear condemnation and a strong answer. The international community, with the UN at its centre, carries a collective responsibility to sanction these acts and to put an end to this conflict. The proposal to put Syria's chemical weapons beyond use is potentially a positive development. The Syrian regime must now demonstrate that it will implement this without any delay. In Europe, we believe that, ultimately, only a political solution stands a chance of delivering the lasting peace that the Syrian people deserve.

Honourable members,

There are those who claim that a weaker Europe would make their country stronger, that Europe is a burden; that they would be better off without it.

My reply is clear: we all need a Europe that is united, strong and open.

In the debate that is ongoing all across Europe, the bottom-line question is: Do we want to improve Europe, or give it up?

My answer is clear: let's engage!

If you don't like Europe as it is: improve it!

Find ways to make it stronger, internally and internationally, and you will have in me the firmest of supporters. Find ways that allow for diversity without creating discriminations, and I will be with you all the way.

But don't turn away from it.

I recognize: as any human endeavor, the EU is not perfect.

For example, controversies about the division of labour between the national and European levels will never be conclusively ended.

I value subsidiarity highly. For me, subsidiarity is not a technical concept. It is a fundamental democratic principle. An ever closer union among the citizens of Europe demands that decisions are taken as openly as possible and as closely to the people as possible.

Not everything needs a solution at European level. Europe must focus on where it can add most value. Where this is not the case, it should not meddle. The EU needs to be big on big things and smaller on smaller things - something we may occasionally have neglected in the past. The EU needs to show it has the capacity to set both positive and negative priorities. As all governments, we need to take extra care of the quality and quantity of our regulation knowing that, as Montesquieu said, 'les lois inutiles affaiblissent les lois nécessaires'. ['Useless laws weaken the necessary ones'.]

But there are, honourable members, areas of major importance where Europe must have more integration, more unity. Where only a strong Europe can deliver results.

I believe a political union needs to be our political horizon, as I stressed in last year's State of the Union. This is not just the demand of a passionate European. This is the indispensable way forward to consolidate our progress and ensure the future.

Ultimately, the solidity of our policies, namely of the economic and monetary union, depend on the credibility of the political and institutional construct that supports it.

So we have mapped out, in the Commission Blueprint for a deep and genuine Economic and Monetary Union, not only the economic and monetary features, but also the necessities, possibilities and limits of deepening our institutional set-up in the medium and long term. The Commission will continue to work for the implementation of its Blueprint, step by step, one phase after the other.

And I confirm, as announced last year, the intention to present, before the European elections, further ideas on the future of our Union and how best to consolidate and deepen the community method and community approach in the longer term. That way, they can be subject to a real European debate. They will set out the principles and orientations that are necessary for a true political union.

Honourable Members,

We can only meet the challenges of our time if we strengthen the consensus on fundamental objectives.

Politically, we must not be divided by differences between the euro area and those outside it, between the centre and the periphery, between the North and the South, between East and West. The European Union must remain a project for all members, a community of equals.

Economically, Europe has always been a way to close gaps between countries, regions and people. And that must remain so. We cannot do member states' work for them. The responsibility remains theirs. But we can and must complement it with European responsibility and European solidarity.

For that reason, strengthening the social dimension is a priority for the months to come, together with our social partners. The Commission will come with its communication on the social dimension of the economic and monetary union on the 2nd of October. Solidarity is a key element of what being part of Europe is all about, and something to take pride in.

Safeguarding its values, such as the rule of law, is what the European Union was made to do, from its inception to the latest chapters in enlargement.

In last year's State of the Union speech, at a moment of challenges to the rule of law in our own member states, I addressed the need to make a bridge between political persuasion and targeted infringement procedures on the one hand, and what I call the nuclear option of Article 7 of the Treaty, namely suspension of a member states' rights.

Experience has confirmed the usefulness of the Commission role as an independent and objective referee. We should consolidate this experience through a more general framework. It should be based on the principle of equality between member states, activated only in situations where there is a serious, systemic risk to the rule of law, and triggered by pre-defined benchmarks.

The Commission will come forward with a communication on this. I believe it is a debate that is key to our idea of Europe.

This does not mean that national sovereignty or democracy are constrained. But we do need a robust European mechanism to influence the equation when basic common principles are at stake.

There are certain non-negotiable values that the EU and its member states must and shall always defend.

Honourable Members,

The polarisation that resulted from the crisis poses a risk to us all, to the project, to the European project.

We, legitimate political representatives of the European Union, can turn the tide. You, the democratic representatives of Europe, directly elected, will be at the forefront of the political debate. The question I want to pose is: which picture of Europe will voters be presented with? The candid version, or the cartoon version? The myths or the facts? The honest, reasonable version, or the extremist, populist version? It's an important difference.

I know some people out there will say Europe is to blame for the crisis and the hardship.

But we can remind people that Europe was not at the origin of this crisis. It resulted from mismanagement of public finances by national governments and irresponsible behaviour in financial markets.

We can explain how Europe has worked to fix the crisis. What we would have lost if we hadn't succeeded in upholding the single market, because it was under threat, and the common currency, because some people predicted the end of the euro. If we hadn't coordinated recovery efforts and employment initiatives.

Some people will say that Europe is forcing governments to cut spending.

But we can remind voters that government debt got way out of hand even before the crisis, not because of but despite Europe. We can add that the most vulnerable in our societies, and our children, would end up paying the price if we don't persevere now. And the truth is that countries inside the euro or outside the euro, in Europe or outside Europe, they are making efforts to curb their very burdened public finances.

Some will campaign saying that we have given too much money to vulnerable countries. Others will say we have given too little money to vulnerable countries.

But every one of us can explain what we did and why: there is a direct link between one country's loans and another country's banks, between one country's investments and another country's businesses, between one country's workers and another country's companies. This kind of interdependence means only European solutions work.

What I tell people is: when you are in the same boat, one cannot say: 'your end of the boat is sinking.' We were in the same boat when things went well, and we are in it together when things are difficult.

Some people might campaign saying: Europe has grabbed too much power. Others will claim Europe always does too little, too late. The interesting things is that sometimes we have the same people saying that Europe is not doing enough and at the same time that's not giving more means to Europe to do what Europe has to do.

But we can explain that member states have entrusted Europe with tasks and competences. The European Union is not a foreign power. It is the result of democratic decisions by the European institutions and by member states.

At the same time we must acknowledge that, in some areas, Europe still lacks the power to do what is asked of it. A fact that is all too easily forgotten by those, and there are many out there, who always like to nationalise success and Europeanise failure. Ultimately, what we have, and what we don't have, is the result of democratic decision-making. And I think we should remind people of that.

Ladies and gentlemen,

Mr President,

Honourable members,

I hope the European Parliament will take up this challenge with all the idealism it holds, with as much realism and determination as the times demand of us.

The arguments are there.

The facts are there.

The agenda has been set out.

In 8 months' time, voters will decide.

Now, it's up to us to make the case for Europe.

We can do so by using the next 8 months to conclude as much as we can. We have a lot to do still.

Adopt and implement the European budget, the MFF. This is critical for investment in our regions all over Europe. This is indispensable for the first priority we have: to fight against unemployment, notably youth unemployment.

Advance and implement the banking union. This is critical to address the problem of financing for businesses and SMEs.

These are our clear priorities: employment and growth.

Our job is not finished. It is in its decisive phase.

Because, Honourable Members, the elections will not only be about the European Parliament, nor will they be about the European Commission or about the Council or about this or that personality.

They will be about Europe.

We will be judged together.

So let us work together - for Europe.

With passion and with determination.

Let us not forget: one hundred years ago –Europe was sleepwalking into the catastrophe of the war of 1914.

Next year, in 2014, I hope Europe will be walking out of the crisis towards a Europe that is more united, stronger and open.

Thank you for your attention.

Statement at the Eastern Partnership Summit

EASTERN PARTNERSHIP SUMMIT
VILNIUS, 29 NOVEMBER 2013

Let me first thank President Grybauskaite of Lithuania for the organisation of this very successful summit.

Four years ago, when we launched the Eastern Partnership, our objective was to support partner countries' political and economic reforms, to assist their modernisation process and to move them closer to the European Union, while respecting the degree of closeness chosen by each one.

This Vilnius Summit has been a summit of real progress, a Summit where we have delivered on our commitments.

The Association Agreements which Moldova and Georgia have been initialled today and they are a very important force for change.

I firmly believe that these Association Agreements including a Deep and Comprehensive Free Trade Area provide the best possible opportunity for political and economic reform today. History can show us why.

In the early 1990s, ten central and eastern European countries signed up to Free Trade Agreements with the European Union, including the country where we are today. Within 6 years, the GDP per capita in these countries had increased by 57%. Investment per capita had increased by 61%. And exports per capita had increased by 65%. As a result of these Agreements, those ten countries began one of the major transformations of their recent history.

So I think it is very important to remind us of the record already of Free Trade Agreements that we have before the accession of the new Member states of the European Union.

Contrary to what some are suggesting, these Association Agreements and Free Trade Agreements have been an extremely important contribution to growth, to jobs, to social and economic development in all those partners. Partners, some of them that today are full members of the European Union. One of them is having the current Presidency of the Council, it is precisely Lithuania.

Yesterday and today we have discussed about this. Many of those new Member states said what they have gained becoming members of the European Union and how important is the European Union as a guarantee of independence and of social economic development.

During our summit, today and yesterday we have reiterated to Ukraine that the offer to sign these Agreements remains on the table, provided the government of Ukraine delivers on its commitments.

This Agreement would save Ukrainian business some 500 million euros a year just in import duties. It would increase Ukraine's GDP by more than six per cent in the longer term. And by confirming Ukraine's modernisation pledge, it would also give momentum to billion-euro loan negotiations with International Financial Institutions. The Ukrainian people have demonstrated these last days that they fully understand the strategic nature of the reform's path. We know how much the Ukrainian people feel European, how much they care about Europe, how much they aspire to be recognised as members of the democratic community of nations of Europe and we will of course now pursue our conversations with our Ukrainian partners, knowing well that we should always respect Ukraine's sovereign decisions.

Because this partnership was from the very outset based on the key principles of mutual respect, transparency, individual and collective ownership.

This Partnership was never an imposition, but rather a proposition.

And all stand to gain. Our neighbours; and the neighbours of our neighbours. Let me be clear, this is a process for something. This is a process not against someone. This is a process for something; it is for democracy, for stability and for prosperity. It is not against someone, because I don't believe someone should be against democracy, against stability or against prosperity.

And our partnership also has a real meaning for the citizens.

Take firstly the issue of travelling without the need for a visa. Something very concrete, something all our young people in Europe want: freedom of movement. Just a fortnight ago, the Commission published its final report on visa liberalisation for Moldovan citizens. Moldova has met all the benchmarks set, so the European Commission has already issued a proposal to enable visa-free travel to the European Union for Moldovan citizens who own a biometric passport.

Today, we have also signed a Visa Facilitation Agreement with Azerbaijan, which will make the process of applying for an European Union visa easier. By the way, with Azerbaijan, today we've heard the President and also the members of the European Union showing their commitment to the progress in our strategic modernisation partnership. And today also, we knew about the willingness of Belarus to negotiate a Visa Facilitation Agreement. I'm sure this will be for the benefit of the Belarusian citizens, especially their young people. And I also hope that the future democratisation of Belarus will enable the country to fully seize the potential of this partnership. So, the point I want to make clear is the following: the Eastern Partnership is not just about the economy or not just about abstract concepts; it's about concrete benefits for citizens, removing barriers, enabling people to meet each other. It is in fact a transformational project of the highest importance.

An important issue that we also discussed is energy. Making sure that no European nation is an energy island – isolated from European networks. That is why we have taken very tangible steps over the last years to link our neighbours to the EU market, through new corridors, new physical connections, the possibility of reverse flows, support for their domestic energy reforms and so on, everything to bolster our shared energy security.

And today we have shown, as European Union, that we can deliver on our commitments. I want to thank all of those that made possible the progress today. And allow me a special word of thanks to my colleagues in the Commission. Of course to Vice-President and High Representative Cathy Ashton, but also to Commissioner Füle, who is responsible for Enlargement and Neighbourhood Policy and of course Commissioner for trade Karel De Gucht. And other colleagues also that are giving their contribution in energy or in the issue of visa-free travel, from Commissioner Oettinger to Commissioner Malmström, the European Commission is fully behind this agenda and today I was very happy to see the strong support of all the European Union Member States and also the willingness of our partners in the East to go forward in this common journey.

I thank you.

Address by President Barroso at the Opening of the Milan General Assembly

NEW NARRATIVE FOR EUROPE
MILAN, 9 DECEMBER 2013

Presidente Letta, Prime Minister Bratušek, Senatore Monti, President of ISPI, Distinguished guests, Ladies and gentlemen, Dear friends,

Let me start by thanking Prime Minister Enrico Letta. When I spoke to him some time ago, some months ago, suggesting that the second General Assembly of this New Narrative for Europe could be organised here in Milan, immediately he embraced this idea and he promised me his full support. I want to thank you very sincerely Enrico also for your inspiring words today. I know they are extremely sincere and they show your commitment and, I would even say, your passion for Europe. And I know that in Italy, here in Milano, and in Italy, we can feel this spirit. And I know that you are going to keep this line.

My words of appreciation also go to Prime Minister Bratušek. In fact you represent that new Europe that now unites us. In fact even if I am a man - I think I don't have to apologise for that - I am one of those who believe that women have brought so much to our Union. And probably it is good to remind, in fact we discussed this last night, that in the very founding charter of the European community, the Treaty of Rome, it was already recognised in the fifties, that men and women are equal in rights. And this was important also for the shaping of our policies, even if you believe that something has still to be done on that matter.

It is a personal pleasure for me to have the opportunity to be with such a distinguished audience in such a vibrant city, a cradle of culture, creativity and innovation, as Milan is.

I would like to congratulate ISPI for its 80th anniversary and also for its European vocation. And also I believe it was difficult to find a better place than Milano, because, as the President of the Italian government just said, Milano has now a destiny to be our capital and I will be happy after this meeting together with Prime Minister Letta and the other authorities to witness the signing of the European Union, the European Commission contribution to that very important European and global exhibition here in Milano in 2015.

Ladies and gentlemen,

At our previous General Assembly in Warsaw we discussed how Europe's cultural heritage and academic disciplines – our European soft power – can contribute to respond to the crisis and develop a new notion of European citizenship and how men and women of culture can inspire young people.

I think we all know that the word Europe comes from the goddess Europe, Europa. And one of the questions we should raise today is how can we make today's Europe as attractive for the Europeans as Europa was for Zeus.

After all Europa is the central character of Antonio Salieri's Europa Riconosciuta that was first performed for the original inauguration of La Scala in 1778; and also a few centuries later was chosen for its reopening in December 2004 after a 3-year major refurbishment. So how can we recognise Europe today? This is indeed a point; a point that was already mentioned in the very eloquent intervention of Enrico Letta.

We have also this morning heard two excellent keynote speeches by Professor Jean-Marc Ferry and Professor Elena Cattaneo with a lot of food for thought. I really want to thank you. Because from two different perspectives, namely philosophy and culture, and including political science, on one hand, to science, research, neuroscience on the other, we understood better where Europe is and where Europe may be going. Those statements vividly illustrate how much insights from thinkers, from scholars, scientists, artists can help us navigate in this transformative moment. Because indeed I believe we are in the midst of a turning point, a very important challenge for Europe that has to do of course with globalisation.

We are at the turning point and all turning points in history: our fraught with uncertainty and anxiety, angst. This in Europe is now reinforced, of course, by the social problems that we have in so many of our countries, namely the tragedy of unemployment, specifically youth unemployment. Europe has been seriously hit by a financial, economic and social crisis, which became indeed a crisis of confidence. If you want to be honest, it is not just about Europe, it is about leadership in general. It is the way people look at the European institutions, certainly, but also look at national governments, look at national politicians, look at some elites, including by the way, the financial elite, because people have lost confidence in the so-called elites. And this is why it is important more than ever, to listen to people, as we have discussed today. We are asking people to contribute. We are asking, as Olafur Eliasson put it yesterday, we are asking an effort. An effort of people to contribute. And we should also make the effort of listening. Listening to citizens (as we have been doing all over this year with the European year of citizenship), but listening also to men and women of culture, to men and women of science. First of all because of a very pragmatic reason: it is that they have more credibility than politicians today. Because our publics in general are very much disappointed when they see that politicians, be it at national or European level, are indeed in difficulties to find convincing responses. So we need our friends from the cultural and scientific fields to come to discuss with us. Not because culture or science are an instrument, but because they can illuminate us in this very important and challenging moment You know, and I have said it already in Warsaw, that for me, culture or science are not instruments for some kind of objective; of course, they can help our sustainable- growth, certainly. But culture and science are ends in themselves, in the sense that they are the best ways we have to fulfil our dreams, for the improvement of persons. - Apart from, let's say, the more intimate aspects of our lives, what has to do with spirituality, or with friendship or love;- in the public sphere, it is from knowledge and art, culture and science, that men and women can fulfil their dreams. And this is why it is so important also for our European project.

When having the honour of receiving on behalf of the European Union the Nobel Peace Prize in Oslo last year, I underlined precisely the value of culture and science. Because, I believe, the European project is a project that puts at its heart the human being. And we have also discussed this last evening. European Union is not an end in itself. The European Union is a great project but the project that helps us, as human beings, being able to realise our potential, the emancipation of men and women, this is our goal. At the core of the European vision is the human dignity of every human being: a man, a woman or a child. And this is why, I think it is important to reinforce that attention to every human being because we know by experience also in our continent that all the ideologies, or the parties, or dictators that put at the end as an objective in itself, a party or the state, they created totalitarianism; while those who have put at the centre every human being they created democracy, pluralism and societies about which we can basically be proud. Certainly, we have difficulties and we know about the difficulties but I believe we should be proud of what we have achieved as European countries.

And following the challenges of Enrico Letta, where we were before, let me now go a little bit more far away. Next year we are going to commemorate the beginning of the First World War; in fact, the first big first civilian European war. It started in Sarajevo, in the Balkans, not far from here. I think we should remember that time. Afterwards we had the Second World War, where probably the worst events in human history, like the Shoah, took place.

And then we got the European Union of six. Six founding fathers, including Italy, the Treaty of Rome and then nine, 10, 12, I remember well when we were 12 because it was when my country joined the European Community and I was member of the government then.

And afterwards we were able to realise the reunification of our continent. Basically, it's done. So, how can we be pessimistic about Europe when we think that for instance in the 70s the South of Europe, like my country, or Spain or Greece, were under dictatorships, or in the beginning of the 80s, Central and Eastern Europe was under communist totalitarianism and some countries were indeed part of the Soviet Union, like the three Baltic countries. Now they are free and united in peace, sharing basically the same values.

So, I think that Europe today, and I want to give you my testimony, is much better than Europe 20, 30, 50 or 60 years ago. Of course, if you think only about a small Europe some people may have doubts, but if you think as Europeans as a big family, I think there should be no doubts. Europe today is stronger than before. Europe counts more in the world than before, but we have to see what is the next stage. Yes, what can fuel the European dream? I think if the Europeans have not yet discovered or understood, they will understand and discover because of globalisation. Because globalisation, and then I join what Jean-Marc Ferry said, can be seen as a great opportunity or as a great problem. I also tend to see it as basically a great opportunity. Whether we like it or not, globalisation will happen, unless there is a catastrophe. Why will it happen? Because globalisation is not controlled by politicians or by governments. Globalisation today is basically driven by science and technology.

And so, we have to prepare for it and the question is what message we convey to our citizens? What message do we convey to our young people? That they should hide? That they should just resist? Or that they should embrace the opportunities of globalisation, namely the great opportunities of science as highlighted in the brilliant intervention of Professor Cattaneo? I believe it is like that. But it's critically important, as Enrico Letta mentioned, to have the dimension to count in the world. Because Europe alone can give also our countries, a country like Italy, smaller countries or big countries even, the necessary leverage to count at the global level. This is quite obvious. And to count for what? To count to defend our interests certainly but also to promote our values. This is important: the values of Europe, of peace, of freedom and justice. The values that are in the Treaty of Rome and, today, in the Treaty of Lisbon.

The social market economy that is important for us. I think we should be proud that we have open economies, but economies that have a commitment to social justice and also that care about the future of our planet.

We can be setting the standard for a much better world order. Yes, following also the comments of Professor Jean-Marc Ferry, yes, Europe by its own definition, is a cosmopolitan order. We are open to the world. We are not creating an identity against other identities, a counter-identity, the identities of chauvinistic people. We are creating an identity that is open to others and able to promote, precisely, these values. And this is the goal of the New Narrative of Europe: to shape globalisation with our values and be confident about values. And I am saying that because today I feel very often this pessimism, this negativism, the déclinisme that is so fashionable today.

And I think we should remind today; today myself and Enrico Letta we are going to travel to Johannesburg, so that tomorrow we can pay tribute to one of the greatest figures of our time indeed of any times, Nelson Mandela and he said: "The greatest glory in living lies not in never falling, but in rising every time we fall." Such inspirational words. And I think there could not be a better place than Italy, because of the Renaissance, to remind us that Europe is faith in progress and faith in human beings. This is a great message of the European humanism.

My appeal to all the intellectuals, to all men and women of culture, to all citizens, is not to give up to this defeatism, is to have the courage to fight the negative forces because yes, the populist forces, the extremist forces are negative forces that are today under a theme that is very often an anti-European theme, making the revival of the all demons of Europe, like extreme nationalism, like xenophobia, sometimes racism – these are negative values.

It is important, in face of these challenges - instead of keeping ourselves in the comfort zone, namely the so called establishment parties - to have the courage to go out and fight, not to give up to those arguments, to explain with reasonable and rational arguments - sometimes for some of us with emotion - why we care about Europe, why Europe is something we must cherish precisely to defend these values.

And if sometimes in Europe some of us have doubts about how important these values are, just look at Ukraine. Those young people in the streets of Ukraine, with freezing temperatures, are writing the new narrative for Europe.

When we see in the cold streets of Kiev, men and women with the European flag, fighting for that European flag, it is because they are also fighting for Ukraine and for their future. Because they know that Europe is not just the land of opportunity in terms of economic development, because they have seen what happened in Poland or what happened in the Baltic countries, but also because Europe is the promise of hope and freedom. And I think the European Union has the right and the duty to stand by the people of Ukraine in this very difficult moment, because they are giving to Europe one of the greatest contributions that can be given.

Just yesterday I had a phone call – another one - with President Yanukovych. I asked him to show restraint in the face of these recent developments, to not use force against the people that are demonstrating peacefully, to respect fully the freedoms that are so important for all of us in Europe. I have asked him to receive the High Representative / Vice-President of the Commission Cathy Ashton who will be in Kiev already tomorrow and the day after tomorrow, so she can also have a role in trying to bring some solutions to the very tense situation that Ukraine is living today. And I hope that the European forces will show their commitment to our common project. Because it is not true that is it just in the Western part of Ukraine. No, most of the Ukrainians care about a future in peace and freedom. And I think we have this duty to recognise them today.

Because precisely, our history is a history of openness. I said it also when we were discussing about the world that knows hunger, knows so many difficulties. Just now, thanks to the European Union support, we are providing humanitarian assistance for the people in the Central African Republic. The European Union, in spite of all difficulties, is the biggest donor of development aid. I think this is something we also should be proud of, namely our young people, that Europe is not just looking inwards, but also looking outwards. That we keep this cosmopolitan objective, precisely because, as Jean Monnet, probably the biggest genius of the European integration said - I am now quoting, by memory, the last words of his Memoirs: “La communauté d’aujourd’hui n’est qu’une étape vers l’organisation de la communauté internationale de demain”. So, the European community of today is just a step for the organisation of the world community of tomorrow. That was the final message in the Memoirs of Jean Monnet. I think it cannot be clearer that cosmopolitan vision that we are aspiring to.

I think this is very important to remind us today, when we see so many voices calling for chauvinistic, ultra-nationalistic, protectionist or sometimes even xenophobic attitudes. So I am looking forward to the ideas that you can bring in this New Narrative that can inspire our citizens.

I would like once again to thank the Cultural committee and all those who have given a great part of the efforts to building this New Narrative. I think it is a proof of modesty and humility to put some of these ideas in paper, not only the individual contributions like the bright contributions that we have heard today, but to try to have a declaration, in the spring, that could be a way of filling the debate in Europe.

One of my masters, with whom I have worked for several years in Geneva, Denis de Rougemont, said: "Penser l'Europe c'est la faire." To think Europe is also to do Europe. And L'avenir c'est notre affaire, il a dit aussi, he said also,. That's why I think the contribution of people from the cultural and scientific side is so important to reinforce our vision and our hope. And I believe that your contribution can be extremely important for the European debate. Because, and I conclude, the Europe we want, the dream we want, cannot be of a bureaucratic, technocratic or even diplomatic Europe. It has to be a democratic Europe, and so for all those who are not happy with the current situation in Europe, I say don't turn your back on Europe, make it better. Give your contributions through our debate, because what we have in Europe is too important to be lost for future generations.

I thank you for your attention.

Acceptance Speech for the Charles V European Award

EUROPEAN ACADEMY OF YUSTE FOUNDATION
YUSTE, 16 JANUARY 2014

Your Royal Highness, Your Excellency the Prime Minister of Spain, Your Excellency the Prime Minister of Portugal, Honourable President of Extremadura, Honourable Ministers, Your Grace, Ladies and Gentlemen, Dear friends,

First and foremost I should like to express my gratitude to the European Academy of Yuste Foundation for the great honour it has bestowed on me by adding my name to the prestigious group of recipients of the Charles V European Award; each one of them, in his or her own way, has made a very significant contribution to European values. This is, for me, a very proud and extremely moving moment.

I am especially honoured to be receiving this award from His Royal Highness the Prince of Asturias, for whom I feel great respect and sincere affection. Your Royal Highness, thank you so much for this particularly moving gesture.

I should also like to thank the Prime Minister, Mariano Rajoy, for his kind and gracious words. Our friendship goes back a long time, and I have always admired his patriotism, his love for Spain and, at the same time, his strong commitment to Europe and to European ideals. Thank you for your words (and never was a truer word spoken than when you referred to me as a true friend of Spain).

And now, allow me to say a few very special words in my mother tongue to the Prime Minister of Portugal, Dr. Pedro Passos Coelho. Your Excellency, and my dear friend, I was very touched to see that you took the time to attend this ceremony. I would like to take this opportunity to express my sincere admiration for the determination and courage with which you have addressed the historic challenges now facing Portugal. I should also like to thank you for your committed and constructive contribution to the development of the European project.

My thanks also go to President Monago and the Extremadura authorities for their welcome and kind words. Your efforts to keep the tradition of this award alive have substantially raised the profile of your region and its government at European and international level. This ceremony in Yuste, in this region, has also brought together the governments of Portugal and Spain; this encounter reflects the increasingly close ties being forged between our two countries as we work together to shape and direct European values and ideals. Throughout history, Spain and Portugal have carried European civilisation to many corners of the world: today they are working together to reinforce the European project, increasing Europe's relevance throughout the world.

The Foundation's work in disseminating and realising the European project is very important. Its activities in the social sphere and in communication, culture, science, research and history mesh perfectly with the efforts being made at European level to close the gap between the European project and the man in the street and to disseminate its values of respect for human dignity, freedom, democracy, equality, the rule of law and human rights. I should like to emphasise and pay special tribute to all of this work.

Please allow me to take this opportunity to remember one of the recipients of this award, Wilfried Martens, Belgian Prime Minister and President of the European People's Party, who passed away last year — that skilled politician's convictions and commitment to Europe will leave an indelible mark on the history of European integration.

Receiving this prestigious award is a matter of considerable gratification to me not only as a Portuguese national, but also as a European.

Being Portuguese, the name of Charles V evokes the history and the deep, centuries-old ties that bind the two nations of Spain and Portugal, ties that found concrete expression in his marriage to Isabella of Portugal.

As a European, the name of Charles V is also a reminder that the quest for European unity is an ancient one, inextricably linked to the history of Europe as a whole. Countless attempts were made over the centuries to bring about the Union that is today is a reality.

Politically, but also and most importantly intellectually, through the studia generalia and the proliferation of rich intercultural exchanges, a certain form of European unity began to take shape — and to break down on more than one occasion.

This aspiration to European unity was dashed time and time again by the very things it hoped to overcome: national interests, extreme nationalism, wars.

However, the history of European thinking has shown that the dream of European unity is indestructible.

The history of European integration has also taught us the following, to quote the words of Jean Monnet in a speech given in Strasbourg in December 1952: "In these days when the first supranational institutions of Europe are being established, we are conscious of the beginning of the great European revolution of our time: the revolution which, on our Continent, aims at substituting unity in freedom and in diversity for tragic national rivalries, the revolution which tends to stop the decay of our civilisation and to initiate a new renaissance. (...) For, since they have sprung into being, the Europe which we wish to leave to our children is no longer only an aspiration. It has become a reality".

Ladies and gentlemen,

Allow me to take a few moments to examine some of the key words delivered by Jean Monnet here, since they describe perfectly how the European Union we know today is a political project that is absolutely unique in history and, in many respects, a testing ground for globalisation.

First of all, "unity" - not just of nations, but also of peoples. It is clear that the various peoples, their constituent individuals and their interests are at the heart of European construction.

Secondly, "freedom" - since our Union, unlike other past attempts at European unity, is based on mutual consent and not on force. Our Member States have freely accepted to share their sovereignty. And it is in this very consent, granted freely by the Member States and enshrined in the founding Treaties, and in this community based on the rule of law and on shared values that the unifying strength of the European project lies.

The Portuguese and Spanish peoples are well aware of how much we owe to this vision of European construction: its achievements include enabling the establishment of democracy in our countries which, a few short decades ago, were still ruled by dictators.

And lastly, "diversity". One of the main strengths of our Union is that it has consistently embraced diversity, and did not grow out of standardisation. In fact, the opposite is true: it has always drawn nourishment from differences, contrasts - and even tensions. One of Europe's greatest assets is its ability to assimilate influences from other cultures, open up to other societies and flourish thanks to its openness to the world.

And lastly, one of the factors making the European project so special and unique is that it has effectively reconciled the legitimacy of democratic states with the legitimacy of the supranational institutions (European Parliament, European Commission, Court of Justice of the European Union) that safeguard the European general interest and defend the common good of Europe. Not to mention the successful way it managed to synthesise supranationality and concrete economic realities.

Indeed, it is in the areas where the Member States have made greatest progress in transferring sovereignty (trade, competition and currency) that Europe's political voice is best heard and most respected across the world. As a result, we are today the world's leading trading bloc, with 20% of international trade and 30% of investments, we have international influence in the area of standardisation (thanks to our single market, the largest in the world) and we have one of the world's leading currencies, the euro, a strong and stable currency that is one manifestation of Europe's existential force.

Ladies and gentlemen,

It is thanks to these basic elements (unity of peoples, freedom, diversity and supranational institutions) that the European Union remains a formidable and original political construct, making it possible to guarantee peace, democracy, solidarity and fairness.

These characteristics have made Europe into the most balanced model of its kind in the world, a space for freedom and democracy, a social market economy whose main priority is promoting the development and protection of individuals in open societies and economies.

Many people all over the world, from the icy streets of Kiev to our neighbours in the South, have drawn inspiration from our social models.

And while there is sometimes a tendency in Europe to focus exclusively on the crisis, it is important to recall where we have come from and who we are, as I have just done, so that we can better see where it is we want to go.

I am very aware of the disquiet among all of our fellow Europeans — including those from Spain and my home country of Portugal — who were not responsible for the crisis but who are nevertheless all too frequently the first to suffer its consequences.

To all of my fellow Europeans, I wish to say that Europe is also not responsible for the crisis and that it must not fall victim to it. Europe is not the problem. Europe is part of the solution.

I also wish to tell them that if we forget where we came from, if we do not fight to defend Europe, we risk losing it. And if we lose sight of the principles and values on which our Union is founded, reality will provide reminders that may cost us dear.

We have witnessed a global financial crisis that did not start in Europe but spread to it and which, in some European countries, became combined with budgetary laxity, competitive vulnerabilities, national self-interest, financial excess and, on a more general European scale, shortcomings in the economic governance model.

The response developed over the past five years and given impetus by the European Commission has been a fair and responsible one. In an unprecedented effort of solidarity and stabilisation, some 700 000 million euro were mobilised to prevent the collapse of the national economies worst affected by the crisis — including specific aid to shore up the Spanish financial sector. In addition, some of the Member States — including Spain and Portugal — have made considerable efforts to overhaul their economies. Moreover, and the European Union budget notwithstanding, additional resources have been made available to tackle the serious problem of youth unemployment in the Member States that were hardest hit.

Likewise, a joint effort has been made to closely coordinate economic and budgetary policies and establish solid institutions.

All of these efforts are now beginning to bear fruit. The markets have cooled down and the first signs of recovery have appeared. The countries most at risk are paying less to borrow money, and the economic outlook is gradually improving.

In the case of Spain, last week the risk premium was 3.91%, its lowest level since May 2010. Spanish exports are on the up. Exports of goods and services now account for 33% of the GDP - the highest level since the introduction of the euro. I would like to pay tribute here to the Spanish government and people for these very heartening results.

Cervantes wrote that he who stumbles and does not fall takes a great stride forward. Europe stumbled, but it did not fall. Europe has taken great strides forward.

The euro was saved, and has emerged stronger. And I should like to remind you here that it was not very long ago that expert analysts were predicting the disintegration of the euro and the breakup of the European Union. Yet both have shown extraordinary resilience. What the analysts failed to understand is that Europe and the euro are much more than an economic and financial reality; they are a political project and a shared destiny.

European economic governance is more integrated than ever. The foundations for banking union have been laid. The single market has expanded to encompass new sectors of primordial importance for our future, such as the digital sector. Over the next seven years, Europeans will be able to reap the benefits of a European budget dedicated to sustainable and wide-ranging growth and to job creation. And, above all, we achieved these results while maintaining our openness to the world and choosing not to withdraw into ourselves. We signed major bilateral trade agreements, notably with Korea, Central America, Singapore, Canada, Peru and Colombia. Others — specifically, with the United States, Japan and the Mercosur bloc — are in the pipeline. Interdependence is the keyword of the age. Europe needs the rest of the world as a source of strength and to stimulate its growth. And the rest of the world needs a strong, unified Europe for its stability and prosperity. It is for this reason that I proposed that the Yuste Foundation dedicate this year's Charles V research grants to the topic of "History, memory and European integration from the point of view of EU transatlantic relations".

Having said this, we are fully aware that there are no miracle solutions in the area of economy and finance, and that we are still not entirely out of the woods yet. The social repercussions of the crisis, and in particular the current unemployment levels, remain unacceptable, and we must not resign ourselves to them. Unemployment is the most serious problem currently facing Europe. The mobility we are seeking to promote at European Union level should be one option for our youth – but it cannot be the only alternative. The financial markets remain fragmented and this may prove detrimental to our small and medium-sized enterprises. In a single market, it is unacceptable for the costs of financing businesses to vary so widely between Northern and Southern Europe. We have to work together to resolve these problems. Recovery will be gradual and we must keep up our efforts so that our initial successes do not come to nothing. Growth, job creation and banking union must continue to be our main priorities.

I should like to publicly express my gratitude to Spain for always playing an active and vocal role in Europe, working ambitiously to defend the need to move forward in terms not only of greater responsibility but also of greater solidarity. In Europe, and in Spain, we are aware that in order to achieve these objectives we need a strong commitment from not only the European institutions but also the Member States and their citizens to increase European integration in order to safeguard our values and promote our interests in the era of globalisation.

Ladies and gentlemen,

I should like to draw special attention to one aspect of our collective response to the crisis that has occasionally been underestimated, despite its fundamental importance. The countries of the European Union have freely chosen the path of greater integration, namely the path towards more integrated economic and budgetary governance.

I call that learning from the crisis. We need more Europe where more Europe is needed - but we must not forget that the European Union does not need to involve itself in everything. As I have repeatedly stated, Europe must show greater unity, strength and visibility in response to the major challenges, but it must show more discretion when it comes to lesser matters, since – to quote Montesquieu – "useless laws weaken the necessary laws".

We must also acknowledge that, in this era of globalisation the European Union is, more than ever, a formidable multiplier of the power of each Member State and that each country's sovereignty can only be fully realised if it is shared. This is necessary to maintain our influence in the world; and we have to be influential if we are to promote our values and safeguard the interests of our citizens.

However we must recognise that if we are to move towards greater European integration, that same integration must be wanted and understood by our citizens. My wish is a Europe that is not technocratic but democratic. A Europe that is realised with the commitment of its citizens to defending a shared vision of the future.

In 2012, the European Commission presented detailed plans for a genuine economic and monetary union, to be completed with banking union and budgetary union, and with an eye to political union on the horizon; I believe this is the path we need to follow in order to consolidate the progress we have made and safeguard the future.

I am aware that while some countries are already convinced that political union is the next major European Union project, others remain very reluctant. This is what we now have to discuss amongst ourselves. Next May's European elections should be an occasion not only to compare citizens' real gains from the European Union against the popular myths and stereotypes about the EU, but also to debate the future we wish to work together to build — because a commitment to Europe and patriotism are not contradictory but complementary.

I therefore believe that it is important to foster a genuine feeling among Europeans of belonging to the same European community — a community that draws on the diversity of our national, regional and local communities but in which we can all see ourselves.

In the past, we Europeans have made great progress by working together. And this was recognised by the Nobel Committee when, in 2012, it awarded its prestigious Peace Prize to the European Union for its contribution to the advancement of peace and reconciliation, democracy and human rights.

Today, a united Europe has numerous opportunities to attain other great achievements in the future. And I am not thinking only of the single market or economic and monetary union but also of the richness of our history, the diversity of our cultures, our creative and innovative capacity, our science, our technology and research capacity, our wonderful reserves of human resources, our commitment to protecting the environment and our vision for a world where we will always stand shoulder to shoulder with those fighting for these universal values that mean so much to us and upon which our Union is founded.

It is my hope that we as Europeans will be able to clearly manifest our willingness to work together towards greater achievements in the future. In any event, it is with this spirit and conviction that I shall keep my own commitment, because it is my firm belief that our best prospect for the future is Europe — a Europe that is even more present in the world, a more political, caring and civic-minded Europe.

I thank you for your attention.

Strengthening Europe security and defence sector

HIGH-LEVEL CONFERENCE ON THE EUROPEAN SECURITY AND DEFENCE SECTOR
BRUSSELS, 4 MARCH 2014

Dear Minister Avramopoulos, dear Minister Dunne, Honourable members of the European Parliament, Ladies and Gentlemen, And of course my dear colleague Antonio Tajani,

First let me express my appreciation to Vice-President Antonio Tajani and to Commissioner Michel Barnier for organising and hosting this high-level conference.

I want to thank in particular the Minister of defence Dimitrios Avramopoulos, representing the Greek presidency of the European Union, thank you for coming; and I would like also to thank all the distinguished guests from the public and private sectors who are attending the conference.

It is a pleasure for me to join you for this discussion on a key issue: the future of the European security and defence sector. I believe it is vitally important to the European Union, to its lasting stability and prosperity as well as to its role and projection on the world stage.

As shown in our regular Eurobarometer surveys, a strong and credible Common Security and Defence Policy (CSDP) features high among our citizens' legitimate aspirations; and a credible CSDP must be underpinned by a competitive and efficient security and defence sector.

This is why, I have been pleading over the past years for a strengthening of our CSDP and of our security and defence sector. I have been doing so for instance in the European Parliament, in the State of the Union speeches and also in many other occasions. And I am happy to see that progress has now been achieved.

Today, I will focus here on two questions. First, why does the security and defence sector matter to the European Union? And second, how to do more and better with less?

Let me start with a few words on Europe's industry as such.

If we are serious when we speak about competitiveness, sustainable growth and job creation, then we need to pay more attention to our industry.

Figures show the strong resilience of the sector. Industry still accounts for over 80% of Europe's exports and generates around a billion euros a day (365 billion euros a year) of trade surplus in manufactured goods; 75% of trade within the single market is in industry, almost every fourth private sector job is in industry, and industry accounts for over 80% of private research and innovation.

Yet this resilience is put to a test by relatively weak internal demand, shrinking investment and the subsequent declining share of industry in Europe's GDP, currently at 15.1%.

That is why we have called for what we have called the "European Industrial Renaissance", with concrete actions to be debated in the upcoming European Council, this very month of March.

The proposals we have presented earlier this year aim at bringing the share of industry in Europe's GDP to 20% target by 2020 and better taking into account industrial competitiveness in other policy strands.

Now when it comes more specifically to the security and defence sector, figures are very compelling as well.

This is a major industrial sector, which directly employs 400.000 people and indirectly generates another 960.000 jobs in Europe, with a turnover of 96 billion euros in 2012 alone, and 23 billion euros of exports in 2011.

It is also a key driver of innovation, centred on high-end engineering and technologies. Its cutting-edge research has generated important indirect effects in other sectors, such as electronics, space and civil aviation and provides thousands of highly skilled jobs. Many of what have become everyday technologies, from microwave to internet, as you know, have their roots in the defence industry.

So clearly our security and defence industrial sector matters for economic reasons. It significantly contributes to the growth of the wider economy. And by strengthening this industrial sector we can also strengthen our economies.

But it does of course matter for strategic reasons too.

It is a key element of our capacity to ensure that every European has access to security, economic prosperity, political freedom and social well-being. It is therefore at the core of Europe's "raison d'être".

But it is also at the core of Europe's role and ambition on the international stage, in an increasingly interdependent and interconnected world.

The strategic and geopolitical environment is constantly evolving and we are witnessing a wide range of new and complex security challenges of trans-national nature. To name a few, international terrorism, organised crime, cyber threats, piracy, human rights violations, all this challenges can only be tackled in a comprehensive approach combining different policies and instruments, underpinned by a large range of civil and military capabilities.

Recent events from Afghanistan to Africa and even more recently Ukraine have shown that for the sake of its own stability and security, Europe has to pay attention to old "frozen conflicts" and other potential new flashpoints.

There is also beyond Europe a growing demand for Europeans to dispatch their military forces on mission abroad.

We must have the capabilities to defend and uphold our values and interests in our neighbourhood and beyond, and to promote our commitment to a multilateral, rule-based approach to international affairs.

The reality is that in today's rapidly evolving security environment, the need for further efforts in security and defence is increasingly seen as a matter of political credibility of the European Union.

So a strengthened and credible CSDP underpinned by a competitive and efficient security and defence sector is a key political, strategic and economic priority.

Ladies and gentlemen,

Now how can we do more and better with less?

And I say less because we are living under financial constraint, as we all know.

Because indeed we have to do more with less: expectations for more action from Europe worldwide have been rising since the 1990s, but defence budgets have substantially been reduced over the same period.

This has adversely affected public R&D spending in the defence sector. Between 2006 and 2010 R&D spending in this sector has declined by 14% while the overall budgets diminished by 3.5%. The US alone today spends seven times more on defence R&D than all 28 Member States together.

At the same time, the cost of modern capabilities has steadily increased: the growing technological complexity of defence equipment and reduced production volumes are having a knock-on effect on the industry.

What does this mean for us?

This means that with shrinking defence budgets we have to think differently about how we work together. This must serve as a catalyst for a more co-operative work.

We need to take a hard look together at what we need to improve and how to do it.

There is room for Member States to get better value from their existing defence budgets. There is room for an improved coordination of equipments and requirements and more efficient collaborative programmes.

Indeed there is a lot we can do together to overcome the current fragmentation of the European defence market, to avoid duplication of capabilities, to achieve greater cost-effectiveness and ultimately to enable Europe to maintain a competitive defence industrial and technological base.

Of course, this is primarily for the Member States to define the ambition, degree of autonomy and scope of CSDP and future work on capabilities.

But Member States and European institutions have to work together to adapt and respond to these new challenges. Indeed, this effort is already being pursued through the so-called "pooling and sharing" approach in the European Union in complementarity with the so-called "smart defence" concept in NATO.

This is the reason why the European Commission, in full respect of the Member States' competences, has come with some ideas. And we have, within our competences, taken bold initiatives and will continue to do so. I am particularly pleased that the December European Council has broadly endorsed our proposals of last July for a more efficient and a more competitive defence and security sector.

Let me recall them briefly.

First, we have proposed to reduce the current market fragmentation by tackling market distortions and improving security of supply on the basis of the two directives adopted in 2009: one on intra-EU transfers and the other on public procurement.

Second, we also propose to strengthen the competitiveness of Europe's Defence Technological and Industrial Base (EDTIB) by promoting standardisation and common certification; by improving access to raw material; and by properly ensuring SMEs' role in the supply chain, notably through the development of industrial clusters with SMEs.

Third, we propose to fully exploit potential synergies between civil and defence sectors by developing more dual-use products and capabilities. We are notably looking at ensuring as many synergies as possible between our civil research programme, Horizon 2020, and those co-ordinated by the European Defence Agency.

Horizon 2020 was conceived for civilian purposes but there is a lot of dual use potential in key enabling technologies. There is also a specific theme "Secure societies" with many potential and spill over effects on defence.

And we are working on a preparatory action to support defence related research outside Horizon 2020.

To deliver this ambitious agenda, the Commission, through the Defence task Force set up in 2011, continues to work in close consultation with the External Action Service, of course under the leadership of our representative and Vice-president of the Commission Cathy Ashton, with the Member States and the European Defence Agency.

Ladies and gentlemen,

I am glad that the Commission's proposals have been one of the pillars of the European Council discussions and conclusions in December.

But clearly this is not the end of the road. It is the beginning of a new chapter, a new dynamic for CSDP. Let's not forget that the European Council will address concrete progress on all issues in June 2015.

The Commission is now working on a roadmap with concrete actions and timelines, to be adopted by the summer.

And today's conference is an opportunity for us to hear your views on the way ahead and on how we could best add value to European-level action; as defence is clearly one of the new frontiers of European Union cooperation

I thank you for your attention.

Speech at the EU-Africa Summit

EU-AFRICA SUMMIT
BRUSSELS, 2 APRIL 2014

Dear President Aziz, Dear Chairperson Dlamini-Zuma Your Excellencies, Distinguished Heads of State and Government, Dear Secretary General Ban Ki-Moon Ladies and Gentlemen, Dear Friends,

Let me also welcome you to Brussels, the headquarters of the European Union Institutions. I am delighted to see so many of you here today. Your presence and the richness of the agenda of this Summit are a real illustration of the vibrant partnership that exists between our two continents.

It is the first time we meet in a Europe-Africa format since the passing away of the great African and world leader, Nelson Mandela. He was a giant. He changed the course of his country, of the African continent and of the whole world. I trust that his vision, his commitment to peace, freedom and justice and his wisdom will inspire our discussions today and our actions tomorrow.

This is the 4th EU-Africa Summit which brings together in one place 54 African and 28 European countries.

I also welcome the presence in this Summit of Secretary General Ban Ki Moon and all our other high level guests. This perfectly illustrates that our vision of the world is one of cooperation and not competition, of openness and not retrenchment or exclusivity. History shows that people and countries prosper when they open up to the world, when they expand their trade, when they exchange ideas. Our partnership with Africa, like with any other partner, is constructed as a bridge and not as a barrier to more global cooperation. For us the era of spheres of influence should be over. We need to replace it by wider circles of convergence.

Our partnership with Africa is a partnership based on mutual respect – and I underline the word 'respect' – a partnership of equals. A partnership that is now more relevant than ever. Both our continents are going through tremendous change. In Europe, we are deepening and enlarging. We are now 28 countries and we are making the necessary reforms to remain open, united and even stronger.

Africa is also on the move. Change is all over, from the shores of the Mediterranean to the coasts of the Atlantic and Indian Oceans. Economic and demographic growth represents an exciting opportunity. I was able to witness all these changes in my several visits to Africa, from Cotonou to Cape Town, from Ivory Coast to Cape Verde, from Tunisia to Tanzania, from Algeria to Angola, from Morocco to Mozambique. Profound changes are happening.

Future generations will face a totally different world and I believe a totally different Africa. In the next 50 years they could witness Africa's population quadruple and the African GDP triple. They could witness the continent decisively affirming itself on the international scene.

Last year I was honoured to represent the EU on the 50th anniversary of the African Union in Addis and to express, on behalf of the European Union, our support to the spirit of African renaissance and to the integration of the continent.

But to deliver on the great potential of Africa, responsible leadership will be fundamental to overcome the challenges and risks that still exist.

The challenges of eradicating poverty, of promoting a sustainable and inclusive growth that does not deplete the continent's natural resources, the challenges of consolidating democracy, rule of law, good governance and respect for human rights, the threat of emerging radical movements, as we saw unfortunately in Mali and Somalia or the fragility of State structures that challenge the viability of countries such as the Central African Republic or Guinea Bissau.

These challenges are common to us all. When terrorism expands in the Sahel or in the Horn of Africa, it is a threat to Africa and to Europe. When migration flows become unmanageable and the source of organised crime, it is a threat to Africa and to Europe. When growth increases in Africa, it is an opportunity for Africa and for Europe.

Your Excellencies, Heads of State and Government,

It was for these reasons, amongst others, that we launched a common European Union-Africa strategy in Lisbon in 2007, to enable us, over the years to come, to move further and further ahead as equal partners showing mutual respect.

The partnership between Africa and Europe is one of a kind. It is a natural partnership, based on our common history and our geographical proximity. It is also based on our shared desire to place human dignity and better living conditions for our people at the heart of our actions. It is a partnership based on mutual interests. Peace for you means peace for us. Prosperity for you means prosperity for us. Well-being for our people means well-being for your people. This partnership is becoming ever more crucial. Europe and Africa are stronger when we work together. Together we can also help to frame an international agenda based on the principles of peace, justice and freedom.

This solidarity, distinguished Heads of State and Government, is also reflected in concrete commitments and actions, which can be better illustrated by figures rather than words

Between 2007 and 2013, around 140 billion euros, that is to say, 20 billion euros per year, have been made available on the continent of Africa, which receives an average of 40% of the European Union's collective ODA. We shall remain equally ambitious over the period 2014-2020. I would like briefly to express my appreciation for our Member States. The truth is that, in the midst of a European crisis, and even though they have reduced the European budget, the countries of the European Union have nevertheless chosen to maintain the bulk of these development-aid commitments to Africa. On the basis of the European budget which we are responsible for managing, the European Commission alone will make available some 28 billion euros in aid for the continent as a whole.

Over the last ten years, we have provided 1.2 billion euros for the African Peace Facility. I am pleased to be able to announce here today that some 800 million euros will be made available over the next three years, because, though we support the principle of African solutions for Africa's problems, we shall continue to offer it solidarity as it tackles those problems.

This is a question both of common values and of strategic intelligence.

Similarly, Europe will be at the forefront of multilateral efforts to set a global and ambitious post-2015 agenda, based both on the fight against poverty and on the fight for sustainability.

In this respect, economic integration between our two continents will be vital. Between 2007 and 2012, our total commercial exchanges increased by 45%, and almost 44% of direct foreign investments in Africa between 2005 and 2010 came from Europe. It is clear, therefore, that, even during the economic and financial crisis, our commercial and economic relations were sufficiently dynamic to allow a remarkable degree of growth. I believe that we can do even more and even better, particularly in terms of economic partnership agreements, because by increasing opportunities for trade and investment we can help to ensure sustainable growth and job creation.

EPAs can also act as springboards to economic integration at continental level, at pan-African level, as set out in Africa's Agenda 2063 drawn up by the Commission of the African Union. This integration is something we are extremely eager to see.

Now that we are living in an era of global interdependence, this summit also offers an opportunity to re-state our shared determination to tackle all of the global challenges facing us, particularly those relating to food security, migration, energy and climate change.

Climate change is one of the key challenges of our times and it is the poorest countries that are suffering most. Europe will be on the front line in the quest to achieve a global agreement in Paris in 2015, shoulder to shoulder with our African partners. As the Maasai proverb reminds us, ‘We do not inherit the Earth from our ancestors; we borrow it from our children’.

The alliance between Africa and Europe is more crucial than ever. Our populations expect us to offer them a future of peace, democracy and prosperity. In a changing world, with other partners emerging, it is now more important than ever to make our partnership flourish, to give it a direction and to give it a future.

Thank you for your attention.

Acceptance speech for the Atlantic Council's Distinguished Leadership Award

2014 DISTINGUISHED LEADERSHIP AWARDS

WASHINGTON DC, 30 APRIL 2014

Distinguished guests, ladies and gentlemen, dear friends,

Let me start by thanking Governor Huntsman for his very kind and spirited words. A word of thanks also to Chancellor Angela Merkel for her friendly transatlantic message from Berlin. And a final word of sincere recognition to the Atlantic Council and Fred Kempe for this honorable distinction.

I was told when I was invited to come here that these are the Oscar prize for foreign policy. In this case I'm not going to make a long list of persons to which I dedicate this prize. I can only say to you very sincerely that, yes, I am a very committed European and, yes, I am very committed to this great relationship and friendship between United States and European Union.

Not only politically, when I was Foreign Minister and Prime Minister of Portugal, but also as President of the Commission during these last ten years I've done my best to make this a strong relationship. And today when I was listening to this first speeches today I was also remembering some time I spent here in Washington, D.C., 'cause I was two years, four semesters, visiting professor at Georgetown University.

And let me tell you that the students that time were even much more disciplined than this audience when this you were listening to the different speeches. At that time I was always suspicious when I saw students coming to my course or my seminars with Coca-Cola or Pepsi Cola.

In Europe usually that does not happen. But I assume that tonight it's a moment of conviviality and that we can also drink to this great relationship between Europe and United States. Now, dear friends and distinguished guests, ladies and gentlemen, it is indeed a great honor to receive this award from such a prestigious institution and in such distinguished company.

I see many friends around here. I cannot mention all of them. But thanks to all of them who came and also to share this moment with me and the other-- recipients of this prize. I want to congratulate Atlantic Council for the great work you do. And I also warmly applaud my fellow honorees, Secretary Hagel, Tom Enders, General Dunford and Ruslana for their leadership, example and inspiration in their different fields of activity.

Let me make a special word to Ruslana, artist and activist, whose consistent advocacy for democratic change in Ukraine is quite remarkable. I assure you that European Union is strongly committed to supported the people of Ukraine as they are striving to turn their legitimate inspira-- inspiration for peace, democracy and freedom into reality.

European Union itself-- is a child of the victory of peace and democracy over the forces of destruction and oppression. In a reaction to the traumatic events of our past, human dignity, freedom and justice lie at the very heart of European integration. And from the very beginning this has been a vision going well beyond our borders. Indeed the very first words of the European Union birth certificate, the famous Schuman Declaration, are not about Europe but about world peace. The European community, the European Union as you know started after the Second World War. And so, the idea, the basic concept, was to put together former enemies and through economic integration promote in fact political union, promote this space that today we have in Europe of freedom and democracy.

And the Nobel Peace Prize awarded to the European Union in 2012 was certainly an acknowledgement of our great achievements in the past building a peaceful, democratic, free Europe. But this is not about an idea of the past. It's about what remains more than ever a project for the future.

The powerful images of Ukrainian protesters waving the European flag tell us more about this than a long speech could do. They show this where they feel-- that they feel that they belong emotionally, culturally, politically, they belong to Europe. Those young people in Ukraine that want to be closer to us and they were not allowed to be closer to us, because someone thought that a country, a sovereign country, a sovereign member of the United Nations in the 21st century has not the right to decide its own destiny. This is why I want to say that tonight my thoughts are also with millions of people within Ukraine and indeed all over the world are fighting for peace, for democracy, for freedom and human dignity. We will stand by them.

Ladies and gentlemen, the attractiveness of Europe's values, way of life, respect for cultural diversity, is something that I directly experience myself. I was 18 years of age. It was 40 years ago when my country, a very old European country, Portugal, for centuries of history, was leaving 48 years of dictatorship.

And this year we are commemorating my country the 40 anniversary of democracy. That's why I feel so close to the new democracies of-- central and eastern European countries. For my generation in Portugal or in Spain or in Greece and for the other generations now in Poland or Czech Republic or Hungary or the Baltic countries or Romania or Bulgaria or Slovenia, Europe, European Union appeared as a promise of democracy. NATO was critically important, but in fact the way to join European

Union appeared to these countries as a way also of joining the more advanced democracies in the world.

Just a figure to give you-- in 2004 when-- the Poland joined the European Union the GDP per capita of Poland was more or less GDP per capita of Ukraine. Now it is more than three times bigger. This shows how powerful is European Union in terms of magnet, attraction, and also with the transformative power to bring these countries together. And yes-- my first mandate as President of Commission started when we went from 15 to 25 countries. We are commemorating-- today and these days the anniversary, the tenth anniversary, of this big enlargement. But now, when I will leave the European Commission presidency we are 28 countries.

If I was invited by you one or two years it will not be such a festive occasion, because when I was coming to the United States one or two years the question I was receiving more often was, "Is Greece going to exit? When is Greece going to exit euro? When is the implosion of the euro? When is disintegration of the European Union?"

And today I can tell you, no, we did not disintegrate. You may trust European Union not only as a loyal partner, but also as a strong force that is resilient, because some of those analysts and commentators that were predicting the end of the euro, and they were certainly great experts in economy and finance, but they have underestimated the political logic behind the euro.

As Chancellor Merkel and many other great leaders in Europe said, we will stand by the euro, because the euro is more than a currency. It's a symbol of the determination of the Europeans to stand together. And this was underestimated not only in our partners, but also in Europe itself.

So, it's representing this European Union that has shown resilience, capacity to resist, and today we can say the euro area is a haven of stability. The euro is a credible, strong and stable currency. It's representing this European Union that I'm speaking to you tonight and tell you that we need to do more together. And I think the recent events in the Ukraine, in the other parts of the world, show that we should never take peace for granted and that we should work together, United States and Europe, for this purpose. Because if you can make the deal on the transatlantic trade and investment partnership it will be the biggest ever bilateral trade and investment agreement made. But apart from the economic dimension, it is the biggest economic relation by any-- way you analyze, the American-European Union relationship. That's why the business community of both sides of the Atlantic are so supportive. Apart from the economic dimension I was saying we have the geopolitical dimension. It means that the two of the biggest economies in the world, Europe and the United States, open economies, open societies, sharing the same values, are able to make an agreement between themselves, with an agreement that will probably set the global standard.

So, what a great historic achievement it can be? So, my message today, or this evening, to you is let's work to make it happen, not only for the benefit of course of the citizens of the European Union and of the United States but also of the world.

Because I believe that open societies and open economies have a lot to give to the world. I don't believe those *declinologues*, as we say sometimes in Europe, those who are preaching the decline of the values of the West, of developed economies, are right. I believe they are wrong. I believe the value of freedom, be it in economy or be it in politics is stronger than any other value. That's why we have to come to that agreement. And I'm sure that you, the Atlantic Council, are going to give a very important contribution for that.

I was proud that sometime ago-- in the margin of a G8 Summit together with President Obama I've launched these negotiations for the transatlantic Trade and Investment Partnership. It is a platform to project our shared values worldwide with regard to open markets, democracy and the rule of law.

We can say to some extent that this transatlantic Trade and Investment Partnership can become the economic pillar of our political alliance. Ladies and gentlemen, our long history and very rich history teaches us that capacity for change and renewal is as much in our European DNA as it is in the American one. And today United States-Europe partnership can again adapt and thrive amidst new challenge, play a leadership role in shaping this globalized world into a fairer, safer, rules-base, human-rights-abiding place.

And in pursuing this objectives we should all remember the world-- the words of Abraham Lincoln, a man who also stood to the challenge of keeping the union of its country, of this country. And he said, “Let's have faith that right makes might. And in that faith let us to the end dare to do our duty as we understand it.” I'm sure the Atlantic Council and the citizens of the European Union and the United States are ready to do their duty as they understand it.

Thank you very much for your distinction.

Address at the Jagiellonian University – Let reason prevail over force

JAGIELLONIAN UNIVERSITY – CONFERRAL OF THE PLUS RATIO QUAM VIS GOLD MEDAL
KRAKÓW, 10 MAY 2014

Mr President of the Republic, Mr Rector of the Jagiellonian University, Distinguished Honourees, Distinguished Guests, Ladies and Gentlemen,

Let me start by thanking Rector Wojciech Nowak, Professor Karol Musioł and the Jagiellonian University. I am deeply grateful to receive this honour, the Plus Ratio Quam Vis, from such a prestigious University; one of the oldest Universities in Europe, on the occasion of its 650th anniversary.

It is with real emotion that I participate in this commemoration of a Polish university where among others have studied such great Polish, European and world figures like Nicolaus Copernicus and Karol Józef Wojtyła who later became Pope Jean Paul II.

This morning I could visit the Collegium Maius and learn more about your proud tradition.

The history of your university bears witness of the extraordinary resilience of the women and men of Poland. Throughout a very turbulent history marked by so many changes, more than once your determination and your courage have prevailed over wars and invasions, partitions and deportations, deprivation and totalitarianism. Thanks to you and your ancestors today Poland stands as a strong democracy and a vibrant member of our European Union.

Both you and your predecessors have shown as Czesław Miłosz put it: “The passionless cannot change history.”

The history of your university is also the history of the extraordinary resilience of an ideal: the aspiration to European unity. Over the centuries this enduring ideal has always outlived war, nationalism and division. It went through a stormy journey, from our common Christian roots, the Renaissance and the rediscovery of Europe’s Greco-Roman heritage, the early days of the European communities and then the fall of the Iron Curtain and the Berlin Wall; from the peregrinatio academica to the European Commission’s Erasmus programmes and Marie Skłodowska-Curie Fellowships.

The history of your university sends to all of us a powerful message: how important it is to hold on to our ideals. Nothing worth having is easy to get. We will suffer setbacks. We will be confronted with doubts and even fears. But if we hold firm on what we believe in, if we stick to our goals and uphold our values; then we can look forward with confidence to a brighter future.

Ladies and gentlemen,

Plus Ratio Quam Vis is the motto of your University and to receive the Plus Ratio Quam Vis gold medal has a very special meaning for me, personally of course, but also as President of the European Commission.

"Let reason prevail over force" or "Let wisdom prevail over power" could have been indeed the motto of the European Union. A Union built on shared values: peace, democracy, respect of human dignity, and I mean the respect of every man, woman and child, tolerance and justice. It has been since the very beginning the guiding principle of the European integration process. A process built on free consent. No country has been forced to join or stay against the collective will of its citizens.

Let reason prevail over wars has been the founding narrative of our Union born on the ashes of two devastating World Wars. And it still remains our fundamental "raison d'être". Peace is not a given once and for all. How could we forget it as the crisis in Ukraine is showing the fragility of peace in Europe and challenging the core values on which our Union is built?

Let reason prevail over oppression and division has been the dream of millions of Europeans from the streets of Lisbon and Athens in 1974 to the Gdansk shipyards in 1980 and then Berlin in 1989. And for each of us, our accession to the European Union has contributed to anchor democracy in our countries and to support our economic progress.

Enlargement, or what I prefer to call it: reunification of Europe, has been a key element of the project of a united, free, democratic continent at peace. It also makes Europe more prosperous. It has indeed made Europe more stable and stronger. In this fast-changing globalised world, size and integrity matter more than ever.

That is why our European firm commitment must be now to let reason prevail over the reawakening of the old demons – the demons of populism, protectionism, extreme nationalism, xenophobia. We need to move toward a more perfect political union to strengthen our capacity while upholding our values and defending our interests and model of society.

Today two leading intellectuals – Professor Robert Huber and Professor Witold Kieżun – will be conferred Honoris causa degrees from the Jagiellonian University and let me extend my warmest congratulations to both of them.

People of the worlds of science and culture can play a vital role to confront prejudices, to break down barriers, and to draw people together beyond borders. They can deepen our understanding, raise questions, mobilise our imagination and, also sometimes from unconventional perspectives, light the way towards creative solutions to new challenges. As Marie Skłodowska-Curie, once said and I quote "nothing in life is to be feared. It is only to be understood."

And when I had the great honour on behalf of the European Union to make the acceptance speech of the Nobel Peace Prize attributed precisely to the European Union, I not only quoted that great Polish and European figure that was John Paul II but I also mentioned that at the core of the European Union and at the core of our civilization is the idea of science and culture. And I believe, more than ever, that the role of universities and I want also to extend my admiration to the community of universities across Poland is so important in this very turbulent and unpredictable beginning of the 21st Century.

And the European leaders of this 21st century should nurture these words of Marie Skłodowska-Curie since we do have now to make decisions that will determine for many years whether Europe remains an area of stability, shared prosperity and freedom.

Europe is now at a turning point where we do need to come to a clear political understanding of what we want and need to do together and to display an unwavering commitment to the democratic power of deliberation and to forge a new consensus for a united, open and stronger Europe.

The fundamental question we must answer is what kind of communality do we recognise as necessary; and the fundamental approach we must embrace is a cooperative one between the European Union, its institutions and all its the Member States.

Ladies and Gentlemen,

Let me conclude by stressing that as imperfect as our Union might be we should never forget that millions outside our borders want what we take for granted, millions outside our borders some of them close to Poland like Ukraine in fact are aspiring to our standards of living, to the fundamental civil and political freedoms, to the rule of law, to free and fair elections and to the respect of their sovereignty.

But the fact is that our European success story has never been a natural development and we would take it for granted at our peril. It has always been a process – based on reform and not revolution - requiring at each step clear vision, steady determination and hard work.

And today more than ever it requires collective political vision and leadership as well as explicit national ownership. Europe is not just Brussels or Strasbourg, it is not just European institutions, Europe is all of us, Europe is also here at the centre of Europe, at the centre of Poland, it is here in Krakow. It is now our responsibility to continue making the path as we walk. Having that in mind, as another great former student of your university Wisława Szymborska's said: "The only roads are those that offer access." [Nie ma dróg innych oprócz drogi dojścia].

Paving the way for a European Energy Security Strategy

ENERGY SECURITY STRATEGY CONFERENCE
BRUSSELS, 21 MAY 2014

Dear Prime-Minister Tusk, Dear Commissioner Oettinger, Ladies and gentlemen,

I would like to thank and congratulate Commissioner Oettinger for this initiative, for the competence he has shown pushing this very important file inside the Commission. Commissioner Oettinger and his services are doing a great job under exceptionally challenging circumstances, and I want to acknowledge that.

Today's conference could not be more topical. With the events in Ukraine, Europe is facing a threat to its peace, stability and security the likes of which we have not seen since the fall of the Iron Curtain.

The 'Great Game' of geopolitics has made an unwelcome return and this is being particularly felt in the area of energy. Unfortunately the actions of some actors are based on a logic we cannot share. Because the European idea stems from a different perspective. For us the rule of law prevails over the rule of force. Sovereignty is shared and not limited. The logic of cooperation replaces the logic of confrontation.

And this leads - at least temporarily - to consequences we did not want, because Europe's world view sees countries as free to choose their own partnerships and to look for opportunities wherever they can be found, not as exclusively part of one sphere of influence or another, or bound to choose between one camp and the other.

But the current situation also asks some very real and very tough questions to the European Union. It is a test to our resolve, our determination and our unity. And all this comes together in the field of energy security. In fact the Ukraine crisis once again shows that for Europe energy independence is crucial. We have to explore all the possibilities which make this goal reachable. The situation also confirms that it is in our own interest to choose a path towards a low carbon, competitive and energy secure European Union. And, first of all, that it is vital for us that we stay together and united.

The European Commission has been calling and making proposals for such a stronger and more robust EU energy policy over these last years. There were many times in which we, in different Council formations and myself in the European Council, were pleading for a truly European energy policy. The reality is that because there were probably other priorities at the time, including by the way the very important financial crisis, minds were not sufficiently focussed on the urgency of a real energy policy for the EU. But because of these recent developments, I believe now minds are focussed and we could now make more progress than in the years before. This has been an objective, to increase our security of supply through our energy and also our climate policies. But now, because the situation has changes, I believe it is time to take it one step further.

This is vital for our prosperity, for our strength and our credibility. So we have to prove that European cooperation and integration is the right way – the only way indeed - to overcome such challenges. I am extremely pleased to discuss this with you, with my friend, Prime Minister of Poland Donald Tusk. I want to also to thank you, Prime Minister, for your strong commitment to this energy policy in the EU. In fact, we have launched this very inspiring idea of this energy community and I can testify that the Prime Minister and Poland have always been among our Member States one of those that have been doing more to achieve what I believe is critically important, that is to have a real Europeanization of energy policies – from the interconnectors and the infrastructures to the internal market and other instruments that we can develop. And I wish that many of your ideas that have been so important for the debate can now be discussed also among the members of the European Council, and as you know the European Commission is preparing and I will have the honour to present some ideas also in the European Council next month.

Ladies and gentlemen,

Europe's energy dependency is of course not new. But it did gain an added dimension in the light of recent events and in a context of growing energy demand worldwide, which is expected to increase by 27% by 2030.

The European Union currently imports 53% of the energy it consumes and is dependent on external suppliers for crude oil (almost 90%), natural gas (66%) and to a lesser extent also solid fuels (42%) as well as nuclear fuel (40%).

Some countries are particularly vulnerable, namely the less integrated and connected regions such as the Baltic and Eastern Europe. Six of our Member States depend on Russia as single supplier for their entire gas imports and three of them use natural gas for more than a quarter of their total energy needs. Nevertheless, this discussion is vital for the European Union as a whole and not just of the countries most concerned. Our external energy bill today represents more than 1 billion € per day and more than a fifth of total European imports. In fact, as you know, the EU today has a surplus in trade, not only in goods and in services, but since recently we have also a surplus in agriculture. The only important area where we don't have a surplus for obvious reasons, is of course raw materials and energy.

At the same time, dependency is a two-way street. It ties both suppliers and customers alike. Russia exports 80% of its oil and more than 70% of its gas to the EU - by far the most attractive market for Russia. Its revenues from this trade are key for the Russian budget. That is why we have stressed very firmly over the last months that energy must not be abused as a political weapon. Doing so would only backfire on those who try it.

Temporary disruptions of gas supplies in the winters of 2006 and 2009 already provided a wake-up call, underlining the need for a common European energy policy. Since then – and I remember well, because at that time I had to intervene very strongly, speaking not only with the leadership in Russia but also the leadership in Ukraine, and the European Commission has done everything it could to help the Member States most affected – since then, the Commission has done a lot to strengthen the EU's energy security in terms of gas supplies and to reduce the number of Member States exclusively dependent on one single supplier. Over the years, we have made significant progress towards completion of the internal energy market with increased interconnections. And in parallel, we have built up one of the best records worldwide in terms of energy intensity and a more balanced energy mix. So we have a lot to build on, and a lot of experience to learn from.

Yet despite all this the EU remains vulnerable. The tensions over Ukraine again drove home that message. For that reason, the European Council in March put a strong focus on security of supply and invited the Commission to study the EU's energy security in depth and develop a strategy for the reduction of our energy dependence by June. This is something our services are now working very hard on.

The strategy should build on a number of strengths and lessons learnt from current policies as well the effectiveness of the Union's response to previous energy supply crises.

All too often energy security issues are being addressed at national level without taking fully into account the interdependence between Member States and the added value of a more collective approach at regional and European levels, in particular for coordinating networks and opening up markets.

And energy security in the long term is also intrinsically linked to the EU becoming a competitive, low-carbon economy. Stronger energy security and the 2030 energy and climate framework go hand in hand. Energy security and decarbonization are actually two sides of the same coin.

Ladies and Gentlemen,

There are a number of key areas where action is needed in the short, medium and longer term:

Reducing energy demand is a fundamental precondition for limiting our energy dependence. It is also crucially important from a competitiveness perspective: as a price taker, the EU cannot rely on cheap energy, but can limit overall energy costs through by being more efficient. Meeting the existing 2020 energy efficiency target of 20%

will result in 371 million tonnes of oil equivalent primary energy savings in 2020. So we need to speed up our efforts and focus on heating in building and industry, transport and equipment in particular so as to achieve our agreed target of 20%.

Next, increasing energy production in the European Union wherever possible. In the past two decades, our own production of energy has steadily declined. However, thanks to the 2020 targets, in 2012 energy from renewable sources contributed 14.1% of final energy consumption, and the European Union is on track to meet this common 20%-goal by 2020.

Member States have already planned to add an additional 29 million tonnes of oil equivalent of renewable heating between 2012 and 2020, corresponding to about 85% of the Russian natural gas imports used for heat production. Strengthening a market-based approach and improving coordination of national support schemes can provide further impetus to this very promising evolution.

Some Member States have also opted for nuclear energy to avoid excessive dependence from non-European suppliers. This remains an option that our Member states can explore according to their political and societal circumstances. Fully exploiting the potential of conventional hydrocarbons both in traditional production areas, like the North Sea, and in newly discovered areas, for instance in the Eastern Mediterranean, is also on the cards. And on top of that the possibility of unconventional resources, such as shale gas, is being considered by some Member States. The Commission has already provided a recommendation to ensure that risks that may arise from individual projects and cumulative developments are managed adequately in Member States that wish to explore or exploit such resources.

Diversifying external energy supplies is also vital. At EU level, external gas supplies are more diversified today than they were a decade ago, mainly due to new liquefied natural gas producers and to the rapid development of LNG regasification capacities in Europe. This is a development to build on, for instance through mechanisms that could increase the bargaining power of European buyers, as proposed by Poland precisely.

Building a resilient internal market remains work in progress. Following the 2009 gas crisis, we have taken action to strengthen gas interconnections and have successfully implemented "reverse flow" projects with financial support from the European Economic Plan Recovery. We need to step up such efforts, mainly through the Connecting Europe Facility, which Member States are now implementing. I expect governments to act swiftly in this critical field, for instance when it comes to permits. Because a functioning internal energy market, both for regulation and infrastructure, is the best cushion against external supply shocks. The Commission will continue to push for this, as the guardian of the Treaties.

Strengthening our emergency and solidarity mechanisms is another field for action. This includes minimum storage obligations, cooperation between Member States and crisis coordination mechanisms, which should be considered carefully. And, as highlighted in the G7 Ministerial Statement adopted earlier this month in Rome, emergency plans for the next winter should be developed at regional level.

And finally, developing our technological and industrial capabilities will be vital. From highly-efficient new coal plants and to the large scale deployment of CO2 capture and storage at coal-fired power stations, tomorrow's energy potential will depend on today's research. And, you know, we have also made a point of making this a clear priority in our next perspectives in terms of support for research, the Horizon 2020 European Union programme.

Ladies and gentlemen,

The June European Council will be crucial for our energy security strategy.

The Commission's to-do-list is clear:

A final decision on the new 2030 climate and energy policy framework - ensuring a cost-effective transition to a competitive low-carbon economy - should be taken as quickly as possible.

Also for reasons of certainty and not only for the climate discussions, this is important, because they are going to have a high level event in the margins of the general assembly in New York in September, called by Secretary General Ban Ki-moon, but also because the most important economic players in Europe and outside of Europe are asking us is what is our panorama, what is our horizon, what is the legal certainty we can have. So the sooner the Member States agree on the 2030 horizon the better.

For the next winter, we will ensure coordination with Member States and all key players for increasing storage, developing reverse flows, the LNG potential, as well as security of supply plans at regional and EU levels.

The European Union must reduce its external dependency on particular suppliers and fuels by diversifying its energy sources, suppliers and routes, notably through the Southern Gas Corridor - which the Commission, and I have to say myself personally, has pushed tirelessly over the last years - and a new gas hub in Southern Europe. Our Transatlantic Trade and Investment Partnership should also have an energy chapter where we further advance the goal of a transatlantic gas market.

Energy security in the European Union cannot be separated from the energy security of its neighbours and partners within the Energy Community, notably Ukraine. That is why the Commission brokered the recent agreement on reverse flows between the Slovak Republic and Ukraine. Once again, thanks to Günther Oettinger. And this is why the Commission is leading on behalf of the 28 the trilateral discussions with Russia and Ukraine to guarantee the security of transit and supply of gas to Ukraine and to the European Union. I am glad that Member States agreed to entrust the European Commission with the responsibility to conduct these delicate talks.

And, as you know, just yesterday, on behalf of all the Member States of the European Union, I answered to President Putin clarifying what is our position on such an important and urgent matter. And just to tell you that I just came from a meeting – that's why we came a bit later and couldn't listen to the whole speech of Commission

Oettinger – with the Georgian government. I received the Prime Minister of the Georgian government, and in fact they are now planning to join the European energy charter. So it shows how much it is important to have this space of energy as a way of having security and certainty and not an area of conflict.

Measures are also needed to integrate the internal energy market further, especially for the most dependent Member States. We need more integration, not more obstacles.

Energy security should be mainstreamed for the implementation of the European financial instruments up to 2020, in particular the European Regional Development Fund, the Connecting Europe Facility. As you know, this is an innovation. It was the European Commission that for the first time proposed this instrument, the Connecting Europe Facility, not only for transport but for energy, and also symbolically for digital - symbolically because Member States could not agree more than 1 billion euros. But for energy we have some funds there, so we should also use the Connecting Europe Facility, the Horizon 2020 that I already mentioned – and there the Member States agreed to increase the volumes of funding for research – and the European Neighbourhood Policy Instrument.

So we have different budgetary windows in the European Union to support, even if some resources have, of course, to come either from the national governments or from private companies. If we have a real functioning internal market I'm sure that more investment will come from our private partners. And we have of course not to forget that the European energy security should also be a stronger policy objective for the European Investment Bank interventions both in the EU and outside the EU. And we are in good contact and cooperation with the European Investment Bank on this specific issue.

More coordination of national energy policies is necessary to respond credibly to the challenge of energy security. Consultations on envisaged intergovernmental agreements with third countries having a possible impact on security of supplies are a must, and the Commission should be informed and involved at an early stage.

If we agree on these priorities and maintain the momentum that resulted from the Ukrainian wake-up call, Europe will come out of this crisis stronger, more united and more secure than we were before. In fact Energy, besides the geopolitical aspects, can be/must be a very important driver for European integration. After all, we should not forget that the European integration process started functioning precisely around coal and steel. So it is a very powerful driver for European integration, provided also there is political will of all our capitals. This is the condition sine qua non, the political will to do it. If the political will is there I have no doubts that we can achieve impressive results, not from today to tomorrow, because some of these decisions take a while to implement, but in a relatively short time. Our common project is not completed yet and energy cooperation is certainly one of the areas where we have more to gain in working together and more to lose if we act separately.

And indeed if you look at the last years, that has been constantly and consistently presented as one of areas where more Europe was needed. Not more Europe in the sense of more centralisation, but the Europeanisation of the policies. That's what the European Commission, namely through the support to the deepening of the internal market, has been leading for some time.

I can assure you that the Commission will make very clear proposals in this sense to the June European Council. The work is going very well within our services, namely with the leadership of Günther Oettinger, but also with all the other colleagues that have to with this. I'm personally following them at work closely. So I'm happy that the Commission will be ready to present a very good package and then it will of course be up to our governments to take the next steps. I am confident they will make the necessary steps forward, speaking with one voice. Because today there is more than ever an awareness of the political and economic importance of this policy.

And to our international partners we say: the EU remains the world's largest energy market. It remains a transparent, reliable and responsible partner. Therefore, we have a shared interest in preserving transparency, reliability and responsibility for the sake of our energy cooperation, but also for the sake of a predictable and rules based world.

What is at stake indeed when we speak about energy, even if we don't want to see it as a political weapon, is much more than energy. It's about the kind of world we want to live in.

I thank you very much for your attention.

Remarks at the signing of the Association Agreements with Georgia, the Republic of Moldova and Ukraine

EUROPEAN COUNCIL
BRUSSELS, 27 JUNE 2014

Today, we are signing Association Agreements between the European Union and three important European countries: Georgia, the Republic of Moldova and Ukraine. This is indeed a historic day: for the three countries themselves, for the European Union and for the whole of Europe.

For our three partners, it is a recognition of the significant progress made over recent years and of their strong political determination to come closer to the European Union; their shared outlook on a prosperous economic model; and their desire to live by the European spirit and with European values.

For the European Union, it is a solemn commitment to support Georgia, the Republic of Moldova and Ukraine, each step of the way, along the road of transforming their countries into stable, prosperous democracies.

These Association Agreements are the logical and natural outcome of a path started more than 20 years ago when these countries became independent sovereign states.

These Agreements are also a landmark in our Eastern Partnership policy that set the objective of achieving political association and economic integration with our partners, who were willing and ready to do so.

The Agreements we are signing today are the most ambitious the European Union has entered into so far. They will enable our partner countries to drive reforms, to consolidate the rule of law and good governance; and to give an impetus to economic growth in the region by granting access to the world's largest internal market and by encouraging cooperation across a wide range of sectors.

But let us be under no illusion. The task ahead is substantial. The Association Agreements' main objective is to help to deliver on the partner countries' own reforms, own ambitions.

To succeed will require strong political will. It will require effective coordination within each of the partner governments. It will require each of them to reach out to their parliaments, to opposition, to civil society in order to build a national consensus in favour of the measures required to guarantee a genuine and sustainable transformation. No international agreement can ever replace the momentum and political leadership within the country itself.

Key issues to address to make the reform process successful and irreversible include reforming the judiciary systems and public administration; improving efficiency and transparency; and fighting corruption.

It is also important to state that we are not seeking an exclusive relationship with our three partners, with Georgia, the Republic of Moldova and Ukraine. We believe in open societies, open economies, open regionalism.

These Agreements are positive agreements. They are meant to add more momentum to our partners' established international relations, not to compete with - or intrude in - our partners' relations with any neighbour. These Agreements are for something – they are not against anyone.

We are well aware of our partners' aspirations to go further; and we acknowledge their European choice. As we have stated before, these agreements do not constitute the endpoint of the EU's cooperation with its partners.

Quite the opposite. Signing these Association Agreements with Deep and Comprehensive Free Trade Areas should not be seen as the end of the road, but as the beginning of a journey on which the European Union and these three partner countries are embarking together today.

[CLOCKWISE FROM TOP LEFT]

Global efforts to tackle global problems — at the G20 in Cannes in 2011, at the G8 in Lough Erne in 2013 and at the G8 in l'Aquila in 2009.

[FROM TOP TO BOTTOM]

Private audience with Pope Francis in the Vatican in 2013.

Global realities and human tragedy: visiting Lampedusa after the deaths of over 350 immigrants, with Prime Minister Enrico Letta and Minister Angelino Alfano.

[CLOCKWISE FROM TOP LEFT]

10 years enhancing the dialogue with religious leaders and with philosophical and non-confessional organizations.

Meeting the Dalai Lama. I invited him to one of our meetings with religious leaders in Brussels.

History in the making: meeting in Brussels with the impressive Burmese democracy activist Aung Sang Suu Kyi.

[CLOCKWISE FROM TOP LEFT]

Participating in the 9th summit of the Community of Portuguese Language Countries (Comunidade dos Países de Língua Portuguesa - CPLP) in Maputo, Mozambique, in 2012.

A continent of opportunities: meeting African Union Commission Chairperson Nkosazana Dlamini-Zuma…

… but also of challenges to tackle: coordinating support for Mali with President François Hollande and President Dioncounda Traoré – conference in Brussels in 2013.

Receiving Abdou Diouf, Secretary General of the Organisation internationale de la Francophonie in the Commission in 2008.

[CLOCKWISE FROM TOP LEFT]

Garnering support for development aid — with Bono.

With Bill Gates — true commitment for Development.

With Anthony Lake, Executive Director of UNICEF at the Za'atari refugee camp in Jordan, distributing EU-UNICEF school rucksacks.

[CLOCKWISE FROM TOP LEFT]

The Prince of Wales visiting the European Commission in 2008: the fight against climate change was one of the topics of our contacts.

Visiting Greenland in 2007 with Anders Fogh Rasmussen, the Danish Prime Minister, to observe the effects of climate change.

European leaders with President Barack Obama in the difficult climate negotiations in Copenhagen in 2009.

[CLOCKWISE FROM TOP LEFT]

Let's work hard but make it fun!

Silvio Berlusconi never misses an opportunity to tell a joke.

A moment of relaxation for the French-German axis at the G8/G20 summits in Canada (with Nicolas Sarkozy, Angela Merkel and Herman Van Rompuy) in 2010.

Watching as Prime Minister David Cameron and Chancellor Angela Merkel embrace following the overtime shootout of the Chelsea vs. Bayern Munich Champions League final, G8 at Camp David.

Like! Making friends with Mark Zuckerberg at the "e-G8" event in Deauville in 2011.

[CLOCKWISE FROM TOP LEFT]

Culture is what Europe is all about: composer Arvo Pärt showing me his house and music together with Estonian Prime Minister Taavi Rõivas; and curator Rem Koolhaas showing me around the Venice Biennale.

Delivering my Honorary Doctorate speech at University College Cork - National University of Ireland, Cork, in 2014. Universities embody the search for knowledge. During my mandate I visited more than thirty all over Europe.

With Olafur Eliasson in his studio in Berlin: Contributing to the cultural debate on the New Narrative for Europe.

Communications from the European Commission/ official documents

Working together for growth and jobs — A new start for the Lisbon Strategy

COMMUNICATION TO THE SPRING EUROPEAN COUNCIL FROM PRESIDENT BARROSO IN AGREEMENT WITH VICE-PRESIDENT VERHEUGEN

BRUSSELS, 2 FEBRUARY 2005

COM(2005) 24

Foreword

Growth and jobs: A New Start for the Lisbon Strategy

Just think what Europe could be. Think of the innate strengths of our enlarged Union. Think of its untapped potential to create prosperity and offer opportunity and justice for all its citizens. Europe can be a beacon of economic, social and environmental progress to the rest of the world.

It is in this spirit of realistic optimism that the new European Commission has put together our policy recommendations for the Mid-Term Review of the Lisbon Strategy – our ambitious agenda for reform launched by the European Council in March 2000.

Europeans have every reason to be positive about our economic potential. The successes of the second half of the 20th century have left a strong legacy. After half a century of peace we have one of the most developed economies in the world united together in a unique political Union of stable and democratic Member States. That Union has created a Single Market underpinned for participating members by a single currency that consolidates economic stability and deepens the potential of economic integration. We have consolidated a unique participative social model. Our standards of basic education are high and the science base is historically well developed. Europe is home to dynamic and innovative companies with extraordinary competitive strength. At their best, they are demonstrating a remarkable capacity for renewal. We have made more progress towards sustainable development than any other region of the world.

We have done this by acting in partnership – Europe's institutions, government and administrations at a national, regional and local level, our social partners, civil society – all moving together towards a common goal.

This legacy represents a substantial down-payment towards the vision that binds us together; a vision, confirmed in the Constitution, of ensuring "the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress and a high level of protection and improvement of the quality of the environment".

The past 50 years have seen extraordinary progress, but in a changing world Europe cannot stand still. This is why five years ago Heads of State and Government signed up to an ambitious programme of change. They committed themselves to making the European Union the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.

Today, we see that progress has at best been mixed. While many of the fundamental conditions are in place for a European renaissance, there has simply not been enough delivery at European and national level. This is not just a question of difficult economic conditions since Lisbon was launched, it also results from a policy agenda which has become overloaded, failing co-ordination and sometimes conflicting priorities. For some this suggests that we should abandon the ambition of 5 years ago. The Commission does not agree. The challenges we face are even more urgent in the face of an ageing population and global competition. Unless we reinforce our commitment to meeting them, with a renewed drive and focus, our model for European society, our pensions, our quality of life will rapidly be called into question.

The need for urgent action is confirmed by the report from the High Level Group chaired by Wim Kok last November. It identifies a daunting challenge. According to Kok, *"The Lisbon strategy is even more urgent today as the growth gap with North America and Asia has widened, while Europe must meet the combined challenges of low population growth and ageing. Time is running out and there can be no room for complacency. Better implementation is needed to make up for lost time"*. Faced with this challenge Europe needs to improve its productivity and employ more people

On current trends, the potential growth of the European economy will halve over the coming decades and reach just over 1% per year.

Europe's performance has diverged from that of our competitors in other parts of the world. Their productivity has grown faster and they have invested more in research and development. We have yet to put in place the structures needed to anticipate and manage better the changes in our economy and society. And we still need a vision for society which can integrate both the ageing and the young, particularly for the development of our workforce, where current dynamics cast a shadow over both long-term growth and social cohesion.

The Commission has risen to this challenge in presenting it proposals for the Union's Strategic Objectives, '*renewed growth is vital to prosperity, can bring back full employment and is the foundation of social justice and opportunity for all. It is also vital to Europe's position in the world and Europe's ability to mobilise the resources that tackle many global different challenges*'.

We need a dynamic economy to fuel our wider social and environmental ambitions. This is why the renewed Lisbon Strategy focuses on growth and jobs. In order to do this we must ensure that:

- Europe is a more attractive place to invest and work
- Knowledge and innovation are the beating heart of European growth
- We shape the policies allowing our businesses to create more and better jobs

Making growth and jobs the immediate target goes hand in hand with promoting social or environmental objectives. The Lisbon Strategy is an essential component of the overarching objective of sustainable development set out in the Treaty: improving welfare and living conditions in a sustainable way for present and future generations. Both Lisbon and the Sustainable Development Strategy contribute to ensuring this goal. Being mutually reinforcing, they target complementary actions, use different instruments and produce their results in different time frames.

The Commission is fully committed to sustainable development and to modernising and advancing Europe's social model. Without more growth and jobs this will not be possible. Our Sustainable Development Strategy and our Social Agenda have been under review and proposals, ahead of the Spring European Council, will be presented in the coming weeks. In addition, we have to continue working with our international partners to address global macro-economic unbalances, as boosting growth is as beneficial to our partners as to the Union.

"Lisbon" therefore requires immediate action and the case for acting together in Europe is strong.

The costs of not doing so are large and quantifiable. The 'costs of non-Europe' have been substantiated through a large volume of academic evidence. One can argue with the figures. But not achieving "Lisbon" does have a cost. The best evidence can be found in the widening gap of Europe's growth potential compared to other economic partners. However, the potential gains from wider and deeper economic integration in an enlarged Europe are massive.

This mid-term review sets out how we can help Europe to meet its growth and jobs challenge. It launches the idea of a Partnership for Growth and Jobs, supported by a Union Action Programme and National Action Programmes containing firm commitments. It builds on three central concepts:

- First, **Europe's actions need more focus**. We must concentrate all our efforts on delivering on the ground policies that will have greatest impact. This means keeping existing promises, building on the reforms already underway in every Member State and launching new action where it is needed to keep us on target. It requires a rigorous prioritisation on the part of the Commission and must be anchored in the firm support of the European Council and the European Parliament.
- Second, we have to **mobilise support for change**. Establishing broad and effective ownership of the Lisbon goals is the best way to ensure words are turned into results. Everyone with a stake in Lisbon's success and at every level must be involved in delivering these reforms. They must become part of national political debate.

- Third, we need to **simplify and streamline Lisbon**. This means clarifying who does what, simplify reporting and backing up delivery through Union and National Lisbon Action Programmes. There should be an integrated set of Lisbon "guidelines" to frame Member State action, backed up by only one report at EU level and only one report at national level presenting the progress made. This will significantly reduce the national reporting burden placed on Member States.

All this must be set against the backdrop of wider reforms. Our ambition for change must be matched by the necessary resources at both EU and national level.

Sound macroeconomic conditions are essential to underpin a credible effort to increase potential growth and create jobs. The changes proposed to the European Union's stability and growth pact – the rules at EU level that govern national budgetary policies – should further stabilise our economy, while ensuring that Member States can play a full role in creating conditions for long-term growth.

At a European level, the debate on the future financial framework for the Union up to 2013 ("the Financial Perspectives") must draw the consequences of our Lisbon ambition, supporting Lisbon priorities within the future EU budget. We must provide the support and investment a modern, knowledge-economy needs, use our resources in ways which help us to adapt to changing economic and social conditions, and operate programmes which provide the right incentives for Member States to focus their own national public spending on Lisbon objectives. The Commission's proposals for the Financial Perspectives reflect these priorities.

If we can match ambition, resources and good ideas; if we can transform them by the end of the decade into lasting change on the ground; and if we can support Lisbon by closing the gap on investment in our economy and launching a new drive for stronger cohesion across our continent then we can bring our Lisbon goals back into sight.

This is the new start that Europe needs.

Executive Summary

Five years ago the European Union launched an ambitious agenda for reform. Over the last year the Commission has been reviewing the progress made. This has led to a vigorous debate at European and national level amongst all those with an interest in Lisbon's success. In addition, the Commission has benefited from the work of the High Level Group chaired by Wim Kok, which reported last November. Today, there is general consensus that Europe is far from achieving the potential for change that the Lisbon strategy offers. While both the diagnosis and the remedies are not contested, the reality is that not enough progress has been made.

This Report, at the mid-point stage of Lisbon, now sets out how we can work together for Europe's future and put the Lisbon agenda back on track.

The renewed Lisbon Strategy – what will change?

The Commission proposes a new start for the Lisbon Strategy, focusing our efforts around two principal tasks – **delivering stronger, lasting growth and creating more and better jobs**. Meeting the Europe's growth and jobs challenge is the key to unlocking the resources needed to meet our wider economic, social and environmental ambitions; meeting those wider goals will anchor the success of our reforms. For this to be possible, sound macroeconomic conditions are crucial, in particular the pursuit of stability-oriented macroeconomic policies and of sound budgetary policies.

1. Ensuring delivery

Delivery is the main issue for the Lisbon Strategy at both European and national level. The **implementation of the reform agenda requires a renewed Partnership for growth and jobs.**

As regards the EU level, the **Commission** will play its central role of initiating policy and ensuring implementation.

In parallel, **Member States** must deliver the agreed backlog of Lisbon reforms. This should be backed up by National Lisbon Programmes – setting out how they will do this (*see governance below*).

2. A renewed Lisbon Action Programme

This Report does not attempt to rewrite the Lisbon strategy, but it does identify new actions at European and national level which will help to see our Lisbon vision is achieved.

A more attractive place to invest and work

- Extend and deepen the internal market
- Improve European and national regulation
- Ensuring open and competitive markets inside and outside Europe
- Expand and improve European Infrastructure

- We must extend and deepen the internal market. Member States must improve **implementation of existing EU legislation** if businesses and consumers are to feel the full benefits. In a number of Member States, key markets like telecoms, energy and transport are open only on paper – long after the expiry of the deadlines to which those Member States have signed up.
- Key reforms are still needed to **complete the single market** and should be given specific attention: financial services markets, as well as services in general, the REACH proposal, a common consolidated corporate tax base as well as the Community Patent.
- The regulatory climate must improve. In March the Commission will launch a **new regulatory reform initiative**, and we will draw on outside expertise to advise us on the quality and methodology of how we carry out impact assessments.
- Competition rules must be applied proactively. This will help to boost consumer confidence. **Sectoral screenings of the barriers to competition** will be launched in sectors such as energy, telecoms and financial services.
- European businesses also need open global markets. The Union will press hard for **completion and implementation of the Doha Development Round**, as well as progress on other bilateral and regional economic relationships.

Knowledge and innovation for growth

- Increase and improve investment in Research and Development
- Facilitate innovation, the uptake of ICT and the sustainable use of resources
- Contribute to a strong European industrial base

- Public authorities at all levels in the Member States must work to support innovation, **making a reality of our vision of a knowledge society**. The Union's continued focus on areas such as the information society, biotechnology and eco-innovation should help them to do this.
- More investment by both the **public and private sector spending on research and development**. At EU level, we need the early adoption by the European Parliament and Council of the next **Research Framework programme** and of a **new programme for competitiveness and innovation**. These will be presented in April.
- As part of a major **reform of State Aid policy** starting later this year, Member States, regional and other public actors will have more scope to support research and innovation, particularly by the EU's small and medium-sized businesses.
- Spreading knowledge through high quality education system is the best way of guaranteeing the long-term competitiveness of the Union. In particular, the Union must ensure that our universities can compete with the best in the World through the completion of the European Higher Education Area.
- The Commission will propose the creation of a "**European Institute of Technology**".
- The Commission will support and encourage **Innovation Poles** designed to help regional actors bring together the best scientific and business minds with the right resources to get ideas from the lab and into the workshop.
- The Commission and Member States must step up their **promotion of eco-innovation** which can bring substantial improvements to our quality of life as well to growth and jobs, for example in areas such as sustainable resource use, climate change and energy efficiency.
- Partnering with industry will also be fostered by **European Technology Initiatives**, which build on the experience of the Galileo satellite navigation system. The first of these should start to appear in 2007 once the next Research Framework Programme is up and running.

Creating more and better jobs

- Attract more people into employment and modernise social protection systems
- Improve the adaptability of workers and enterprises and the flexibility of labour markets
- Investing more in human capital through better education and skills

- The **Social Partners are invited to develop a joint Lisbon action programme** ahead of the Spring 2005 European Council identifying their contribution to the Lisbon goals.
- Member States and the social partners must **increase efforts to boost the level of employment** particularly by pursuing active employment policies which help people in work and provide incentives for them to remain there, developing active ageing policies to discourage people from leaving the workforce too early, and by modernising social protection systems, so that they continue to offer the security needed to help people embrace change.
- The future of Europe and the future of the Lisbon Strategy is closely linked to **young people**. The Union and the Member States must ensure that the reforms proposed help to give them a first chance in life and equip them with the skills needed throughout their lives. The Union also needs to develop its priorities in responding to the demographic challenge that we face.
- Member States and the social partners must improve the **adaptability of the workforce and of businesses as well as the flexibility of labour markets** to help Europe adjust to restructuring and market changes.
- In the face of a shrinking labour force, we need **a well-developed approach to legal migration**. The Commission will present a plan before the end of 2005 on the basis of the on-going public consultation**.**
- Europe needs **more and better investments into education and training**. By focusing at European and national level on skills and life-long learning it will be easier for people to move to new jobs. This should be backed up by the adoption this year of the **Life Long Learning Programme** at EU level and in 2006 the presentation of national Life Long Learning strategies by the Member States.
- Europe also needs a **more mobile workforce**. Mobility within the Union will also be helped by the early adoption of the pending framework for **professional qualifications.** The Commission will make proposals during 2006 to simplify mutual **recognition of qualifications**. Member States should accelerate the removal all restrictions on the mobility of workers from the countries that have recently joined the Union.
- Regional and local authorities should be designing projects which take us closer to our Lisbon ambition. The **next generation of Structural Funds** (including those for rural development) are being reshaped with this in mind – focusing on how it can help to deliver growth and jobs at a local level.

3. Improving Lisbon governance

The governance of the **Lisbon Strategy needs radical improvement to make it more effective and more easily understood**. Responsibilities have been muddled between the Union and its Member States. There are too many overlapping and bureaucratic reporting procedures and not enough political ownership. 375

To clarify what needs to be done and who is responsible the Commission will bring forward a **Lisbon Action Programme**.

In addition, the Commission is proposing an integrated approach to **streamline the existing Broad Economic Policy and Employment Guidelines, within a new economic and employment cycle**. In future, an integrated set of Guidelines alongside the Lisbon Action Programme will be used to move the reform agenda forward. These will cover macro-economic policies, employment and structural reforms. In response, Member States are expected to adopt National Action Programmes for growth and jobs, backed up by commitments and targets, after broad discussion at a national level.

To bring all this together Member States should appoint a "**Mr" or "Ms Lisbon" at government level.**

Reporting will also be simplified. There will be a single Lisbon report at EU and at national level on the progress made. This new reporting process will provide a mechanism through which the European Council and the European Parliament can focus on key policy issues without being encumbered by the multitude of sectoral reports which are currently part of the annual cycle.

This approach will make it easier for the European Council to give practical guidance each spring and for the Commission to play its role of monitoring progress towards the Lisbon goals, offering encouragement and proposing additional action to keep Lisbon on track.

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On this basis, the Commission recommends to the European Council to:

Launch a new Partnership for Growth and Jobs

Endorse the Community Action Programme and call for Member States to establish their own National Action Programmes

Approve the new arrangements for governance of the Lisbon Strategy set out in this Report, in order to improve the effectiveness of policy delivery at Community and national level and to encourage a real debate and genuine political ownership of our Lisbon goals.

1. Growth and jobs centre stage

The Lisbon agenda was meant to unlock Union's potential…

The Single Market, the euro, the recent enlargement of the Union show the **potential of the Union has to achieve ambitious goals**. Over half a century the Union has built peace and prosperity. It has taken a changing economic, social and political landscape in its stride. It has done this by setting common goals and working together to achieve them; the Union and the Member States, Governments and civil society, business and citizens. This same dynamism drove the launch of the far-reaching agenda for reform in March 2000 at the Lisbon European Council. It mapped out a path towards a competitive and inclusive, knowledge-based, economy, offering a European response to the urgent challenges our continent faces.

…but not enough progress has been made.

Today, we see that combination of economic conditions, international uncertainty, slow progress in the Member States and a gradual loss of focus has allowed Lisbon to be blown off course. Yet the challenges if anything have become more urgent in the face of global competition and an ageing population; factor which are even more apparent today than five years ago. This assessment is shared by the Report presented by the High Level Group chaired by Wim Kok[6]. It stressed Europe's **insufficient progress** in reaching the Lisbon strategy's objectives. In response, we need to restore confidence in Europe's ability to create the conditions to meet its objectives. Europe can build on its rich tradition and diversity, its unique social model and draw further strength from its recent enlargement which makes it the largest single market and biggest trading block in the world.

Growth and jobs are the next great European project.

The most important conclusion of the Kok report is that "the promotion of growth and employment in Europe is the next great European project". The Commission proposes to refocus the Lisbon agenda on actions that promote **growth and jobs** in a manner that is fully **consistent with the objective of sustainable development**. The actions falling under this strategy should reinforce the Union potential to meet and further develop our environmental and social objectives. However, the challenge is to define now a strategy that addresses the areas in which Europe is not performing well (for example, our stagnant growth and insufficient job creation).

This requires a renewed partnership.

This strategy must be taken forward through a renewed partnership between the Member States and the Union – with the full involvement of the social partners. The new Lisbon agenda is necessarily broad but a limited set of policy priorities will be central to its success. We must focus on these to ensure the success of the whole. Delivery will be critical and improvements of the existing delivery mechanisms are urgently required. This calls for a streamlined and effective working method to implement the strategy which binds together the Union and the Member States. For this to be possible, the Lisbon agenda must be owned by all stakeholders at EU, national, regional and local level: Members States, European citizens, parliaments, social partners and civil society and all Community institutions. They should all contribute to construct Europe's future. After all, everyone will benefit from the future that the Lisbon agenda is trying to shape. The renewed Lisbon strategy is about tapping this potential for our citizens. It is about opportunity and a common vision for progress.

Sound macroeconomic conditions are the starting point for success.

6 Report from the High Level Group on the Lisbon Strategy, chaired by Wim Kok, November 2004, http://europa.eu.int/growthandjobs/index_en.htm.

Sound macroeconomic conditions and policies

Sound macroeconomic conditions are essential to underpin a credible effort to increase potential growth and create jobs. In particular, the continued pursuit of stability-oriented macroeconomic policies and of sound budgetary policies will be crucial. Governments must, whilst maintaining or pursuing sound public finances maximise the contribution to growth and employment.

The changes proposed to the European Union's stability and growth pact – the rules at EU level that govern national budgetary policies – should further stabilise our economy, while ensuring that Member States can play a full role in creating conditions for long-term growth.

Productivity and employment

The Lisbon strategy gives equal importance to increasing both employment and productivity, through enhanced competitiveness.

More and better jobs…

Labour markets must be allowed to function better, providing incentives for people to work and for businesses to take them on, and to create more and better jobs. This will require significant investment in human capital, and greater adaptability of the workforce in more inclusive labour markets.

…enhanced competitiveness through productivity growth …

Productivity growth has slowed down markedly in the EU. Reversing this trend is the major competitiveness challenge facing the Union. At the same time, we must aim at lasting productivity increases in all key sectors of the economy. Together with improving the skills of the labour force, stronger investments and use of Information and Communication Technologies (ICTs) across the economy, a healthy competitive environment and the right balance of regulation are of paramount importance to boosting productivity. However, Lisbon's overburdened list of policy objectives has obscured the importance of these actions which can drive productivity growth. From now on, structural reforms, through such policies, should be pivotal in the renewed Lisbon strategy.

…must go hand in hand.

Productivity growth and increased employment must go hand in hand. We need to avoid the type of jobless growth that has marred the performance of the US economy in the past years. At the same time, we must bring the long term unemployed and people with relatively low skills back into work. This might impact the speed at which our productivity can improve. The strong emphasis on knowledge, education and innovation in our renewed Lisbon strategy will give people the opportunity to climb the productivity ladder and guarantee that overall our productivity grows quickly.

Open international markets matter.

The **opening of international markets** and the strong growth of newly industrialising economies will make a significant contribution to growth and jobs. However, this will only happen if we can ensure a deeper and more rapid process of structural adjustment of our economy to reallocate resources to sectors where Europe has a comparative advantage. Facilitating change to more competitive sectors and better quality jobs is therefore critical to the success of the renewed Lisbon strategy.

The responsibility must be shared between the EU and national level.

Against the backdrop, pushing forward our policy agenda relies on action at both Union and national level. Success depends on shared responsibilities and shared ownership. This is why a partnership is indispensable.

2. Building a European partnership for growth and employment

Growth and jobs – the first example of our Partnership for European renewal.

The Commission has just recently proposed building a partnership for European renewal[7]. This forms part of the strategic programme for 2005-2009 and is geared to enabling the Member States, the European Union and the social partners to work together towards the same aim. As already stated, growth and jobs will spearhead this new partnership. All the input so far clearly indicates a real determination to work towards this renewed ambition.

To succeed we must take Lisbon forward by ….

7 COM(2005) 12, "Strategic objectives 2005-2009. Europe 2010: a partnership for European renewal – Prosperity, solidarity and security".

The Commission is therefore calling on this March's European council to relaunch the Lisbon Strategy by way of a European Partnership for jobs and growth. The partnership will have **one aim and one only: to facilitate and speed up delivery of the reforms needed to boost growth and employment**.

It must bring solid added value if it is to produce tangible and swift results:

…mobilising support…

- **Getting the different players to work together.** Mobilisation and collective effort are the key elements of the Partnership. The challenges are common challenges and affect our model of development. We have to rise to them together – after all, everyone's individual input is essential to ensure collective success. The scale of the challenges is such, and our economies so interdependent, that no Member State is capable of facing up to the task alone.

…spreading ownership…

- **Making sure** that these objectives and reforms are **taken on board** by all the various players. The Lisbon Strategy failed to commit the key players sufficiently in terms of delivery, particularly at national level. Mobilisation is possible only if the various players feel that the policies proposed concern them, and that they are truly involved in the decision-making and implementation process. The Member States should therefore be called on to produce a single national action programme – following broad consultation – and a single national report on the Lisbon Strategy (see point 4).

…and strengthening priorities.

- **Refocusing** efforts on priority and visible objectives, backed up by tangible measures impinging on growth and jobs. This is fundamental if Lisbon is to succeed. It is by pinpointing clear priorities and concrete action that we shall get people rallying behind it and committing themselves to it.

For this partnership to deliver result, it requires, at a national level, the full commitment of every partner.

3. Actions to deliver growth and jobs

3.1. A Lisbon Action Programme for the Union and the Member States

Three main areas…

At the heart of the proposed partnership for growth and jobs is a **Lisbon Action Programme.** It sets out priorities which will help the Union and its Member States drive up productivity and create more and better jobs. It covers actions in three main areas:

- Making Europe a more attractive place to invest and work,
- Knowledge and innovation for growth,
- Creating more and better jobs

…will simplify our approach…

This provides a stronger focus for the renewed Lisbon strategy. It gives a clearer sense of priorities. It responds to the criticisms that Lisbon had too many priorities and was too complex for people to really understand what Lisbon was about.

…setting out who does what, by when and how we will judge progress.

The Lisbon Action Programme – building on the experience of the Internal Market Programme – identifies responsibilities, sets deadlines and measures progress. In particular, it makes a clear distinction between actions at Member States and European Union level. The most important actions are presented in this chapter[8].

All EU Institutions have a role to play.

As regards the EU level, the Commission will play its central role of initiating policy and ensuring implementation. It will do so working closely with the Parliament and Council, as well as drawing on the expertise of other EU institutions such as the European Economic and Social Committee, the Committee of the Regions or in the financial field the European Investment Bank.

Member States must make firm commitments.

8 SEC(2005) 192, "Lisbon Action Plan incorporating EU Lisbon Programme and recommendations for actions to Members States for inclusion in their national Lisbon Programmes", http://europa.eu.int/growthandjobs/index_en.htm.

As regards the national level, the Commission will be a facilitator through benchmarking, financial support, promotion of social dialogue or by setting up best practices. But success on the ground is where the first phase of Lisbon has fallen down. This is why the Commission is setting out where Member States, taking account of their specific situation, are expected to make firm commitments within their own national action programmes. These should cover concrete measures, including a time-table and progress indicators. The Commission will continue to monitor and assess the progress made, using the new method of reporting and coordination described below.

3.2. Making Europe a more attractive place to invest and work

Boosting growth and jobs requires increasing Europe's attractiveness as a place to invest and work. The European Union and the Member States must focus their actions on key levers.

We need a better environment for our small and medium-sized businesses.

Action here is of **particular importance for Europe's small and medium sized businesses (SMEs)** which constitute 99% of all enterprises and two third of employment. There are just too many obstacles to becoming an entrepreneur or starting a business, and, therefore, Europe is missing opportunities. Encouraging more entrepreneurial initiative implies promoting more entrepreneurial attitudes. The balance between risk and reward associated with entrepreneurship should be reviewed. The stigma of failure complicates a fresh start and even deters many from starting a business in the first place. Finally, in Europe, despite progress during the first five years of Lisbon, there is still insufficient risk capital available to start up innovative young businesses and current tax rules discourage the retention of profits to build up equity.

We need to extend and deepen the internal market...

3.2.1. Extend and deepen the Single Market

Completing the Single Market, particularly in the area of services, regulated professions, energy, transport, public procurement and financial services remains a crucial task. Providing high quality services of general interest to all citizens at affordable prices is also necessary. A healthy and open services sector is increasingly crucial to growth and jobs in the European economy. The services sector has been responsible for almost all the new jobs created in the EU in the period 1997-2002. Services now account for 70% of EU value added. Freeing up the provision of these services will stimulate growth and generate employment. A net increase of 600.000 jobs could be achieved if the services sector was freed up.

These are areas which can deliver a real growth and job dividend and are of immediate relevance for consumers. In many of these areas, Lisbon has already delivered much of the legislation, but Member States are letting their businesses and citizens down by dragging their feet in implementation and enforcement.

…spur investment and innovation.…

Removing remaining barriers will create new opportunities for market entrants and the resulting competition will spur investment and innovation. This is all the more important against a backdrop of stagnating intra-EU trade in goods and stalling price convergence.

Making the most of services of general economic interest

Public services have a central role in an effective and dynamic single market. The Commission published in May 2004 a White Paper setting out principles underpinning EU policies in the area of services of general interest and addressing key issues such as the interface with internal market, competition and state aid rules, and the selection of the provider and consumer rights. The Commission will return to this issue later in 2005.

…and national administrations have a central role.

Finally, Member States should ensure that their own regulatory systems are better attuned to the needs of an EU-wide market. It is crucial to ensure and, where necessary, improve of the role of national administrations in providing the right market conditions (e.g. greater use of on-line services (e-government), tackling corruption and fraud). Moreover, much can be done in the area of taxation to make the Single Market work better and to reduce the existing barriers and the administrative burden for entrepreneurs.

Single market legislation

The **Financial Services Action Plan** was one of the real success stories of the first phase of the Lisbon Strategy: legislative measures were delivered on time; the European Institutions worked well together and innovative solutions were found to fill in the detail of the ambitious new framework. What counts now is to ensure the rules are consistently applied across the Union. At the same time, the "leftovers" from the Financial Services Action Plan should be addressed over the coming years. Action will be taken only if broad consultation with interested parties and impact assessment demonstrates a clear value-added

In order to build consensus on the **Services Directive** and to ensure the smooth discussion of this important proposal, the Commission will work constructively with the European Parliament, the Council and other stakeholders in the run up to the adoption of the first reading by the Parliament. We will focus particularly on concerns raised on areas such as the operation of the country of origin provisions and the potential impact for certain sectors.

On the **REACH directive**, the Commission stresses the need to arrive at a decision which will be consistent with the Lisbon goals as regards the competitiveness of the European industries and encouraging innovation, and which will achieve a marked improvement in health and environment to the benefit of Europe's citizens. The Commission signals its willingness to cooperate fully with Parliament and with Council in search for pragmatic solutions to key issues which have emerged in the examination of REACH in order to improve its workability.

In order to overcome the obstacles posed by 25 different sets of rules governing how companies are taxed when they operate in several Member States, the Commission is taking work forward to try to achieve an agreement on a **common consolidated corporate tax base** and its implementation. This will reduce a significant overhead to doing business in different countries, while leaving Member States free to set the corporate tax rate.

The **Community Patent** has become a symbol of the Union's commitment to a knowledge-driven economy. This remains an important proposal and rapid progress towards a workable solution that supports innovation must be pursued.

Competition is of fundamental importance.

3.2.2. Ensure open and competitive markets inside and outside Europe

Competition is of fundamental importance for the whole partnership for growth and jobs. **EU competition policy has played a key role in shaping European competitive markets,** which have contributed to increasing productivity. This will continue in the enlarged Europe in particular through proactive enforcement and a state aid reform regarding innovation, R&D and risk capital. The Commission will, therefore, continue to pursue its competition policies, which can also help in identifying regulatory and other barriers to competition. **Enquiries in key sectors**, like financial services and energy, will be undertaken to ascertain the underlying reasons why markets do not fully function in such sectors.

Member States must reduce and redirect State aid.

Member State should reduce and redirect State Aids to address market failures in sectors with a high growth potential as well as to stimulate innovation. These initiatives should clearly target the needs and burdens for small and medium sized enterprises. The Commission will launch a major overhaul reform of State aid rules during the course of the year (see section 3.3.1).

EU business also needs open global markets.

European companies are facing more and more international challenges and EU trade policy needs to ensure that they can have access to third markets and compete on a fair basis with clear rules. In summary, open markets, both in Europe and globally, are crucial to generating higher growth rates.

Growth and jobs: The global dimension

The completion of an ambitious agreement in the DOHA round, therefore, remains the fundamental objective. This should be complemented by bilateral and regional Free Trade Agreements, including with Mercosur, the Gulf Co-operation Council.

There should be a fresh drive for regulatory and administrative convergence at the international level, in particular in transatlantic trade relations. Ensuring that standards converge as widely as possible at the international level – whether this is with our major trading partners such as the USA or with rapidly growing markets in Asia such as China, India and with other countries in the EU neighbourhood – holds out the potential for significant cost reductions and productivity growth. The Commission will actively pursue this agenda.

The right regulatory framework helps business and builds consumer confidence.

3.2.3. Improve European and national regulation

Cutting unnecessary costs, removing obstacles to adaptability and innovation and more competition and employment friendly legislation will help create more conducive conditions for economic growth and improved productivity. This comprises measures such as simplification, well shaped legislation and efforts to reduce the burden of administrative costs. The right regulatory framework will also strengthen consumer confidence and help them contribute to growth. Regulatory burdens also disproportionately affect SMEs which usually have limited resources to deal with the administration such rules often imply.

We must remove unnecessary burdens

A new approach to regulation should seek to remove burdens and cut red tape unnecessary for reaching the underlying policy objectives. Better Regulation should be a cornerstone for decision making at all levels of the Union.

Better Regulation

Better regulation has a significant positive impact on the framework conditions for economic growth, employment and productivity by improving quality of legislation, thereby creating the right incentives for business, cutting unnecessary costs and removing obstacles to adaptability and innovation.

Member States should also pursue their own better regulation initiatives, notably in respect of sectors where Europe's productivity growth is clearly lagging behind, such as the services sector.

The Commission will ambitiously pursue this objective and launch a major new initiative before the Spring Council, which includes:

Better assessing the effect of new legislative/policy proposals on competitiveness, also through its Impact Assessment instrument.

Drawing on outside expertise to advise on the quality and methodology of how to carry out impact assessments.

The cumulated burden of regulation, difficult market access and insufficient competitive pressure can hold back innovation in sectors that have a high growth potential. The Commission will, therefore, launch a series of sectoral reviews with a view to identifying growth and innovation inhibiting obstacles in key sectors. A special attention will be given to burdens for small and medium sized enterprises.

A modern infrastructure facilitates trade and mobility.

3.2.4. Expand and improve European infrastructure

The Single Market needs to be equipped with **modern infrastructure** to facilitate trade and mobility. Progress here has been disappointingly slow and this now needs to be addressed. **A modern infrastructure is an important competitiveness factor in many enterprise decisions**, affecting the economic and social attractiveness of locations. It guarantees mobility of persons, goods and services throughout the Union. Also, infrastructure investments especially in the new Member States will encourage growth and lead to more convergence, in economic, social and environmental terms. Given the long term effects of infrastructure, decisions should significantly contribute to sustainability. Similarly, fair and efficient systems of infrastructures pricing will serve this objective.

The opening up of energy and other network industries must be fully implemented.

Finally, we need to ensure that the opening to competition of sectors like energy and other network industries, which has already been agreed, is now fully implemented on the ground. These measures offer an essential lever for ensuring the best use of physical infrastructure with both industry and consumers enjoying the benefits, wherever their location, of lower prices, greater choice and a guarantee of high quality services of general interest to all citizens.

European infrastructures

Modern transport and energy infrastructures throughout the European Union territory are a prerequisite for reaping the benefits of a re-invigorated Lisbon strategy. Member States must deliver on their commitments to start work on **45 "quick start" cross-border projects** for transport and energy. European coordination on a project by project basis must be matched by a clear commitment on the part of Member States concerned to launch a planning and financing process. Member States should report on progress made as part of their national action programmes.

3.3. Knowledge and innovation for growth

Knowledge drives productivity growth.

In advanced economies such as the EU, knowledge, meaning R&D, innovation and education, is a key driver of productivity growth. Knowledge is a critical factor with which Europe can ensure competitiveness in a global world where others compete with cheap labour or primary resources.

We must close the EU's R&D investment gap

3.3.1. Increase and improve investment in Research and Development

The EU, however, still invests about a third less than the USA in R&D. 80% of the gap is due to under-investment in research and development from the private sector, notable in ICT. The EU is currently spending only 2% of GDP, barely up from the level at the time of Lisbon's launch. We must achieve faster progress towards the EU target of 3% of GDP for **R&D expenditure**. This requires increased and more effective public expenditure, more favourable framework conditions and powerful incentives for companies to engage in innovation and R&D, as well as more numerous well trained and motivated researchers.

Meeting the 3% R&D target

Progress towards the Lisbon target for EU research and development spending (3% GDP by 2010) is largely in the hands of Member States. In their national Lisbon programmes, Member states should explain the steps which will bring this target in reach. Mobilising more business investment is crucial and Member States should take full advantage of the possibilities that the new State aid framework.

A key building block should also be a co-ordinated European approach to **improve the tax environment for R&D**. This is an increasingly important factor encouraging business to spend more on investment research and development in other countries. This will primarily be important for the growth of high-tech small and medium sized enterprises throughout the Union.

At EU level the **7th research framework programme** will aim strongly boost our industries' competitiveness in key technology areas by pooling and strengthening efforts across the EU and by leveraging private sector investment. The new framework programme will also focus on excellence of the research base through the future **European Research Council**, composed of independent world-class scientists, selecting research projects and programmes on the basis of scientific excellence.

Revision of the State Aids Framework for R&D and Innovation

In the context of the overall reform of State aid rules, a **revision of the existing State Aid Framework for R&D** will be brought forward with the aim of facilitating access to finance and risk capital as well as public financing of R&D and innovation. The Commission will present a communication on the future of State Aid policy before summer 2005. We need to make it easier to provide financial support for research and innovation, particularly for young and innovative companies. Today, limited access to finance is one of the biggest barriers to innovation. Public support should be available where the spill-overs for society at large is significant, while ensuring that competitive conditions are not distorted.

3.3.2. Facilitate innovation, the uptake of ICT and the sustainable use of resources

Universities have a crucial role in creating and spreading knowledge.

Universities' contribution to the creation and dissemination of knowledge throughout the Union must be reinforced. The Commission will come forward with ideas on how to increase their potential and quality in research, science in order to be more attractive and build better links with industry. The Commission will also propose guidelines to improve their research collaboration and technology transfer with industry. It will address the question of how to enable European universities to compete internationally. In many ways, the existing approaches to financing, governance and quality are proving inadequate to meet the challenge of what has become a global market for academics, students and knowledge itself.

EU investment should play its part.

In order to achieve greater synergies between research, structural and cohesion funding, we should invest more in facilities for research and innovation, which enable more regions to participate in EU level research activities.

Innovation Poles

At a regional and local level, we need a greater focus on establishing innovation poles, **bringing together high technology small and medium sized enterprises, universities and the necessary business and financial support**. Member States should exploit the opportunities offered by EU regional and social funds to support regional innovation strategies. This is crucial to exploiting new "centres of excellence", promoted in our research program so that we get more ideas out of the lab and into workshop. This will be facilitated by strengthened links between the regional funds, the research framework programme and the new Competitiveness and Innovation Programme.

National Lisbon action programs should provide a roadmap for such establishing and developing new and existing poles.

The search for knowledge has always been at the heart of the European adventure. It has helped to define our identity and our values, and it is driving force behind our future competitiveness. In order to reinforce our commitment to knowledge as a key to growth, the Commission proposes the creation of a "**European Institute of Technology"** to act as a pole of attraction for the very best minds, ideas and companies from around the World. The Commission will actively explore with the Member States and public and private stakeholders on how best to take this idea forward.

Investment in new technologies…

Innovation is significantly affected by competition and tax policy, as well as the speed with which new technologies are taken up, especially in the context of rapidly changing technology.

…is crucial to push up productivity, while….

More generally, our innovation performance is crucially dependent on strengthening **investment and the use of new technologies, particularly ICTs**, by both the private and public sectors. Information and Communication technologies provide the backbone for the knowledge economy. They account for around half of the productivity growth in modern economies. However, investments in ICTs in Europe have been lower and later than in the United States, especially in service sectors such as transport, retail or financial services.

i2010: European Information Society can stimulate ICT use

While the prime responsibility remains with business and public administrations when making their investment programmes, Europe is helping. A new initiative - **i2010: European Information Society** will stimulate the take-up of ICTs, to continue the *e*Europe agenda which the Lisbon Strategy fostered. It will do this by promoting a clear, stable and competitive environment for electronic communications and digital services; increased research and innovation in ICTs and an Information Society dedicated to inclusion and quality of life.

We must also meet resource and environmental challenges...

Lasting success for the Union depends on addressing a range of **resource and environmental challenges** which if left unchecked will act as a brake on future growth. This goes to the heart of sustainable development. In contrast to Europe, many parts of the world see high rates of economic growth combined with rapid rise in their population. Europe must rise to this challenge and take the lead in shifting towards more sustainable patterns of production and consumption.

…Eco-innovation will hold the key.

Moreover, by getting more output from given inputs innovation leading to productivity growth can also make a significant contribution to ensuring that economic growth is increasingly environmentally sustainable. This is why eco-innovations need to be strongly promoted, notably in transport and energy.

Eco-Innovation

The Commission will step up its promotion of environmental technologies. It will also take necessary steps to promote the development of approaches and technologies that allow the EU to make the structural changes needed for long term sustainability, for example in the areas of sustainable resource use, climate change and energy efficiency. These are needed both for use within the EU and to meet demand in expanding markets worldwide. There is significant potential for economic, environmental and employment synergies from environmental technologies and energy efficiency.

These will be supported by increased research and technology dissemination efforts, including leveraging private finance through the European Investment Bank, to promote the development and uptake of low carbon technologies.

3.3.3. Contribute to a strong European industrial base

A strong industrial base can keep us at the cutting edge of science and technology.

Taking the lead internationally in the field of R&D and innovation creates a first-mover advantage which can be long-lasting, all the more so as technological breakthroughs such as our experience with GSM enable Europe to set international standards. In order to enhance and sustain an economic and technological leadership Europe must have a **strong industrial capacity, particularly by exploiting fully its technological potential.** We need an integrated and anticipative approach based on market driven development of industrial sectors. The synergies from jointly addressing research, regulatory and financing challenges at the European level where for reasons of scale or scope individual member states cannot succeed in isolation to tackle market failures have not always been fully exploited.

Galileo and aeronautics stand as examples of where public-private partnerships have delivered.

The Galileo project and the aeronautics are powerful examples of a successful pooling of European excellence – in both cases bringing significant benefits to the European economy. Such approaches, mobilising public private partnerships, should be developed to tackle cases where the benefits for society are larger than those for the private sector: for example, energy from hydrogen. The relaunch of the Lisbon strategy should create the right conditions for tapping this potential and facilitating the necessary structural change whilst working externally to achieve open markets.

European Technology Initiatives

Industrial competitiveness can be supported by setting up major European technology initiatives mobilising funding from the Union, Member States and industry. The next framework programme for research can drive this process, providing sufficient priority. The objective is to **tackle market failures and to advance concrete product or service developments** on the basis of those technologies that are not only fundamental to Europe's sustainable development model, but will also contribute to industrial competitiveness. Their scale justifies additional EU funding, which in turn will mobilise additional national and private funding. The management would be handled through **public-private partnerships**.

Important examples relate to environment-friendly technologies, such as hydrogen technologies and solar energy. For these projects, Galileo, which will create an important market and numerous jobs, is a good reference point. Increasing the EU's ability to transform technology into concrete products, markets and jobs is a key for the Lisbon success.

The Commission will identify criteria, themes and projects in close cooperation with the main stakeholders (Member States, research community, industry, and civil society) and report to the European Council in June. This process and the subsequent preparation and funding phase will take place within the Framework Programme preparation and adoption process.

3.4. Creating more and better jobs

Europe needs more and better jobs...

Ensuring prosperity and reducing the risks of social exclusion means doing more to give people jobs and make sure they remain in work or education throughout their lives.

…but demographics are putting our employment record under further pressure.

In a context of rapid economic change and intense demographic ageing, creating more and better jobs is not just a political ambition: it is an economic and social necessity. Over the next 50 years Europe will face an unprecedented demographic transition. The total working population will decrease in absolute terms on current demographic trends. Apart from the significant social changes this transition will bring about, it will also put enormous pressure on our pension and social security systems and, if left unchecked, drag down potential growth rates to a paltry 1% per year. In addition, the population of some our Member States could shrink dramatically. The Commission will adopt a green paper to launch a debate on this demographic challenge in order to identify which public policies could be put in place to address it.

Finally, the Commission will propose to **revise the European Employment Strategy in 2005** as an integral part of the new Lisbon Strategy, building on the Lisbon Action Plan.

3.4.1. Attract more people into employment and modernise social protection systems

We must attract more people into the labour force…

While the issue of low birth rates in Europe should be properly addressed as part of a long-term policy, **raising employment levels is the strongest means of generating growth and promoting socially inclusive economies**. The challenge is to attract and keep more people in the labour market through active labour market policies and appropriate incentives. Moving people from unemployment or inactivity back to employment and giving incentives to stay longer in the workforce all require the modernisation of social protection systems. The huge potential of women in the labour market remains to be fully exploited. social partners should be committed to further eliminate the gender pay gap.

…and shape the right policies for both the young and for older workers.

Action is also needed for **young people**, where Europe is still faced with high structural unemployment and high drop out rates from education and for older workers who still start exiting the labour market on a very large scale by the time they reach 55 years of age. Moreover, many people find it difficult to combine work with family life. The provision of better and affordable child care facilities, in particular, could make an important contribution. Legal migration to avoid shortages of specific skills and a mismatch of demand and supply in important segments of the labour market also has a key role to play

European Youth Initiative

In their letter of 29 October 2004, the leaders of France, Germany, Spain and Sweden put forward a proposal for a European Pact for Youth which concentrates on reducing youth unemployment and facilitating entry into the labour market. Finding ways to further combine work and family life as a central element of the Initiative.

The Policy Areas presented in this Communication contain a number of measures central to unleashing the potential of young people. They will be important elements in the revised European Employment Strategy and back-up by EU funding, notably through the European Social Fund. Taken together these measures constitute a genuine European Youth Initiative:

The policy area "Attract more people into employment and modernise social protection systems" proposes measures to reduce **youth unemployment** such as better vocational training and the development of apprenticeships, and measures to ensure that young unemployed people be given particular attention in active labour market policy measures. Also under this heading, actions aimed at improving facilities for childcare and for elderly and disabled as well as extension of parental leave for fathers will contribute to a more harmonious combination of work and family life.

In the policy area "Increase investment in human capital through better education and skills", several measures specifically target the younger generation and aim at **endowing this group with the human capital and the skills needed** in a dynamic knowledge-based economy. Examples of such measures are the increase and improvement in effectiveness of investments in education; the reduction of early school leavers and of low achievers; and increased participation in mathematics, science, technology and engineering studies.

Measures under the heading "Increase and Improve investment in Research and Development" - linked with the ability to increase the amount of human capital in the economy - will also benefit the younger generations by **opening up new career prospects**.

The modernisation of social protection systems is also important.

Member States should **modernise social protection systems** (most importantly pensions and health care systems) and strengthen their employment policies. Member States' employment policies should aim at attracting more people into employment (notably through tax and benefit reforms to remove unemployment and wage traps, improved use of active labour market policies and active ageing strategies); improving the adaptability of workers and enterprises notably through wage developments in line with productivity growth and increased investment in human capital. Increasing healthy life years will be a crucial factor in achieving this objective.

Member States should set national targets for employment…

The Commission is proposing that **Member States fix national employment rate targets for 2008 and 2010** in their National Lisbon Programmes and that they map out which policy instruments they intend to mobilise to reach it. The employment guidelines will assist Member States in selecting the most effective instruments and the Commission will, on this basis, in its Strategic Annual Report assess progress.

Voluntary business initiatives, in the form of corporate social responsibility (CSR) practices, can play a key role in contributing to sustainable development while enhancing Europe's innovative potential and competitiveness.

…and we need the support of the social partners.

Finally, the **social partners** are asked to promote the integration of people excluded from the labour market, including young people. This will not only contribute to the fight against poverty, but also ensure that more people are in work.

3.4.2. Increase the adaptability of workers and enterprises and the flexibility of labour markets

A high degree of adaptability will boost our performance and help people into jobs.

In rapidly changing economies, **a high degree of adaptability is also vital to promote productivity growth and to facilitate job creation in rapidly growing sectors**. Increasingly, new firms and SMEs are major sources of job creation and growth in Europe. More flexibility combined with security will require a greater ability of workers and enterprises to anticipate, trigger and absorb change. Greater adaptability should also contribute to ensuring that wage labour cost developments do not exceed in line with productivity growth over the cycle and reflect the labour market situation. Given differences in labour market institutions and the functioning of labour markets, it is clear that a one–size-fits-all policy would be ineffective and potentially counterproductive. Member States will themselves have to develop the best policy mix.

We must remove barriers to mobility.

In order to target specific problems, the Commission will make proposals to **remove obstacles to labour mobility** arising from occupational pension schemes and work on the co-ordination of admission policy for economic migrants. Adoption of proposed legislation to further mobility in the professions, the adoption of a European Qualifications Framework in 2006 and the promotion of equal opportunities (recast proposal) are also of fundamental importance.

3.4.3. Investing more in human capital through better education and skills.

More investment in education and skills is a further factor.

Structural change, greater labour market participation and productivity growth require a **continued investment in a highly skilled and adaptable workforce**. Economies endowed with a skilled labour force are better able to create and make an effective use of new technologies. Educational attainment in Europe falls short of what might be required to ensure that skills are available in the labour market and that new knowledge is produced that is subsequently diffused across the economy. The emphasis on lifelong learning and knowledge in economic life also reflect the realisation that advancing educational attainment and skills makes an important contribution to social cohesion.

Life long learning is a priority.

The modernisation and reform of Europe's education and training systems is mainly the responsibility of Member States. However, there are certain key actions that must be taken at European level to facilitate and contribute to this process. The proposal for a new **Lifelong Learning programme**, to replace the current generation of education and training programmes from 2007, must be adopted by the legislator by the end of 2005 in order to allow it's effective and timely implementation. It must also be endowed with a budget consistent with its aims. Member States must fulfil their commitment to put in place **Lifelong Learning Strategies by 2006.**

EU funding has a role to play.

The Community will contribute to the objective of more and better jobs by mobilising its expenditure policies. The **Structural Funds** are already being used and geared towards these objectives, but this progress can only be **consolidated through the adoption of the proposals for the new Framework post 2007**. Adequate funding for these policies which would lever regional and national means from the public and the private sector and support the sharing of best practices is required.

Delivering Lisbon: reform of EU cohesion policy and the role of the structural funds

For the next generation of regional development, European Social Fund and cohesion programmes, the Commission proposes a more strategic approach in an effort to ensure that their content is targeted on growth and jobs. Strategic guidelines will be established at Community level by decision of the Council, setting the framework for guidelines at the level of each Member State to be negotiated in partnership and taking account of differing national and regional needs and circumstances.

The future regional programmes and the national employment programmes will seek to target resources notably in the less prosperous regions where Community resources will be concentrated:

on developing more and better jobs through investments in training and in the creation of new activities,

by encouraging innovation and the growth of the knowledge economy by reinforcing research capacities and innovation networks, including the exploitation of the new information and communication technologies and,

on improving the attractiveness of regions through infrastructure provision.

Rural Development policies will also focus more specifically on the creation of growth and jobs in rural areas. Full advantage needs to be taken of the possibilities on the internet and broadband communications to overcome the disadvantages of location.

This should be taken forward by Member States, in partnership with regions and cities.

3.5. The impact on growth and jobs

Lisbon delivers growth in medium- and longer-term.

The policy actions set out in this communication will evolve as Member States detail their national action programmes. While it is not possible, therefore, to provide a comprehensive assessment of the effects of the whole Lisbon Action Programme at this stage, it is now widely recognised that the type of measures envisaged in this Action Programme can make an essential contribution to increasing the growth potential in the medium- and longer-term[9].

Making Europe a more attractive place to invest and work

A Single Market in services could add 0.6% to GDP and increase the employment rate by 0.3%...

The Internal Market Programme is one of the best examples of a Lisbon-type reform leading to a significant impact on growth and employment. For example, the completion of a single market in services should lead to an increase in the GDP level by 0.6% and of employment level by 0.3% in the medium-term. The integration of financial markets could – in the medium to long term – lower the cost of capital for EU companies by about 0.5 percentage points and that this could bring about a 1.1% rise in the level of GDP and 0.5% in the level of employment in the long run.

Knowledge and innovation for growth

…investing in knowledge and education should boost our capacity to innovate, …

Investing in the knowledge should increase the capacity of the EU to innovate and to produce and use new technologies. An increase in the share of R&D expenditures in GDP from 1.9% to 3% (in order to reach the Lisbon target by 2010) would result in an increase of 1.7% in the level of GDP by 2010. Investment in human capital is also necessary because highly skilled people are the ones who are best equipped to work with the most productive capital and to implement organisational changes appropriate for the new technologies. An increase by one year in the average education level of the labour force might add as much as 0.3 to 0.5 percentage points to the annual EU GDP growth rate.

9 See "The costs of non-Lisbon. An issues paper", draft working document of the services of the Commission.

Creating more and better jobs

…and the right approach to employment could raise the participation rate by 1.5%.

Finally, the improvement in the employment performance observed in the latest years is more significant in those countries that have carried out reforms aimed at increasing the participation rate and at better designing active labour market policies and tax and benefit systems. Studies show that such reforms can increase the participation rate by 1 ½ percentage points and combined with wage moderation, they may result in a 1% reduction in the unemployment rate.

The mutually reinforcing nature of these individual steps means that the overall impact could be much higher.

As the above selection illustrates, the individual measures envisaged in the Lisbon Action Programme would have substantial positive economic effects. But the strategy is a comprehensive package of reforms which are mutually reinforcing. The available estimates indicate that it would not be unreasonable to expect the full Lisbon Action Programme, once all its constituent components have been implemented, to increase the current EU potential growth rate bringing it closer to the 3% objective. It would also raise employment by at least some 6 million jobs by 2010.

4. Making the partnership deliver on growth and jobs

We are revamping the way Lisbon is delivered, …

While some progress has been made towards reaching the targets set at the Lisbon European Council in 2000, the overall picture is very mixed. The single biggest challenge we are facing midway towards 2010 is, therefore, to fix the implementation deficit. We need to revamp the delivery process which has become too complicated and is poorly understood. It generates much paper, but little action. Responsibilities between the national and the European level have become blurred. Limited ownership is the result

… through a single national Lisbon programme for growth and jobs,…

To remedy this, the Commission proposes a complete overhaul of how the renewed Lisbon Strategy is implemented:

- **A single National Action Programme for growth and jobs,** adopted by national governments after discussion with their parliaments would help to get ownership and legitimacy at the national level would be strengthened through the involvement of social partners and civil society in the preparation of a national Lisbon programme. This programme sets out the reform actions and targets appropriate to the conditions prevailing in the member states. It should be prepared and adopted by governments following discussions with their national parliaments.

…a Mr or Ms Lisbon in national Governments,

- **Member States would appoint a Mr or Ms Lisbon at government level** charged with co-ordinating the different elements of the strategy and presenting the Lisbon programme.

…a single reporting structure…

- The **national Lisbon programmes** for growth and jobs would become the major reporting tool on economic and employment measures in the context of the Lisbon strategy. This will greatly simplify the myriad of existing reports under the Open Method of Co-ordination (OMC), which the Commission will review.

…alongside an EU Lisbon Programme, and ….

- **Priorities for action at Union level** have been identified and have been set out in a separately published in a Community Lisbon Action Programme. Agreement on their importance is sought to enable rapid progress with decision making and, subsequently, their implementation.

a single integrated package for economic and employment co-ordination.

- The simplification in reporting structures would be mirrored at EU level by **integrating in a single package the existing Treaty based economic and employment co-ordination mechanisms** (under the Broad Economic Policy Guidelines and Employment Guidelines): this will be done in a Strategic Annual report which will be published annually in January[10].

Member States must show their commitment.

Member States. Delivery is the Achilles heel of the Lisbon strategy. The proposals for improving the delivery mechanism could resolve many of the difficulties. But they will only work if there is genuine commitment from Member States.

The European Council sets the direction…

Clear roles would also be assigned at the European level:

The European Council would have overall responsibility for guiding the process. An integrated approach for adopting guidelines for national programmes for growth and jobs as well as for simplified reporting by Member States on implementation will allow even stronger guidance from the European Council.

…drawing on the views of the European Parliament…

The European Parliament would also be involved in this process by giving an opinion on the Strategic Annual report to be taken into account by the Council. Presidents of the Parliament, the Council and the Commission could continue to meet regularly, including before the Spring European Council, to identify how the legislative proposals related to the Community Lisbon Programme can be taken forward in the legislative process. The Commission will also inform the European Parliament on a regular basis about its analysis of progress made and measures adopted by the Member States.

…and the Commission drives the process forward.

The Commission would support the Member States in drawing up their Lisbon programmes and will put the necessary structures in place to facilitate this process. It would evaluate the targets and measures adopted by the Member States, draw attention to underlying difficulties and use its strategic annual report to ensure the Union remains on track. This would be complemented by the use of its powers under the Treaty to ensure correct transposition of legislation and that Member States' Lisbon commitments are kept.

The Social Partners should play a special role.

The role of the **social partners** will also be vital. Their support will be crucial in areas such as active labour market policies, life long learning or anticipating restructuring in industrial sectors. Therefore, the Commission invites them to draw up their own multi-annual Lisbon programme for growth and jobs using the powers granted to them under the Treaty. The regular Tripartite Summit should be dedicated to the evaluation of progress made and to the exchange of best practices within the Member States. The Partnership for growth and jobs is, therefore,

10 SEC(2005) 193, "Delivering on Growth and Jobs: a new and integrated economic and employment co-ordination cycle in the EU", http://europa.eu.int/growthandjobs/index_en.htm.

fully consistent with the ambitions of the partnership for change adopted by the social partners at the Tripartite Summit in March 2004.

This new 3 year cycle starts in 2005.

This new 3 year cycle would be launched in 2005 with new more general economic and employment guidelines being set, allowing member states to tailor make their national Lisbon programmes to cater for their national situations. A review would take place in 2008. A detailed overview of the new approach to governance is being published separately.

This structures our partnership and ensures change will happen.

In summary, the proposals to make the partnership deliver on growth and jobs are based on a clear attribution of responsibilities allowing all actors to take ownership of the actions under their responsibility. The new approach clears away the jungle of existing reporting obligations. Essentially, it shifts the focus from co-ordination through multi-lateral discussions between 25 Member States and the Commission, on individual policy themes (the Open Method of Co-ordination), with a bilateral in depth dialogue between the Commission and Member States on a commitment based national action programme. This dialogue is framed by the existing Treaty based economic and employment policy co-ordination tools – the Broad Economic Policy Guidelines and the Employment Guidelines.

…allowing us to reap the benefits of coherent action in different areas and at different levels.

Finally, this approach will allow us to reap genuine synergies from action at the different levels of the partnership and build on complementarities with and between the Member States. For example, Member States will be confirming national R&D expenditure targets in their Lisbon programmes and setting out the actions they intend to take. At Community level, a doubling of R&D expenditure is proposed under the seventh framework programme and a number of policy measures are foreseen to facilitate R&D expenditure in the Member States. Based on the national Lisbon programmes, the Commission will, therefore, be able to annually evaluate progress towards the 3% of GDP R&D expenditure target for the Union as a whole, make any necessary proposals for adjusting policy instruments, give feedback to Member States and, if necessary, report on serious difficulties to the European Council.

Informing people about Lisbon is an important step to creating a commitment on all levels of government.

Above all, people need to understand why Lisbon matters.

The challenge of making the case for reform does not stop with this Report, nor even with the launch of the partnership for growth and jobs at the March European Council. Lisbon's ambitious agenda of reform must go together with efforts to explain the challenges we face. The case for reform must be made and remade, in order to capture the sense of urgency and show that that we can offer a response – a distinct, European response. But getting this message across requires a real and sustained effort.

…and this must be explained at EU and national level.

This task must be shared by the European Institutions. But the prime responsibility is at the Member States level, where messages can be tuned to national concerns and national debates. This must involve all those with a stake in Europe's success – national parliaments, the regions, cities and rural communities, as well as civil society. The Commission for its part will be treating this agenda for growth and jobs as a central communications priority throughout its mandate.

The Commission's contribution to the period of reflection and beyond: Plan-D for Democracy, Dialogue and Debate

COMMUNICATION FROM THE COMMISSION

BRUSSELS, 13 OCTOBER 2005

COM(2005) 494

1. Introduction

At the end of the European Council on 18 June 2005, Heads of State and Government adopted a declaration on *"the ratification of the Treaty establishing a Constitution for Europe"*. This declaration called for a *"period of reflection"* following the negative votes in France and the Netherlands on the European Constitution.

Heads of State and Government gave guidance to the Member States on the type of debate that could be organised: "*the period of reflection will be used to enable a broad debate to take place in each of our countries, involving citizens, civil society, social partners, national parliaments and political parties*". It also indicated that the European Institutions should "*make their contribution, with the Commission playing a special role in this regard*". The purpose of this communication is to respond to the request by Heads of State and Government.

The European Commission has strongly supported the ratification of the Constitution and has provided assistance to all Member States with their information campaigns. Individual Commissioners have been active in the national debates. The Commission continues to consider that the Constitution would be an important step forward in making the European Union more democratic, transparent, effective and stronger to the outside world. The Commission therefore regrets the fact that in the current circumstances, it is unlikely that the Constitution will be ratified in the foreseeable future. Pending the outcome of the ratification process, the Commission believes that the overall balance achieved in the Constitution should not be undermined by piecemeal implementation of parts of the text. It believes that the period of reflection should, in a first stage, be used for a broad and intensive debate on European policies. Any vision of the future of Europe needs to build on a clear view on citizen's needs and expectations. This is the purpose of *Plan-D*.

2. Objectives of *Plan-D*

The Commission has proposed a *Plan D* for Democracy, Dialogue and Debate, not as a rescue operation for the Constitution, but to stimulate a wider debate between the European Union's democratic institutions and citizens. It has to be seen as complementary to the already existing or proposed initiatives and programmes such as those in the field of education, youth, culture and promoting active European citizenship.

Plan-D dovetails with the Action Plan on communicating Europe[11] which seeks to improve the way that the Commission presents its activities to the outside world and the forthcoming White Paper on communication strategy and democracy which will start a consultation process on the principles behind communication policy in the European Union and the areas of co-operation with the other European institutions and bodies. Together with *Plan-D* these initiatives set out a long-term plan to reinvigorate European democracy and help the emergence of a European public sphere, where citizens are given the information and the tools to actively participate in the decision making process and gain ownership of the European project.

Restoring public confidence in the European Union

Faced with declining confidence in political systems, the Commission believes that it is important to ensure

11 Action Plan to improve communicating Europe by the Commission SEC(2005)985 - 20/07/2005

that representative democracy continues to maintain the trust and involvement of Europe's citizens. The latest Eurobarometer survey[12] shows that public approval of the European Union has steadily decreased over recent months. Whether in terms of trust, image or assessment of EU membership, all the indicators have fallen. A similar decline is seen in the public approval of and trust in the national political process. While membership of the European Union is still supported by 54% of EU citizens, the image of the European Union has steadily decreased in citizens' eyes with only 47% of respondents giving a positive response. Trust in the European Union has dropped from 50% of citizens trusting the EU in Autumn 2004 to 44% in Spring 2005.

People need to feel that Europe provides an added value and they have the ability to affect the way decisions are taken. Currently 53% of European citizens do not believe that their voice counts in the European Union2. Yet, when questioned about the desired role of the European Union in five years' time, 49% would like it to have a greater role while only 14% wish to see it less involved in key policy areas. This calls for the emergence of a Europe which listens more in order to meet its citizens' expectations.

This is crucial, as the European institutions are too often the scapegoat for unpopular decisions and are often seen as remote and bureaucratic. One of the main objectives of the period of reflection should be to stimulate a more accurate communication of the activities of the European Union. Ending the blame-game, both by Member States and the European institutions, is an important change that must take place.

Target audiences and modern media

The Commission believes that the debate must not be limited to the political leaders and traditional stakeholders. The Commission shares the views of Heads of State and Government that these debates should involve *"civil society, social partners, national parliaments and political parties"* but also believes that there would be an added value in listening to specific target groups, such as young people or minority groups, that were not reached during the referendum campaigns. Finally, the debates can only be a success if the mass media are engaged in the process, in particular television. Equally the internet is of prime importance for stimulating the debate.

A long term commitment

Plan-D is not limited to the period of reflection. It is an exercise that must run throughout the lifetime of this Commission, and beyond. The current crisis can be overcome only by creating a new consensus on the European project, anchored in citizens' expectations.

From listening to further involvement

Ultimately, *Plan-D* for democracy, dialogue and debate is a listening exercise so that the European Union can act on the concerns expressed by its citizens. The objective of the Commission is to stimulate this debate and seek recognition for the added value that the European Union can provide. The democratic renewal process means that EU citizens must have the right to have their voices heard.

3. Assisting national debates

3.1. Organisation of national debates

The primary responsibility for responding to the call for a period of reflection rests with Member States. All have committed to undertake broad ranging national debates on the future of Europe.

While the Commission acknowledges that a lively debate is already under way in some Member States, in others it has yet to start or, where under way, needs to be intensified and broadened. The Commission is ready to help add momentum by suggesting a common approach and presenting its ideas on how it could, as an institution, contribute to the debate.

The Commission believes that its role is to assist rather than replace Member States in the organisation of national debates. The Commission will work with national Governments to help organise and fund of events promoting the debate. These events should cover the whole political spectrum of views. The Representations of the European Commission in the Member States (Representations) and the European Parliament Offices will have a key role in providing assistance during the period of reflection. The European Parliament could also play a key role in the national debate, both in terms of working with national institutions and through the involvement of individual members of the European Parliament.

There is no standard model for the organisation of debates in the Member States. In some, there are permanent structures, forums or platforms which seek to hold regular debates on European issues. In others, there is less of an organised system for dialogue and debate. Models such as the National Forum in Ireland or the Platform for Europe in Spain may offer inspiration to Member States.

12 http://europa.eu.int/comm/public_opinion/archives/eb/eb63/eb63_en.htm

National, regional and local Parliaments have a specific role to play in the organisation and promotion of debates. National Parliaments are the bridge to ensuring effective scrutiny of decisions taken by National Governments on European issues. While a number of national Parliaments are examples of best practice, much more can be done to improve this scrutiny function. The Commission is therefore keen to develop its co-operation with the National Parliaments beyond the targets for the Commission's relations with the National Parliaments, which it started implementing in early 2005. These targets revolve around three main themes: mutual service; concrete networking; connecting with people and their elected representatives, since a greater voice for Parliaments is a greater voice for Europe's citizens. They include a range of concrete actions from, for example, high level participation in COSAC and the EU Speakers' Conference to establishing the National Parliaments' requirements for types of information and ways of co-operation, facilitating the electronic exchange of EU-related information between the National Parliaments.

The Commission will as soon as possible, in close co-operation with the European Parliament, and after consulting the Presidency in office of the EU Speakers' Conference and the Presidential Troika of COSAC, invite the National Parliaments of the Member States to a forum in Brussels. The purpose will be to discuss the National Parliaments' contributions during the period of reflection, exchange views on national experiences and best practices, and examine possible co-operation and joint actions with and/or support from the EU Institutions during this period.

3.2. Content

Plan-D for democracy, dialogue and debate sets out a structured process to stimulate a public debate on the future of the European Union. The policy content of the public debate should feed into the approach taken at the end of the period of reflection.

In seeking to provide a common framework, the Commission fully recognises that each debate has its own local, regional and national characteristics. Different issues will be highlighted and the importance of the European Union will differ according to the country and policy content discussed.

Notwithstanding the individual national specificities, the national debates should focus citizens' attention on the future of Europe, examining their expectations and discussing the added value and the concrete benefits of Community action. In this way, the debate should go beyond institutional questions and the Constitution. It should focus on how Europe is addressing issues such as jobs, the economy, transport, the fight against terrorism, the environment, oil prices, natural disasters or poverty reduction in Africa and elsewhere. The results of these debates should help the European Institutions, and in particular the Commission to better define its priorities.

This should be a two way process, informing people about Europe's role through concrete achievements and projects and listening to people's expectations about what should be done in the future. The debate could include the following themes:

1. Europe's economic and social development: the capacity of Europe to generate growth and create more jobs, maximising the effects of the strategy agreed in Lisbon; the common values on which the economic and social models in Europe are based; the reforms needed in order to face global competition and the conditions for sustainable development.

2. Feeling towards Europe and the Union's tasks: Building on previous achievements and the concrete benefits brought to them in their daily lives by the Union (e.g. food safety, Erasmus, single currency, consumer protection, internal market), the debate could consider what people think should be done at local level and what they see as the future role for the Union, including developing an area of justice, freedom and security or dealing with climate change and natural disasters.

3. Europe's borders and its role in the world: the prospect of new enlargements, the Union's capacity to take in new members, the overall safety of the continent, the relation with its neighbours or Europe's influence in relation to the other large blocs in the world. What do people expect from Europe in a globalised world - from trade (e.g. textiles), to the environment (e.g. climate change), mobility (e.g. trans-European networks), security (e.g. participation in peace-keeping operations), and development (e.g. help to developing countries, Third World's debt relief)?

It goes without saying, however, that within *Plan-D* the range of topics will in no way be limited. Indeed, depending on audience and circumstances, the most interesting and vivid topic should be chosen and discussed. The Commission is ready to elaborate on these themes at the request of Member States.

3.3. Feedback process

The national debates need to be structured to ensure that the feedback can have a direct impact on the policy agenda of the European Union. The listening exercise must be lead to clear results that are taken on board at the end of the period of reflection. Each Member State should present a synthesis to the Commission and Council Presidency of the initial results of the national debate. This synthesis should be made public.

An initial feedback process should take place in April 2006 so that a first set of conclusions can be drawn. As a first step, the Commission will organise a European Conference on 9 May 2006, known as *"Europe Day"*, on the future of Europe, involving civil society, Member States' and European and national Parliament representatives, citizens and other EU institutions and bodies. This will seek to draw together the main conclusions from the debate at the European level and activities that stem from cross-border debate. In May 2006, the Commission will also prepare a document providing an overall synthesis of the national visits and debates organised throughout the Union.

This will also allow the Austrian Presidency to orientate the preparation of the stocktaking exercise at the June 2006 European Council as set out in the declaration by Heads of State and Government.

4. Initiatives at Community level

The European Commission stands ready to play a significant role in the wide-ranging debate on the future of Europe. Although not the main focus of the debate, it has a contribution to make in seeking to ensure that cross-border initiatives are promoted and supported. A number of high-profile cross-border events can also help to raise the visibility of the process and stimulate the involvement of new actors in the European decision-making process.

Partnership with the European institutions and bodies

The Commission will work with the current and forthcoming Presidencies, European Parliament, Council, Committee of the Regions and European Economic and Social Committee to stimulate the debate at the European level. The vast majority of these initiatives can be undertaken jointly with the European Parliament and the other institutions and bodies. The Commission invites each of the European institutions and bodies to contribute and discuss the areas of co-operation and joint action.

The initiative of the Commission seeks to inspire EU citizens to become politically active in the debate on the future of Europe; to publicize the added value that the European Union brings; and to encourage government, political parties and opinion formers to place the issue of Europe at the forefront of public consciousness.

The following initiatives should be taken at Community level during the period of reflection.

4.1. Stimulating a wider public debate

4.1.1. Visits by Commissioners to Member States

The Commission intends to have a more direct contact with citizens, to listen to their concerns and to become more visible and present in the national and regional debates.

The President and/or the Vice-President for institutional relations will undertake a series of visits to as many of the Member States as possible. A particular effort will be made in the coming months. They will be accompanied by the Commissioner from the respective Member State and other Commissioners where appropriate. The Commission would recommend that Members of the European Parliament are also involved. They should meet with Governments, national Parliaments, business and trade union leaders, civil society, students and regional and local authorities. Media events and contacts with civil society will be a key feature of each visit.

4.1.2. Commissioners availability to National Parliaments

National Parliaments are the bridge to ensuring effective scrutiny of decisions taken by National Governments on European issues. As stated above, the Commission intends to play an active role in facilitating the debate on European issues and to increase transparency about European policy making in all political fora.

In addition to the fact that there is a Vice-President for relations with national Parliaments, individual Commissioners will strive to be accessible and prepared to assist national Parliaments to explain Commission policies and provide an overview of recent EU developments. Contacts are on-going with national Parliaments to make the practical arrangements.

4.1.3. Representations open to the public

The Commission Representations are the national face of the Commission but they are not sufficiently known by the majority of citizens who continue to perceive the Commission as a distant institution. The Commission is reinforcing the role of the Representations and intends to make them known to the public as a focal point for getting information and collecting feedback on their concerns on European issues.

Representations have their premises permanently open to the public. Additionally, the Head of Representation (where possible Commissioners) will be available for regular question times with citizens. These sessions should not be limited to the capital city. The European Parliament is invited to do the same and these events should be coordinated.

4.1.4. Utilising Europe Direct centres for regional events

A decentralised network of EU local information relays has been in put in place by the Commission in partnership with regional and local host structures. This network offers all the EU institutions and bodies a valuable tool for communicating Europe to the citizens on the ground and for implementing the Commission's approach to communication activities.

The Representations will make full use of the "new generation" network of Europe Direct centres in support of *Plan-D*. They should be used as the focal point of activities at the regional level.

4.1.5. European Round Table for Democracy

The Commission intends to reach out to citizens, particularly young people, interested in European Affairs. The objective is to explore ways for enhanced cross-border debate, promote active citizenship as well as raising awareness of the process of European integration.

The Commission will work with civil society actors. to establish a European Round Table for democracy. The round table will gather citizens from different horizons that will act together or debate on common European issues. Building on the results of the European Round Table, meetings should be organised in all Member States.

4.1.6. European Goodwill Ambassadors

Good information and communication activities on what we do will be crucial. Good policies must be complemented by good and creative initiatives seeking to connect with the public and the media.

The Commission will seek to work with Member States to organise a series of regionally based events with "European Goodwill Ambassadors", building on previous models like used by the United Nations and the experience of membership referenda in new Member States, and invite well known personalities or national and local celebrities from the cultural, business, sport or any other area of interest to target audiences. These "ambassadors" could be active in the Member State concerned, holding open meetings, workshops and general talks on specific European areas or programmes such as education, anti-poverty, electoral participation, research and development, etc.

4.2. Promoting citizens' participation in the democratic process

4.2.1. Promoting more effective consultation

In recent years, the Commission has improved the way it consults on major policy initiatives. The number of consultations with stakeholders through Green and White Papers and internet consultations have risen sharply. As part of the listening process, the Commission intends to use and improve existing tools for collecting feedback directly from citizens, consumers and business in cooperation with the European Parliament and other institutions.

The Commission will more effectively promote its existing consultation procedures in order to achieve increased involvement of national and regional stakeholders, as foreseen in the Action Plan on improving communication.

4.2.2. Support for European citizens' projects

In order to deal with the perceived lack of legitimacy and involvement of European citizens in the political systems there is a need to further enhance their sense of participation and involvement in the European ideal at all levels. The recently proposed programme "Citizens for Europe" to promote active European citizenship has defined this precisely as its main objective.

Furthermore, a whole range of citizens' panels have been established at local level in certain Member States which are often tied into the decision-making process at regional level. The Commission will seek to support European Citizens' Panel initiatives to assemble, when possible, a representative cross-section of citizens from European regions to discuss specific policy areas. These should build on existing models in the Member States and also provide a potential feedback to the European debates.

4.2.3. Greater openness

The European citizen is entitled to expect efficient, open and service-minded public institutions. The Commission therefore supports increased transparency at all levels in the European institutions, including through its own European Transparency Initiative. As regards the Council, the Seville European Council decided on the opening of Council meetings to the public when the Council acts as a co-legislator. These rules are formalised in the Council's rules of procedure. This ensures presentation of the main proposals and opening to the public of votes and explanations of votes. These commitments have not yet been translated into practice. The British Presidency is currently considering a series of options to bring about greater openness to Council proceedings.

The Commission fully supports this Presidency initiative which dovetails with the Commission's European Transparency Initiative.

4.2.4. Increased voter participation

The lower level of participation in national and local elections has reinforced the sense of lack of legitimacy in the political process. In particular the turnout in certain Member States at the latest European Parliament election has been disappointingly low.

The Commission will propose to the other European institutions that they jointly look into ways to increase voter participation in European elections and national referenda on European issues. Specific attention should be given to participation of young people and minority groups and the use of new technologies to increase participation. A joint inter-institutional working group could be established to co-ordinate efforts in this area.

4.3. Tools to generate a dialogue on European policies

4.3.1. Specific Eurobarometer on the future of Europe

Plan-D is an exercise for listening and dialogue. The ultimate objective of the Commission is to be able to draw lessons from the concerns expressed by the citizens. This will also help Member States understand their citizens' concerns during the period of reflection.

The Commission will present a specific Eurobarometer survey on the future of Europe, assessing citizens' views on the future of the European project as well as citizens' support for and expectations of European policies and actions.

4.3.2. Internet

Increasingly, experiences shows that the Internet has become an important forum of political debate. If the Commission intends to play an active role in moderating the debate on the Future of Europe it should explore the use of every interactive communication medium that can facilitate this debate.

The Commission will therefore use state-of-art Internet technology to actively debate and advocate its policies in cyberspace, which has become an important opinion-forming forum of debate.

4.3.3. Targeted focus groups

As an essential part of the listening exercise, the Commission should build on the existing good practice of using focus groups as a first step in open policy making processes. Particular emphasis should be placed on the views of young people. This could help Member States to strengthen the feedback process in the national debates.

The Commission is ready to provide assistance to Member States to undertake focus group work on specific European themes.

5. Funding

The wide-ranging debate on the future of Europe must be supported by appropriate financial assistance. The Commission will seek to assist Member States and civil society through support of individual initiatives.

At the start of 2005, nine million euros was allocated under the Prince budget line for the future of Europe debate (Budget line 250302). All Member States have received some financial assistance with just less than six million already allocated during the ratification process. The Commission believes that the remaining resources should be used to support Member State and civil society initiatives.

The Commission therefore supports the European Parliament's intention to make available an additional six million euros for 2006 on the Prince budget line.

6. Conclusion

The national debates on the ratification of the European Constitution have demonstrated continued support for membership of the European Union but an increasing sense of remoteness from the democratic process.

The Heads of State and Government of the European Union have issued a declaration which emphasises the need to listen to citizens' concerns and enable a broad debate to take place.

Now is the time to listen and act. This communication sets out the content and issues falling under *Plan-D* for democracy, dialogue and debate. It underlines the national character of the debate but also recommends a structured feedback process and a series of possible initiatives to be taken at the Community level.

Plan-D must seek to clarify, deepen and legitimise a new consensus on Europe and address criticisms and find solutions where expectations have not been met. Accordingly, the European Commission recommends that Member States:

- Take the necessary steps to structure a national debate as soon as possible in each country;
- Work with the Commission and other institutions and bodies to organise the most effective assistance and contribution, including national visits, that they can make to the national debate;
- By the next European Council, agree on the feedback process to ensure that the concerns and expectations of citizens are disseminated and fed into the stocktaking exercise to be held during the Austrian Presidency.

20 20 by 2020: Europe's climate change opportunity

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 23 JANUARY2008

COM(2008) 30

2007 marked a turning point for the European Union's climate and energy policy. Europe showed itself ready to give global leadership: to tackle climate change, to face up to the challenge of secure, sustainable and competitive energy, and to make the European economy a model for sustainable development in the 21st century. Public opinion has shifted decisively towards the imperative of addressing climate change, to adapting Europe to the new realities of cutting greenhouse gas emissions and developing our renewable, sustainable energy resources. A political consensus has crystallised to put this issue at the heart of the European Union's political programme: a guiding theme for the Union, central to the Lisbon strategy for growth and jobs, and of primary importance in Europe's relations with partners worldwide. It won the support of both the European Parliament[13] and the European Council.

The agreement by the March 2007 European Council to set precise, legally binding targets was a symbol of Europe's determination. This decision was not taken lightly. There is much at stake, with the prosperity of the European economy reliant on finding the right way forward. There is compelling evidence now available that the costs of inaction would be crippling for the world economy: 5%-20% of global GDP, according to the Stern Report[14]. In parallel, recent price rises for oil and gas have brought home how competition for energy resources is becoming more intense every year; and how energy efficiency and renewable sources of energy can be profitable investments. This was the background to EU leaders' readiness to commit to a transformation of the European economy requiring a major political, social, and economic effort. At the same time, change offers a stepping stone to modernise the European economy, orientating it towards a future where technology and society will be attuned to new needs and where innovation will create new opportunities to feed growth and jobs.

Two key targets were set by the European Council:

- A reduction of at least 20% in greenhouse gases (GHG) by 2020 – rising to 30% if there is an international agreement committing other developed countries to "comparable emission reductions and economically more advanced developing countries to contributing adequately according to their responsibilities and respective capabilities".
- A 20% share of renewable energies in EU energy consumption by 2020.

The European Council agreed that the best way to reach such ambitious goals was for every Member State to know what was expected, and for the goals to be legally binding. This meant that the levers of government could be fully mobilised; and the private sector would have the long-term confidence required to justify the investment needed to transform Europe into a low-carbon, high energy efficiency economy.

The resolve of the European Council was a signal to our international partners that the EU was ready to turn words into deeds. This paid dividends at the United Nations Climate Change Conference in Bali in December 2007. The European Union was able to play a pivotal role in securing agreement on the roadmap towards a new comprehensive agreement on cutting emissions to be reached by 2009. This reinforced the EU's

13 European Parliament resolution on climate change adopted on 14 February 2007 (P6_TA(2007)0038)

14 HM Treasury, Stern Review on the economics of climate change, 2006, http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm

determination to press on with its commitment to fighting climate change, to show that it was ready to give force to its conviction that developed countries can and should commit to a 30% cut in emission levels by 2020. The EU should continue to take the lead in the negotiation of an ambitious international agreement.

The next step is to translate the European Union's political direction into action. The package of measures proposed by the European Commission represents a coherent and comprehensive path to preparing Europe for the transition towards a low-emission economy. It shows that the efforts required make sense. Measures are designed in a way so that they are mutually supportive. They offer the right way to maintain the momentum and deliver on Europe's ambitions for climate change, energy security and competitiveness.

Securing a prosperous Europe in times of change

The European economy faces a challenge in adapting to the demands of a low-emission economy with secure energy supplies. But the challenge can be met, and it also opens the door to new opportunities. There is a real potential to make climate-friendly policies a major driver for growth and jobs in Europe. Europe can show that necessary change can go hand in hand with the process of securing a competitive and prosperous economy fit for the 21st century. The process of change to a low carbon economy will also need to be accompanied by the appropriate involvement of social partners, in particular at sectoral level.

A global commitment remains indispensable to tackling climate change. But the case for Europe to act now is compelling. The longer Europe waits, the higher the cost of adaptation. The earlier Europe moves, the greater the opportunity to use its skills and technology to boost innovation and growth through exploiting first mover advantage. The trend of global opinion is clear, and the EU can take the lead in pointing the way to an international climate agreement for the post 2012 period.

Reducing greenhouse gases and increasing renewable energy according to the targets agreed by the Heads of State and Government will make the EU much less dependent on imports of oil and gas. This reduces the exposure of the EU economy to rising and volatile energy prices, inflation, geopolitical risks and risks related to inadequate supply chains that are not keeping up with global demand growth.

The opportunities offered by the transition are wide-ranging:

- Oil and gas imports are expected to go down by some €50 bn in 2020[15], improving energy security and benefitting citizens and businesses across the EU: if current prices became standard for a barrel of oil, the saving from cutting imports would rise.
- Renewable energy technologies already account for a turnover of €20 bn and have created 300 000 jobs. A 20% share for renewables is estimated to mean almost a million jobs in this industry by 2020 – more if Europe exploits its full potential to be a world leader in this field. In addition, the renewable energy sector is labour intensive and reliant on many small and medium sized enterprises, spreading jobs and development to every corner of Europe: the same is true of energy efficiency in buildings and products.
- By encouraging all companies to use low-carbon technologies, the climate change challenge can be transformed into an opportunity for European industry. In total, the eco-industry already accounts for some 3.4 million jobs in Europe: it offers particular growth potential. Green technologies are not the monopoly of any one part of Europe. They are a growing part of an industry that now accounts for over €227 billion in annual turnover, offering real advantages to the first entrants into this market.

This underlying rationale lies behind the political consensus in favour of change, and the agreement of the European Council to act.

The architecture of the proposals has been driven by two factors. First, the proposals are designed in such a way that the targets are reached in the most cost-effective way possible. Second, the effort required of particular Member States and particular industries remains balanced and proportionate, and takes their own circumstances into account. Fairness and solidarity have been at the heart of the Commission's thinking in developing the proposals.

The key principles

The package of measures responds to an invitation from the European Council for the European Commission to bring forward specific proposals. At the same time, EU leaders developed a political understanding about the principles under which the proposals would be delivered.

The architecture developed by the Commission has been designed to respect the principles set out by the European Council. In particular, the translation of overall EU-wide

15 This was modelled on the basis of an oil price of US$ 61 a barrel.

goals into specific targets for each Member State has been governed by the need to secure a political consensus to drive change and carry public opinion.

The proposals rest on five key principles:

- The targets must be met: to assure Europeans of the reality of change, to convince investors to invest, and to show the EU's seriousness of intent to partners worldwide. The proposals must therefore be effective and strong enough to be credible, with mechanisms for monitoring and compliance in place.
- The effort required from different Member States must be fair. In particular, some Member States are more able than others to finance the necessary investments. The proposals must be flexible enough to take account of Member States' different starting points and different circumstances.
- The costs must be minimised: with a design tailor-made to limit the price tag of adaptation for the EU economy. The costs of change and the consequences for the Union's global competitiveness, employment and social cohesion need to be kept at the forefront in designing the right structure.
- The EU must drive on beyond 2020 to make even deeper cuts in greenhouse gases to meet the target of halving global emissions by 2050. That means stimulating technological development and ensuring that the system can take advantage when new technology comes on stream, using the tools available to encourage innovation and create a competitive edge in clean energy and industrial technologies.
- The EU must do everything possible to promote a comprehensive international agreement to cut greenhouse emissions. The proposals are conceived to show that the Union is ready to take further action as part of an international agreement, stepping up from the 20% minimum target for greenhouse gas reductions to a more ambitious 30% reduction.

The tools to deliver the targets

Updating the Emissions Trading System

The European Union Emissions Trading System has proved a pioneering instrument to find a market-based solution to incentivise cuts in greenhouse gas emissions. It requires companies to surrender allowances equivalent to their level of CO_2 emissions. This "cap and trade" system in its present design has meant that allowances are allocated by national governments to companies, subject to approval by the Commission of the national plans. A market has developed in carbon allowances, because companies can sell allowances if they cut their own emissions, or buy them if they have insufficient allowances to cover their emissions. So if companies invest in reducing emissions, they can earn an income stream from the sale of allowances – at the same time stimulating innovation and pushing change where it is most cost-effective. This system covers some 10 000 industrial plants across the EU – including power plants, oil refineries, and steel mills – accounting for almost half the EU's CO_2 emissions.

However, a review of the ETS has shown that it needs to be strengthened and updated if it is to meet its new objectives. The incentive effect of the current ETS has been cushioned by the generous number of allowances handed out in the first phase (2005-2007). The structure of the ETS, with national allocation plans, has raised the risk of distortions in terms of competition and the internal market. The scope of the ETS, in terms of the sectors of the economy covered and the gases included, has also limited its ability to drive emission cuts.

An enhanced Emissions Trading Scheme would build on the positive experience so far and would be designed to deliver a new drive towards a climate-friendly economy:

- The scope of the ETS would be extended with the inclusion of greenhouse gases other than CO_2[16], and all major industrial emitters. To lessen the administrative burden, industrial plants emitting less than 10 000 tonnes of CO_2 would not have to participate in the ETS, provided equivalent measures are in place to ensure their adequate contribution to reduction efforts.
- A harmonised ETS covering the whole Union will be best suited to the internal market, with common rules to ensure a level playing field. National allocation plans would be replaced by auctioning or free allocation through single EU-wide rules. The allocations put on the market would be reduced year-on-year to allow for emissions covered by the ETS to be reduced by 21% from 2005 levels by 2020.

  The power sector – representing a large part of emissions – would be subject to full auctioning from the start of the new regime in 2013. Most other industrial sectors, as well as aviation, would step up to full auctioning gradually, reaching full auctioning by 2020.

16 N_2O from acid production and PFC emissions from the aluminium sector.

Auctioning would be handled by Member States, and the revenues would accrue to Member States' treasuries. However, auctions would be open: any EU operator could buy allowances in any Member State. The auctioning process will generate significant revenues for Member States, which will help towards the process of adjustment to a low carbon economy, supporting R&D and innovation in areas like renewables and carbon capture and storage, helping developing countries, and helping the less well-off to invest in energy efficiency. Member States should commit to use at least 20% of their auctioning income for this purpose.

- Under the Kyoto Protocol, industrialised countries can achieve part of their emission reduction commitments by investing in emission-saving projects overseas – notably in developing countries, through the Clean Development Mechanism (CDM)[17]. This has the advantage of meeting emission reduction obligations at lower cost, as well as promoting the transfer of low-carbon technologies to developing countries. CDMs have proved their worth in cutting emissions, and offer access to more cost-effective options than sometimes available within Europe. However, there is a risk that too generous a use of CDMs can dilute the effectiveness of the ETS by increasing the supply of credits and thereby cutting demand for allowances, and reducing the incentive for governments and companies to promote emission reductions at home. This can also limit the ETS' capacity to act as the key driver to realise the target for renewable energy.

  Under the new ETS, companies will still have access to CDMs, but the use of credits generated by such mechanisms will be limited to the levels used in the current ETS period. This would leave room for access to this mechanism to be increased once an international agreement is signed – central to allowing the EU to step up swiftly to the more challenging 30% GHG reduction in the event of an international agreement. Freeing up access to this mechanism would also be an incentive for third countries to sign up to an international agreement, in the knowledge that European investment and technology could flow as a result.

Greenhouse gas reductions beyond the ETS

Since the revised ETS will only cover less than half of the GHG emissions, an EU framework is needed for national commitments to cover the remaining emissions – covering areas like buildings, transport, agriculture, waste and industrial plants falling under the threshold for inclusion in the ETS. The target for these sectors would be a 10% reduction in emissions from 2005 levels, with specific targets for each Member State. Some of this would be driven by EU measures – like tougher standards on CO_2 emissions from cars and fuel, and EU-wide rules to promote energy efficiency – but otherwise Member States would be free to determine where to concentrate their efforts, and what measures to bring into play to leverage change. Member States would also have access to CDM credits covering almost one third of their reduction effort.

A new era for renewable energy

The March 2007 European Council put particular emphasis on renewable energy. In choosing to fix a specific target for the EU as a whole, and for this to be backed up with precise national targets, EU leaders recognised the special contribution that renewable energy can make to the twin goals of reducing emissions and improving energy security. Today, the share of renewable energy in the EU's final energy consumption is 8.5%. An increase of 11.5% is needed on average to meet the target of 20% in 2020. This will require a major investment effort across the Union, but the relative costs will fall as other energy producers face the costs of ETS allowances and rising prices for oil and gas.

Member States enjoy different possibilities to deploy renewable energy, and the efforts required to reach the 20% share of renewable energy in the EU's overall energy consumption need to differ between the Member States. The European Council defined a number of considerations that should be taken into account when setting national targets. The targets should be fair, and take account of different national starting points and potentials, including the existing level of renewable energies and the energy mix, notably low-carbon technologies.

The Commission's proposal is based on a methodology according to which half of the additional effort is shared equally between Member States. The other half is modulated according to GDP per capita. In addition, the targets are modified to take into account a proportion of the efforts already made by those Member States that have achieved a certain increase in their share of renewable energy in recent years. This allocation methodology, combined with a new flexibility mechanism, means that the European Council mandate has been respected to the full.

The options for developing renewable energy vary from one Member State to another. Some have potential in wind power, others in solar power or in biomass. Member

17 Joint Implementation also exists to cover projects in other industrialised countries with Kyoto targets.

States are best placed to choose where to put the emphasis. But with lead times for bringing renewable energy on stream so long and investors needing certainty, it is important for Member States to have a clear vision of where they intend to act. Member States will each put forward a national action plan, setting out how they intend to meet their targets and allowing for progress to be monitored effectively. A specific effort is needed to achieve greenhouse gas emissions reductions and improved security of energy supply in the transport sector, which is why the European Council chose to fix a specific minimum target for sustainable biofuels of 10% of overall petrol and diesel consumption.

The cost of exploiting renewable energy potential also varies. Some investments can come swiftly on stream and be commercially viable, but as these options are used up, investment has to turn to more costly options. At the same time, as production volumes increase, production costs will fall. That is why Member States need a degree of flexibility. As long as the EU's overall target is met, Member States should be allowed to make their contribution by supporting Europe's overall renewables effort, and not necessarily inside their own borders: if Member States can reach their targets by helping develop renewable energy in another Member State, they can reduce their own compliance costs and at the same time provide the other Member State with a useful extra income stream. From a European, rather than a national perspective, this would shift investment to where renewables can be produced most efficiently in the EU, and could cut between € 2 to € 8 billion from the price tag for meeting the target.

Such investment in another Member State does not require a physical transfer of the resources, which face geographical and technical obstacles. It can take place with transferable guarantees of origin (proof that renewable energy has been produced). The proposal will create these tools for use alongside existing national renewable energy support schemes. This will allow the overall target to be met as cost-efficiently as possible.

Any expansion of renewable energy also requires that the traditional regulatory framework for conventional energy is adapted: unnecessary regulatory, administrative and planning barriers to the promotion and development of renewable energy need to be abolished, and the proposal seeks to guarantee the right environment for renewables to flourish.

Finally, the European Council also endorsed a separate minimum target for the share of sustainable biofuels for EU transport. Whilst biofuels are the only viable alternative transport fuel for the foreseeable future, their growth requires criteria to be set for the environmental sustainability of biofuels. The proposed scheme includes minimum criteria for the greenhouse gas performance of biofuels, which must be respected for those biofuels that are used to meet the 10% target. Similarly, it sets binding criteria for biodiversity and bans certain types of land use changes. When adopted, it will be the most comprehensive system of its kind introduced anywhere in the world and will apply equally to domestically produced and imported biofuels. The rules are critical in order to ensure that the environmental benefits of using biofuels outweigh any possible environmental disadvantages. At the same time, the Commission is committed to promoting in all its policies the rapid development of second generation biofuels. It will closely monitor market developments and their effects on food, feed, energy and other industrial uses of biomass, and take appropriate action if needed.

The role of energy efficiency

The EU goal of saving 20% of energy consumption by 2020 through energy efficiency is a crucial part of the puzzle. It would save the EU some € 100 billion and cut emissions by almost 800 million tonnes a year. It is one of the key ways in which CO_2 emission savings can be realised.

Transport, buildings and more efficient power generation, transmission and distribution all offer opportunities which need to be stimulated through a mixture of legislation and information – as well as being driven by the stimulus of avoiding the impact of rising energy costs for consumers. Product standards can be used to bring more efficiency to a wide range of goods, from televisions to cars and heaters to streetlights. Better labelling already means that 75% of labelled products bought are in the "A" class. All these savings means more scope for households to face up to rising energy prices, and more investment in technology and jobs. But driving on to the 20% target for energy efficiency will require a major commitment at all levels from public authorities, economic operators and citizens alike.

Looking beyond 2020: galvanising the potential for deeper cuts in emissions

Over the past ten years, technology has developed swiftly. Renewable energy technologies are making wind and solar energy more commercially viable than ever before. Energy efficiency is being mainstreamed into products from the humble lightbulb to the most sophisticated production machinery. But this process must be accelerated if Europe's goals for climate and energy are to be met and if the commercial potential of these technologies is to be exploited to the full. The EU Strategic Energy Technology Plan[18] will use the EU's levers to help maintain Europe's leadership in sustainable technologies. Climate change and energy have been earmarked as likely first areas on which the European Institute of Technology could focus its attention.

Of particular importance is *carbon capture and storage* (CCS). Fossil fuels will remain the primary source of energy worldwide for decades to come. Stocks of coal will be needed to provide energy in Europe, and to feed the huge rise in energy demand already under way in many developing countries. But the target of halving 1990 global GHG emissions by 2050 will never be met unless the energy potential of coal can be exploited without ballooning emissions. That is why the European Council backed early action to make CCS the technology of choice for new power plants, including the setting up of up to 12 demonstration plants by 2015.

European legislation is needed to provide the right framework for CCS to work in the internal market and factor the benefits of CCS for the ETS. This is an important part of the package: investors in CCS can be clear that they save the costs of ETS allowances faced by their competitors, and that the right safety measures are in place to justify long-term investment. A European Industrial Initiative will be set up to bring together the key actors and provide a coherent drive for the new technology.

However, it remains the case that significant investment will be essential if demonstration plants are to be financed and commercial deployment is to get under way - in the order of tens of billions of euros. Since there is no possibility of significant funding from the EU budget, the only possible sources for this investment are public-private partnerships fed predominantly by national budgets and private sector investment. For governments, the income stream provided by the auctioning of ETS allowances is an obvious source of revenue for this purpose. For the private sector, the inevitability of moving to CCS offers a real commercial benefit to power generators prepared to move early into this market. But the later this process begins, the more policy-makers will be obliged to look at the option of compulsory application of CCS technology as the only way forward.

Bringing about change

As the European Commission has explored various options and modelled different scenarios, a guiding principle has been the need to develop an approach which limits the costs faced by the EU economy in the process of change – to ensure that it fits squarely inside the approach of the Lisbon strategy for growth and jobs. It would be futile to pretend that change on the scale envisaged requires no economic effort. But the Commission considers that with the right design, the costs can be kept to under 0.5% of GDP a year by 2020. This leaves far more scope for prosperity and growth than the price of failing to act.

To meet the EU's goals at minimum cost, the Commission's proposals build on the experience of the Emissions Trading System and leave the market to drive as much as possible. It also retains as much flexibility for national decision as possible within the constraints of specific national targets.

- The future ETS will ensure a sufficiently high price that companies have a strong commercial interest in avoiding the cost of ETS allowances.
- Auctioning of ETS allowances will favour more efficient installations.
- For cuts in emissions outside the ETS, Member States will be free to pursue different strategies to secure their reductions, according to the different circumstances in the Member State concerned.
- Member States should have the freedom to determine their own energy mix[19] and to promote renewable energy in different ways. The introduction of a system to allow Member States to top up their renewable energy targets through working with other Member States leaves a national choice about how far to go in pushing domestic renewables production.
- State aid can legitimately be used to promote the policy goal of cutting emissions and increasing renewable energy. But the use of such state aid needs to strike the right balance between generous support for well-targeted aid for environmental protection, and preserving competition. Effective competition is essential to making market-based instruments work well. New state aid guidelines will provide a framework setting out how Member States can use aid to promote a higher level of environmental protection, including in the field of energy. State aid can not only help to offset a failure of the market to reflect costs to the environment, it can also encourage

18 A European Strategic Energy Technology Plan: Towards a low carbon future - COM(2007) 723, 22.11.2007.

19 The European Council of March 2007 recalled that the Energy Policy for Europe will "fully respect Member States' choice of energy mix" and confirmed that "it is for each and every Member State to decide whether or not to rely on nuclear energy....this has to be done while further improving nuclear safety and the management of radioactive waste".

undertakings to adopt more environmentally-friendly processes or to invest in greener technologies. The newguidelines recognise in particular that state aid may be justified where higher production costs result in obstacles to market entry for renewable energies. They allow full support for renewable energies to be commercially viable. They also open up the possibility to consider state aid for carbon capture and storage, and provide legal certainty for emission trading systems.

The particular needs of energy-intensive industries

Energy-intensive industries are an important part of the EU's economic fabric. They would face a particular challenge during the transition to a climate-friendly economy. As well as rising costs for electricity, as major sources of emissions they would under normal circumstances take part in the auctions for ETS allowances: an additional cost not faced by their competitors in countries without low-carbon measures. This not only has implications for competitiveness and jobs, it also carries the risk that production and the consequent pollution just shifts to countries with no low-carbon policies. Concerns have been expressed by a number of energy intensive sectors such as ferrous and non-ferrous metal industries, pulp and paper, and mineral-based industries. The impact of increased electricity prices on certain sectors has also been raised and will need to be addressed, once duly substantiated.

A comprehensive international agreement would address this. But in the absence of such an agreement, or of significant unilateral action by competitors in energy-intensive sectors, the EU must take action to ensure a level playing field.

The proposals therefore put in place provisions to allow action to be taken. The need for action to be taken would be established by meeting criteria to show that the extra costs could not be passed on without a significant loss of market share to less carbon-efficient competitors outside the EU. Sectors meeting these criteria would be given some or all of their ETS allowances free of charge. This would be followed up by a review looking at the impact of international negotiations, which could lead to proposals such as adjusting the proportion of free allowances or requiring importers to enter ETS auctions to purchase allowances alongside European competitors, as long as such a system was compatible with WTO commitments.

The capacity to invest

The European Council recognised that the ambition of the proposals will make real demands on all Member States. The Commission has therefore carefully assessed the economic impact of the proposals against the capacity of each Member State to make the investment required. With the overall cost to the European economy estimated at just under 0.5% of GDP by 2020, the Commission believes that no Member State should be asked to make an investment which diverges too far from this broad average. With this in mind, the specific requirements asked of each Member State have been modulated to allow for a realistic level of investment from lower-income Member States. This modulation impacts on three different aspects of the proposals:

The national targets set for reductions in greenhouse gases outside the framework of the ETS.

The national targets set for the share of EU energy consumption to be taken by renewables.

Auctioning rights under the ETS, with the distribution of auctioning rights spread to increase the share for lower-income Member States.

This approach will enable all Member States to face realistic and viable targets. It will ask all Member States to make a real effort. But it opens the door to delivering on Europe's ambition to transform itself into a truly climate-friendly economy.

Conclusion

The Europe of 2050 will look very different. Nowhere will this be more obvious than in the way we supply our energy needs, and the respect we show to the world around us. This is a vision which inspires many Europeans today. People recognise that there are alternatives, ways of running our daily lives which mean that Europeans can continue on the path of growth and jobs while leading global efforts to tackle climate change. There are also new opportunities, new technologies which Europe is well placed to exploit and new business openings for manufacturers and suppliers.

The European Commission's proposals put Europe on the road to that future. They seek to provide the framework and the stimulus to realise the political ambitions set out by the European Union in Spring 2007, and reinforced at the Bali Conference. They are a central plank of Europe's efforts to modernise its economy for the challenges of the 21st century.

EMU@10: successes and challenges after 10 years of Economic and Monetary Union

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN CENTRAL BANK

BRUSSELS, 7 MAY 2008

COM(2008) 238

A historic step

On 2 May 1998 Europe's leaders took the historic decision to introduce the single currency, the euro. The move to the last phase of EMU – Economic and Monetary Union – on 1st January 1999, marked a watershed in European integration. Although economic in substance, it sent a very powerful political signal to European citizens and to the rest of the world that Europe was capable of taking far-reaching decisions to cement a common and prosperous future for a continent that had all too often suffered from wars and economic and political instability. The launch of EMU – the most important monetary reform since Bretton Woods – was a bold move without precedent in modern European economic history and one that changed the global economic landscape.

Ten years into its existence, the euro is a resounding success. The single currency has become a symbol of Europe, considered by euro-area citizens to be amongst the most positive results of European integration together with the achievement of free movement within the EU and peace in Europe. One in two people in the euro area asserts that for them, the EU means the single currency. EMU has secured macroeconomic stability and boosted cross-border trade, financial integration and investment. The number of countries that share the euro has increased from the original eleven to fifteen at the beginning of 2008 and is set to increase further. EMU is an achievement of strategic importance for the EU, and indeed for the world at large, in which Europe has become a pole of macroeconomic stability, especially welcome in the present times of financial turbulence.

While the euro is a clear success, so far it has **fallen short of some initial expectations**. Output and particularly productivity growth have been below those of other developed economies and concerns about the fairness of income and wealth distribution have grown. In addition, a number of significant challenges which had not yet emerged or were only starting to become apparent when EMU was devised are now more pressing. Globalisation is progressing apace and natural resources are becoming increasingly scarce. Climate change and the effects of population ageing will place additional strains on the capacity of our economies to grow. Moreover, unwinding global imbalances are putting pressure on the exchange rate of the euro and the functioning of our financial systems. At the same time, while the progressive enlargement of the euro area will add dynamism to its economy, it will also increase the diversity of EMU, making stronger demands on its adjustment capacity.

This Communication and the accompanying Report[20] **assess the experience of the first decade of EMU, identify the goals and challenges facing the euro area and put forward a policy agenda** for EMU's continued success.

The major successes of the first ten years

The launch of the euro represented a **sea change in the macroeconomic environment** of its participating Member States and beyond. A single monetary policy combined with national but coordinated fiscal policies has fostered macroeconomic stability. The exchange rate realignments that periodically traumatised the European

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economies have become a thing of the past. The European Central Bank (ECB), to which the euro area's monetary policy is entrusted, quickly established its credibility. Budgetary discipline has improved significantly, strengthened by the Stability and Growth Pact (SGP). The euro-area economy has pursued a faster track of economic and financial integration than the rest of the EU and its resilience in the face of external shocks has become stronger. Overall, progress has been made on many fronts, as the following highlights illustrate.

Monetary policy has anchored long-run inflation expectations at close to the ECB's definition of price stability. Inflation averaged just over 2% in the first decade of EMU, falling from 3% in the 1990s and a range of 8 to 10% in the 1970s and 1980s. Nominal interest rates have declined to an average of around 5% since the inception of the euro, down from 9% in the 1990s and 12% in the 1980s. In real terms, interest rates in EMU have come down to levels not seen for several decades, even in those countries which enjoyed the highest degree of stability before the adoption of the euro. Admittedly, inflation has increased recently, mainly due to soaring oil and commodity prices, while the turbulence in financial markets has led to tighter credit conditions for households and businesses. But a return to low inflation and more normal credit conditions is expected once these external pressures unwind – even though oil and commodity prices may continue to trend up with strong demand from fast-growing developing countries.

Fiscal policies have supported macroeconomic stability in EMU. Progress in fiscal consolidation has been impressive over the last few years and culminated in a deficit of only 0.6% of GDP in 2007 compared to an average of 4% in both the 1980s and 1990s. The reform of the SGP in 2005 not only contributed to greater discipline, but also promoted a more sustainable correction of excessive deficits by discouraging recourse to one-off measures. While not fully eradicated, pro-cyclical fiscal policies have also become less common. As a result, and thanks to windfall gains in tax revenues in the last few years, no euro-area country ran a deficit in excess of 3% in 2007 and the overall deficit for the euro area (at 0.6% of GDP in 2007), was the lowest in several decades. Indeed ten out of the fifteen euro-area countries either recorded a budget surplus in 2007 or were very close to balance.

EMU has **fostered economic and market integration.** The disappearance of exchange rate risk and lower cross-border transaction costs has helped develop the Single Market and integrate product markets. Intra-area trade flows now account for one third of the area's GDP, up from one quarter ten years ago, and available estimates indicate that the elimination of exchange rate volatility can explain up to half of this increase. What is more, intra-area foreign direct investment now stands at one third of GDP as compared to an initial one fifth. Here estimates suggest that up to two thirds of this increase can be directly attributed to the creation of the single currency. These developments have in turn produced major economies of scale, spurred competition and had noticeable effects on productive efficiency. Likewise, the decline in risk premia built into capital cost has boosted capital formation, which has now reached almost 22% of GDP – a level unseen since the early 1990s. Overall, through these various channels, the single currency is estimated to have boosted labour productivity per hour worked by as much as 5% since the launch of the euro.

The euro has acted as **a powerful catalyst for financial market integration**. Interbank money markets in the euro area have fully integrated, while cross-border interbank transactions have expanded steadily since 1999. Cross-border consolidation among banks has accelerated, with the sixteen largest banking groups now holding more than 25% of their EU assets outside their home country. A significant market in euro-denominated private-sector bonds has emerged, with an annual gross issuance of more than €1 trillion now substantially exceeding the approximately €800 billion raised through public sector issuance. Equity markets too have integrated faster than elsewhere, with the share of equity held in other euro-area countries rising from 20 to 40%. Financial market infrastructure has advanced, and progress has been made in cross-border wholesale financial services, while the Single Euro Payments Area is set to eliminate differences between national and cross-border retail payments. In parallel, a certain degree of regulatory and supervisory convergence has been achieved via the implementation of the Financial Services Action Plan and the operation of the Lamfalussy committees.

EMU has **improved the euro area's resilience against adverse external developments**. In its first decade the euro area has been exposed to a series of external shocks associated with the global business cycle, the most significant being the bursting of the dotcom bubble and subsequent downturn in the US in the early 2000s. Nevertheless, the ensuing slowdown in the euro area at the beginning of the decade was considerably more muted than in comparable episodes prior to the adoption of the single currency. Today once again, the euro area appears protected from the worst of the present global financial turbulence. The anchoring of inflation expectations has contributed to this improved resilience, as have the reforms carried out under the Lisbon Strategy for Growth and Jobs and the renewed budgetary discipline since the SGP reform.

EMU has brought **significant benefits to its member countries engaged in a catching-up process**. The environment of macroeconomic stability and low interest rates coupled with the support of the cohesion policy and its Structural and Cohesion Funds have created the conditions for accelerated catching up; the positive effects of sound economic policies have been reinforced by the development and integration of national financial markets with the rest of the euro area. Not surprisingly, therefore, participation in EMU is very appealing to the twelve Member States that entered the EU since 2004; indeed three have already successfully joined the euro area and Slovakia is ready to enter in 2009.

The euro has firmly established itself as **the world's second international currency**. Euro-denominated international debt securities surpassed those of the US dollar in 2004, while the percentage of bank loans issued by euro-area banks to non-euro-area borrowers which are denominated in euro now stand at 36% as compared to 45% in US dollars. The euro is the second most actively traded currency in foreign exchange markets worldwide, and is used in more than a third of all foreign exchange transactions. The official use of the euro has increased, with the worldwide share of disclosed reserves denominated in euro rising from 18% in 1999 to over 25% in 2007. Likewise, its role as a trade invoicing or settlement currency has risen, to reach more than 50% of the euro area's external trade. The euro has also become very important in many third countries, notably euro-area candidate and neighbouring EU countries, around 60% of whose trade is now invoiced in euro.

The euro area has become a **pole of stability for Europe and the world economy**. Thanks to the euro's rising international status and the sheer size of the euro-area economy, economic policies within EMU increasingly have a global impact. With an external position in balance, a credible macroeconomic framework and a sound financial system, the euro area has been contributing to an orderly evolution of the global economy, even during the highly turbulent period of the last few months.

The euro area has developed a **sound structure of economic governance**. While major economic policy responsibilities remain at the national level, a common understanding has developed among EMU Member States that sound public finances and flexible and integrated product, labour and financial markets are necessary for EMU to function efficiently. The reform of the Stability and Growth Pact in 2005 increased national governments' "ownership" of the budgetary governance framework. And the revised Lisbon Strategy for Growth and Jobs, the key instrument for the co-ordination of EU economic policies, spells out in Guideline No. 6 that Member States should "contribute to a dynamic and well-functioning EMU". **The Eurogroup has served as the key forum** for euro-area finance ministers to address issues relating to the single currency going beyond the Treaty-based surveillance and coordination tasks. As its informal character encourages open and frank debates, the Eurogroup is well placed to develop common understandings and clear positions on macroeconomic issues pertaining to the euro area. Over time it has gained visibility and relevance, particularly since it appointed its first permanent President in January 2005. On the international front, collective action taken by the euro area has led to greater external influence, as demonstrated by the engagement of the Eurogroup troika – the Eurogroup President, the President of the ECB and the Commissioner for Economic and Monetary Affairs – in bilateral dialogues with China and other countries, and by last year's IMF-led multilateral consultations on global imbalances.

All these positive developments have culminated in the creation of **a record 16 million jobs during the first decade of EMU** in the euro area. Employment has risen by almost 15% since the launch of the single currency while unemployment has fallen to about 7% of the labour force, the lowest rate in more than fifteen years. Importantly, job growth outpaced that of other mature economies, including the United States. The bulk of these improvements reflect reforms of both labour markets and social security systems carried out under the Lisbon Strategy for Growth and Jobs and the coordination and surveillance framework of EMU, as well as the wage moderation that has characterised most euro-area countries. This clearly demonstrates that Europe's workforce is capable of rising to new challenges and making necessary changes that will ultimately result in further job creation and higher economic growth. MU

mu's remaining challenges amplified by new global trends

The overall picture of the first decade of EMU is thus a very positive one. However, not all expectations have been fulfilled.

At around 2% per annum, **potential growth remains too low**. Although employment has soared, and despite the positive impact of the single currency, productivity growth has slowed from 1 1/2% in the 1990s to around 1% this decade. As a result, the euro area's per capita income has stalled at 70% of that of the United States. While most of the smaller euro-area economies have done exceptionally well, potential growth should have been significantly higher in some of the largest Member States.

Moreover, **there have been substantial and lasting differences across countries** in terms of inflation and unit labour costs. The tendency for persistent divergences between euro-area Member States has been due in part to a lack of responsiveness of prices and wages, which have not adjusted smoothly across products, sectors and regions. This has led to accumulated competitiveness losses and large external imbalances, which in EMU require long periods of adjustment. Essentially, this protracted adjustment reflects the fact that structural reforms have been less ambitious than in the run-up to the euro. As is the case within the EU as a whole, product markets within the euro area are still only partially integrated and cross-border provision of services remains underdeveloped.

As an international currency the euro is a major asset for all euro-area members and for the EU at large. However, the **lack of a clear international strategy** and the absence of a strong voice in international fora implies costs for the euro-area in an increasingly globalised world. The global economic imbalances that have built up since the mid-1990s are starting to take their toll, with exchange rates excessively volatile and financial stability arrangements under heavy strain. The emerging economies' rapidly growing demand for scarce energy and other primary resources are hitting supply constraints, sending oil, food and other commodity prices soaring as a result. In this turbulent environment, the single currency provides a shield and can put the euro area in a unique position to play a key role in the global political arena in stemming the associated risks. However this potential is insufficiently exploited as the euro area has neither a properly defined international strategy nor effective international representation.

Finally, **the public image of the euro does not fully reflect EMU's successful economic performance**. The euro is often used as a scapegoat for poor economic performances that in reality result from inappropriate economic policies at the national level. Furthermore citizens in some countries believe that prices significantly increased because of the euro. Indeed, even if overall inflation was only marginally affected at the time of the changeover, occasional abusive price increases in specific sectors and countries have tarnished the image of the euro and continue to do so. At the same time, the lack of development of the economic leg of EMU, compared with the monetary leg, has also fed the concern that the euro area is incapable of addressing the key challenges facing it, further weakening its public image. Clearly important work still lies ahead. But beyond the fulfilment of initial expectations, the EMU policy agenda for the next decade will be marked by the emergence of new global challenges which will have an amplifying effect on the weaknesses of EMU outlined above.

- **Globalisation is progressing apace**, with emerging economies competing with developed economies in lower-skilled industrial activities and increasingly in higher value-added activities too. Globalisation offers major opportunities for market growth, yielding lower prices and greater choice for consumers, and efficiency gains for producers. However, it also puts strong demands on the adjustment capacity of the euro-area members as new activities will need to replace declining industries, and as research, innovation and human capital become ever more important drivers of economic dynamism. Moreover, globalisation further compels the euro area to take an effective role in global economic and financial governance.
- **Food and energy prices are on the rise**, spurred by fast growth of the global economy and changing consumption patterns in emerging economies. Climate change is also having a growing economic impact. These developments may act as a constraint on growth and could impair the distribution of income and wealth given that it is the least well-off who may be disproportionally affected. A complicating factor is that the tasks of containing climate change and keeping a lid on food and energy prices may not be easily achieved simultaneously. These problems can affect euro-area countries differently, adding to the need to ensure smooth adjustment to shocks.
- Meanwhile, the population of the euro area, as elsewhere, is **rapidly ageing**. As a result, the portion of the population dependent on pensions will increase, simultaneously reducing the economic growth potential. Indeed, the ratio of working-age to older people is projected to halve over the next four decades and on unchanged policies, the potential output of the area will slow to just over 1% per annum from around 2% at present. Ageing will also make relatively large demands on public spending, and unless reforms are made to pension and health systems it will increase the share of public expenditure in GDP by an estimated 4 percentage points over the next four decades. Ageing populations pose a serious challenge to the euro area's capacity to adjust and put the sustainability of its public finances and, more generally, its welfare systems at risk.

These longer-term trends, whose effects are increasingly being felt, will pose challenges for the performance of all advanced economies in terms of growth, macroeconomic stability, adjustment capacity, the sustainability of social security systems and the distribution of income and wealth. But they will produce **policy challenges that are particularly compelling for the euro area** considering its relatively low growth potential, its weaker adjustment capacity, high public indebtedness and the strong interdependence of its economies.

A three-pillar policy agenda for the second decade

The experience of the first decade of EMU, while overall very successful, reveals a number of shortcomings that need to be addressed. It will be necessary to consolidate the hard-won macroeconomic stability while: **(a)** raising potential growth and safeguarding and increasing the welfare of euro-area citizens; **(b)** ensuring a smooth adjustment capacity as EMU expands to take in new members; and **(c)** successfully protecting the interests of the euro area in the global economy. Importantly, these efforts will have to be made in a global environment that has changed considerably since the euro was launched, and failure to do so will be much more costly now.

To address these challenges, **the Commission proposes a three-pillar agenda**:

- The domestic agenda aims to deepen fiscal policy co-ordination and surveillance, to broaden macroeconomic surveillance in EMU beyond fiscal policy and to better integrate structural reform in overall policy co-ordination within EMU.
- The external agenda aims to enhance the euro area's role in global economic governance.
- Both agendas will require a more effective system of economic governance.

1. The domestic policy agenda: better co-ordination and surveillance

Deepening and broadening surveillance

The corrective arm of the Stability and Growth Pact (SGP) should continue to be applied rigorously and **surveillance under the SGP's preventive arm should be improved**. Fiscal policy coordination should better guide national budgetary behaviour over the whole cycle, i.e. in both good and bad times. Budgetary surveillance should be deepened to cover two main areas:

1. **securing the sustainability of public finances** for the benefit of future generations. At the national level, the adoption of medium-term fiscal frameworks could go a long way towards achieving stable and sustainable public finances. To be effective, such frameworks should encompass well-designed expenditure rules, which would allow the automatic fiscal stabilisers to operate within the limits of the SGP while attuning the composition of public expenditure to the structural and cyclical needs of the economy. At the euro-area level increased attention should be put on monitoring public debt developments, while medium-term budgetary objectives should be strengthened to address implicit liabilities. Moreover, long-term budgetary projections which identify the impact of ageing on public finances can support the preparation of national sustainability strategies and promote measures to reform pension and health systems and increase employment rates.

2. **enhancing the quality of public finances**. In other words, ensuring better value for public money, by channelling public expenditure and taxation systems towards growth-friendly and competitiveness-enhancing activities. Reforms of social expenditure programmes that offer better income protection while strengthening incentives to work – the flexicurity approach – would also greatly help to enhance the sustainability and quality of public finances while ensuring that budgets support macroeconomic stability.

But beyond budgetary surveillance, there is a clear need to **broaden surveillance to address macroeconomic imbalances**. Developments within Member States such as the growth of current account deficits, persistent inflation divergences or trends of unbalanced growth need to be monitored given that the occurrence of spillover effects and the growing interdependence of euro-area economies mean these developments represent a concern not just for the country in question but for the euro area as a whole. The evidence of the first ten years of EMU indicates that while market integration, particularly in financial services, is beneficial overall for EMU – as it can help absorb macroeconomic disturbances by providing risk-sharing opportunities and fostering reallocation of resources – it can also, if not accompanied by appropriate policies, amplify divergences among the participating countries. While some of these divergences can be benign – reflecting the catching-up process or even normal adjustment – they may also be harmful and the result of inefficient adjustment. In this case, enhanced surveillance would help the affected countries to devise early responses before divergences become entrenched.

Finally, a broader **surveillance of euro-area candidate countries**, akin to that proposed for current euro-area members, will be crucial to help them prepare for the challenges of sharing a single currency. Many future euro-area members are experiencing large capital inflows (reflecting expectations of continued fast income growth) and rapidly developing financial sectors, both of which can boost credit (typically from a low base) and result in external imbalances. Currently surveillance of prospective euro-area countries takes place via the assessment of Convergence Programmes. But there is scope to provide stronger policy guidance and closer surveillance of economic developments in particular for the countries participating in the Exchange Rate Mechanism (ERM) II framework, which is both an element of the euro adoption criteria and an instrument to foster sustainable nominal and real convergence. This should not mean imposing any additional constraints on euro-area entry.

Surveillance must build on the existing instruments. The key instruments for fiscal policy surveillance and economic policy coordination are clearly anchored in the Treaty and the SGP. The enforcement of the corrective arm of the SGP will remain a key pillar in dissuading non-compliance with the Treaty. The SGP provides for the definition and assessment of medium-term budgetary strategies through Council opinions on national Stability Programmes. Article 99 of the Treaty states that "Member States shall regard their economic policies as a matter of common concern" and "shall coordinate them within the Council". The euro-area and country-specific recommendations of the Lisbon process are key instruments for guidance and surveillance. There is, however, scope to improve the way such instruments are used. The analysis of the first 10 years reinforces the case for strengthening the preventive part of the SGP, as endorsed by the ECOFIN Council,[21] to support the achievement of sustainable budgetary policies and address broader issues which may affect the macroeconomic stability of a country and the overall functioning of EMU. These Treaty-based instruments are complemented by the Medium-Term Budgetary Review process undertaken by the Eurogroup in the spring of each year. While it has so far focused on budgetary surveillance, this peer review mechanism should broaden its scope to make the Treaty-based surveillance more effective.

Better integrating structural policies in the co-ordination process

The euro area has a **special interest in the success of structural reform**. Stepping up reforms – of course welcome in the EU as a whole – is an absolute must for the euro area. Importantly, improved market responses will pay a double dividend – by boosting growth in living standards over the longer haul while allowing better adjustment to shocks and fostering macroeconomic stability. Empirical evidence from our analysis indicates that structural reforms in countries sharing the single currency have higher "multipliers" than elsewhere: that is, those countries undertaking structural reforms can accrue more benefit while those falling behind may pay a higher price for their inaction. The Lisbon Strategy for Growth and Jobs, which has been instrumental in putting structural reform on the policy agenda, provides the basis for identifying the most pressing areas for action through Guideline No. 6 on the euro area and the euro-area-specific recommendations. In a partnership approach between the Commission and the Member States, the Lisbon Strategy forms the basis for steering the reform process in both the euro area and the individual countries.

Removing remaining barriers to product market integration is essential for a well-functioning euro area. Yet despite the boost given by EMU and the Single Market Programme to the creation of more open and competitive economies, low productivity growth and entry barriers, especially in services, are still hampering efficient adaptation to changing economic circumstances in the euro area and are keeping up pressure on prices. Innovation and technology diffusion, important elements for enhancing both competition and productivity, are lagging behind in euro-area member states. The market monitoring system proposed in the Single Market Review should be used to specifically target these shortcomings.

Better-functioning labour markets are needed in the euro area to underpin adjustment in a globalised economy and raise growth potential in the face of ageing populations**.** Greater wage flexibility and differentiation across industries, occupations and regions, and investment in human capital are instrumental in boosting competitiveness and allowing the smooth reallocation of resources in the event of shocks. Numerous reforms to raise labour utilisation have been undertaken in the framework of the Lisbon Strategy – and have paid off. However, progress has been uneven across countries and should therefore remain at the core of reform strategies in the next decade. Reforms of social expenditure programmes and active labour market policies should aim to offer better income protection while strengthening incentives to work.

The euro area can draw **comparatively large benefits from promoting EU financial integration.** Significant progress has been made in integrating EU financial markets but further efforts are required to enhance the efficiency and liquidity of euro area financial markets. This would facilitate economic adjustment through risk sharing and promote a more uniform transmission of the single monetary policy across the euro area. In particular, increased effort is required to promote the cross-border

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provision of retail financial services, to improve the efficiency of corporate and government bond financing and ease regulatory and supervisory costs for financial intermediaries operating in a multi-jurisdictional environment. Given the shared responsibility of the Eurosystem and participating Member States to safeguard financial stability in the euro area as a whole, there is a growing need for stronger cross-border cooperation in arrangements for crisis prevention, management and resolution as financial integration proceeds. In light of these specific efficiency and stability considerations and taking on board the lessons of the current financial turmoil, the euro area should take a strong role in fostering the EU agenda for financial integration and in enhancing EU financial stability arrangements.

To reap the full potential of EMU, there is therefore a need to **strengthen the incentives to pursue reform** in the euro area. Integrating structural policies in the euro area coordination process can provide support via three avenues: (a) The recommendations to the euro area as a whole together with the country-specific recommendations made within the Integrated Guidelines of the Lisbon Strategy provide the backbone for the coordination of structural reforms; a closer monitoring of their implementation needs to be organised. (b) The reform of the SGP in 2005 created the possibility, when assessing progress towards the medium-term budgetary objectives, to take account of structural reforms that are fiscally costly in the short run but yield longer-term gains in terms of growth and fiscal sustainability. To ensure compliance with the commitments enshrined in the SGP, a peer review mechanism could be established based on the analytical framework developed under the Lisbon Strategy and ex ante information provided by Member States. (c) To achieve a better sequencing of reforms, particular priority should be given to improving the functioning of financial markets. This would not only have favourable effects on growth and adjustment, but would also help boost the incentives for other structural reforms to follow by bringing forward their longer-term benefits and allowing capital to flow to the new investment opportunities generated by these structural reforms.

2. The external policy agenda: enhancing the euro area's international role

The international status of the euro brings **advantages, responsibilities and risks**. It helps develop the financial industry in Europe, yields seignorage gains from the use of the euro as a reserve currency and reduces exposure to exchange rate volatility as pricing and invoicing in euros develops. But the sheer size of the euro area means that policy decisions and economic developments within EMU are felt elsewhere, not least because global financial markets are acting as an ever-stronger international transmission channel. And there are risks, as the growing international status of the euro exposes the euro area to disruptive portfolio shifts between key international currencies and asset classes. All in all, the growth of the euro as an international currency and the combined strength of the euro-area economy have changed the rules of the game for the members of EMU and for their international partners.

The euro area must therefore **build an international strategy** commensurate with the international status of its currency. Following a successful first decade, the euro area, which already provides a stability anchor for its neighbours, is now called upon to develop a clear and all encompassing strategy on international economic and financial affairs. It has to play a more active and assertive role both in multilateral fora and through its bilateral dialogues with strategic partners. It has to improve coordination and define common positions and – when appropriate – common terms of reference on all these issues. It has to speak with a single voice on exchange rate policies and assume its responsibilities in financial stability and macroeconomic surveillance issues. The risk that the unwinding of global imbalances disproportionately harms the competitiveness of the euro area and its members is adding to these needs.

The most effective way for the euro area to align its influence with its economic weight is by **developing common positions and by consolidating its representation, ultimately obtaining a single seat** in the relevant international financial institutions and fora. This is an ambitious aim and progress on the external agenda will depend first and foremost on a more effective system of euro area governance. Even though the EU and euro area are often seen by other countries as over-represented in international organisations (in terms of both seats and voting power), the euro area still punches below its economic weight in international fora. Consolidating the euro area's representation would strengthen its international negotiating power and reduce the costs of international coordination, both for the euro area and for its key partners. It would also free up much needed space for emerging market countries to increase their participation in international financial institutions.

3. Promoting effective governance of EMU

EMU's system of **economic governance must rise to the challenges** facing the euro area. That said, the current division of responsibility between the institutions and instruments that govern the conduct of economic policy in EMU is sound overall. Nevertheless, there is a clear need to adapt institutions and practices to tackle the emerging policy challenges.

A **strong involvement of all EU Member States within the ECOFIN Council** is key to ensuring that EMU functions effectively. From the outset the ECOFIN Council has been the forum for economic policy decision-making in the EU and, in view of the evolving overlap between the euro area and the EU, it should remain centre stage in EMU's system of economic governance by integrating EMU issues more thoroughly in its work. In particular, it could push for a more consistent approach within its own fields of competence – i.e. macroeconomic policy, financial markets and taxation – so as to ensure positive synergies between them. The current Treaty provides ample scope for more comprehensive coordination and surveillance along these lines across the whole EU. Moreover, while the new Lisbon Treaty, once ratified, will strengthen the role of euro area finance ministers on questions affecting the functioning of EMU, all discussions on these issues will take place within the ECOFIN Council.

The **Eurogroup should continue to serve as a platform for the deepening and broadening of policy coordination** and surveillance in EMU. In terms of fiscal surveillance, ex ante coordination of budgetary policy through the Mid-Term Budgetary Review should be geared to guiding fiscal behaviour over the cycle as a means to address any pro-cyclical bias. In view of the ageing challenge, a major task is to increase the effectiveness of the preventive arm of the SGP in fostering the achievement of ambitious medium term objectives. To avoid the build-up of imbalances and excessive divergences between euro area countries, the Eurogroup should exchange views, develop policy guidelines and monitor Member States' compliance in areas that foster adjustment capacity and macroeconomic stability. "Peer reviews" – multilateral discussions on relevant developments in one or several countries – should be strengthened to encourage ministers of finance to consider national issues and policies within a euro-area perspective. Moreover, the Eurogroup should devote greater attention to monitoring the euro-area Lisbon recommendations in order to increase potential growth and strengthen competitiveness through structural reforms.

The Commission should play a strong, supportive role to ensure the effective functioning of EMU. It is called upon to foster the coordination of policies while internalising the EMU dimension in its policy proposals. It should step up its fiscal and macroeconomic surveillance and promote further economic and financial integration. In its surveillance role, it should deepen the assessment of economic and financial developments of the euro area, focusing in particular on the spillovers of national policy measures. Work to improve the accuracy of cyclical and structural fiscal indicators should continue, in cooperation with the Member States. As to the international agenda, the Commission needs to enhance its role in international dialogues and fora. In sum, the Commission must support efforts to improve the functioning of EMU both domestically and internationally by assuming the responsibilities assigned to it by the Treaty as the guardian of sound economic policies. To this end it should endeavour to better exploit the instruments provided by the Treaty.

The new Treaty, once ratified, will provide scope to strengthen coordination and surveillance of economic policies within the euro area**.** Article 136 of the resulting Treaty on the functioning of the European Union would offer the possibility to "adopt measures specific to euro-area Member States: to strengthen the coordination and surveillance of their budgetary discipline; and to set out economic policy guidelines for them, while ensuring that they are compatible with those adopted for the whole of the Union and are kept under surveillance". Furthermore, the Treaty would enhance the Commission's role as an independent "referee" in the context of multilateral surveillance, with Article 121 giving the Commission the possibility to issue direct warnings to a Member State when its economic policies are not consistent with the broad guidelines or risk jeopardising the proper functioning of EMU.

EMU's governance system must **ensure that euro-area enlargement continues smoothly**. Over the next decade, the euro area is set to expand to encompass most current EU Member States and ensuring that this process proceeds appropriately will safeguard the effective functioning of the euro-area economy in the future. During participation in ERM II, countries should capitalise on the environment of enhanced macroeconomic stability to adopt sound macroeconomic and structural policies. As specified in the Treaty, the Commission should provide a regular, fair assessment of sustainable progress in the convergence process. The Eurogroup and ECOFIN in turn have a special responsibility to build trust, survey economic developments and provide the necessary guidance in terms of the policies and reforms necessary for prospective euro-area members' nominal and real convergence.

There is also a need to **improve the dialogue concerning EMU among the EU institutions and with the public at large**. The Commission should develop its dialogue and consultation with the European Parliament in particular, as well as other European and national stakeholders. In a similar vein, the Eurogroup should pursue dialogues with the ECB, the European Parliament and the social partners in the euro area. All these institutions, starting with the Commission, should improve communication on EMU issues to the wider public. In particular, there is a need to better explain the euro's significant macro- and microeconomic advantages, such as its role as a protective shield during the recent financial turmoil, and the significant, beneficial contribution of economic policies in EMU.

Conclusion

EMU is a resounding success. Ten years into its existence, it has ensured macroeconomic stability, spurred the economic integration of Europe – not least through its successive enlargements –, increased its resilience to adverse shocks, and become a regional and global pole of stability. Now more than ever, the single currency and the policy framework that underpins it are proving to be a major asset. Nevertheless, there is potential to reap further benefits from EMU. This -- coupled with the pressing challenges of globalisation, scarce natural resources, climate change and population ageing, -- calls for improved co-ordination of economic policies, further progress with structural reforms, a stronger global role for the euro area and an unwavering commitment by Member States to achieving these goals. The fact that the effects of these global trends are already being felt in high energy, food and commodity prices, financial turbulence and global exchange rate adjustment only underscores the importance of timely action.

Achieving the domestic and external policy agenda and improving governance as set out here will go a long way towards meeting the challenges that the euro area and the global economy are facing. It will also bring important positive benefits for all EU members:

EMU remains a milestone of EU integration. Although its objectives and achievements are predominantly economic, EMU has never been solely an economic project. From the outset EMU was conceived as a crucial step in the process of EU integration. This role has become even stronger since the EU's enlargement from 15 to 27 Member States since 2004, with all newly acceded EU member countries preparing for euro adoption. The prospect of euro-area accession has been one of the main drivers of those countries' convergence with the EU's standard of living.

A well-functioning EMU is a major asset for the EU as a whole, not least since the overwhelming majority, if not all, of EU countries will eventually become members of EMU. A thriving euro-area economy will contribute to the wealth and dynamism of the whole EU, reinforcing public support for EU integration both within and outside the euro area.

A strong EMU will also foster the EU's leadership in the global economy. A well-functioning euro area lays the foundations for EMU to play a strong role externally, both in the macroeconomic sphere and in the area of global financial supervision and regulation. Proving its ability to strengthen the euro area's external role and assume its global responsibilities will have positive spin-offs for other policy areas where the EU aspires to global leadership, e.g. sustainable development, development aid, trade policy, competition and human rights.

Political will and determination is required to implement this comprehensive agenda. . The very success of EMU shows that political initiative and ambition can generate considerable economic, social and political benefits. But to fully deliver these benefits, the continued involvement of all parties is crucial. Hence the Commission will encourage a wide discussion on these topics in the second half of 2008 and promote a broad consensus on the building blocks of this agenda with other EU institutions as well as a range of relevant bodies and stakeholders. Drawing on this discussion, the Commission will come forward with appropriate operational proposals.

A European Economic Recovery Plan

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN COUNCIL

BRUSSELS, 26 NOVEMBER 2008

COM(2008) 800

The time to act is now

The real test for European governments and institutions comes when faced with the most difficult of circumstances. At such times, they need to show imagination; they need to show determination; and they need to show flexibility. They need to show that they are in tune with the needs of families and communities across the European Union, that they are equal to the task of finding the right response to the sudden downturn in the prospects for growth and jobs in Europe.

Europe will above all be judged on results. Since this Commission took office, it has put the spotlight on the European Union's ability to deliver results for its citizens. It has targeted action on areas which will have an impact on Europeans in every corner of the EU. It has championed a partnership approach to work with the key players at every level. It has made clear that the job is not done until the impact is felt on the ground.

The current economic crisis gives another opportunity to show that Europe serves its citizens best when it makes concrete action the touchstone. Europe can make the difference.

In difficult times, the temptation is to feel powerless. But Europe is not powerless. The levers of government, the instruments of the European Union, the influence of intelligent coordination add up to a potent force to arrest the trend towards a deeper recession. A Europe ready to take swift, bold, ambitious and well-targeted action will be a Europe able to put the brakes on the downturn and begin to turn the tide. We sink or swim together.

The particular contribution of the European Union is its ability to help partners work together. Harnessing Member States' and Community action will add up to a powerful lever for change. It will open the door to using the strengths of each part of Europe to best effect. It will allow us to shape the global response to this global crisis.

A month ago, the Commission took the initiative to set out how decisive and coordinated action could respond to the economic crisis. I am pleased to see that as national governments work to address their own situations, they have been inspired by the common principles agreed for European action. Today the Commission strengthens this platform for joint action with a Plan to contain the scale of the downturn and to stimulate demand and confidence, saving hundreds of thousands of jobs and keeping large and small businesses at work while waiting for growth to return.

The **European Economic Recovery Plan** has two key pillars, and one underlying principle:

- The first pillar is a major injection of purchasing power into the economy, to boost demand and stimulate confidence. The Commission is proposing that, as a matter of urgency, Member States and the EU agree to an immediate budgetary impulse amounting to € 200 billion (1.5% of GDP), to boost demand in full respect of the Stability and Growth Pact.
- The second pillar rests on the need to direct short-term action to reinforce Europe's competitiveness in the long term. The Plan sets out a comprehensive programme to direct action to "smart" investment. Smart investment means investing in the right skills for tomorrow's needs; investing in energy efficiency to create jobs and save energy; investing in clean technologies to boost sectors like construction and automobiles in the low-carbon markets of the future;

and investing in infrastructure and inter-connection to promote efficiency and innovation.
At the same time, the ten Actions for Recovery included in the Plan will help Member States to put the right social and economic levers in place to meet today's challenge: to open up new finance for SMEs, cut administrative burdens and kick-start investment to modernise infrastructure. It will drive a competitive Europe ready for the low-carbon economy.

- The fundamental principle of this Plan is solidarity and social justice. In times of hardship, our action must be geared to help those most in need. To work to protect jobs through action on social charges. To immediately address the long-term job prospects of those losing their jobs, through the European Globalisation Adjustment Fund and an accelerated European Social Fund. To cut energy costs for the vulnerable through targeted energy efficiency. To address the needs of those who cannot yet use the internet as a tool to connect.

I am convinced that at times of crisis, opportunities open up to accelerate change and to introduce structural reforms to make us succeed in the globalised economy of the future. This is a great opportunity for Europe.

A comprehensive and ambitious recovery plan is now on the table. The quicker we make it happen, the sooner we will bring the help needed to Europeans today.

José Manuel Durão Barroso

Brussels, 26th November 2008

1. Introduction

The global financial crisis has hit the EU hard. A squeeze on credit, falls in house prices and tumbling stock markets are all reinforcing a slump in consumer confidence, consumption and investment. Households are under real pressure. Businesses' order books are down. Sectors dependent on consumer credit – like private construction and the automobile industry – have seen their markets sharply deteriorate in many Member States.

The latest economic forecasts painted a bleak picture of close to zero growth and risks of contraction for the EU economy in 2009, with unemployment rising by some 2.7 million in the next two years, on the assumption that no corrective action is taken. In the weeks since the forecasts came out, economic conditions have deteriorated further:

- Financial market conditions remain fragile, and are likely to be tighter for longer than expected;
- Confidence amongst households and firms has fallen much lower than expected;
- The slowdown has spread to emerging economies with negative effects for European exports.

The euro area and several Member States are already in recession. The risk is that this situation will worsen still further: that investment and consumer purchases will be put off, sparking a vicious cycle of falling demand, downsized business plans, reduced innovation, and job cuts. This could push the EU into a deep and longer-lasting recession: the economy contracting further next year, and unemployment could rise by several million people.

Quick and decisive action is needed to stop this downward spiral. Europe must use all the tools at its disposal. This means Member States and the Union working together, coordinating inside Europe and feeding into a larger global response. In tackling the financial crisis, the Union made sure that the EU level and national action worked together. This was successful in bringing stability at a time of immediate danger. Now Member States should again take advantage of the strengths of the EU – effective coordination, credible frameworks offered by the Stability and Growth Pact and the Lisbon Strategy, as well as the benefits of scale offered by the euro and the largest single market in the world. The interplay of national and EU action can help all Member States weather the worst of the global economic storms and emerge stronger from the crisis.

The euro, in particular, has proved to be an invaluable asset for the EU economies and an essential element of stability. Supported by the strong role played by the independent European Central Bank, the euro protects against destabilising exchange rate movements, which would have greatly complicated the national responses to the crisis.

A month ago, the Commission took the initiative to outline its plans for dealing with the financial crisis, addressing the difficulties of the wider economy and making Europe a key player in the global response to the financial crisis[22]. In early November, the EU's Heads of State and Government agreed on the need for a coordinated response and asked the Commission to make proposals for discussion at their December meeting.

A European Economic Recovery Plan

This **European Economic Recovery Plan** is the Commission's response to the current economic situation. Given the scale of the crisis we are facing, the EU needs

22 Communication of 29 October - COM(2008) 706.

a co-ordinated approach, big enough and ambitious enough to restore consumer and business confidence. It needs to bring together all the policy levers available at EU and national level. Most of the economic policy levers, and in particular those which can stimulate consumer demand in the short term, are in the hands of the Member States. Member States have very different starting points in terms of fiscal room for manoeuvre. But that makes effective coordination all the more important.

All Member States will need to take action to deal with the crisis. Properly coordinated, national efforts can target different goals in parallel. They can cushion the blow of recession in the short term. But they can also promote the structural reforms needed to help the EU emerge stronger from the crisis, without undermining longer term fiscal sustainability. For this reason, this Recovery Plan puts particular emphasis on innovation and greening of EU investment. The EU level can act as a catalyst for such "smart action", combining EU policies and funds to help Member States maintain or pull forward investments which will create jobs, boost demand, and strengthen Europe's capacity to benefit from globalisation.

The strategic aims of the Recovery Plan are to:

- Swiftly stimulate demand and boost consumer confidence;
- Lessen the human cost of the economic downturn and its impact on the most vulnerable. Many workers and their families are or will be hit by the crisis. Action can be taken to help stem the loss of jobs; and then to help people return rapidly to the labour market, rather than face long-term unemployment;
- Help Europe to prepare to take advantage when growth returns so that the European economy is in tune with the demands of competitiveness and the needs of the future, as outlined in the Lisbon Strategy for Growth and Jobs. That means pursuing the necessary structural reforms, supporting innovation, and building a knowledge economy;
- Speed up the shift towards a low carbon economy. This will leave Europe well placed to apply its strategy for limiting climate change and promoting energy security: a strategy which will encourage new technologies, create new 'green-collar' jobs and open up new opportunities in fast growing world markets, will keep energy bills for citizens and businesses in check, and will reduce Europe's dependence on foreign energy.

In pursuing these aims, the European Economic Recovery Plan is designed to:

- Exploit synergies and avoid negative spill-over effects through co-ordinated action;
- Draw on all available policy levers, fiscal policies, structural and financial market reforms and external action;
- Ensure full coherence between immediate actions and the EU's medium- to longer term objectives;
- Take full account of the global nature of the problem and shape the EU's contribution to international responses.

This European Economic Recovery Plan proposes a counter-cyclical macro-economic response to the crisis in the form of an ambitious set of actions to support the real economy. The aim is to avoid a deep recession. The Plan is anchored in the Stability and Growth Pact and the Lisbon Strategy for Growth and Jobs. It consists of:

An immediate budgetary impulse amounting to € 200 bn (1.5% of EU GDP), made up of a budgetary expansion by Member States of € 170 bn (around 1.2% of EU GDP), and EU funding in support of immediate actions of the order of € 30 bn (around 0.3 % of EU GDP);

And a number of priority actions, grounded in the Lisbon Strategy, and designed at the same time to adapt our economies to long-term challenges, continuing to implement structural reforms aimed at raising potential growth.

2. Supporting the real economy and boosting confidence

As the economies of all Member States are highly integrated, sharing one single market and many common policies, any response must combine monetary and credit aspects, budgetary policy, and actions in the Lisbon strategy for growth and jobs.

2.1. Monetary and credit conditios.

2.1.1. The role of the European Central Bank and other central banks

In the current juncture, monetary policy has a crucial role to play. In the light of reduced inflationary expectation over the medium-term, the European Central Bank (ECB) for the euro area, along with other EU central banks, has already cut interest rates. The ECB has signalled that there is scope for further reductions. The ECB has already demonstrated its importance in stabilising markets by lending to banks and contributing to liquidity.

2.1.2. The role of banks

At the root of the problems in the real economy lies the instability in the financial markets. A reliable and efficient financial sector is a pre-requisite for a healthy, growing economy. Stabilising the banking system is therefore the first step towards halting the downturn and promoting a swift and sustainable recovery. The EU must maintain this common drive to rebuild stability and confidence in the still-fragile financial sector and create the conditions for a sustained economic recovery. The crisis has shown risks in the current governance of financial markets which have or could become real and systemic in times of serious turbulence. The pace of reform will be maintained in the coming months to restore stability and protect the interests of European citizens and business.

But it is now crucial that banks resume their normal role of providing liquidity and supporting investment in the real economy. Member States should use the major financial support provided to the banking sector to encourage a return to normal lending activities and to ensure that central interest rate cuts are passed on to borrowers. The Commission will continue to monitor the economic and competition impacts of measures taken to support the banking sector.

2.1.3. The role of the European Investment Bank and the European Bank for Reconstruction and Development

The current crisis requires reinforced interventions from the European Investment Bank (EIB) group. The EIB will increase its yearly interventions in the EU by some €15 billion for the next two years. As this increased activity will take the form of loans, equity, guarantees and risk-sharing financing, it will also generate a positive leverage of additional investment from private sources. In total, this package proposed by EIB will help mobilise complementary private resources to support additional investments over the next two years. To enable the EIB to increase its financing activities, Member States should decide before the end of the year to incorporate EIB's reserves to reinforce its capital base in the order of € 60 bn, which will provide a highly visible political signal to the markets and which will significantly increase the Bank's lending capacity. The European Bank for Reconstruction and Development (EBRD) is also expected to add €500 million per year to its present level of financing in the new Member States.

2.2. Budgetary Policy

Restoring confidence will depend on Europe's ability to boost demand by making use of budgetary policy within the flexibility offered by the revised Stability and Growth Pact. In the current circumstances, budgetary policy has an even more important role to play in stabilising economies and sustaining demand.

Only through a significant stimulus package can Europe counter the expected downward trend in demand, with its negative knock-on effects on investments and employment. Therefore, the Commission proposes that Member States agree a co-ordinated budgetary stimulus package which should be timely, targeted and temporary, to be implemented immediately.

In the context of national budgets for 2009, this co-ordinated budgetary impulse should be € 170 bn, which represents 1.2% of the Union's GDP, in order to produce a substantive positive and rapid impact on the European economy and on employment, in addition to the role of the automatic stabilisers. Expenditures and/or reductions in taxation included in the budgetary impulse should be consistent with the flexibility offered by the Stability and Growth Pact and reinforce the structural reforms of the Lisbon Strategy. This budgetary stimulus should be temporary. Member States should commit to reverse the budgetary deterioration and return to the aims set out in the medium term objectives.

To maximise its impact, the budgetary stimulus should take account of the starting positions of each Member State. It is clear that not all Member States are in the same position. Those that took advantage of the good times to achieve more sustainable public finance positions and improve their competitive positions have more room for manoeuvre now. For those Member States, in particular outside the euro area, which are facing significant external and internal imbalances, budgetary policy should essentially aim at correcting such imbalances.

This budgetary stimulus must be well designed and be based on the following principles:

1. It should be timely, temporary, targeted, and co-ordinated

National budgetary stimulus packages should be:

- *timely* so that they quickly support economic activity during the period of low demand, as delays in implementation could mean that the fiscal impulse only comes when the recovery is underway;
- *temporary* so as to avoid a permanent deterioration in budgetary positions which would undermine sustainability and eventually require financing through sustained future tax increases;

- *targeted* towards the source of the economic challenge (increasing unemployment, credit constrained firms/households, etc. and supporting structural reforms) as this maximises the stabilisation impact of limited budgetary resources;
- *co-ordinated* so that they multiply the positive impact and ensure long term budgetary sustainability.

2. It should mix revenue and expenditure instruments.

In general, discretionary public spending is considered to have a stronger positive impact on demand in the short-run compared with tax cuts. This is because some consumers may prefer to save rather than spend, unless the tax cuts are limited in time. Taking the different situations of Member States into account the following measures could be considered[23]:

- *Public expenditure* has an impact on demand in the short-term. Measures that can be introduced quickly and targeted at households which are especially hard hit by the slowdown are likely to feed through almost directly to consumption, e.g temporarily increased transfers to the unemployed or low income households, or a temporary lengthening of the duration of unemployment benefit. This can also be done through frontloading public investment in projects which could benefit SMEs and could support long-term public policy goals such as improving infrastructure endowments or tackling climate change;
- *Guarantees and loan subsidies to compensate for the unusually high current risk premium* can be particularly effective in an environment where credit is generally constrained. They can help bridge a lack of short-term of working capital which is currently a problem for many companies;
- *Well designed financial incentives* for speeding up the adaptation of our economies to long-term challenges such as climate change, including for example incentives for energy efficiency;
- *Lower taxes and social contributions:* lower social contributions paid by employers can have a positive impact on job retention and creation while lower taxation of labour income can support purchasing power in particular for low wage earners;
- *Temporary reductions* in the level of the standard rate of VAT can be introduced quickly and might provide a fiscal impulse to support consumption.

23 The general recommendations and the specific actions related to the priority areas set out in this document are subject to compliance with internal market and competition rules, notably for State aid.

3. It should be conducted within the Stability and Growth Pact

Budgetary policy should be conducted within the Stability and Growth Pact, so as to provide a common and credible framework for policy. The 2005 revision of the Pact allows better account to be taken of cyclical conditions while strengthening medium and long-term fiscal discipline. The resulting framework is more demanding in good times, it affords more flexibility in bad times. Extraordinary circumstances combining a financial crisis and a recession justify a co-ordinated budgetary expansion in the EU. It may lead some Member States to breach the 3% GDP deficit reference value. For Member States considered to be in an excessive deficit, corrective action will have to be taken in time frames consistent with the recovery of the economy. This is fully consistent with the procedures of the Stability and Growth Pact which guarantee that the excessive deficit will be corrected in due time, ensuring long-term sustainability of the budgetary positions.

The Stability and Growth Pact will therefore be applied judiciously ensuring credible medium-term fiscal policy strategies. Member States putting in place counter-cyclical measures should submit an updated Stability or Convergence Programme by the end of December 2008. This update should spell out the measures that will be put in place to reverse the fiscal deterioration and ensure long-term sustainability. The Commission will then assess the budgetary impulse measures and stability and convergence programmes based on updated forecasts and will provide guidance on the appropriate stance, relying on the following objectives:

- ensuring the reversibility of measures increasing deficits in the short term;
- improving budgetary policy-making in the medium-term, through a strengthening of the national budgetary rules and frameworks;
- ensuring long-term sustainability of public finances, in particular through reforms curbing the rise in age-related expenditure.

4. It should be accompanied by structural reforms that support demand and promote resilience

While the most immediate impact on growth and jobs in the short run needs to come from a monetary and fiscal stimulus, a comprehensive recovery plan also needs to encompass an ambitious **structural reform agenda** tailored to the needs of individual Member States, and designed to equip them to emerge stronger from the crisis. In part, this is because some structural reforms can also contribute to bolstering aggregate demand in the short term. Moreover, structural reforms are necessary to address some of the underlying root causes of the present crisis, as well as to strengthen the economy's adjustment capacity needed for a rapid recovery.

A resilient, flexible economy helps mitigate the adverse impact of an economic crisis. The Lisbon Strategy has already strengthened the European economic fundamentals. Appropriately tailored, Lisbon strategy structural reforms could be an appropriate short-term policy response to the crisis as they strengthen economic resilience and flexibility. Member States should consider the following measures:

- *Supporting consumer purchasing power through improved market functioning:* policies that improve the functioning of key markets can help sustain demand by helping bring down prices, thus supporting the purchasing power of households;
- *Addressing immediate competitiveness problems.* In Member States with inflation and competitiveness problems measures need to be taken urgently that reinforce the link between the wage setting mechanism and productivity developments;
- *Supporting employment and facilitating labour market transitions*: today's prime labour market challenge is to avoid wasteful labour shedding by industries temporarily affected by short-term demand disturbances. To that end, more flexibility in working time arrangements or enhanced employment services could help;
- *Reducing regulatory and administrative burdens on businesses.* Such reforms help increase productivity, and strengthen competitiveness. Measures that can be implemented rapidly include continuing efforts to reduce the time to start up a business.

2.3. Actions in the four priority areas of the Lisbon Strategy

In order to produce maximum benefits and achieve the Recovery Plan's aims of protecting people and preventing the crisis from deflecting attention from the EU's longer-term interests and the need to invest in its future, there should be a close connection between the fiscal stimulus and actions in the four priority areas of the Lisbon Strategy (people, business, infrastructure and energy, research and innovation), as outlined in this section. In order to achieve this, as part of its annual Lisbon package, the Commission will issue individual reports for each Member State on 16 December 2008 which will include proposals for recommendations.

A smart combination of EU policies and funds can act as a catalyst for key investments taking the EU in the direction of future sustainable prosperity. It is equally important to provide for stable foreseeable framework conditions to boost confidence, facilitate investment and to work for least cost solutions to common problems. Some of the actions proposed in this section are designed to frontload EU funding directly to contribute to the fiscal stimulus and assist Member States with the implementation of their policies. Others are intended to improve the framework conditions for future investments, reduce administrative burdens and speed up innovation. Overall, the actions form an integrated package: their budgetary implications should take into account the principles set out in the previous section.

2.3.1. Protecting employment and promoting entrepreneurship

The top priority must be to protect Europe's citizens from the worst effects of the financial crisis. They are the first to be hit whether as workers, households, or as entrepreneurs. In addressing the employment and social impact of the financial crisis, Member States should actively involve the social partners.

A. People

The implementation of active inclusion and integrated flexicurity policies, focused on activation measures, re-training and skills upgrading, are essential to promote employability, ensure rapid re-integration into the labour market of workers who have been made redundant and avoid long term unemployment. Within this context, adequate social protection that provides incentives to work whilst preserving purchasing power will also be important.

1. Launch a major European employment support initiative

a) The Commission is proposing to simplify criteria for European Social Fund (ESF) support and step up advance payments from early 2009, so that Member States have earlier access to up to € 1.8 bn in order to:

- Within flexicurity strategies, rapidly **reinforce activation schemes**, in particular for the low-skilled, involving personalised counselling, intensive (re-)training and up-skilling of workers, apprenticeships, subsidised employment as well as grants for self-employment, business start-up's and

- Refocus their programmes to **concentrate support on the most vulnerable**, and where necessary opt for full Community financing of projects during this period;
- Improve the monitoring and **matching of skills** development and upgrading with existing and anticipated job vacancies; this will be implemented in close cooperation with social partners, public employment services and universities;

Working with Member States, the Commission proposes to re-programme ESF expenditure to ensure that immediate priorities are met.

b) The Commission will also propose to revise the rules of the **European Globalisation Adjustment Fund** so that it can intervene more rapidly in key sectors, either to co-finance training and job placements for those who are made redundant or to keep in the labour market skilled workers who will be needed once the economy starts to recover. The Commission will review the budgetary means available for the Fund in the light of the implementation of the revised rules.

2. Create demand for labour

- Member States should consider **reducing employers' social charges on lower incomes to promote the employability of lower skilled workers**. Member States should also consider the introduction of innovative solutions (e.g. service cheques for household and child care, temporary hiring subsidies for vulnerable groups), which have already been successfully pioneered in parts of the Union;
- The Council should adopt, before the 2009 Spring European Council, the proposed directive to make permanent **reduced VAT rates for labour-intensive services**.

B. Business

Sufficient and affordable access to finance is a pre-condition for investment, growth and job creation by the private sector. Member States need to use the leverage they have through the provision of major financial support to the banking sector to ensure that banks resume their normal lending activities. To support small businesses and entrepreneurship, the EU and Member States must take urgent steps to substantially reduce administrative burdens for SMEs and micro-enterprises, in particular by fast-tracking the corresponding Commission's proposals. To this end, the European Small Business Act should also be implemented as soon as possible.

The EU's state aid rules offer Member States a wide range of possibilities for providing financial support to companies, regions and workers/the unemployed and to stimulate demand. At the same time these rules guarantee a level playing field, ensuring that state aids are used to support EU objectives such as R&D, innovation, ICT, transport and energy efficiency, and not to unduly distort competition by favouring particular companies or sectors. In the current exceptional circumstances, access to finance is a major business concern and the Commission will develop temporary guidelines allowing state support for loans (see below).

3. Enhance access to financing for business

- The **EIB has put together a package of € 30 bn for loans to SME's, an increase by** € 10 billion over its usual lending in this sector;
- The EIB will also reinforce by € 1 bn a year its **lending to mid-sized corporations**, a key sector of the EU economy. Furthermore, an additional € 1 billion will be conferred by the EIB to the EIF for a mezzanine finance facility;
- The Commission will put in place a **simplification package**, notably to **speed up its State aid decision-making**. Any state aid should be channelled through horizontal schemes designed to promote the Lisbon objectives, notably research, innovation, training, environmental protection and in particular clean technologies, transport and energy efficiency. The Commission will **temporarily authorise Member States to ease access to finance for companies** through subsidised guarantees and loan subsidies for investments in products going beyond EU environmental standards[27].

24 This will be done by raising the current €1.5 M safe harbour threshold for risk capital to € 2.5M, and by allowing, subject to certain conditions and maximum amounts, (a) to grant aid for guarantees for loans for certain companies having difficulties to obtain loans ; and (b) to grant aid of up to 50% (for SMEs and 25% (for large companies) of the Reference Rate, for loans for investments in the manufacture of products complying earlier with, or going beyond, new Community standards which increase the level of environmental protection and are not yet in force.

4. Reduce administrative burdens and promote entrepreneurship

Building on the Small Business Act, and in order significantly **reduce administrative burdens on business**, promote their cash flow and help more people to become entrepreneurs, the EU and Member States should:

Ensure that **starting up** a business anywhere in the EU can be done within three days at zero costs and that formalities for the hiring of the first employee can be fulfilled via a single access point;

Remove the requirement on **micro-enterprises** to prepare annual accounts (the estimated savings for these companies are € 7bn per year) and limit the capital requirements of the European private company to one euro;

Accelerate the adoption of the **European private company** statute proposal so that from early 2009 it can facilitate cross border business activities of SMEs and to allow them to work under a single set of corporate rules across the EU;

Ensure that public authorities **pay invoices**, including to SMEs, for supplies and services within one month to ease liquidity constraints and accept e-invoicing as equivalent to paper invoicing (this could deliver cost reductions of up to 18 € Bn); any arrears owed by public bodies should also be settled;

Reduce by up to 75% the fees for **patent applications** and maintenance and halve the costs for an EU trademark.

2.3.2. Continuing to invest in the future

We are witnessing the beginning of a major structural shift towards a low carbon economy. This provides the EU with an opportunity that will create new businesses, new industries and millions of new well-paying jobs. All sectors must participate: for example, the recent decision on the CAP health check commits €3 Bn for climate-friendly investments in rural development. This is where short-term action can bring immediate as well as lasting benefits to the Union. To accelerate investments, the Commission will clarify the legal framework for partnerships between the public and private sector aiming at carrying out major infrastructure and research investments, in order to facilitate this mixed mode of financing.

c. Infrastructure and energy

The key to maximising benefits and minimising costs is to target opportunities to boost energy efficiency, for example, of buildings, lighting, cooling and heating systems, and of other technologies like vehicles and machinery. Major positive effects for households and businesses can be harvested in the short term.

At the same time, Europe needs to accelerate its investments in infrastructure, particularly in the environmentally-friendly transport-modes which are part of the Trans-European Networks (TENs), high-speed ICT networks, energy interconnections, and pan-European research infrastructures. Speeding up infrastructure investments will not only cushion the blow to the construction sector, which is slowing down sharply in most Member States, it will also enhance Europe's longer-term sustainable growth-potential. Particularly in the energy sector a number of high profile trans-European projects would help to increase the EU's energy security and integrate more Member States into the European electricity grid.

5. Step up investments to modernise Europe's infrastructure

- For at least the next two years, the **EU budget** is unlikely to spend the full amount set out in the financial framework. Therefore, for 2009 and 2010, the Commission proposes to mobilise an additional **€ 5 bn for trans-European energy inter-connections and broadband infrastructure projects**. To make this happen, Council and Parliament will need to agree to revise the financial framework, while remaining within the limits of the current budget;
- With a financial envelope of over € 347 bn for 2007-2013, cohesion policy provides considerable support to public investment by Member States and regions. However, there is a risk that pressure on national budgets will slow down the rate of planned investment. To give an immediate boost to the economy, **the implementation of the structural funds should be accelerated.** To this end:

1. The Commission will propose to increase its pre-financing of programmes to make up to € 4.5 bn available earlier in 2009;
2. Member States should use the available flexibility to frontload the financing of projects by enhancing the part financed by the Community;
3. The Commission will propose a number of other measures designed to bring forward the implementation of major investment projects, to facilitate the use of financial engineering funds, to simplify the treatment of advances paid to the beneficiaries and to widen the possibilities for eligible expenditure on a flat rate basis for all the funds.

The Commission underlines the need for early adoption of these proposals.

- By the end of March 2009 the Commission will launch a €500 million call for proposals for **trans-European transport (TEN-T) projects** where this money would lead to construction beginning before the end of 2009. This will bring forward existing funds that would have been reallocated by the mid-term review of the multi-annual TEN-T programme in 2010;
- In parallel, **the EIB will significantly increase its financing** of climate change, energy security and infrastructure investments by up to € 6 bn per year, while also accelerating the implementation of the two innovative financial instruments jointly developed with the Commission, i.e. the Risk Sharing Finance Facility to support R&D and the Loan Guarantee Instrument for TEN-T projects to stimulate greater participation of the private sector;
- **The EBRD will more than double its efforts for energy efficiency, climate change mitigation and financing for municipalities and other infrastructure services**. This could lead through the mobilisation of private sector financing to € 5 bn investments.

6. Improve energy efficiency in buildings

Acting together, Member States and EU Institutions should take urgent measures to improve the energy efficiency of the housing stock and public buildings and promote rapid take up of 'green' products:

- Member States should set demanding targets for ensuring that public buildings and both private and social housing meet the highest European **energy-efficiency** standards and make them subject to energy certification on a regular basis. To facilitate reaching their national targets, Member States should consider introducing a reduction of property tax for energy-performing buildings. The Commission has just tabled proposals[28] for a major upgrading in the energy efficiency of buildings and calls on the Council and Parliament to give priority to their adoption;
- In addition, Member States should **re-programme their structural funds** operational programmes' to devote a greater share to energy-efficiency investments, including where they fund social housing. To widen possibilities, the Commission is proposing an amendment to the Structural Funds Regulations to support this move and stresses the need for early adoption of the amendments;
- The Commission will work with the EIB and a number of national development banks to launch a **2020 fund for energy, climate change and infrastructure** to fund equity and quasi-equity projects;
- The Commission calls on Member States and industry urgently to develop **innovative financing models**, for example, where refurbishments are financed through repayments, based on savings made on energy bills, over several years.

7. Promote the rapid take-up of "green products"

- The Commission will propose **reduced VAT rates for green products and services, aimed at improving in particular energy efficiency of buildings**. It encourages Member States to provide further incentives to consumers to stimulate demand for environmentally-friendly products;
- In addition, Member States should rapidly **implement environmental performance requirements** for external power supplies, stand-by and off mode electric power consumption, set top boxes and fluorescent lamps;
- The Commission will urgently draw up measures for **other products which offer very high potential for energy savings** such as televisions, domestic lighting, refrigerators and freezers, washing machines, boilers and air-conditioners.

D. Research and Innovation

The financial crisis and the subsequent squeeze on financial resources, both public and private, may tempt some to delay, or substantially cut, planned R&D and education investments, as has happened in the past when Europe was hit by a downturn. With hindsight, such decisions amounted to a major capital and knowledge destruction with very negative effects for Europe's growth and employment prospects in the medium to

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longer-term. However, there have also been examples of countries, both inside and outside Europe, which had the foresight to increase R&D and education expenditure in difficult economic times by which they laid the basis for their strong position in innovation.

8. Increase investment in R&D , Innovation and Education

Member States and the private sector should increase planned investments in education and R&D (consistent with **their national R&D targets**) to stimulate growth and productivity. They should also consider ways to **increase private sector R&D investments**, for example, by providing fiscal incentives, grants and/or subsidies. Member States should maintain investments to increase the quality of education.

9. Developing clean technologies for cars and construction.

To **support innovation in manufacturing, in particular in the construction industry and the automobile sector** which have recently seen demand plummet as a result of the crisis and which also face significant challenges in the transition to the green economy, the Commission proposes to launch **3 major partnerships between the public and private sectors**:

- **In the automobile sector, a 'European green cars initiative',** involving research on a broad range of technologies and smart energy infrastructures essential to achieve a breakthrough in the use of renewable and non-polluting energy sources, safety and traffic fluidity. The partnership would be funded by the Community, the EIB, industry and Member States' contributions with a combined envelope of at least €5 bn. In this context, the EIB would provide cost-based loans to car producers and suppliers to finance innovation, in particular in technologies improving the safety and the environmental performance of cars, e.g. electric vehicles. Demand side measures such as a reduction by Member States of their registration and circulation taxes for lower emission cars, as well as efforts to scrap old cars, should be integrated into the initiative. In addition, the Commission will support the development of a procurement network of regional and local authorities to pool demand for clean buses and other vehicles and speed up the implementation of the CARS21 initiative;
- **In the construction sector, a 'European energy-efficient buildings' initiative**, to promote green technologies and the development of energy-efficient systems and materials in new and renovated buildings with a view to reducing radically their energy consumption and CO_2 emissions. The initiative should have an important regulatory and standardisation component and would involve a procurement network of regional and local authorities. The estimated envelope for this partnership is €1bn. The initiative would be backed by specific actions proposed under actions 5 and 6 on infrastructure and energy-efficiency;
- **To increase the use of technology in manufacturing, "a factories of the future initiative"**: The objective is to help EU manufacturers across sectors, in particular SMEs, to adapt to global competitive pressures by increasing the technological base of EU manufacturing through the development and integration the enabling technologies of the future, such as engineering technologies for adaptable machines and industrial processes, ICT, and advanced materials. The estimated envelope for this action is €1.2 bn.

10. High-speed Internet for all

High-speed Internet connections promote rapid technology diffusion, which in turn creates demand for innovative products and services. Equipping Europe with this modern infrastructure is as important as building the railways in the nineteenth century. To boost Europe's lead in fixed and wireless communications and accelerate the development of high value-added services, the Commission and Member States should work with stakeholders to develop a **broadband strategy** to accelerate the up-grading and extension of networks. The strategy will be supported by public funds in order to provide broadband access to under-served and high cost areas where the market cannot deliver. The aim should be to reach 100% coverage of high speed internet by 2010. In addition, and also with a view to upgrading the performance of existing networks, Member States should promote competitive investments in fibre networks and endorse the Commission's proposals to free up spectrum for wireless broadband. Using the funding mentioned in action 5 above, the Commission will channel an additional €1 bn to these network investments in 2009/10.

3. Working towards global solutions

The challenges the EU is now facing are part of the global macro economic challenges highlighted by the recent Summit on Financial Markets and the World Economy in Washington. This European Economic Recovery Plan will form part of the EU's contribution to closer international macro economic co-operation, including with emerging countries, designed to restore growth, avoid negative spillovers and support developing countries. The EU has benefited greatly in recent decades from increased cross-border capital and trade flows with developed countries and increasingly also with emerging economies. The financial crisis has shown just how interdependent the world has become. The scale and speed at which a loss of confidence in one part of the world soon affected financial markets and spilt over to real economies worldwide is rightly a matter of concern. In today's world, a shock to one systemically important financial market is a global problem and has to be treated accordingly. So a key part of any co-ordinated EU response to the economic downturn will have to come through greater engagement with our international partners, and with international organisations, working together to tackle challenges at home and abroad, including in developing countries which will be among those hardest hit.

Keeping world trade moving

Europe's recovery depends on our companies' ability to make best use of the possibilities that global markets offer. Europe's return to solid growth will also depend on its capacity to export. Keeping trade links and investment opportunities open is also the best means to limit the global impact of the crisis, since global recovery will depend crucially on the sustainable economic performance of emerging and developing economies.

We must therefore maintain our commitment to open markets across the globe, keeping our own market as open as possible and insisting that third countries do the same, in particular by ensuring compliance with WTO rules. To reach this objective Europe should take renewed action to:

- Reach early agreement on a **global trade deal** in the WTO Doha Round. Following the renewed commitment made at the 15 November Washington Summit, the Commission has immediately stepped up efforts with key WTO partners to reach an agreement on modalities by the end of the year. A successful Round will send a strong short-term signal of confidence in the new global economic order. Over time it will bring consumers and businesses all over the world benefits in terms of lower prices, by cutting remaining high tariffs in key partner markets;
- Continue to support the economic and social consolidation of the candidate countries and the **Western Balkans** in the mutual interest of the EU and the region. To this end the Commission will put in place a € 120 million "Crisis Response Package" leveraging an amount of € 500 million in loans from International Financial Institutions;
- **Create a network of deep and comprehensive free trade agreements** in its neighbourhood as a step towards a more integrated regional market. Working through its neighbourhood policy, the EU can build on the Union for the Mediterranean and its plans for a new Eastern Partnership;
- Step up efforts to secure new and ambitious **Free Trade Agreements** with other trade partners;
- Build a close working relationship with the new US administration, including through the **Transatlantic Economic Council**. More effective regulatory cooperation could also be pursued with other key industrialised countries, such as Canada and Japan;
- Continue **dialogues with key bilateral partners** such as China, India, Brazil and Russia and use them to address public procurement, competition and intellectual property issues.

Tackling Climate change

The crisis is occurring on the eve of a major structural shift towards the low carbon economy. The goal of fighting climate change can be combined with major new economic opportunities to develop new technologies and create jobs and enhance energy security.

Agreement in the December European Council and with the European Parliament on the EU's internal climate change strategy will strengthen the leading role the EU must seek to play in securing an ambitious international agreement on climate change at the UNFCCC conference in Copenhagen at the end of 2009.

Supporting developing countries

The current crisis will further add to existing pressures on developing countries, which are often least well positioned to cope. So it is all the more important that the EU, and others, maintain their commitments to achieving the Millennium Development Goals (MDG). It may also be necessary for developed countries and regions, like the EU, to come up with new, flexible and innovative instruments to help developing countries face the rapid impact of the crisis such as the EU's recent food aid facility.

Continuing to help emerging and developing countries on the path to sustainable growth is particularly relevant in the run up to the International Conference on Financing for Development, which will take place in Doha from 29 November – 2 December. At this meeting, the EU – which in 2007 continued to be the largest donor of Overseas Development Assistance (ODA) - will reaffirm its commitment to arriving at ODA target levels of 0.56% of GNP by 2010 and 0.7% by 2015. It will also invite other donors to continue to work towards these goals.

Supporting sustainable development, *inter alia* through delivering on ODA targets and MDG goals, but also through addressing overall governance challenges, is all the more important in times of economic crisis. Sharing the benefits of sustainable growth, tackling climate change, energy and food security and good governance, are interlinked challenges, where international financial institutions, like other international bodies, also have an important role to play.

4. Conclusions

It is clear that the EU faces a difficult time in the coming months as the effects of the world and European economic slow down puts pressure on jobs and demand. But, acting together, Member States and European Institutions can take action to restore consumer and business confidence, to restart lending and stimulate investment in our economies, creating jobs and helping the unemployed to find new jobs. **The European Economic Recovery Plan** set out in this Communication is designed to create a basis for rapid agreement between Member States to get Europe's economy moving again.

The European Commission calls on the European Parliament to lend its full support to this European Economic Recovery Plan.

It calls on Heads of State and Government, at their meeting on 11 and 12 December 2008, to:

Endorse this European Economic Recovery Plan;

Request the European Commission and the Council to work together to ensure that combined national and EU level measures amount to at least 1.5% of GDP;

Ensure that updated Stability and Convergence Programmes including the national impulse measures, are assessed in accordance with the procedures laid down in the Stability and Growth Pact, while making use of the flexibility it offers;

Endorse the 10 actions outlined in the European Economic Recovery Plan; urge the Council and Parliament to accelerate any legislative activity needed to implement these measures;

Agree, on the basis of a Commission contribution before the 2009 Spring European Council assessing progress made with the implementation of the Plan, to identify any further measures necessary at EU and Member State level to stimulate the recovery;

Continue to work closely with international partners to implement global solutions to strengthen global governance and promote the economic recovery.

From financial crisis to recovery: A European framework for action

COMMUNICATION FROM THE COMMISSION

BRUSSELS, 29 OCTOBER 2008

COM(2008) 706

Acting in a coordinated way at EU level

The unprecedented crisis in international financial markets has created major challenges for the EU. Co-ordinated action at EU level by all 27 Member States has been effective in stabilising Europe's banking system. Implementation of measures has to be rapid so as to put much needed liquidity back into the financial system. But the financial crisis is not yet over and is already feeding into a serious downturn affecting the wider economy, hitting households, businesses and jobs. The shocks hitting the European economy are expected both to reduce the potential growth rate in the medium term and cut actual growth significantly in 2009 and 2010. As investment shies away from risk, productivity will be put under downward pressure and innovation may suffer.

Europe's strength lies in its solidarity and our ability to act together. All Member States will be affected, albeit in different ways and to different degrees, and it is likely that unemployment will increase, demand will fall, and fiscal positions will deteriorate. Acting jointly means a more effective and credible response. In contrast, if each Member State acts alone, their efforts will fall short. There is also a risk of unwelcome spillover effects on other Member States.

The fact that the EU was able to take collective action when the pressure on financial markets was at its most intense was central to the stabilisation of the banking sector. Coordinating national action inside a set of clear EU principles, complemented with direct EU action, proved to be the right approach. It was backed up with decisive, coordinated and effective action: at the EU level by the French Presidency of the Council, the Commission and the European Central Bank, and at the national level by the Member States, with full support and cooperation from the European Parliament.

The EU should build on this success and decide to tackle the next stages of the crisis in a united, co-ordinated manner turning these challenges into opportunities; adding selected short term measures to the Lisbon Strategy for growth and jobs. This paper sets out a three part approach which will be developed into an overall EU recovery action plan/framework:

- A new financial market architecture at EU level
- Dealing with the impact on the real economy
- A global response to the financial crisis

This Communication is presented as a Commission contribution to ongoing debate inside the EU and with our international partners on how best to respond to the current crisis and its aftermath. On 26 November the Commission will propose a more detailed EU recovery framework, under the umbrella of the Lisbon strategy for growth and jobs, bringing together a series of targeted short term initiatives designed to help counter adverse effects on the wider economy and adapting the medium to long term measures of the Lisbon strategy to take account of the crisis.

1. A new financial market architecture at EU level

Steering the European financial sector out of crisis

Working closely together, Member States and the Commission have agreed a series of immediate measures to protect our citizens' savings and rescue banks in difficulty. The initial reaction to the various packages in credit markets has been positive, but they will need to be implemented rapidly and their impact assessed on an ongoing basis. Competition policy provides a vital contribution to a coordinated reaction, whilst preserving the possibility for Member States to intervene where necessary according to national conditions.[26] The Commission will continue to ensure a level playing field among beneficiaries and non-beneficiaries of public sector assistance.

However, conditions in the global financial system remain very fragile and the risk of a severe credit crunch persists. Accordingly, there can be no room for complacency in implementing the strategy to steer the European financial sector out of crisis. The EU needs to continue to act in a co-ordinated manner to maximise the success of its response. In particular there is a need for:

- *Continued strong support for the financial system from the ECB and other central banks*. Central banks have demonstrated impressive flexibility and ingenuity in providing sufficient liquidity to the banking sector and in ensuring that the crisis does not spread to other parts of the financial system.
- *A rapid and consistent implementation on the bank rescue plans established by the Member State*s. This is essential to quickly restore confidence in the EU banking sector and so limit the damage to the economy and create the conditions for a strong and sustained recovery. Consistency is necessary to optimise the overall impact of the rescue plans across the EU, to avoid a fragmentation of the Internal Market and to maintain a level playing field among beneficiaries and non-beneficiaries of public sector assistance.
- *Decisive measures to limit the spread of the crisis across Member States.* The financial crisis has now begun to affect the recently acceded Member States of central and eastern Europe. In order to meet this threat, the EU stands ready to provide substantial medium-term financial assistance, together with the IMF, to those Member States experiencing balance of payments pressures or serious financial-stability risks.

Ensuring reinforced regulation and supervision

In parallel to the stabilisation of the crisis, it will be necessary to move on to the phase of restructuring the banking sector and, at some stage in the future, returning banks to the private sector. The Commission will work directly with Member States to ensure that the restructuring of parts of the banking sector is done in a way which will ensure fair and healthy competition in the sector for the future. Private individuals and businesses need to have access to a sound and stable banking system in order to be able to finance their investment plans and society as a whole will benefit from the measures taken to ensure that credit remains available on reasonable terms.

The Commission has tabled proposals on deposit guarantees and capital requirements, and on countering the risk of pro-cyclicality in the effects of regulation and accounting standards. It will also soon make proposals on credit ratings agencies and executive pay. Work has also been launched on the adequacy of capital market supervision and risk management, including on derivatives, hedge funds and private equity. The Commission encourages the Council and the European Parliament to give priority to dealing with its proposals so that stronger regulation and supervision can be implemented as soon as possible and play their role in restoring confidence in the system.

These measures will tackle the shortcomings identified and will help to restore confidence in the system as a whole. We need to redefine the regulatory and supervisory model of the EU financial sector, particularly for the large cross border financial institutions. The current national-based organisation of EU supervision limits the scope for effective macro-prudential oversight. The Commission has launched work on the kind of supervisory system which we need for the future through the De Larosière Group[27].

2. Dealing with the impact on the real economy: a framework for recovery

The impact of the credit crunch on the wider economy will be felt in rising unemployment levels and reduced demand for the goods and services of companies of all sizes. The policy instruments for dealing with employment and

26 The Commission has adopted a Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (OJ C 270/8, October 25th , 2008)

27 The mandate of the group is to consider the organisation of European financial institutions to ensure prudential soundness, the orderly functioning of markets and stronger European co-operation on financial stability oversight, early warning mechanisms and crisis management, including the management of cross border and cross sectoral risks. It will also look at co-operation between the EU and other major jurisdictions to help safeguard financial stability at the global level. Its members are: Jacques de Larosière (Chairman), Leszek Balcerowicz, Otmar Issing, Rainer Masera, Callum McCarthy, Lars Nyberg, José Perez Fernandez, Onno Ruding

stimulating demand are mainly in the hands of the Member States. However, the EU dimension brings added value to national actions. As the positive results of the Lisbon strategy have shown, where Member States and the Commission work in partnership to create growth and jobs considerable additional benefits can be delivered.

However, in the current crisis the EU needs to adapt the medium to long term measures of the Lisbon strategy to take account of the crisis. It needs to add short term actions to its structural reform agenda, while continuing to invest in the future through:

- Increasing, investment in R&D innovation and education;
- promoting flexicurity as way of protecting and equipping people rather than specific jobs;
- freeing up businesses, especially SMEs, to build markets at home and internationally;
- enhancing European competitiveness by continuing to green our economy as a way of creating new jobs and technologies, overcoming our energy security constraints and achieving our environmental goals.

The more Europe can coordinate effectively, the more the positive benefits of these measures will be multiplied. Building on the partnership approach which characterises the Lisbon Strategy, we invite Member States to agree to higher levels of coordination, to face these new challenges.

The Stability and Growth Pact

Given the EU-wide nature of the shocks and the fact that inflationary pressures are now easing, monetary and fiscal policy can contribute to supporting demand. Government budget positions are likely to deteriorate considerably in coming years reflecting falling revenue. While part of falling revenues is linked to the slowdown, the part linked to the adjustment of some sectors like the oversized housing sector will have some consequences of a more permanent nature for revenues. Forecasts suggest an overall EU budgetary deterioration of above 1 percentage point of GDP over the next year, with large variations from one Member State to another. This might partially cushion the impact of the slowdown in the short-term but at the expense of fiscal deterioration, even before the financial rescue plans are taken into account. However, and largely due to previous implementation of the Stability and Growth Pact, the EU deficit, and in particular that of the Euro area, is currently expected to remain below 3% of GDP.

While the largest share of the announced measures in support of financial stability (guarantees) will not have an immediate impact on the deficit, real fiscal costs will be incurred to the extent that public guarantees are called in. At the same time, measures taken to recapitalise banks are already increasing debt levels. Together with the evidence of an ongoing structural deterioration in budget balances, this may raise concerns about the long-term sustainability of public finances, especially in the most exposed countries.

The Stability and Growth Pact provides the right policy framework, balancing short-term stabilisation needs and long-term structural reform requirements, notably supporting the adjustment process. Implementation of the Pact should ensure that any deterioration of public finances is accompanied by structural reform measures adequate to the situation, while ensuring that sustainable positions are being restored. Budgetary policies should draw fully on the degree of flexibility permitted by the Treaty and the revised Stability and Growth Pact and should take into account the following principles:

- Fiscal policy should be maintained on a sustainable course, anchoring expectations of an ordered resolution of the crisis;
- Country-specific differences in fiscal room for manoeuvre should be considered, conditional on strong and credible national budgetary institutions and medium-term budgetary frameworks;
- The level of ambition of the structural reform agenda should pay particular attention to those reforms that strengthen resilience and enhance sustainability over the long run;
- Reforms supporting demand in the short run should be timely, targeted and temporary.

The excessive deficit procedure should be seen as peer support to overcome current difficulties and ensure long-term sustainability. A clear distinction will be made between budgetary consequences stemming from policy errors and cyclical effects including consequences of the financial crisis rescue package. In particular, increases in debt levels due to rescue plans will be taken into account in the surveillance process.

Accelerating reform and investment

The shocks hitting the European economy are expected both to reduce the potential growth rate and increase unemployment, thereby reducing demand. Structural reforms are therefore essential to sustain demand in the short-term, facilitate transitions within and into the labour market in the short and medium run and increase potential growth in the long-term.

It will be particularly important to ensure that investment is directed to best effect. This means using EU and national public sector support to businesses to have a double impact – offsetting falls in demand in the short term, but doing this in a way that will help reform and modernisation in the longer term. Within the existing reform priorities, identified under the Lisbon Strategy, immediate priority should be given by Member States to key reforms that support innovation and productivity-enhancing investment, which together with bringing down inflation and supporting household incomes through targeted social protection measures will support demand.

Moreover, with the financial system in the grip of a prolonged process of deleveraging, and given the expected changes in the banking sector's appetite for risk, the question of how to fund innovative technologies, preserve the international competitiveness of European industry and finance SMEs will need to be addressed. In addition, a continued focus on opening third country markets for European business, including small and medium sized enterprises will be required.

The Commission will explore with the Member States the following measures:

- Following the informal ECOFIN last month, the European Investment Bank Group put together an overall package of €30bn for loans to small and medium-sized enterprises in Europe granted via commercial banks. This constitutes a substantial increase over its usual lending in this sector but has to be implemented with urgency;
- Working closely with the Commission, the EIB could accelerate its work of financing climate change, energy security and infrastructure projects, in particular those of a cross-border nature. There may be a need to reinforce the capital base of the EIB by for example advancing the date of its next capital increase currently scheduled in the course of 2010;
- The EBRD has been playing a key role in financial sector reform and in financing the private sector in our newer Member States. In the current financing environment its activities in these countries could be strengthened.
- With a financial envelope of over €350 billion for the period 2007-2013, cohesion policy provides considerable support to public investment by the EU's Member States and regions. The Commission will explore with Member States the scope for accelerating investment projects and for bringing forward payments to Member States;
- Finding innovative funding for a wide range of infrastructure projects, including transport, energy and high technology networks, for example through a better use of public-private partnerships;
- Boosting energy efficiency and green technology, for example in buildings and in clean cars, which would provide new opportunities for the economy, including for SMEs, while at the same time helping the EU to meet its climate change aims;
- Increasing demand for energy efficient goods and services through reduced taxation and other targeted fiscal measures;
- Maintaining and creating new export opportunities for EU business, including SMEs, through a pro active market opening agenda, including pursuing trade agreements and our market access strategy;
- Using national and EU competition, as well as consumer, policies to make markets work better, bringing down prices for consumers and taking full advantage of the Single Market.

Acting together in a spirit of partnership and co-ordinating their activities, Member states and European Institutions, can mobilise important funds to accelerate much needed investment and equip the EU to emerge stronger from this crisis.

Addressing the employment and social impact

The economic downturn will affect families, households and the most vulnerable people in our societies. It is already being felt in terms of unemployment. The EU needs to work to minimise the impact on jobs and job losses and to use the levers at its disposal to cushion the social impact. Whereas the main responsibility lies with the Member states, a good coordination between community and national action will be helpful. The Commission will work with the social partners to find the best response to the crisis. Growth areas in terms of job creation should continue to be encouraged – such as personal, health care and social services, in a rich source of job creation which also serves as a tool for access and opportunities.

Europe has suffered in the past from a failure to apply active labour market measures to help people to retrain for the future, to find and to create new jobs. There is now a more urgent need to support transition within and into the labour market, raising and matching supply and demand for labour, and increasing labour productivity. This means applying measures encouraged by the Lisbon strategy including:

- Countering the effects of unemployment by offering Member States the possibility of reprogramming funds under the European Social Fund to support measures to quickly reintegrate unemployed into the labour market;
- Reviewing the effectiveness of the Globalisation Adjustment Fund;
- Helping the unemployed to start up a new business quickly and cheaply;
- Monitoring the impact of the crisis on different sectors affected by structural adjustments and using the scope offered by the State Aids regime to enable timely, targeted, and temporary support where appropriate;
- Pursuing flexicurity: in particular active labour market policy measures, tax and benefit reform, and reinforced matching of skills and jobs. The situation is likely to be particularly difficult at the lower end of the labour market, making it particularly important to ease the unavoidable restructuring and provide income and targeted social protection support.

3. A global response to the financial crisis

Every region of the world has been affected by the crisis and no region working alone will be able to tackle its effects. There are clear signs that the crisis is spreading to emerging markets and will further add to existing pressures on developing countries. It is important that further contagion is contained and the IMF should stand ready to intervene with emergency financing as appropriate. Europe will work together with the IMF and will use its instrument of macro-financial support, particularly to help neighbouring countries. Europe is and will continue to be an active actor in the coordinated global response.

The current financial crisis has underlined more than ever the interaction between macroeconomic policies and financial markets on a global scale. Addressing it will hence require tackling both regulatory and supervisory failures, as well as the macro-economic and exchange rate imbalances that are among the origins of the current crisis.

The financial crisis has raised issues of global governance which go beyond the purely financial sector. The issue of global imbalances has come to the fore, but must also be seen in the broader context of the need to maintain the EU's commitment to open markets in trade and services and deeper multilateral co-operation, fighting against protectionist tendencies and pursuing a positive outcome of the WTO Doha Round. It is also about sharing the benefits of sustainable growth with developing countries, particularly at a time of volatile commodity prices, and tackling challenges like climate change, global prosperity and delivering on the Millennium Development goals.

Following an EU initiative in which the Commission played a full part, the US will host on 15 November the first international summit on the financial crisis. One of the goals of the summit is to begin to improve coordination at global level, review the role of international institutions in financial market surveillance and to adapt global governance structures for the future. The Commission has given active support to international efforts to provide a consistent framework for addressing investment issues at global level, including on the IMF General Agreed Principles and Practices on Sovereign Wealth Funds.

In order to reduce the risk of a recurrence of financial crises in the future, a series of measures to reform the global financial architecture should be pursued. These should relate broadly to the following areas:

- Strengthening the international consistency and quality of regulatory standards, including implement reforms (as reflected in the ECOFIN roadmaps and FSF recommendations) and extend them at global level;
- Strengthening international coordination among financial supervisors;
- Strengthening macroeconomic surveillance and crisis prevention, bringing together macro- and micro-prudential aspects, enhancing financial stability and developing early warning systems; and
- Further developing the capacity to deal with financial crisis and resolution capacities, at the national, regional and multilateral levels.

Ultimately, to deliver financial stability it will be essential to undertake a major overhaul of the relevant institutions. Only in this way we could lock in a sustainable way the results of the series of global financial crisis summits. While the current crisis has revealed some weaknesses in the European regulatory system, Europe is well placed to play an active role in designing the new global architecture and making it work effectively. This should be based on key principles:

- Efficiency: A balance is needed to ensure speed and quality in decisions, without excessive intrusion;
- Transparency and accountability: new or reformed organisations need to be properly accountable,

to increase incentives for implementation and enforcement;

- Representation: Global groups should include key emerging countries to improve the legitimacy of the decision making process. The fragmented representation of the European countries and of the euro area should also be addressed to increase the EU's overall effectiveness and influence.

Risks and opportunities

The EU needs to take effective action now to counter the crisis. This action needs to be smart so that it stimulates the right changes in our economy ensuring that we emerge from this crisis ready to take full advantage of the upturn when it comes. It can best do this if we seize opportunities to continue to restructure our economies, train and equip our citizens for new challenges while taking care of the most vulnerable people in our societies in the spirit of Article 2 of the Treaty. We know from past experience that our success is based on moving away from economic nationalism and that the drivers of European growth come from removing barriers between Member States, capitalising on the scale and strength of our Internal Market.

The EU has faced different kinds of crisis in its history and has always managed to emerge from them stronger and more united. We have already shown that when our 27 Member States and the European Institutions decide to act together, we are able to get results and deliver for our citizens. The current crisis can also be an opportunity for Europe and the actions outlined in this paper show how we can work together to put the EU on the road to recovery.

Driving European recovery

COMMUNICATION FOR THE SPRING EUROPEAN COUNCIL

BRUSSELS, 4 MARCH 2009

COM(2009) 114

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The past six months have seen unprecedented pressure in Europe from a global economic crisis. The EU's reaction has been a test of resilience and of our speed of reaction. This situation has also presented challenges of co-ordination and reinforced the need for solidarity among the 27 Member States. Last autumn, the EU took the action needed to prevent a meltdown in financial markets. In December, it agreed to put in place a European Economic Recovery Plan (EERP) to arrest the pace of the downturn and create the conditions for an upturn. The Commission and Member States have responded positively to the need to take measures to deal with the crisis and prepare for recovery.

Now that they are being implemented, the need for greater co-ordination in order to maximise the positive cross border impacts of these measures is beginning to be felt. The purpose of this Communication is to set out the next steps in dealing with the crisis and leading the EU to recovery. It contains an ambitious programme of financial sector reform, reviews the measures being taken to sustain demand, boost investment and retain or create jobs and sets out a process for preparing the Employment Summit in May. It also places the EU's internal efforts in the wider context of the upcoming G20 Summit, where the EU should present an ambitious agenda for reforming the international financial governance system.

As the global economy has continued to slide, falling demand and lost jobs are hitting businesses, families and communities throughout the EU. Confidence in the financial sector remains frail. New weaknesses are coming to light and require a co-ordinated response. Cleaning up the banking system is a prerequisite for a return to normal credit conditions. A major mobilisation of efforts is necessary, because recovery will take time.

The stabilisation of the financial markets has not yet fed through to loosen the credit crunch and get lending flowing again to companies and households. It is also why the EU must keep up the pace of financial sector reform, implementing reforms to regulation, and looking ahead to a supervisory regime more in tune with today's cross-border realities.

As long as lending remains scarce, efforts to boost demand and consumer confidence will be held back. Since the Recovery Plan was adopted in December, implementation of the agreed stimulus package has begun. Although it will take time for the positive effects to work their way through the economic system, the size of the fiscal effort (around 3.3% of EU GDP or over €400 billion) will generate new investment, support workers and their families and boost demand. Action is also coming on stream which targets efforts on the long-term objective of building a competitive and sustainable EU economy, as set out in the Lisbon strategy for growth and jobs. This ensures that the EU not only tackles the immediate downturn, but prepares to make the most of future opportunities.

At the same time, the impact on jobs has spread. Targeted action is needed to limit the hardship for individuals and prevent the loss of precious skills. Steps can and should be taken to keep people in employment through the downturn and to use creative solutions to maintain the goal of developing a more highly-skilled workforce.

This is a global crisis, and recovery will not be complete until the major players of the world economy are once again growing and trading together. The steps taken in the EU have served as inspiration for global partners, and have helped to build a consensus for action which should be reflected in concrete action at the forthcoming G20 meeting in London.

As the crisis has unfolded, the importance of the EU dimension has become increasingly clear. The single market has provided the bedrock of EU economic growth for the past 15 years, a driver of growth that has created millions of jobs, making Europe more competitive and more efficient. It has shaped an unprecedented interdependence which means that traders, suppliers, manufacturers and consumers are linked as never before. All Member States trade more with each other than with the rest of the world. Therefore, the best way to boost the economy is to work with the grain of this interdependence, avoiding any attempt to put artificial constraints on the impact of recovery measures.

This puts the spotlight on the importance of coordination. While recognising that there are clear differences in the social and economic situations of Member States, each has a wide range of levers at their disposal to address their particular circumstances. These levers will be most effective if they are used within a clear EU framework. For example, national actions to boost demand will often have a positive cross border effect on goods and services in other Member States and thus feed through into a virtuous circle of recovery for Europe as a whole.

The EU economy has huge long-term strengths. By maintaining its strong position in world export markets, it has shown that it has the competitiveness to succeed in the age of globalisation. It has a highly skilled workforce and social models that are proving their worth at a time of extreme pressure, protecting the most vulnerable in our society. The EU is particularly well placed to make the transformation to a low-carbon economy and take up the technological challenge of tackling climate change. Tackling the challenge of the crisis together in a spirit of solidarity is the best way for Europe to exploit these strengths to arrest the downturn and return to growth.

2.estoring and maintaining a stable and reliable financial systemEM

2.1. Rebuilding confidence and lending

A stable financial sector is a prerequisite for building sustainable recovery. Last autumn, coordinated European action to recapitalise and guarantee banks across the EU prevented the meltdown of the European banking industry and helped restore some liquidity in interbank markets.

Now it is time to move to monitoring these financial sector support packages to ensure that they are effectively implemented. Both home and host country authorities of cross-border financial institutions have a strong mutual interest in preserving macro-financial stability by guaranteeing the funding and stability of local banking systems and adhering to the principle of free movement of capital.

The Commission has already presented legislative proposals to improve protection for bank depositors, make credit ratings more reliable, get the incentives right in securitisation markets, and reinforce the solidity and supervision of banks and insurance companies. Adjustments to the accounting rules were rapidly agreed to put European financial institutions on a level playing field with their international competitors. These measures are part of building a stronger, more reliable system for the future.

But confidence in the banking industry remains low. Banks and other financial players are still in process of deleveraging and have not resumed their usual roles in either wholesale or retail markets. They are maintaining a very restrictive approach to lending. Restoring the flow of credit to the real economy is therefore a key priority, to prevent a further reduction in economic growth.

It is time for action to break the cycle of declining confidence and unwillingness to lend. In some cases, this means dealing directly with the asset side of banks' balance sheets, putting an end to uncertainty about the valuation and location of future losses. To restore confidence in the banking sector as a whole, banks with impaired assets should disclose them to the competent authorities.

Building on the guidance already given on the application of state aid rules to measures to support and recapitalise financial institutions , the Commission has presented a Communication to help Member States design measures for dealing with impaired assets. Options include state purchase, state guarantees, swapping or a hybrid arrangement. It is for Member States to decide whether to use these tools and how they are designed. But a common and coordinated European framework, based on the principles of transparency, disclosure, valuation and burden-sharing, will help ensure asset relief measures have the maximum effect.

The framework will ensure a level playing field between banks, facilitate compliance with the state aid rules and limit the impact on public finances and prepare for the necessary restructuring of the sector. The Commission will shortly provide more detailed guidance on its approach to the assessment of restructuring and viability plans of individual banks under the state aid rules. It will make a case-by-case assessment, taking into account the total aid received through recapitalisation, guarantees or asset relief, to ensure long-term viability and a return to normal functioning of the European banking sector.

To improve credit conditions, the ECB and other central banks have been providing considerable liquidity. They have already cut interest rates and the ECB has flagged that there could be scope for further reductions. By creating demand for loans, the impact of the fiscal stimulus can also be expected to increase bank confidence and willingness to lend. Credit flows should therefore be monitored very closely in the coming months to ensure that extensive public intervention in the financial sector really does result in relief for European households and businesses.

2.2. Responsible and reliable financial markets for the future

The crisis has exposed unacceptable risks in the current governance of international and European financial markets which have proved real and systemic in times of serious turbulence. The unprecedented measures being taken to restore stability in the sector must be matched by robust reform to remedy known weaknesses, identify and prevent the emergence of new vulnerabilities in the future. European businesses and citizens need to be able to trust financial institutions as reliable partners for translating their deposits into the investment that is so central to the long-term health of the economy. Market surveillance and enforcement of contractual and commercial practices will play an important role in restoring consumer confidence in retail banking.

Over the course of 2009, the Commission will propose the ambitious reform of the European financial system which is set out below and in more detail in Annex I. The reform will set a clear course for the EU to lead and shape the process of global change in particular through the work of the G-20. In parallel, the Commission will continue to apply the framework for urgent rescue relief as well as long-term restoration of viability in application of the existing state aid guidance.

The reform will ensure that all relevant actors and all types of financial instrument are subject to appropriate regulation and oversight. It is grounded in the values of responsibility, integrity, transparency and consistency.

Last year in November, the Commission mandated a High Level Group chaired by Mr Jacques de Larosière to propose recommendations for this reform, with a particular focus on supervision. The Commission welcomes the report presented on 25 February 2009 and shares the Group's analysis of the causes of the financial crisis. The Group's 31 recommendations offer a comprehensive set of concrete solutions for regulatory, supervisory and global repair action.

Many of the Group's recommendations for regulatory repair contribute to a growing consensus about where changes are needed, reflecting issues raised by key actors including the European Parliament. The Commission has already taken concrete initiatives in areas such as credit rating agencies; insurance; revision of capital requirements under Basel II; securitised products; mark-to-market accounting rules and addressing pro-cyclicality of regulatory measures. Industry has acceded to the Commission's request to move Credit Default Swaps on European entities and on indices of European entities onto a central clearing platform established, regulated and supervised in Europe by 31 July 2009. In other areas, such as the regulation of hedge funds and other non-bank investment actors, transparency of derivatives markets and improved accounting rules, Commission proposals will be brought forward as a matter of priority in the coming months.

The Group's recommendation on the need to develop a harmonised core set of standards to be applied throughout the EU is of particular interest. Key differences in national legislation stemming from exceptions, derogations, additions made at national level or ambiguities in current directives should be identified and removed. The Commission will therefore launch an important new initiative in this sense. The Group's findings on sanctions regime also point to the need for a new push on this front.

In the supervisory sphere, nationally-based supervision models are lagging behind the market reality of more and more banks and insurance companies operating across borders. The Commission has already proposed establishing colleges of supervisors to facilitate cooperation between supervisors for cross-border bank and insurance firms. Coordination within the three Committees of European Supervisors has been a significant step forward but is not without limitations. The Commission has modified the Committees' mandates which will improve their efficiency and effectiveness, introduce qualified majority decision-making and a "comply or explain" approach. A proposal to give the Committees better funding for their activities is currently before the budgetary authority.

The de Larosière Group's report highlights the existing gaps in preventing, managing and resolving crises and the difficulties caused by a lack of cooperation, coordination, consistency and trust between national supervisors. For businesses, complying with numerous different regimes brings additional administrative and regulatory burdens. The Commission agrees with the Group's finding that recent experience has exposed important failures both in the way supervisors look at particular cases, and in their approach to the financial system as a whole.

Regarding macro-prudential supervision, the Commission particularly welcomes the Group's idea for a new European body, under the auspices of the ECB and involving the Commission and the Committees of European Supervisors, to gather and assess information on all risks to the sector as a whole, across all sectors of finance. Such a body would be well placed to identify systemic risks at European level and issue risk warnings. Mandatory follow-up and monitoring tools, and the possibility to refer issues to global early warning mechanisms, would be essential.

In terms of supervising individual companies, the Group has recommended the establishment of a European System of Financial Supervision (ESFS). In a first phase the three Committees of European Supervisors as well as national supervisors would be strengthened, and a more harmonised set of supervisory powers and sanctioning regimes would be introduced. In a second phase, the Committees would be transformed into Authorities carrying out certain tasks at European level, whilst relying on colleges of supervisors and national supervisors for the day-to-day supervision of individual companies. A review after three years would consider the need for further consolidation of the ESFS.

The Commission agrees with the Group's finding that the structure of the existing Committees – whose role has reached the limits of what is legally possible - is not sufficient to ensure financial stability in the EU and its Member States, and that the inefficiencies in the present structure need to be resolved as swiftly as possible. The Commission also considers that there are merits in a system which combines certain centralised responsibilities at European level with maintaining a clear role for national supervisors who are closest to the day-to-day operation of companies.

The Commission considers that action is urgently needed and will propose to accelerate the implementation of the Group's findings. By combining the two phases proposed by the Group, it should be possible to move more quickly to both improve the quality and coherence of supervision in Europe, and to transform the three existing Committees into authorities within a European financial supervision system. The feasibility of whether to combine one or more of these authorities should be examined with a view to ensuring maximum supervisory coherence and enhancing consistency and interaction between banking, insurance and markets supervisory experts.

The authorities could be charged with oversight and ultimate decision-making powers regarding colleges of supervisors for cross-border groups; ensuring consistency and good practice through setting common high standards and providing common interpretations of requirements for supervisory activities; and a key role in early warning mechanisms and crisis management, working with the body set up to look at the overall picture.

Building on the recommendations of the de Larosière Group, the Commission will now move forward in developing proposals to establish a new European financial supervision system. Drawing on views expressed by Member States, the existing Committees, the European Parliament, the ECB and other stakeholders, the Commission will prepare its proposals on the basis of an impact assessment, in line with its better regulation principles.

To deliver responsible and reliable financial markets for the future, the Commission will propose an ambitious new reform programme, with five key objectives:

4. To provide the EU with a **supervisory framework** that detects potential risks early, deals with them effectively before they have an impact, and meets the challenge of complex international financial markets. The Commission will present a **European financial supervision package** before the end of May 2009, for decision at the June European Council. The legislative changes to give effect to these proposals will follow in the autumn and should be adopted in time for the renewed supervisory arrangements to be up and running in the course of 2010. The package will include two elements:

- Regarding macro-prudential supervision, measures to establish a **European body** to oversee the stability of the **financial system as a whole**
- Regarding micro-prudential supervision, proposals on the architecture of a **European financial supervision system**

5. To fill gaps where European or national **regulation** is insufficient or incomplete, based on a 'safety first' approach. The Commission will propose:

- A comprehensive legislative instrument establishing regulatory and supervisory standards for **hedge funds, private equity** and other systemically important market players(April 2009)

- A White Paper on **tools for early intervention** to prevent a crisis (June 2009)
- On the basis of a report on **derivatives** and other complex structured products (June 2009), appropriate initiatives to increase transparency and ensure financial stability
- Legislative proposals to increase the quality and quantity of **prudential capital** for trading book activities and tackle complex securitisation (June 2009) and to address liquidity risk and excessive leverage (Autumn 2009)
- A rolling programme of actions to establish a far **more consistent set of supervisory rules** (to be launched in 2009)

6. To ensure that European **investors, consumers and SMEs can be confident** about their savings, access to credit and their rights as concerns financial products, the Commission will come forward with:

- A Communication on **retail investment products** to strengthen the effectiveness of marketing safeguards (April 2009)
- Further measures to reinforce **bank depositor, investor and insurance policy holder protection** (Autumn 2009)
- Measures on **responsible lending** and borrowing (Autumn 2009)

7. To **improve risk management** in financial firms and align **pay incentives** with sustainable performance. To this end, the Commission will:

- Strengthen its 2004 Recommendation on **remuneration of directors** (April 2009)
- Bring forward a new Recommendation on **remuneration in the financial services sector** (April 2009) followed by legislative proposals to include remuneration schemes within the scope of prudential oversight (Autumn 2009)
- To ensure **more effective sanctions** against market wrongdoing. To this end, the Commission intends to:
- Review the **Market Abuse Directive** (Autumn 2009)
- Make proposals on how **sanctions** could be strengthened in a harmonised manner and better enforced (Autumn 2009)

The Commission invites the Spring European Council to endorse this reform ahead of the G-20 London Summit. This will demonstrate the European Union's willingness and commitment to take ambitious measures to implement the G-20 Washington action plan. The European Parliament and the Council should be invited to give due priority to the Commission's forthcoming proposals.

3.upporting the real economyMY

The global economy is in the midst of the worst recession in decades. World trade has contracted at a rapid pace. Industrial production declined rapidly towards the end of 2008. Both the US and Japan have seen a marked decline in GDP, whilst China had its lowest growth performance since 2001 reflecting the dramatic decline in world trade.

The EU economy could not escape this worldwide downturn. Both the euro area and the EU are now in a serious recession. Output in manufacturing and construction has been especially hard-hit with an estimated loss of € 150 billion in full-year terms. The automotive sector alone fell by 32.3%, which triggered deterioration in many other sectors. EU manufacturing exports to non-EU countries dropped by 5.8% in November/December 2008, while intra-EU trade was 13.7% lower than the previous year.

But whilst real GDP is expected to fall by nearly 2% in 2009 , it should recover gradually to around ½% in 2010 in part due to the effects of policy measures being taken at European and national level under the European Economic Recovery Plan (EERP).

3.1. Implementing the European Economic Recovery plan

In December 2008, on the basis of proposals from the Commission, an ambitious European Economic Recovery Plan (EERP) was agreed. At its core was a combined effort to give Europe's economy an immediate fiscal boost, while targeting this investment at strengthening the European economy for the long-term challenges ahead. It recognised that the fall in private demand made the role of public expenditure even more important in the short term.

The full impact of the EERP will only become clear in the coming months, but the early signs are positive, both in terms of volume of the stimulus and the direction of reforms. Most Member States have now adopted or announced fiscal stimulus measures. Over the period 2009 and 2010, fiscal policy is providing support to the economy in the region of 3.3% of GDP, equivalent to more than € 400 billion, a potentially huge support to growth and jobs across the EU.

A large share of this support comes from the operation of automatic stabilisers which are particularly strong in the EU. It also comes from discretionary fiscal stimulus packages of Member States in the region of 1.2% of GDP called for in the EERP, although the scale varies widely according to the Member States' room for fiscal manoeuvre. A further € 30 billion or 0.3% of GDP has been made available from EU sources . The Commission has proposed a targeted investment to the tune of € 5 billion to address the challenge of energy security and to bring high-speed internet to rural communities, as well as through additional advance payments under cohesion policy amounting to € 11 billion, of which €7 billion for new Member States. Moreover, the European Investment Bank (EIB) has boosted its SME lending possibilities by € 15 billion.

Most of the measures Member States are taking are well targeted to stimulate demand: support for households, business, and employment, directly increasing demand through public investment and the modernisation of infrastructure (see Annex II for details). And most of these measures are consistent with the longer-term objectives identified in the country-specific recommendations under the Lisbon strategy for growth and jobs – such as building Europe's knowledge base, boosting energy security and adapting to a low-carbon economy.

An effective and rapid implementation of these measures will be critical, and will need to be complemented by action to improve business conditions. The EU has every interest in maintaining a strong and competitive industrial base as it moves towards a knowledge-based and low carbon economy. Given the complex nature of modern industrial production, the economies of scale and opportunities for diversification offered by the Single Market, the EU has developed a policy of horizontal support for industry in recent years. At both EU and national level this means that R&D, innovation, new and environmental technologies as well as training can all be funded as support and development measures. These horizontal measures can be implemented in different sectors of the EU economy, as recently illustrated in the EU framework for the automotive industry, issued by the Commission on 25 February.

Member States are also giving priority to the needs of SMEs due to their huge contribution to overall employment in the EU and are invited to speed up implementation of the Small Business Act. The Commission will shortly table a legislative proposal to tackle the issue of late payments more effectively. Moreover, the potential of better regulation should be used to the full, notably via the reduction of administrative burdens.

Action to raise skills, to boost investment in research, to promote the conditions for innovation, to spread high-speed Internet, to renew existing transport and energy infrastructure, including through increased use of public private partnerships, to upgrade energy efficiency and to increase renewable energy all fit squarely into the objectives of the EERP. Such action will be facilitated by rapid adoption of the proposed modification of cohesion policy legislation. Member States are encouraged to make full use of the possibilities offered by these modifications to speed up key investments.

Understanding and managing the long-term impact of the crisis on public finances - and managing the consequences for pension and healthcare systems - will be vital. Budget deficits should return to positions consistent with the need to ensure long-term sustainability of public finances as soon as economic conditions allow, notably in view of the future cost stemming from an aging population. Long-term sustainability should be ensured within the framework of the Stability and Growth Pact.

Some Member States are now in a process of reducing their budget deficit to reduce their dependence on external flows of credit. The support facility for medium term assistance to the balance of payments of non euro area Member States has been strengthened following timely support to Hungary and Latvia.

The EERP is part of the Lisbon Strategy for Growth and Jobs in the current crisis. It provides the right balance to combine an immediate stimulus with the long-term perspective needed. As a result, Europe should come out of the crisis better prepared to meet the challenges of a world economy geared towards low-carbon and innovative activities.

The Commission will closely monitor the impact of the measures taken, together with the Member States, and report on progress made ahead of the June European Council.

3.2. The Single Market as a lever for recovery

Europe's successful economic recovery will depend on our ability to make the most of both internal and global markets. The Single Market has been the motor of economic and social prosperity and job creation in the EU . It offers economies of scale, efficiency gains, and the chance to harness the EU's strengths. It can act as one of the key drivers for recovery provided it is closely coordinated at European level.

Helping to coordinate the response to the crisis, the Commission has ensured that in designing demand support measures, Member States can take full advantage of the flexibility available under existing Community rules. The use of the accelerated public procurement procedure means public investment contracts can be signed within one month. The temporary framework for state aid measures helps companies to access finance in the face of restrictive bank lending. Member States can provide additional export credit insurance through public entities where such insurance is no longer available from the private sector owing to the financial crisis.

At the same time, the EU needs to continue its own work to improving the business environment, to support the small and medium sized enterprises likely to lead the way when recovery comes. The Commission has recently presented proposals to reduce accounting burdens on microenterprises, with potential savings for business of around € 6 billion , and will continue to carefully weigh the burden of new initiatives. The timely transposition of the Services Directive this year will present a further means to promote new economic activity and employment opportunities.

Upholding the benefits of the Single Market, and promoting the same values outside Europe, will give the EU a unique launch pad for the return to growth. Protectionism and a retreat towards national markets can only lead to stagnation, a deeper and longer recession, and lost prosperity.

Member States' action to address the crisis must take the Single Market dimension into account. Most, if not all, Member States will intervene to support economic activity on their territory during this crisis. The intelligent use of national levers in a European context is the best way to ensure that action will be effective.

National measures can be most effective if Member States act in the knowledge that they are working with the grain of the single market. Working in partnership with Member States, the Commission stands ready to provide assistance with the design and implementation of concrete measures, promoting the exchange of good practices and sharing policy experience. This coordination can ensure that positive spill-overs are maximised. It should include sharing information on measures taken as well as joint assessments of the impact of these measures. Annex III provides further guidance on how Member States can design recovery measures in order to ensure their compatibility with the most relevant Community legislation.

3.3. Renewing the European economy beyond the crisis

There is no doubt about the real pain that this twofold crisis – financial and economic – is causing to European households and businesses. The road to recovery will be gradual and will require a major mobilisation of efforts by all involved to accelerate implementation of structural reforms under the Lisbon Strategy. By pooling our efforts and by making the most of our competitive advantages, especially our Single Market, we can ensure that Europe comes out of this recession more quickly.

By keeping our sights firmly on our shared principles and our longer term policy goals, the measures we are taking to get through the present crisis will prepare the ground for a smooth transition to the European economy of the future. In particular, we should maintain the pace of our efforts to shift to a low carbon economy: when the upturn starts green technologies and products should be the lead markets. We need to launch work now on how to improve the structures we have to deal with the recovery: companies will restructure, some will diversify and some may leave the market. The process of returning nationalised companies to private ownership and generally returning the level of state intervention in our economies to more normal levels will need careful management. Community competition policy can support this vital process, steering it towards open, efficient and innovative outcomes.

The lessons of the crisis will also need to be taken into account in renewing the European structural reform agenda. Drawing on the lessons of recent experience, the Commission intends to launch a debate on the Integrated Guidelines for Growth and Jobs under the Lisbon Strategy, which guide the Member States and the Community in the preparation of their respective programmes for structural reform.

The Commission will work closely with Member States and other Lisbon strategy stakeholders to take account of the outcome of this debate in the design of the post-2010 Lisbon Strategy. This process will start with a general review of the revised Lisbon Strategy under the Swedish Presidency in preparation of decisions to be taken in the spring of 2010 under the Spanish Presidency.

The full impact of the EERP will only become clear in the coming months, but the early signs are positive both in terms of the volume of the stimulus and the direction of reforms:

- Most Member States have now adopted or announced fiscal stimulus packages, meeting the overall target of 1.5% of the Union's GDP. Taking into account the effects of the automatic stabilisers, fiscal support of some 3.3% of GDP has been made available for the recovery. This amounts to more than €400 billion, a huge stimulus to growth and jobs.
- Most of the Member States' measures are targeted to stimulate demand and consistent with longer-term objectives such as raising skills, enhancing investments in innovation, promoting high-speed internet, renewing existing transport and energy infrastructure.
- The Commission has ensured that in designing demand support measures Member States can take full advantage of the flexibility available under Community rules. For instance, The Commission has recently presented guidance on measures for the automotive industry to help Member States as they provide support for the restructuring of this sector.

Through the Single Market all Member States will benefit directly and indirectly from orders for goods and services placed as result of this stimulus package. Member States should pay particular attention to maximising the positive spill-over effects from the Single Market, which has been and will remain the motor of economic and social prosperity and job creation in the EU.

To this end, the following **principles** should shape Member States' actions to support the real economy:

- Maintaining **openness** within the internal market, continuing to remove barriers and avoid creating new ones.
- Ensuring **non-discrimination** by treating goods and services from other Member States in accordance with EU rules and Treaty principles.
- Targeting interventions towards our **longer term policy goals**: facilitating structural change, enhancing competitiveness in the long term and addressing key challenges such as building a low carbon economy.
- Taking full account of the crucial importance of SMEs by applying the "think small first" principle.
- Sharing information and best practice to **maximise the overall positive impact** through effects of scale.
- Pooling efforts and designing measures so that they generate **synergies** with those taken by other member states. Stronger co-operation at European level is key in this respect.
- Using the flexibility provided by the renewed Stability and Growth Pact responsibly, allowing for **return of government deficits to positions consistent with sustainable public finances** as soon as possible, whilst vigorously tackling the causes behind macro-economic imbalances.
- Keeping the Single Market **open to our trade partners** and respect international commitments, in particular those made in the WTO.

In line with the EERP, Member States must now ensure that the fiscal stimulus packages are accompanied by an acceleration of structural reforms in the areas highlighted in the Lisbon strategy country-specific recommendations. It is the best way to ensure that expenditure now will be most cost-effective, raising future potential growth and least damaging to the long-term fiscal outlook for the future. It is an essential prerequisite for Europe also to seize the opportunities offered by this crisis and come out best prepared for meeting the challenges of a new world economy, geared towards low-carbon, innovation, ICT and skills.

The Commission will monitor progress regularly and report in due time for the next European Council meetings. Taking into account the results of the EERP, the Commission also intends to start preparing the post 2010 Lisbon Strategy.

4. Supporting people through the crisis

The impact of the slowdown on households and workers is now mounting. Having performed well in recent years, the labour market situation is now deteriorating rapidly and significantly. The Commission forecasts that employment growth will be negative for the next two years. Unemployment is expected to rise steeply. Although the picture varies across Member States, overall employment is expected to contract by 1.6% this year - some 3.5 million jobs – and unemployment in the EU could reach 10% in 2010.

Some adjustments on the labour market reflect the impact of successful past structural reforms. While this should facilitate a quicker improvement when the economy rebounds, it remains clear that the short-term pain will be high. Young people, those with short-term contracts, and migrant workers are likely to be the worst hit.

4.1. Alleviating the human cost of the crisis

Most Member States have introduced employment and social measures in order to support people and alleviate the human cost of the crisis. Whilst Member States are in the forefront of tackling these challenges, European policies add value by helping them design and implement effective responses to the jobs and social cohesion challenge.

Member States have focused their measures on four broad types of priorities:

- Measures aiming at maintaining existing jobs: short-time working allowances, reduced social security contributions, wage subsidies and support to SMEs;
- Measures to ensure rapid (re-) integration into the labour market: vocational training and support for the disadvantaged, changes in sickness or disability benefits, and new eligibility rules for unemployment benefits;
- Measures to support the most vulnerable: increase in minimum income/wage, extended coverage or duration of unemployment benefits, higher housing or family allowances, tax rebates or exemptions, and measures against over-indebtedness or repossession;
- Measures to strengthen social protection and invest in social and health infrastructure: investments in housing, hospitals, primary care, long-term care infrastructure and schools, and actions to help pension funds meet their long term liabilities.

The employment and social impact of the crisis is still unfolding, and it is more severe than expected when most initial measures were put in place. Therefore, efforts need to be stepped up at all levels in order to tackle unemployment, and to adapt and modernise social assistance, healthcare and public health schemes. Income support combined with active measures will stimulate demand, facilitate the transition back to work and avoid social exclusion.

To support Member States in their efforts to address the crisis and implement the recovery measures, the available financial instruments are being strengthened. Renewing the **European Globalisation Adjustment Fund** will allow it to be quickly activated to support workers hit by significant job cuts and their communities.

The current **European Social Fund (ESF)** programmes support 9 million workers each year; € 10.8 billion in grants are available through the ESF in 2009 alone. The Fund can respond to crisis-driven needs, e.g. to improve matching of labour demand and supply, support joint initiatives by social partners, promote social innovation and employment partnerships, or strengthen public employment services. The simplification of the rules for the ESF will allow an immediate increase of advance payments of € 1.8 billion. In all cases where there is a need to adapt the ESF programming to the needs of the crisis, the Commission will ensure that programme changes are completed in the shortest possible time.

While further measures to support employment have to be tailored by Member States, in cooperation with the Social Partners, to their specific economic conditions and labour market situation, it is important that they remain consistent with long-term structural reform needs. Measures should facilitate the long-term restructuring process of the most affected sectors, enhance their competitiveness and human capital. They should also help to address key long-term challenges such as the impact of demographic ageing on labour supply and to seize the opportunities of the low-carbon economy.

In order to maximize positive spill-over effects, and to better address collectively the unprecedented challenges of the crisis, the Commission will promote mutual learning and exchange of good practices across the Member States.

The following **elements** can help Member States in the design of appropriate and effective measures:

- **Keeping people in employment**, notably by providing financial support to temporary flexible working-time arrangements. Temporary adjustment of working hours (“short-time”) in line with production needs can be an important source of labour input flexibility. By preventing mass lay-offs, this may mitigate the social impact of the crisis, save considerable firing and (re)hiring costs for firms, and prevent loss of firm-specific human capital. Such action needs to be combined with measures supporting employability and guiding people towards new jobs, empowering workers to take advantage of new opportunities when the upturn comes. These measures need to be coordinated to avoid negative spill-overs in other Member States.

- **Reinforcing activation and providing adequate income support** for those most affected by the economic slowdown, making full use of social protection benefits, in line with the flexicurity approach. In those countries where unemployment insurance is strictly limited in time, consideration should be given to its temporary expansion and/or a reinforcement of minimum income provisions. Back to work incentives should be kept intact, and vulnerable groups supported in line with the active inclusion strategy.
- **Investing in re-training and skills upgrading** particularly for workers on short time and in sectors that are declining. Preference should be given to training targeted at future labour market needs, such as green jobs. Anticipation of future skills needs should therefore be promoted. Employment Services should be enhanced to cope with increased unemployment.
- **Mitigating the direct impact of the financial crisis on individuals** through specific measures to prevent over-indebtedness and maintain access to financial services. In countries with larger pre-funded schemes in their pension systems, the recovery of pension funds will be essential to protect the current and future income of pensioners.
- **Ensuring the free movement of workers** within the Single Market which will be the source of new opportunities. It can help address the persistence of mismatches between skills and labour market needs, even during the downturn. In this context, the Posted Workers Directive serves to facilitate free movement of workers in the context of cross-border provision of services, whilst effectively safeguarding against social dumping. The Commission will work with the Member States and Social Partners on a shared interpretation of the Directive to ensure that its practical application - in particular administrative cooperation between Member States - works as intended.
- Considering **supporting measures** such as lowering non-wage costs for low-skilled workers. Wage developments and fiscal measures should take account of each Member State's competitive position and productivity growth.
- Providing sufficient support to tackle **youth unemployment** and early school leavers. Time spent out of education or employment while young can have lasting effects. Member States should prepare for and encourage an increase in demand for **education and training,** as existing students stay on and displaced workers seek to re-skill. In this respect, future labour market growth areas such as 'green jobs' can already be anticipated.
- Integrating measures aimed at revising employment protection legislation within a **flexicurity approach** covering all its components so as to reduce segmentation and improve the functioning of labour markets.

4.2. An Employment Summit for Europe

A European approach can add value to Member States' efforts to meet the employment challenge, whilst avoiding distortive effects. The European Employment Summit in May will provide the opportunity to take stock of the developing situation, and to agree on further, concrete measures. It will be prepared together with the Social Partners and will build on the progress made on the Renewed Social Agenda over the last year.

The Summit should deliver three objectives:

- It should help accelerate recovery by focusing on structural reform to create more flexible, secure and inclusive labour markets.
- It should agree a concerted approach to reduce the social impact of the crisis.
- And it should launch a new consensus with Social Partners and stakeholders about how to modernise social policies to the mutual benefit of both employees and employers.

Particular focus could be given to measures to counter unemployment, with an emphasis on the integration of younger and more vulnerable workers into the labour market. The Summit should look at how EU policies can better support Member States' efforts, in particular in addressing the structural weaknesses of labour markets in line with the recommendations of the Lisbon Strategy for Growth and Jobs.

The Summit will be prepared together with the Social Partners and in consultation with all stakeholders. To collect input for the themes and possible outcomes of the Summit, the Commission will organise a series of workshops in a number of different Member States to bring together the European Parliament, the Social Partners, NGOs and civil society. This will complement the ongoing exchanges the Commission has with the Member States and with the Social Partners in the European social dialogue. This broad and open preparatory process should serve as a sound basis for building an ambitious consensus around a series of concrete deliverables in May.

5. Promoting global recovery: e t european contribution to the G20 summit

This is a global crisis. The scale and speed at which a shock in one systemically important financial market soon affected the financial system and spilled over to real economies worldwide have shown just how interdependent the world has become.

The EU played a leading role in building recognition that global solutions are needed. Following the EU's initiative, the G-20 Washington Summit in November 2008 agreed an action plan to renew the international financial architecture to bring it up to date with the realities of globalisation.

The EU must continue to speak with one voice at the G-20 London Summit of 2 April. We can be a strong and influential partner in this work, given our long-standing and successful experience of regional market integration and effective institution-building.

As implementation of the European Economic Recovery Plan gains momentum, against the background of an ambitious reform of European financial markets, the European Union is particularly well-placed to take the lead in proposing concrete solutions that can deliver effective results at global level.

These efforts should be consistent with the need for global solutions in the area of climate change. The transition to a low-carbon economy should create new opportunities for growth not only in Europe but worldwide. The London Summit should therefore reaffirm its commitment to an ambitious global outcome to the UN Climate Change negotiations in Copenhagen in December 2009.

We should also ensure that the London Summit projects clear messages about the need to keep global markets open. Whilst there is a global recognition that the historical experience of protectionism in a downturn is disastrous, domestic pressures to apply restrictive measures can be strong. An unequivocal message is essential to hold off these threats.

Potential EU candidates and neighbouring countries are also feeling the impact of the crisis. The Commission remains committed to working with European and international financial institutions to support their economic stability and development. The Commission has welcomed the action plan developed by the European Bank for Reconstruction and Development (EBRD), the EIB and the World Bank, to deploy assistance to strengthen banks and support lending in some Central and Eastern European economies.

Finally, given the far-reaching effects of the global crisis and resulting slowdown on developing countries, we must uphold our commitment to help them through the crisis, out of poverty and into sustainable growth. Supporting them in pursuing the Millennium Development Goals is essential to global recovery in a sustainable open economy.

The EU must respect its Overseas Development Assistance (ODA) commitments, so that this, along with other available means, can be used to stimulate growth, investment, trade and job creation. Through the different Commission, Member States and EIB instruments, the EU should focus on activities such as agriculture, climate change and infrastructure where a direct counter-cyclical impact can be achieved. These efforts should be matched by strong responsibility by developing countries in ensuring good macroeconomic and fiscal governance.

At the **London Summit**, consistent with its ongoing internal decisions, the EU should promote agreement on a comprehensive set of concrete deliverables. The Summit should deliver firm commitments to **improve the global financial and regulatory system**, so that all relevant actors and instruments are subject to appropriate regulation and oversight, by:

- **Improving transparency and accountability:** Banking prudential rules as well as accounting standards should be improved by building in counter-cyclical mechanisms and properly addressing fair value. Bank capital requirements should better reflect liquidity risks and realign incentives on securitisation. The governance structures of the International Accounting Standards Board should be improved.

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- **Enhancing sound regulation:** Regulation and supervision, and in particular the Basel Committee's prudential standards, should be extended to all relevant systemic actors – hedge funds, private equity, and other non-regulated credit institutions. Credit rating agencies should be subject to tough requirements to ensure the quality and transparency of ratings and that they are free from conflict of interest. Remuneration policies should be realigned to avoid short-term excessive risk-taking and to be subject to supervision.
- **Promoting integrity in financial markets:** A list of uncooperative jurisdictions should be drawn up together with a toolbox of joint measures for use against them in the areas of supervision, anti-money laundering, terrorism financing and taxation. Banks should be dissuaded from operating in off-shore centres[31] through increased prudential requirements and tougher transparency rules. The rules on holding and transferring intermediated securities should be harmonised at global level.
- **Strengthening international supervisory cooperation:** Global colleges of supervisors should be set up and given the powers they need to be effective. Supervisors should exchange good practice and promote global convergence of practices.
- **The Financial Stability Forum** (FSF) should be enlarged ahead of the 2 April Summit, to include all major emerging countries and the European Commission.
- **Reforming the governance of the international financial institutions:** the London Summit should agree to a timetable for further reforms of the governance of the International Monetary Fund (IMF) and the World Bank. The system for top appointments to these two institutions should be reviewed.
- **Strengthening the IMF:** Member States should present a joint contribution to the temporary doubling of IMF resources. The IMF should strengthen its surveillance, by deepening the coverage of financial sector issues, reinforcing multilateral surveillance, and ensuring multilateral consultations including the orderly reversal of global imbalances. Cooperation with the FSF should be enhanced and effective joint early warning mechanisms established. FSF members and other systemically relevant countries should be assessed regularly by the IMF and vulnerabilities identified should feed into the early warning mechanism. Reforms should include internal procedures and should ensure that the key conclusions of IMF surveillance are fed into the International Monetary and Financial Council.
- **Developing the World Bank and Regional Development Banks:** The banks should implement the instruments at their disposal in a flexible manner to frontload assistance to mitigate the effects of the crisis, particularly for vulnerable populations. Adequate financing should be assured for their activities.

The Summit should **support balanced growth in global markets**, by:

- **Advancing global recovery through continued international coordination of fiscal measures** and their real impact. The EU is doing its part in the global effort to restore growth. International cooperation should ensure that the current fiscal measures are consistent with long-term fiscal sustainability. Moreover they should provide sufficient levels of investment in long-term policies, such as innovation, education, energy efficiency and the low-carbon economy. Once the recovery takes hold, an orderly and coordinated reversal of macro-economic stimuli is warranted.

28 The Commission will shortly make proposals on information exchange and transparency on taxation matters within the EU and with third countries.

- **Promoting open trade** as a complement to the fiscal stimulus. G-20 countries should strive for further global market opening. An early conclusion of the Doha round on the basis of the existing negotiating texts on agriculture and industrial goods is key. The London Summit should reaffirm a strong common stance against protectionism, in line with the standstill commitment agreed at Washington and the effective monitoring mechanism established under the WTO. G-20 partners should express their collective determination implement this commitment at the highest political level.
- Launching a **multilateral initiative on trade finance** that would reinforce the efforts of the World Bank Group and other relevant multilateral development agencies in expanding their trade finance activities.
- **Promoting global development** as part of the solution to the global crisis and a basis for peace and stability worldwide. The London Summit should reaffirm the commitment to supporting developing countries' efforts to generate growth and the fight against poverty, in particular by delivering on the Millennium Development Goals. To facilitate the active participation of developing countries in international trade, the G-20 should meet their aid-for-trade pledges and give duty-free and quota-free access to their markets for least developed countries.

6.onclusionON

This Communication sets out how the European Union can build on the steps already taken to address the financial and economic crisis. The EU is now entering a new phase of implementation of its Recovery Plan, with a need for effective co-ordination of the measures being taken to ensure that they work to best effect to help businesses, households and communities across Europe. This Communication echoes the discussion of the Heads of State and Government on 1 March 2009 and underlines that the road to recovery will be eased if measures in one Member State are shaped to spark an upturn in others. Effective coordination will make the single market a springboard for recovery.

The Commission invites the Spring European Council to:

- Agree on the need for a new package of financial sector reform measures including a new supervisory framework for the EU's financial sector, based on the work of the de Larosière group, and to decide on the main elements of this new framework at the June European Council, on the basis of further proposals from the Commission; and to invite the Council and European Parliament to give priority to the adoption of the proposals on financial services regulation to be proposed by the Commission in the coming months;
- Invite Member States to take the necessary action to ensure long-term financial stability as soon as economic conditions allow, in line with the revised Stability and Growth Pact;
- Invite Member States to expedite the implementation of their national recovery plans and structural reforms;
- Invite Member States to apply the common principles set out in section 3.2 when designing and implementing measures to strengthen the real economy;
- Invite Member States to effectively support people through the crisis, drawing on the elements for action outlined in this Communication;
- Endorse the process for the preparation of the European Employment Summit in May;
- Approve the joint European position for the G-20 Summit in London.

Europe 2020: A strategy for smart, sustainable and inclusive growth

COMMUNICATION FROM THE COMMISSION

BRUSSELS, 3 MARCH 2010

COM(2010) 2020

Preface

2010 must mark a new beginning. I want Europe to emerge stronger from the economic and financial crisis.

Economic realities are moving faster than political realities, as we have seen with the global impact of the financial crisis. We need to accept that the increased economic interdependence demands also a more determined and coherent response at the political level.

The last two years have left millions unemployed. It has brought a burden of debt that will last for many years. It has brought new pressures on our social cohesion. It has also exposed some fundamental truths about the challenges that the European economy faces. And in the meantime, the global economy is moving forward. How Europe responds will determine our future.

The crisis is a wake-up call, the moment where we recognise that "business as usual" would consign us to a gradual decline, to the second rank of the new global order. This is Europe's moment of truth. It is the time to be bold and ambitious.

Our short-term priority is a successful exit from the crisis. It will be tough for some time yet but we will get there. Significant progress has been made on dealing with bad banks, correcting the financial markets and recognising the need for strong policy coordination in the eurozone.

To achieve a sustainable future, we must already look beyond the short term. Europe needs to get back on track. Then it must stay on track. That is the purpose of Europe 2020. It's about more jobs and better lives. It shows how Europe has the capability to deliver smart, sustainable and inclusive growth, to find the path to create new jobs and to offer a sense of direction to our societies.

European leaders have a common analysis on the lessons to be drawn from the crisis. We also share a common sense of urgency on the challenges ahead. Now we jointly need to make it happen. Europe has many strengths. We have a talented workforce, we have a powerful technological and industrial base. We have an internal market and a single currency that have successfully helped us resist the worst. We have a tried and tested social market economy. We must have confidence in our ability to set an ambitious agenda for ourselves and then gear our efforts to delivering it.

The Commission is proposing five measurable EU targets for 2020 that will steer the process and be translated into national targets: for employment; for research and innovation; for climate change and energy; for education; and for combating poverty. They represent the direction we should take and will mean we can measure our success.

They are ambitious, but attainable. They are backed up by concrete proposals to make sure they are delivered. The flagship initiatives set out in this paper show how the EU can make a decisive contribution. We have powerful tools to hand in the shape of new economic governance, supported by the internal market, our budget, our trade and external economic policy and the disciplines and support of economic and monetary union.

The condition for success is a real ownership by European leaders and institutions. Our new agenda requires a coordinated European response, including with social partners and civil society. If we act together, then we can fight back and come out of the crisis stronger. We have the new tools and the new ambition. Now we need to make it happen.

José Manu DurãonearrosoOSO

EUROPE 2020 STRATEGY: EXECUTIVE SUMMARY

Europe faces a moment of transformation. The crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. In the meantime, the world is moving fast and long-term challenges – globalisation, pressure on resources, ageing – intensify. The EU must now take charge of its future.

Europe can succeed if it acts collectively, as a Union. We need a strategy to help us come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. Europe 2020 sets out a vision of Europe's social market economy for the 21st century.

Europe 2020 puts forward three mutually reinforcing priorities:

- Smart growth: developing an economy based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The EU needs to define where it wants to be by 2020. To this end, the Commission proposes the following EU headline targets:

- 75 % of the population aged 20-64 should be employed.
- 3% of the EU's GDP should be invested in R&D.
- The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right).
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.
- 20 million less people should be at risk of poverty.

These targets are interrelated and critical to our overall success. To ensure that each Member State tailors the Europe 2020 strategy to its particular situation, the Commission proposes that EU goals are translated into national targets and trajectories.

The targets are representative of the three priorities of smart, sustainable and inclusive growth but they are not exhaustive: a wide range of actions at national, EU and international levels will be necessary to underpin them. The Commission is putting forward seven flagship initiatives to catalyse progress under each priority theme:

- "Innovation Union" to improve framework conditions and access to finance for research and innovation so as to ensure that innovative ideas can be turned into products and services that create growth and jobs.
- "Youth on the move" to enhance the performance of education systems and to facilitate the entry of young people to the labour market.
- "A digital agenda for Europe" to speed up the roll-out of high-speed internet and reap the benefits of a digital single market for households and firms.
- "Resource efficient Europe" to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency.
- "An industrial policy for the globalisation era" to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.
- "An agenda for new skills and jobs" to modernise labour markets and empower people by developing their of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility.
- "European platform against poverty" to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

These seven flagship initiatives will commit both the EU and the Member States. EU-level instruments, notably the single market, financial levers and external policy tools, will be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals. As an immediate priority, the Commission charts what needs to be done to define a credible exit strategy, to pursue the reform of the financial system, to ensure budgetary consolidation for long-term growth, and to strengthen coordination within the Economic and Monetary Union.

Stronger economic governance will be required to deliver results. Europe 2020 will rely on two pillars: the thematic approach outlined above, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances. Integrated guidelines will be adopted at EU level to cover the scope of EU priorities and targets. Country-specific recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response. The reporting of Europe 2020 and the Stability and Growth Pact evaluation will be done simultaneously, while keeping the instruments separate and maintaining the integrity of the Pact.

The European Council will have full ownership and be the focal point of the new strategy. The Commission will monitor progress towards the targets, facilitate policy exchange and make the necessary proposals to steer action and advance the EU flagship initiatives. The European Parliament will be a driving force to mobilise citizens and act as co-legislator on key initiatives. This partnership approach should extend to EU committees, to national parliaments and national, local and regional authorities, to social partners and to stakeholders and civil society so that everyone is involved in delivering on the vision.

The Commission proposes that the European Council endorses - in March - the overall approach of the strategy and the EU headline targets, and approves - in June - the detailed parameters of the strategy, including the integrated guidelines and national targets. The Commission also looks forward to the views and support of the European Parliament for making Europe 2020 a success.

1. A MOMENT OF TRANSFORMATION

The crisis has wiped out recent progress

The recent economic crisis has no precedent in our generation. The steady gains in economic growth and job creation witnessed over the last decade have been wiped out – our GDP fell by 4% in 2009, our industrial production dropped back to the levels of the 1990s and 23 million people - or 10% of our active population - are now unemployed. The crisis has been a huge shock for millions of citizens and it has exposed some fundamental weaknesses of our economy.

The crisis has also made the task of securing future economic growth much more difficult. The still fragile situation of our financial system is holding back recovery as firms and households have difficulties to borrow, spend and invest. Our public finances have been severely affected, with deficits at 7% of GDP on average and debt levels at over 80% of GDP – two years of crisis erasing twenty years of fiscal consolidation. Our growth potential has been halved during the crisis. Many investment plans, talents and ideas risk going to waste because of uncertainties, sluggish demand and lack of funding.

Europe's structural weaknesses have been exposed

Moving out of the crisis is the immediate challenge, but the biggest challenge is to escape the reflex to try to return to the pre-crisis situation. Even before the crisis, there were many areas where Europe was not progressing fast enough relative to the rest of the world:

- Europe's average growth rate has been structurally lower than that of our main economic partners, largely due to a productivity gap that has widened over the last decade. Much of this is due to differences in business structures combined with lower levels of investment in R&D and innovation, insufficient use of information and communications technologies, reluctance in some parts of our societies to embrace innovation, barriers to market access and a less dynamic business environment.
- In spite of progress, Europe's employment rates – at 69% on average for those aged 20-64 – are still significantly lower than in other parts of the world. Only 63% of women are in work compared to 76% of men. Only 46% of older workers (55-64) are employed compared to over 62% in the US and Japan. Moreover, on average Europeans work 10% fewer hours than their US or Japanese counterparts.
- Demographic ageing is accelerating. As the baby-boom generation retires, the EU's active population will start to shrink as from 2013/2014. The number of people aged over 60 is now increasing twice as fast as it did before 2007 – by about two million every year compared to one million previously. The combination of a smaller working population and a higher share of retired people will place additional strains on our welfare systems.
- Global challenges intensify
- While Europe needs to address its own structural weaknesses, the world is moving fast and will be very different by the end of the coming decade:
- Our economies are increasingly interlinked. Europe will continue to benefit from being one of the most open economies in the world but competition from developed and emerging economies is intensifying.

Countries such as China or India are investing heavily in research and technology in order to move their industries up the value chain and "leapfrog" into the global economy. This puts pressure on some sectors of our economy to remain competitive, but every threat is also an opportunity. As these countries develop, new markets will open up for many European companies.

- Global finance still needs fixing. The availability of easy credit, short-termism and excessive risk-taking in financial markets around the world fuelled speculative behaviour, giving rise to bubble-driven growth and important imbalances. Europe is engaged in finding global solutions to bring about an efficient and sustainable financial system.
- Climate and resource challenges require drastic action. Strong dependence on fossil fuels such as oil and inefficient use of raw materials expose our consumers and businesses to harmful and costly price shocks, threatening our economic security and contributing to climate change. The expansion of the world population from 6 to 9 billion will intensify global competition for natural resources, and put pressure on the environment. The EU must continue its outreach to other parts of the world in pursuit of a worldwide solution to the problems of climate change at the same time as we implement our agreed climate and energy strategy across the territory of the Union.

Europe must act to avoid decline

There are several lessons we can learn from this crisis:

- The 27 EU economies are highly interdependent: the crisis underscored the close links and spill-overs between our national economies, particularly in the euro area. Reforms, or the lack of them, in one country affect the performance of all others, as recent events have shown; moreover, the crisis and severe constraints in public spending have made it more difficult for some Member States to provide sufficient funding for the basic infrastructure they need in areas such as transport and energy not only to develop their own economies but also to help them participate fully in the internal market.
- Coordination within the EU works: the response to the crisis showed that if we act together, we are significantly more effective. We proved this by taking common action to stabilise the banking system and through the adoption of a European Economic Recovery Plan. In a global world, no single country can effectively address the challenges by acting alone;
- The EU adds value on the global scene. The EU will influence global policy decisions only if it acts jointly. Stronger external representation will need to go hand in hand with stronger internal co-ordination.

The crisis has not just been a one-off hit, allowing us to resume "business as usual". The challenges that our Union faces are greater than before the recession, whilst our room for manoeuvre is limited. Moreover, the rest of the world is not standing still. The enhanced role of the G20 has demonstrated the growing economic and political power of emerging countries.

Europe is left with clear yet challenging choices. Either we face up collectively to the immediate challenge of the recovery and to long-term challenges – globalisation, pressure on resources, ageing, – so as to make up for the recent losses, regain competitiveness, boost productivity and put the EU on an upward path of prosperity ("sustainable recovery").

Or we continue at a slow and largely uncoordinated pace of reforms, and we risk ending up with a permanent loss in wealth, a sluggish growth rate ("sluggish recovery") possibly leading to high levels of unemployment and social distress, and a relative decline on the world scene ("lost decade").

Three scenarios for Europe by 2020

Scenario 1: Sustainable recovery

Europe is able to make a full return to earlier growth path and raise its potential to go beyond

Scenario 2: Sluggish recovery

Europe will have suffered a permanent loss in wealth and start growing again from this eroded basis

Scenario 3: Lost decade

Europe will have suffered a permanent loss in wealth and potential for future growth

Europe can succeed

Europe has many strengths: we can count on the talent and creativity of our people, a strong industrial base, a vibrant services sector, a thriving, high quality agricultural sector, strong maritime tradition, our single market and common currency, our position as the world's biggest trading bloc and leading destination for foreign direct investment. But we can also count on our strong values, democratic institutions, our consideration for economic, social and territorial cohesion and solidarity, our respect for the environment, our cultural diversity, respect for gender equality – just to name a few. Many of our Member States are amongst the most innovative and developed economies in the world. But the best chance for Europe to succeed is if it acts collectively – as a Union.

When confronted with major events in the past, the EU and its Member States have risen to the challenge. In the 1990s, Europe launched the largest single market in the world backed by a common currency. Only a few years ago, the division of Europe ended as new Member States entered the Union and other states embarked on the road towards membership or a closer relation with the Union. Over the last two years common action taken at the height of the crisis through the European Recovery Plan helped prevent economic meltdown, whilst our welfare systems helped protect people from even greater hardship.

Europe is able to act in times of crisis and to adapt its economies and societies. And today Europeans face again a moment of transformation to cope with the impact of the crisis, Europe's structural weaknesses and intensifying global challenges.

In so doing, our exit from the crisis must be the point of entry into a new economy. For our own and future generations to continue to enjoy a high-quality of healthy life, underpinned by Europe's unique social models, we need to take action now. What is needed is a strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. This is the Europe 2020 strategy. This is an agenda for all Member States, taking into account different needs, different starting points and national specificities so as to promote growth for all.

2. SMART, SUSTAINABLE AND INCLUSIVE GROWTH

Where do we want Europe to be in 2020?

Three priorities should be the heart of Europe 2020 :

- Smart growth – developing an economy based on knowledge and innovation.
- Sustainable growth – promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth – fostering a high-employment economy delivering economic, social and territorial cohesion.

These three priorities are mutually reinforcing; they offer a vision of Europe's social market economy for the 21st century.

To guide our efforts and steer progress, there is a large consensus that the EU should commonly agree on a limited number of headline targets for 2020. These targets should be representative of the theme of smart, sustainable and inclusive growth. They must be measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison. The following targets have been selected on this basis – meeting them will be critical to our success by 2020:

- The employment rate of the population aged 20-64 should increase from the current 69% to at least 75%, including through the greater involvement of women, older workers and the better integration of migrants in the work force;
- The EU currently has a target of investing 3% of GDP in R&D. The target has succeeded in focusing attention on the need for both the public and private sectors to invest in R&D but it focuses on input rather than impact. There is a clear need to improve the conditions for private R&D in the EU and many of the measures proposed in this strategy will do this. It is also clear that by looking at R&D and innovation together we would get a broader range of expenditure which would be more relevant for business operations and for productivity drivers. The Commission proposes to keep the 3% target while developing an indicator which would reflect R&D and innovation intensity;
- Reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30%, if the conditions are right; increase the share of renewable energy sources in our final energy consumption to 20%; and a 20% increase in energy efficiency;
- A target on educational attainment which tackles the problem of early school leavers by reducing the drop out rate to 10% from the current 15%, whilst increasing the share of the population aged 30-34 having completed tertiary education from 31% to at least 40% in 2020;
- The number of Europeans living below the national poverty lines should be reduced by 25%, lifting over 20 million people out of poverty .

These targets are interrelated. For instance, better educational levels help employability and progress in increasing the employment rate helps to reduce poverty. A greater capacity for research and development as well as innovation across all sectors of the economy, combined with increased resource efficiency will improve competitiveness and foster job creation. Investing in cleaner, low carbon technologies will help our environment, contribute to fighting climate change and create new business and employment opportunities. Meeting these targets should mobilise our collective attention. It will take strong leadership, commitment and an effective delivery mechanism to change attitudes and practices in the EU to deliver the results which are summarised in these targets.

These targets are representative, not exhaustive. They represent an overall view of where the Commission would like to see the EU on key parameters by 2020. They do not represent a "one size fits all" approach. Each Member State is different and the EU of 27 is more diverse than it was a decade ago. Despite disparities in levels of development and standards of living the Commission considers that the proposed targets are relevant to all Member States, old and newer alike. Investing in research and development as well as innovation, in education and in resource efficient technologies will benefit traditional sectors, rural areas as well as high skill, service economies. It will reinforce economic, social and territorial cohesion. To ensure that each Member States tailors the Europe 2020 strategy to its particular situation, the Commission proposes that these EU targets are translated into national targets and trajectories to reflect the current situation of each Member State and the level of ambition it is able to reach as part of a wider EU effort to meet these targets. In addition to the efforts of Member States the Commission will propose an ambitious range of actions at EU level designed to lift the EU onto a new, more sustainable growth path. This mix of EU and national efforts should be mutually reinforcing.

Smart growth – an economy based on knowledge and innovation

Smart growth means strengthening knowledge and innovation as drivers of our future growth. This requires improving the quality of our education, strengthening our research performance, promoting innovation and knowledge transfer throughout the Union, making full use of information and communication technologies and ensuring that innovative ideas can be turned into new products and services that create growth, quality jobs and help address European and global societal challenges. But, to succeed, this must be combined with entrepreneurship, finance, and a focus on user needs and market opportunities.

Europe must act:

- Innovation: R&D spending in Europe is below 2%, compared to 2.6% in the US and 3.4% in Japan, mainly as a result of lower levels of private investment. It is not only the absolute amounts spent on R&D that count – Europe needs to focus on the impact and composition of research spending and to improve the conditions for private sector R&D in the EU. Our smaller share of high-tech firms explains half of our gap with the US.
- Education, training and lifelong learning: A quarter of all pupils have poor reading competences, one in seven young people leave education and training too early. Around 50% reach medium qualifications level but this often fails to match labour market needs. Less than one person in three aged 25-34 has a university degree compared to 40% in the US and over 50% in Japan. According to the Shanghai index, only two European universities are in the world's top 20.
- Digital society: The global demand for information and communication technologies is a market worth €2 000 billion, but only one quarter of this comes from European firms. Europe is also falling behind on high-speed internet, which affects its ability to innovate, including in rural areas, as well as on the on-line dissemination of knowledge and on-line distribution of goods and services.

Action under this priority will unleash Europe's innovative capabilities, improving educational outcomes and the quality and outputs of education institutions, and exploiting the economic and societal benefits of a digital society. These policies should be delivered at regional, national and EU level.

Flagship Initiative: "Innovation Union"

The aim of this is to re-focus R&D and innovation policy on the challenges facing our society, such as climate change, energy and resource efficiency, health and demographic change. Every link should be strengthened in the innovation chain, from 'blue sky' research to commercialisation.

At EU level, the Commission will work:

- To complete the European Research Area, to develop a strategic research agenda focused on challenges such as energy security, transport, climate change and resource efficiency, health and ageing, environmentally-friendly production methods and land management, and to enhance joint programming with Member States and regions;

- To improve framework conditions for business to innovate (i.e. create the single EU Patent and a specialised Patent Court, modernise the framework of copyright and trademarks, improve access of SMEs to Intellectual Property Protection, speed up setting of interoperable standards; improve access to capital and make full use of demand side policies, e.g. through public procurement and smart regulation);
- To launch 'European Innovation Partnerships' between the EU and national levels to speed up the development and deployment of the technologies needed to meet the challenges identified. The first will include: 'building the bio-economy by 2020', 'the key enabling technologies to shape Europe's industrial future' and 'technologies to allow older people to live independently and be active in society';
- To strengthen and further develop the role of EU instruments to support innovation (e.g. structural funds, rural development funds, R&D framework programme, CIP, SET plan), including through closer work with the EIB and streamline administrative procedures to facilitate access to funding, particularly for SMEs and to bring in innovative incentive mechanisms linked to the carbon market, namely for fast-movers;
- To promote knowledge partnerships and strengthen links between education, business, research and innovation, including through the EIT, and to promote entrepreneurship by supporting Young Innovative Companies.

At national level, Member States will need:

- To reform national (and regional) R&D and innovation systems to foster excellence and smart specialisation, reinforce cooperation between universities, research and business, implement joint programming and enhance cross-border co-operation in areas with EU value added and adjust national funding procedures accordingly, to ensure the diffusion of technology across the EU territory;
- To ensure a sufficient supply of science, maths and engineering graduates and to focus school curricula on creativity, innovation, and entrepreneurship;
- To prioritise knowledge expenditure, including by using tax incentives and other financial instruments to promote greater private R&D investments.

Flagship initiative: "Youth on the move"

The aim is to enhance the performance and international attractiveness of Europe's higher education institutions and raise the overall quality of all levels of education and training in the EU, combining both excellence and equity, by promoting student mobility and trainees' mobility, and improve the employment situation of young people.

At EU level, the Commission will work:

- To integrate and enhance the EU's mobility, university and researchers' programmes (such as Erasmus, Erasmus Mundus, Tempus and Marie Curie) and link them up with national programmes and resources;
- To step up the modernisation agenda of higher education (curricula, governance and financing) including by benchmarking university performance and educational outcomes in a global context;
- To explore ways of promoting entrepreneurship through mobility programmes for young professionals;
- To promote the recognition of non-formal and informal learning;
- To launch a Youth employment framework outlining policies aimed at reducing youth unemployment rates: this should promote, with Member States and social partners, young people's entry into the labour market through apprenticeships, stages or other work experience, including a scheme ("Your first EURES job") aimed at increasing job opportunities for young people by favouring mobility across the EU.

At national level, Member States will need:

- To ensure efficient investment in education and training systems at all levels (pre-school to tertiary);
- To improve educational outcomes, addressing each segment (pre-school, primary, secondary, vocational and tertiary) within an integrated approach, encompassing key competences and aiming at reducing early school leaving;
- To enhance the openness and relevance of education systems by building national qualification frameworks and better gearing learning outcomes towards labour market needs.

- To improve young people's entry into the labour market through integrated action covering i.a guidance, counselling and apprenticeships.

Flagship Initiative: "A Digital Agenda for Europe"

The aim is to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to internet connections above 100 Mbps.

At EU level, the Commission will work:

- To provide a stable legal framework that stimulate investments in an open and competitive high speed internet infrastructure and in related services;
- To develop an efficient spectrum policy;
- To facilitate the use of the EU's structural funds in pursuit of this agenda;
- To create a true single market for online content and services (i.e. borderless and safe EU web services and digital content markets, with high levels of trust and confidence, a balanced regulatory framework with clear rights regimes, the fostering of multi-territorial licences, adequate protection and remuneration for rights holders and active support for the digitisation of Europe's rich cultural heritage, and to shape the global governance of the internet;
- To reform the research and innovation funds and increase support in the field of ICTs so as to reinforce Europe's technology strength in key strategic fields and create the conditions for high growth SMEs to lead emerging markets and to stimulate ICT innovation across all business sectors;
- To promote internet access and take-up by all European citizens, especially through actions in support of digital literacy and accessibility.

At national level, Member States will need:

- To draw up operational high speed internet strategies, and target public funding, including structural funds, on areas not fully served by private investments;
- To establish a legal framework for co-ordinating public works to reduce costs of network rollout;
- To promote deployment and usage of modern accessible online services (e.g. e-government, online health, smart home, digital skills, security).

Sustainable growth – promoting a more resource efficient, greener and more competitive economy

Sustainable growth means building a resource efficient, sustainable and competitive economy, exploiting Europe's leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency. Such an approach will help the EU to prosper in a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. It will also underpin economic, social and territorial cohesion.

Europe must act:

- Competitiveness: The EU has prospered through trade, exporting round the world and importing inputs as well as finished goods. Faced with intense pressure on export markets and for a growing range of inputs we must improve our competitiveness vis- à-vis our main trading partners through higher productivity. We will need to address relative competitiveness inside the Euro area and in the wider EU. The EU was largely a first mover in green solutions, but its advantage is being challenged by key competitors, notably China and North America. The EU should maintain its lead in the market for green technologies as a means of ensuring resource efficiency through out the economy, while removing bottlenecks in key network infrastructures, thereby boosting our industrial competitiveness.
- Combating climate change: Achieving our climate goals means reducing emissions significantly more

quickly in the next decade than in the last decade and exploiting fully the potential of new technologies such as carbon capture and sequestration possibilities. Improving resource efficiency would significantly help limit emissions, save money and boost economic growth. All sectors of the economy, not just emission-intensive, are concerned. We must also strengthen our economies' resilience to climate risks, and our capacity for disaster prevention and response.

- Clean and efficient energy: Meeting our energy goals could result in € 60 billion less in oil and gas imports by 2020. This is not only financial savings; this is essential for our energy security. Further progress with the integration of the European energy market can add an extra 0.6% to 0.8% GDP. Meeting the EU's objective of 20% of renewable sources of energy alone has the potential to create more than 600 000 jobs in the EU. Adding the 20% target on energy efficiency, it is well over 1 million new jobs that are at stake.

Action under this priority will require implementing our emission-reduction commitments in a way which maximises the benefits and minimises the costs, including through the spread of innovative technological solutions. Moreover, we should aim to decouple growth from energy use and become a more resource efficient economy, which will not only give Europe a competitive advantage, but also reduce its dependency of foreign sources for raw materials and commodities.

Flagship Initiative: "Resource efficient Europe"

The aim is to support the shift towards a resource efficient and low-carbon economy that is efficient in the way it uses all resources. The aim is to decouple our economic growth from resource and energy use, reduce CO_2 emissions, enhance competitiveness and promote greater energy security.

At EU level, the Commission will work:

- To mobilise EU financial instruments (e.g. rural development, structural funds, R&D framework programme, TENs, EIB) as part of a consistent funding strategy, that pulls together EU and national public and private funding;
- To enhance a framework for the use of market-based instruments (e.g. emissions trading, revision of energy taxation, state-aid framework, encouraging wider use of green public procurement);
- To present proposals to modernise and decarbonise the transport sector thereby contributing to increased competitiveness. This can be done through a mix of measures e.g. infrastructure measures such as early deployment of grid infrastructures of electrical mobility, intelligent traffic management, better logistics, pursuing the reduction of CO_2 emissions for road vehicles , for the aviation and maritime sectors including the launch of a major European "green" car initiative which will help to promote new technologies including electric and hybrid cars through a mix of research, setting of common standards and developing the necessary infrastructure support;
- To accelerate the implementation of strategic projects with high European added value to address critical bottlenecks, in particular cross border sections and inter modal nodes (cities, ports, logistic platforms);
- To complete the internal energy market and implement the strategic energy technologies (SET) plan, promoting renewable sources of energy in the single market would also be a priority;
- To present an initiative to upgrade Europe's networks, including Trans European Energy Networks, towards a European supergrid, "smart grids" and interconnections in particular of renewable energy sources to the grid (with support of structural funds and the EIB). This includes to promote infrastructure projects of major strategic importance to the EU in the Baltic, Balkan, Mediterranean and Eurasian regions;
- To adopt and implement a revised Energy Efficiency Action Plan and promote a substantial programme in resource efficiency (supporting SMEs as well as households) by making use of structural and other funds to leverage new financing through existing highly successful models of innovative investment schemes; this should promote changes in consumption and production patterns;
- To establish a vision of structural and technological changes required to move to a low carbon, resource efficient and climate resilient economy by 2050 which will allow the EU to achieve its emissions reduction and biodiversity targets; this includes disaster prevention and response, harnessing the contribution of cohesion, agricultural, rural development, and maritime policies to address climate change, in particular through adaptation measures based on more efficient use of resources, which will also contribute to improving global food security.

At national level, Member States will need:

- To phase out environmentally harmful subsidies, limiting exceptions to people with social needs;
- To deploy market-based instruments such as fiscal incentives and procurement to adapt production and consumption methods;
- To develop smart, upgraded and fully interconnected transport and energy infrastructures and make full use of ICT;
- To ensure a coordinated implementation of infrastructure projects, within the EU Core network, that critically contribute to the effectiveness of the overall EU transport system;
- To focus on the urban dimension of transport where much of the congestion and emissions are generated;
- To use regulation, building performance standards and market-based instruments such as taxation, subsidies and procurement to reduce energy and resource use and use structural funds to invest in energy efficiency in public buildings and in more efficient recycling;
- To incentivise energy saving instruments that could raise efficiency in energy-intensive sectors, such as based on the use of ICTs.

Flagship Initiative: "An industrial policy for the globalisation era"

Industry and especially SMEs have been hit hard by the economic crisis and all sectors are facing the challenges of globalisation and adjusting their production processes and products to a low-carbon economy. The impact of these challenges will differ from sector to sector, some sectors might have to "reinvent" themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) and will draw up a framework for a modern industrial policy, to support entrepreneurship, to guide and help industry to become fit to meet these challenges, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy. The framework will address all elements of the increasingly international value chain from access to raw materials to after-sales service.

At EU level, the Commission will work:

- To establish an industrial policy creating the best environment to maintain and develop a strong, competitive and diversified industrial base in Europe as well as supporting the transition of manufacturing sectors to greater energy and resource efficiency;
- To develop a horizontal approach to industrial policy combining different policy instruments (e.g. "smart" regulation, modernised public procurement, competition rules and standard setting);
- To improve the business environment, especially for SMEs, including through reducing the transaction costs of doing business in Europe, the promotion of clusters and improving affordable access to finance;
- To promote the restructuring of sectors in difficulty towards future oriented activities, including through quick redeployment of skills to emerging high growth sectors and markets and support from the EU's state aids regime and/or the Globalisation Adjustment Fund;
- To promote technologies and production methods that reduce natural resource use, and increase investment in the EU's existing natural assets;
- To promote the internationalisation of SMEs;
- To ensure that transport and logistics networks enable industry throughout the Union to have effective access to the Single Market and the international market beyond;
- To develop an effective space policy to provide the tools to address some of the key global challenges and in particular to deliver Galileo and GMES;
- To enhance the competitiveness of the European tourism sector;
- To review regulations to support the transition of service and manufacturing sectors to greater resource efficiency, including more effective recycling; to improve the way in which European standard setting works to leverage European and international standards for the long-term competitiveness of European industry. This will include promoting the commercialisation and take-up of key enabling technologies;

- To renew the EU strategy to promote Corporate Social Responsibility as a key element in ensuring long term employee and consumer trust.

At national level, Member States will need:

- To improve the business environment especially for innovative SMEs, including through public sector procurement to support innovation incentives;
- To improve the conditions for enforcing intellectual property;
- To reduce administrative burden on companies, and improve the quality of business legislation;
- To work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations) to identify bottlenecks and develop a shared analysis on how to maintain a strong industrial and knowledge base and put the EU in a position to lead global sustainable development.

Inclusive growth – a high-employment economy delivering economic, social and territorial cohesion

Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be needed to increase labour force participation thus adding to growth and social cohesion.

Europe must act:

- Employment: Due to demographic change, our workforce is about to shrink. Only two-thirds of our working age population is currently employed, compared to over 70% in the US and Japan. The employment rate of women and older workers are particularly low. Young people have been severely hit by the crisis, with an unemployment rate over 21%. There is a strong risk that people away or poorly attached to the world of work lose ground from the labour market.
- Skills: About 80 million people have low or basic skills, but lifelong learning benefits mostly the more educated. By 2020, 16 million more jobs will require high qualifications, while the demand for low skills will drop by 12 million jobs. Achieving longer working lives will also require the possibility to acquire and develop new skills throughout the lifetime.
- Fighting poverty: 80 million people were at risk of poverty prior to the crisis. 19 million of them are children. 8 per cent of people in work do not earn enough to make it above the poverty threshold. Unemployed people are particularly exposed.

Action under this priority will require modernising, strengthening our employment education and training policies and social protection systems by increasing labour participation and reducing structural unemployment, as well as raising corporate social responsibility among the business community. Access to childcare facilities and care for other dependents will be important in this respect. Implementing flexicurity principles and enabling people to acquire new skills to adapt to new conditions and potential career shifts will be key. A major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be our ability to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity.

Flagship Initiative: "An Agenda for new skills and jobs"

The aim is to create conditions for modernising labour markets with a view to raising employment levels and ensuring the sustainability of our social models. This means empowering people through the acquisition of new skills to enable our current and future workforce to adapt to new conditions and potential career shifts, reduce unemployment and raise labour productivity.

At EU level, the Commission will work:

- To define and implement the second phase of the flexicurity agenda, together with European social partners, to identify ways to better manage economic transitions and to fight unemployment and raise activity rates;

- To adapt the legislative framework, in line with 'smart' regulation principles, to evolving work patterns (e.g. working time, posting of workers) and new risks for health and safety at work;
- To facilitate and promote intra-EU labour mobility and better match labour supply with demand with appropriate financial support from the structural funds, notably the European Social Fund (ESF), and to promote a forward-looking and comprehensive labour migration policy which would respond in a flexible way to the priorities and needs of labour markets;
- To strengthen the capacity of social partners and make full use of the problem-solving potential of social dialogue at all levels (EU, national/regional, sectoral, company), and to promote strengthened cooperation between labour market institutions including the public employment services of the Member States;
- To give a strong impetus to the strategic framework for cooperation in education and training involving all stakeholders. This should notably result in the implementation of life-long learning principles (in cooperation with Member States, social partners, experts) including through flexible learning pathways between different education and training sectors and levels and by reinforcing the attractiveness of vocational education and training. Social partners at European level should be consulted in view of developing an initiative of their own in this area;
- To ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education and to develop a common language and operational tool for education/training and work: a European Skills, Competences and Occupations framework (ESCO).

At national level, Member States will need:

- To implement their national pathways for flexicurity, as agreed by the European Council, to reduce labour market segmentation and facilitate transitions as well as facilitatig the reconciliation of work and family life;
- To review and regularly monitor the efficiency of tax and benefit systems so to make work pay with a particular focus on the low skilled, whilst removing measures that discourage self-employment;
- To promote new forms of work-life balance and active ageing policies and to increase gender equality;
- Promote and monitor the effective implementation of social dialogue outcomes;
- To give a strong impetus to the implementation of the European Qualifications Framework, through the establishment of national qualification frameworks;
- To ensure that the competences required to engage in further learning and the labour market are acquired and recognised throughout general, vocational, higher and adult education, including non formal and informal learning;
- To develop partnerships between the worlds of education/training and work, in particular by involving social partners in the planning of education and training provision.

Flagship Initiative: «European Platform against Poverty»

The aim is to ensure economic, social and territorial cohesion, building on the current European year for combating poverty and social exclusion so as to raise awareness and recognise the fundamental rights of people experiencing poverty and social exclusion, enabling them to live in dignity and take an active part in society.

At EU level, the Commission will work:

- To transform the open method of coordination on social exclusion and social protection into a platform for cooperation, peer-review and exchange of good practice, and into an instrument to foster commitment by public and private players to reduce social exclusion, and take concrete action, including through targeted support from the structural funds, notably the ESF;

- To design and implement programmes to promote social innovation for the most vulnerable, in particular by providing innovative education, training, and employment opportunities for deprived communities, to fight discrimination (e.g. disabled), and to develop a new agenda for migrants' integration to enable them to take full advantage of their potential;
- To undertake an assessment of the adequacy and sustainability of social protection and pension systems, and identify ways to ensure better access to health care systems.

At national level, Member States will need:

- To promote shared collective and individual responsibility in combating poverty and social exclusion;
- To define and implement measures addressing the specific circumstances of groups at particular risk (such as one-parent families, elderly women, minorities, Roma, people with a disability and the homeless);
- To fully deploy their social security and pension systems to ensure adequate income support and access to health care.

3. MISSING LINKS AND BOTTLENECKS

All EU policies, instruments and legal acts, as well as financial instruments, should be mobilised to pursue the strategy's objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic agenda to focus on delivering Europe 2020's objectives. Operational proposals to ensure their full contribution to the strategy are an integral part of the Europe 2020.

3.1. A single market for the 21st century

A stronger, deeper, extended single market is vital for growth and job creation. However, current trends show signs of integration fatigue and disenchantment regarding the single market. The crisis has added temptations of economic nationalism. The Commission's vigilance and a shared sense of responsibility among Member States have prevented a drift towards disintegration. But a new momentum – a genuine political commitment - is needed to re-launch the single market, through a quick adoption of the initiatives mentioned below. Such political commitment will require a combination of measures to fill the gaps in the single market.

Every day businesses and citizens are faced with the reality that bottlenecks to cross-border activity remain despite the legal existe nceof the single market. They realise that networks are not sufficiently inter-connected and that the enforcement of single market rules remains uneven. Often, businesses and citizens still need to deal with 27 different legal systems for one and the same transaction. Whilst our companies are still confronted with the day-to-day reality of fragmentation and diverging rules, their competitors from China, the US or Japan can draw full strength from their large home markets.

The single market was conceived before the arrival of Internet, before information and communication technologies became the one of the main drivers of growth and before services became such a dominant part of the European economy. The emergence of new services (e.g. content and media, health, smart energy metering) shows huge potential, but Europe will only exploit this potential if it overcomes the fragmentation that currently blocks the flow of on-line content and access for consumers and companies.

To gear the single market to serve the Europe 2020 goals requires well functioning and well-connected markets where competition and consumer access stimulate growth and innovation. An open single market for services must be created on the basis of the Services Directive, whilst at the same time ensuring the quality of services provided to consumers. The full implementation of the Services Directive could increase trade in commercial services by 45% and Foreign Direct investment by 25%, bringing an increase of between 0.5% and 1.5% increase in GDP.

Access for SMEs to the single market must be improved. Entrepreneurship must be developed by concrete policy initiatives, including a simplification of company law (bankruptcy procedures, private company statute, etc.), and initiatives allowing entrepreneurs to restart after failed businesses. Citizens must be empowered to play a full part in the single market. This requires strengthening their ability and confidence to buy goods and services cross-border, in particular on-line.

Through the implementation of competition policy the Commission will ensure that the single market remains an open market, preserving equal opportunities for firms and combating national protectionism. But competition policy will do more to contribute to achieving the Europe 2020 goals. Competition policy ensures that markets provide the right environment for innovation, for example through ensuring that patents and property rights are not abused. Preventing market abuse and anticompetitive agreements between firms provides a reassurance to incentivise innovation. State aid policy can also actively and positively contribute to the Europe 2020 objectives by prompting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support for investment, risk capital and funding for research and development.

The Commission will propose action to tackle bottlenecks in the single market by:

- Reinforcing structures to implement single market measures on time and correctly, including network regulation, the Services Directive and the financial markets legislative and supervision package, enforce them effectively and when problems arise, resolve them speedily;
- Pressing ahead with the Smart Regulation agenda, including considering the wider uof of regulations rather than directives, launching ex-post evaluation of existing lelgisation, pursuing market monitoring, reducing administrative burdens, removing tax obstacles, improving the business environment, particularly for SMEs, and supporting entrepreneurship;
- Adapting EU and national legislation to the digital era so as to promote the circulation of content with high level of trust for consumers and companies. This requires updating rules on liability, warranties, delivery and dispute resolution;
- Making it easier and less costly for businesses and consumers to conclude contracts with partners in other EU countries, notably by offering harmonised solutions for consumer contracts, EU model contract clauses and by making progress towards an optional European Contract Law;
- Making it easier and less costly for businesses and consumers to enforce contracts and to recognise court judgments and documents in other EU countries.

3.2. Investing in growth: cohesion policy, mobilising the EU budget and private finance

Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions.

The financial crisis has had a major impact on the capacity of European businesses and governments to finance investment and innovation projects. To accomplish its objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. Europe must also do all it can to leverage its financial means, pursue new avenues in using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including public-private partnerships (PPPs). The European Investment Bank and the European Investment Fund can contribute to backing a "virtuous circle" where innovation and entrepreneurship can be funded profitably from early stage investments to listing on stock markets, in partnership with the many public initiatives and schemes already operating at national level.

The EU multi-annual financial framework will also need to reflect the long-term growth priorities. The Commission intends to take the priorities, once agreed, up in its proposals for the next multi-annual financial framework, due for next year. The discussion should not only be about levels of funding, but also about how different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to maximise impact, ensure efficiency and EU value added. It will be important to find ways of increasing the impact of the EU budget – while small it can have an important catalytic effect when carefully targetted.

The Commission will propose action to develop innovative financing solutions to support Europe 2020's objectives by:

- Fully exploiting possibilities to improve the effectiveness and efficiency of the existing EU budget through stronger prioritisation and better alignment of EU expenditure with the goals of the Europe 2020 to address the present fragmentation of EU funding instruments (e.g. R&D and innovation, key infrastructure investments in cross-border energy and transport networks, and low-carbon technology). The opportunity of the review of the Financial Regulation should also be fully exploited to develop the potential of innovative financial instruments, whilst ensuring sound financial management;
- Designing new financing instruments, in particular in cooperation with the EIB/EIF and the private

sector, responding to hitherto unfulfilled needs by businesses. As part of the forthcoming research and innovation plan, the Commission will co-ordinate an initiative with the EIB/EIF to raise additional capital for funding innovative and growing businesses;

- Making an efficient European venture capital market a reality, thereby greatly facilitating direct business access to capital markets and exploring incentives for private sector funds that make financing available for start-up companies, and for innovative SMEs.

3.3. Deploying our external policy instruments

Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports. All instruments of external economic policy need to be deployed to foster European growth through our participation in open and fair markets world wide. This applies to the external aspects of our various internal policies (e.g. energy, transport, agriculture, R&D) but this holds in particular for trade and international macroeconomic policy coordination. An open Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalisation that will boost growth and employment. At the same time, the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal

A part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import goods and services in which the European Union has a comparative advantage. As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed or emerging economies are doing to anticipate or adapt to future trends.

Acting within the WTO and bilaterally in order to secure better market access for EU business, including SMEs, and a level playing field vis-à-vis our external competitors should be a key goal. Moreover, we should focus and streamline our regulatory dialogues, particularly in new areas such as climate and green growth, where possible expanding our global reach by promoting equivalence, mutual recognition and convergence on key regulatory issues, as well as the adoption of our rules and standards.

The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours.

In addition, one of the critical objectives in the next few years will be to build strategic relationships with emerging economies to discuss issues of common concern, promote regulatory and other co-operation and resolve bilateral issues. The structures underpinning these relationships will need to be flexible and be politically rather than technically driven.

The Commission will draw up in 2010 a trade strategy for Europe 2020 which will include:

- An emphasis on concluding on-going multilateral and bilateral trade negotiations, in particular those with the strongest economic potential, as well as on better enforcement of existing agreements, focussing on non-tariff barriers to trade;
- Trade opening initiatives for sectors of the future, such as "green" products and technologies, high-tech products and services, and on international standardization in particular in growth areas;
- Proposals for high-level strategic dialogues with key partners, to discuss strategic issues ranging from market access, regulatory framework, global imbalances , energy and climate change, access to raw materials, to global poverty, education and development. It will also work to reinforce the Transatlantic Economic Council with the US the High Level Economic Dialogue with China and deepen its relationship with Japan and Russia;
- Starting in 2011 and then annually before the Spring European Council, a trade and investment barriers report identifying ways to improve market access and regulatory environment for EU companies.

The EU is a global player and takes its international responsibilities seriously. It has been developing a real partnership with developing countries to eradicate poverty, to promote growth and to fulfil the Millenium Development Goals (MDGs). We have a particularly close relationship with Africa and will need to invest further in the future in developing that close partnership. This will take place in the broader ongoing efforts to increase development aid, improve the efficiency of our aid programmes notably through the efficient division of labour with Member States and by better reflecting development aims in other policies of the European Union.

4. EXIT FROM THE CRISIS: FIRST STEPS TOWARDS 2020

Policy instruments were decisively, and massively, used to counteract the crisis. Fiscal policy had, where possible, an expansionary and counter-cyclical role; interest rates were lowered to historical minima while liquidity was provided to the financial sector in an unprecedented way. Governments gave massive support to banks, either through guarantees, recapitalization or through "cleaning" of balance sheets from impaired assets; other sectors of the economy were supported under the temporary, and exceptional, framework for State aid. All these actions were, and still are, justified. But they cannot stay there permanently. High levels of public debt cannot be sustained indefinitely. The pursuit of the Europe 2020 objectives must be based on a credible exit strategy as regards budgetary and monetary policy on the one hand, and the direct support given by governments to economic sectors, in particular the financial sector, on the other. The sequencing of these several exits is important. A reinforced coordination of economic policies, in particular within the euro area should ensure a successful global exit.

4.1. Defining a credible exit strategy

Given remaining uncertainties about the economic outlook and fragilities in the financial sector, support measures should only be withdrawn once the economic recovery can be regarded as self-sustaining and once financial stability has been restored . The withdrawal of temporary crisis-related measures should be coordinated and take account of possible negative spill-over effects both across Member States as well as of interactions between different policy instruments. State aid disciplines should be restored, starting with the ending of the temporary state aid framework. Such a coordinated approach would need to rely on the following principles:

- The withdrawal of the fiscal stimulus should begin as soon as the recovery is on a firm footing. However, the timing may have to differ from country to country, hence the need for a high degree of coordination at European level;
- Short-term unemployment support should only start to be phased out once a turning point in GDP growth can be regarded as firmly established and thus employment, with its usual lag, will have started to grow;
- Sectoral support schemes should be phased out early as they carry a large budget costs, are considered to have by and large achieved their objectives, and due to their possible distorting effects on the single market;
- Access-to-finance support should continue until there are clear signs that financing conditions for business have broadly returned to normal;
- Withdrawal of support to the financial sector, starting with government guarantee schemes, will depend on the state of the economy overall and of the stability of the financial system in particular.

4.2. The reform of the financial system

A crucial priority in the short term will be to restore a solid, stable and healthy financial sector able to finance the real economy. It will require the full and timely implementation of the G20 commitments. Five objectives will in particular have to be met:

- Implementing the agreed reforms of the supervision of the financial sector;
- Filling the regulatory gaps, promoting transparency, stability and accountability notably as regards derivatives and market infrastructure;
- Completing the strengthening of our prudential, accounting and consumer protection rules in the form a single European rule-book covering all financial actors and markets in an appropriate way;
- Strengthening the governance of financial institutions, in order to address the weaknesses identified during the financial crisis in the area of risk identification and management;
- Setting in motion an ambitious policy that will allow us in the future to better prevent and if needed manage possible financial crises, and that – taking into account the specific responsibility of the financial sector in the current crisis – will look also into adequate contributions from the financial sector.

4.3. Pursuing smart budgetary consolidation for long-term growth

Sound public finances are critical for restoring the conditions for sustainable growth and jobs so we need a comprehensive exit strategy. This will involve the progressive withdrawal of short-term crisis support and the introduction of medium- to longer-term reforms that promote the sustainability of public finances and enhance potential growth.

The Stability and Growth Pact provides the right framework to implement fiscal exit strategies and Member States are setting down such strategies in their stability and convergence programmes. For most countries, the onset of fiscal consolidation should normally occur in

2011. The process of bringing the deficits to below 3% of GDP should be completed, as a rule, by 2013. However, in a number of countries, the consolidation phase may have to begin earlier than 2011 implying that the withdrawal of temporary crisis support and fiscal consolidation may in these cases need to occur simultaneously.

To support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances in the context of the Stability and Growth Pact involves setting priorities and making hard choices: coordination at EU can help Member States in this task and help address spill-over effects. In addition, the composition and quality of government expenditure matters: budgetary consolidation programmes should prioritise 'growth-enhancing items' such as education and skills, R&D and innovation and investment in networks, e.g. high-speed internet, energy and transport interconnections – i.e. the key thematic areas of the Europe 2020 strategy.

The revenue side of the budget also matters and particular attention should also be given to the quality of the revenue/tax system. Where taxes may have to rise, this should, where possible, be done in conjunction with making the tax systems more "growth-friendly". For example, raising taxes on labour, as has occurred in the past at great costs to jobs, should be avoided. Rather Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a "greening" of taxation systems.

Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance efficiency and the quality of service. Public procurement policy must ensure the most efficient use of public funds and procurement markets must be kept open EU-wide.

4.4. Coordination within the Economic and Monetary Union

The common currency has acted as a valuable shield from exchange rate turbulences for those Member States whose currency is the euro. But the crisis has also revealed the extent of the interdependence between the economies within the euro area, namely in the financial domain, rendering spill-over effects more likely. Divergent growth patterns lead in some cases to the accumulation of unsustainable government debts which in turn puts strains on the single currency. The crisis has thus amplified some of the challenges faced by the euro area, e.g. the sustainability of public finances and potential growth, but also the destabilising role of imbalances and competitiveness divergences.

Overcoming these challenges in the euro area is of paramount importance, and urgent, in order to secure stability and sustained and employment creating growth. Addressing these challenges requires strengthened and closer policy co-ordination including:

- A framework for deeper and broader surveillance for euro area countries: in addition to strengthening fiscal discipline, macro-economic imbalances and competitiveness developments should be an integral part of economic surveillance, in particular with a view to facilitating a policy driven adjustment.
- A framework for addressing imminent threats for the financial stability of the euro area as a whole.
- Adequate external representation of the euro area in order to forcefully tackle global economic and financial challenges.

The Commission will make proposals to take these ideas forward.

5. DELIVERING RESULTS: STRONGER GOVERNANCE

To achieve transformational change, the Europe 2020 strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.

5.1. Proposed architecture of Europe 2020

The strategy should be organised around a thematic approach and a more focused country surveillance. This builds on the strength of already existing coordination instruments. More specifically:

- A thematic approach would focus on the themes identified in Section 2, in particular the delivery of the 5 headline targets. The main instrument would be the Europe 2020 programme and its flagship initiatives, which require action at both EU and Member States level (see Section 2 and Annexes 1 and 2). The thematic approach reflects the EU dimension, shows clearly the interdependence of Member States economies, and allows greater selectivity on concrete initiatives which push the strategy forward and help achieve the EU and national headline targets.

- Country reporting would contribute to the achievement of Europe 2020 goals by helping Member States define and implement exit strategies, to restore macroeconomic stability, identify national bottlenecks and return their economies to sustainable growth and public finances. It would not only encompass fiscal policy, but also core macroeconomic issues related to growth and competitiveness (i.e. macro-imbalances). It would have to ensure an integrated approach to policy design and implementation, which is crucial to support the choices Member States will have to make, given the constraints on their public finances. A specific focus will be placed on the functioning of the euro area, and the interdependence between Member States.

To achieve this, the Europe 2020 and Stability and Growth Pact (SGP) reporting and evaluation will be done simultaneously to bring the means and the aims together, while keeping the instruments and procedures separate and maintaining the integrity of the SGP. This means proposing at the same time the annual stability or convergence programmes and streamlined reform programmes which each Member State will draw up to set out measures to report on progress towards their targets, as well as key structural reforms to address their bottlenecks to growth. Both these programmes, which should contain the necessary cross-references, should be submitted to the Commission and other Member States during the last quarter of the year. The European Systemic Risk Board (ESRB) should report regularly on macro-financial risks: these reports will be an important contribution to the overall assessment. The Commission will assess these programmes and report on progress made with their implementation. Specific attention will be devoted to the challenges of the Economic and Monetary Union.

This would give the European Council all the information necessary to take decisions. Indeed, it would have an analysis of the economic and job situations, the overall budgetary picture, macro-financial conditions and progress on the thematic agendas per Member State, and would in addition review the overall state of the EU economy.

Integrated guidelines

The Europe 2020 strategy will be established institutionally in a small set of integrated 'Europe 2020' guidelines (integrating employment and broad economic policy guidelines), to replace the 24 existing guidelines. These new guidelines will reflect the decisions of the European Council and integrate agreed targets. Following the opinion of the European Parliament on the employment guidelines as foreseen by the Treaty, the guidelines should be politically endorsed by the June European Council before they are adopted by Council. Once adopted, they should remain largely stable until 2014 to ensure a focus on implementation.

Policy recommendations

Policy recommendations will be addressed to Member States both in the context of the country reporting as well as under the thematic approach of Europe 2020. For country surveillance, they will take the form of Opinions on stability/convergence programmes under Council Regulation (EC) No 1466/97 accompanied by recommendations under the Broad Economic Policy Guidelines (BEPGs, Article 121.2). The thematic part would include Employment recommendations (Article 148) and country recommendations on other selected thematic issues (for instance on business environment, innovation, functioning of the single market, energy/climate change etc.), both of which could also be addressed to the extent that they have macroeconomic implications through the recommendations under the BEPGs as indicated above. This set-up for the recommendations would also help ensure coherence between the macro/fiscal framework and the thematic agendas.

The recommendations under the country surveillance would address issues with significant macroeconomic and public finance implications, whereas the recommendations under the thematic approach would provide detailed advice on micro-economic and employment challenges. These recommendations would be sufficiently precise and normally provide a time-frame within which the Member State concerned is expected to act (e.g. two years). The Member State would then set out what action it would take to implement the recommendation. If a Member State, after the time-frame has expired, has not adequately responded to a policy recommendation of the Council or develops policies going against the advice, the Commission could issue a policy warning (Article 121.4).

5.2. Who does what?

Working together towards these objectives is essential. In our interconnected economies, growth and employment will only return if all Member States move in this direction, taking account of their specific circumstances. We need greater ownership. The European Council should provide overall guidance for the strategy, on the basis of Commission proposals built on one core principle: a clear EU value added. In this respect, the role of the European Parliament is particularly important. The contribution of stakeholders at national and regional level and of the social partners needs also to be enhanced. An overview of the Europe 2020 policy cycle and timeline is included in Annex 3.

Full ownership by the European Council

Contrary to the present situation where the European Council is the last element in the decision-making process of the strategy, the European Council should steer the strategy as it is the body which ensures the integration of policies and manages the interdependence between Member States and the EU.

Whilst keeping a horizontal watching brief on the implementation of the Europe 2020 programme, the European Council could focus on specific themes (e.g. research and innovation, skills) at its future meetings, providing guidance and the necessary impulses.

Council of Ministers

The relevant council formations would work to implement the Europe 2020 programme and achieve the targets in the fields for which they are responsible. As part of the flagship initiatives, Member States will be invited to step up their exchange of policy information of good practices within the various Council formations.

European Commission

The European Commission will monitor annually the situation on the basis of a set of indicators showing overall progress towards the objective of smart, green and inclusive economy delivering high levels of employment, productivity and social cohesion.

It will issue a yearly report on the delivery of the Europe 2020 strategy focusing on progress towards meeting the agreed headline targets, and assess country reports and stability and convergence programmes. As part of this process, the Commission will present policy recommendations or warnings, make policy proposals to attain the objectives of the strategy and will present a specific assessment of progress achieved within the euro-area.

European Parliament

The European Parliament should play an important role in the strategy, not only in its capacity as co-legislator, but also as a driving force for mobilising citizens and their national parliaments. Parliament could, for instance, use the next meeting with national parliaments to discuss its contribution to Europe 2020 and jointly communicate views to the Spring European Council.

National, regional and local authorities

All national, regional and local authorities should implement the partnership, closely associating parliaments, as well as social partners and representatives of civil society, contributing to the elaboration of national reform programmes as well as to its implementation.

By establishing a permanent dialogue between various levels of government, the priorities of the Union are brought closer to citizens, strengthening the ownership needed to delivery the Europe 2020 strategy.

Stakeholders and civil society

Furthermore, the Economic and Social Committee as well as the Committee of Regions should also be more closely associated. Exchange of good practices, benchmarking and networking - as promoted by several Member States - has proven another useful tool to forge ownership and dynamism around the need for reform.

The success of the new strategy will therefore depend critically on the European Union's institutions, Member States and regions explaining clearly why reforms are necessary - and inevitable to maintain our quality of life and secure our social models -, where Europe and its Member States want to be by 2020, and what contribution they are looking for from citizens, businesses and their representative organisations. Recognising the need to take account of national circumstances and traditions, the Commission will propose a common communication tool box to this effect.

6. DECISIONS FOR THE EUROPEAN COUNCIL

The Commission proposes that the European Council, at its meeting in Spring 2010:

- agrees on the thematic priorities of the Europe 2020 strategy;
- sets the five headline targets as proposed in section 2 of this paper: on R&D investments, education, energy/climate change, employment rate, and reducing poverty, defining where Europe should be by 2020; invites the Member States in a dialogue with the European Commission to translate these EU targets into national targets for decisions at the June European Council, taking into account national circumstances and differing starting points;
- invites the Commission to come forward with proposals for the flagship initiatives, and requests the

Council (and its formations) on this basis to take the necessary decisions to implement them;

- agrees to strengthen economic policy co-ordination to promote positive spill-over effects and help address the Union's challenges more effectively; to this end, it approves the combination of thematic and country assessments as proposed in this communication whilst strictly maintaining the integrity of the Pact; it will also give special attention to strengthening EMU;
- calls on all parties and stakeholders (e.g. national/regional parliaments, regional and/or local authorities, social partners and civil society, and last but not least the citizens of Europe) to help implement the strategy, working in partnership, by taking action in areas within their responsibility;
- requests the Commission to monitor progress and report annually to the Spring European Council, providing an overview of progress towards the targets, including international benchmarking, and the state of implementation of the flagship initiative

At its subsequent meetings:

- endorses the proposed integrated guidelines which constitutes its institutional underpinning following the opinion of the European Parliament;
- validates the national targets following a process of mutual verification to ensure consistency;
- discusses specific themes assessing where Europe stands and how progress can be accelerated. A first discussion on research and innovation could take place at its October meeting on the basis of a Commission contribution

Proposal for a Council Regulation establishing a European financial stabilization mechanism

BRUSSELS, 9 MAY 2010

COM(2010) 2010

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 122 (2) thereof,

Having regard to the proposal from the Commission,

Whereas:

(1) Article 122 (2) of the Treaty foresees the possibility of granting Union financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control.

(2) Such difficulties may be caused by a serious deterioration in the international economic and financial environment.

(3) The unprecedented global financial crisis and economic downturn that have hit the world over the last two years have seriously damaged economic growth and financial stability and provoked a strong deterioration in the deficit and debt positions of the Member States.

(4) The deepening of the financial crisis has led to a severe deterioration of the borrowing conditions of several euro-area Member States beyond what can be explained by economic fundamentals. At this point, this situation, if not addressed as a matter of urgency, could present a serious threat to the stability, unity and integrity of the euro area as a whole.

(5) In order to address this exceptional situation beyond the control of the Member States, it appears necessary to put in place immediately a Union stabilization mechanism to preserve financial stability in Europe. Such a mechanism should allow the Union to respond in a coordinated, rapid and effective manner to acute difficulties in a particular euro-area Member State.

(6) Given their particular financial implications, the decisions to grant Union financial assistance pursuant to this Regulation are implementing powers which should be conferred on the Council.

(7) Strong economic policy conditions should be imposed in case of activation of this mechanism with a view to preserving the sustainability of the public finances of the Member State concerned and restoring its capacity to finance itself on the financial markets.

(8) The Commission should regularly review whether the exceptional circumstances threatening the financial stability of the European Union as a whole still exist.

(9) The existing facility providing medium-term assistance for non-euro-area Member States as established by Council Regulation (EC) No 332/2002 should remain in place.

HAS ADOPTED THIS REGULATION:

Article 1
Aim and scope

With a view to preserving the stability, unity and integrity of the euro area as a whole, this Regulation establishes the conditions and procedures under which Union financial assistance may be granted to a euro-area Member State which is experiencing or is seriously threatened with a severe economic or financial disturbance caused by exceptional occurrences beyond its control.

Article 2
Form of the Union financial assistance

1. Union financial assistance for the purposes of this Regulation shall take the form of a loan or of a credit line granted to the Member State concerned.

   To this end, in accordance with a Council decision pursuant to Article 4, the Commission shall be empowered on behalf of the European Union to contract borrowings on the capital markets or with financial institutions.

2. Subject to Article 3, the outstanding amount of loans or credit lines to be granted to Member States under the present stabilization mechanism shall be limited to the margin available under the own resources ceiling for payment appropriations.

Article 3
Guarantees

1. Loans and credit lines above the ceiling referred to in Article 2 (2) shall benefit from the joint and pro-rata guarantee of the euro-area Member States.

2. Each euro area Member State shall guarantee the amounts above the ceiling referred to in paragraph 1 according to its share in the paid-up capital of the European Central Bank.

3. In the cases covered by this Article, the Commission may rely on the services of the national debt offices of the euro area Member States, which offices shall be at the disposal of the Commission to this end.

4. A Member State receiving a financial support decided by the Council under the present Regulation shall not provide a guarantee. The guarantee to be provided by the other Member States shall be recalculated accordingly.

5. Member States shall take the measures necessary to ensure that the guarantee is provided within ten days following the Council decision taken in accordance with Article 4.

Article 4
Procedure

1. The Member State seeking Union financial assistance shall discuss with the Commission in liaison with the ECB an assessment of its financial needs and submit a draft economic and financial adjustment programme to the Commission and the Economic and Financial Committee.

2. Union financial assistance shall be granted by a decision adopted by the Council, acting by a qualified majority on a proposal from the Commission.

3. The decision to grant a loan shall contain:

(a) the amount, the average maturity, the pricing formula, the maximum number of instalments, the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance including for the implementation of the guarantee referred to in Article 3;

(b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the Member State concerned and to restoring its capacity to finance itself on the financial markets;

(c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.

4. The decision to grant a credit line shall contain:

(a) the amount, the fee for the availability of the credit line, the pricing formula applicable for the release of funds and the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance, including for the implementation of the guarantee referred to in Article 3;

(b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the Member State concerned;

(c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.

5. The Commission and the Member State concerned shall conclude a Memorandum of Understanding detailing the general economic policy conditions laid down by the Council, after having obtained the opinion of the economic and financial committee. The Commission shall communicate the Memorandum of Understanding to the European Parliament and to the Council.

6. The Commission shall re-examine the general economic policy conditions referred to in paragraphs (3) (b) and (4) (b) at least every six months and discuss with the Member State concerned the changes that may be needed to its adjustment programme.

7. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any adjustments to be made to the initial general economic policy conditions and shall approve the revised adjustment programme as prepared by the beneficiary Member State.

8. If a financing outside the Union subject to economic policy conditions is envisaged, notably from the IMF, the Member State concerned shall first consult the Commission. The Commission shall examine the possibilities available under the Union financial assistance facility and the compatibility of the envisaged economic policy conditions with the commitments taken by the Member State concerned for the implementation of the Council recommendations and Council decisions adopted on the basis of Article 121, Article 126 and Article 136 of the Treaty. It shall inform the Economic and Financial Committee.

Article 5
Disbursement of the loan

1. The loan shall as a rule be disbursed in instalments.

2. The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article 4(3) (b). To this end, that Member State shall provide all the necessary information to the Commission and give the latter its full cooperation.

3. On the basis of the findings of such verification, the Commission, after having obtained the opinion of the Economic and Financial Committee, shall decide on the release of further instalments.

Article 6
Release of funds

1. The Member State concerned shall inform the Commission in advance of its intention to draw down funds from its credit line. Detailed rules shall be laid down in the decision referred to in Article 4(4).

2. The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article 4(4)(b). To this end, the Member State shall provide all the necessary information to the Commission and give the latter its full cooperation.

3. On the basis of the findings of such verification, the Commission, after having obtained the opinion of the Economic and Financial Committee, shall decide on the release of the funds.

Article 7
Borrowing and lending operations

1. The borrowing and lending operations referred to in Article 2 shall be carried out in euro.

2. The characteristics of the successive instalments released by the Union under the financial assistance facility shall be negotiated between the beneficiary Member State and the Commission.

3. Once the decision on a loan has been made by the Council, the Commission is authorised to borrow on the capital markets or from financial institutions at the most appropriate time in between planned disbursements so as to optimise cost of funding and preserve its reputation as the Union's issuer in the markets. Funds raised but not yet disbursed shall be kept at all times on dedicated cash or securities account which are handled in accordance with rules applying to off budget operations and cannot be used for any other goal than to provide financial support to Member States under the present mechanism.

4. Where a Member State receives a loan carrying an early repayment clause and decides to exercise this option, the Commission shall take the necessary steps.

5. At the request of the beneficiary Member State and where circumstances permit an improvement in the

interest rate on the loan, the Commission may refinance all or part of its initial borrowing or restructure the corresponding financial conditions.

6. The Economic and Financial committee shall be kept informed of the developments in the operations referred to in paragraph 5.

Article 8
Costs

The costs incurred by the Union in concluding and carrying out each operation shall be borne by the beneficiary Member State.

Article 9
Administration of the loans

1. The Commission shall establish the necessary arrangements for the administration of the loans with the ECB

2. The beneficiary Member State shall open a special account with its National Central Bank for the management of the Union medium-term financial assistance received. It shall also transfer the principal and the interest due under the loan to an account with the European Central Bank fourteen TARGET2 business days prior to the corresponding due date.

3. Without prejudice to Article 27 of the Statute of the European System of Central Banks and of the European Central Bank, the European Court of Auditors shall have the right to carry out in the beneficiary Member State any financial controls or audits that its considers necessary in relation to the management of that assistance. The Commission, including the European Anti-Fraud office, shall in particular have the right to send its officials or duly authorised representatives to carry out in the beneficiary Member State any technical or financial controls or audits that it considers necessary in relation to that assistance.

Article 10
Review and adaptation

1. The Commission shall forward to the Economic and Financial Committee and to the Council, within six months following the entry into force of this Regulation and where appropriate every six months thereafter, a report on the implementation of this Regulation and on the continuation of the exceptional occurrences that justify the adoption of this Regulation.

2. Where appropriate, the report shall be accompanied by a proposal for amendments to this Regulation with a view to adapting the possibility of granting financial assistance without affecting the validity of decisions already adopted.

Article 11
Entry into force

This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council,

The President

Reinforcing economic policy coordination

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 12 MAY 2010

COM(2010) 250

"The euro area's governance and coordination of economic policies must be improved. This will involve both deepening and broadening economic surveillance arrangements to guide fiscal policy over the cycle and in the long term and, at the same time, address divergences in growth, inflation and competitiveness." (Commission Communication on "EMU@10: successes and challenges after 10 years of Economic and Monetary Union" – 7 May 2008 - IP/08/716)

1. Introduction

The global economic crisis has challenged the current mechanisms of economic policy coordination in the European Union and revealed weaknesses. The functioning of the Economic and Monetary Union has been under particular stress, due to earlier failures to comply with the underlying rules and principles. The existing surveillance procedures have not been comprehensive enough. This Communication proposes measures that should be taken in the short term on the basis of the Treaty of the Functioning of the European Union (TFEU) to remedy the situation.

The recent economic crisis has no precedent in our generation. The steady gains in economic growth and job creation witnessed over the last decade have been wiped out and the crisis has exposed some fundamental weaknesses in our economy. The fiscal and other macro-economic imbalances built up in the years before the crisis made the EU economy vulnerable when the global financial crisis and economic downturn struck. Our public finances have been severely affected, with deficits of 7% of GDP on average and debt levels over 80% of GDP clearly above the 3% and 60% of GDP reference values set in the Treaty.

High levels of public debt cannot be sustained indefinitely. The pursuit of the Europe 2020 strategy agreed by the European Council in March must be based on a credible exit strategy. The EU faces big challenges in the coming years – the need for fiscal consolidation and at the same time the need to boost sustainable growth levels. The Stability and Growth Pact provides the right framework for an orderly exit from the crisis. But to support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances requires setting priorities and making hard choices: coordination at EU level will be crucial in this task and help address spill-over effects.

The recent financial crisis and pressure on the financial stability in Europe have underlined more clearly than ever the interdependence of the EU's economies, in particular inside the euro area. Member States were supported by being part of the EU, with its 500-million-people strong internal market and common currency for sixteen Member States. Existing instruments and methods of co-ordination enabled the EU to pull together its recovery efforts and to weather a storm that no Member State could have done on its own. However, these recent experiences also showed gaps and weaknesses in the current system, underlining the need for stronger and earlier policy co-ordination, additional prevention and correction mechanisms and a crisis resolution facility for euro-area Member States.

Urgent action has been taken to deal with the immediate needs of the crisis culminating on 9 May when an extraordinary Ecofin Council decided, based on a proposal of the Commission, on the establishment of a European stabilisation mechanism and agreed on a strong commitment to accelerated fiscal consolidation where warranted. Lessons should be drawn and steps taken to strengthen the EU's system of economic governance for the future. In this Communication, the Commission sets out a three pillar approach to reinforcing economic policy co-ordination. Most of the proposals pertain to the EU as a whole, but a more demanding approach is proposed for the euro area, based on Article 136 of the Treaty on the Functioning of the European Union.

The Communication stresses the case for making full use of the surveillance instruments available under the Treaty. Where necessary, existing instruments should be modified and complemented. The Communication calls for reinforcing compliance with the Stability and Growth Pact and extending surveillance to macro-economic imbalances. To do this, it proposes the establishment of a European Semester for economic policy coordination, so that Member States would benefit from early coordination at European level as they prepare their national stability and convergence programmes including their national budgets and national reform programmes. Finally, it sets out the principles that should underpin a robust framework for crisis management for euro-area Member States.

These are ambitious and necessary ideas on which the Commission is seeking the views of Member States, the European Parliament and stakeholders. The Commission will come forward with legislative proposals to implement these ideas in the coming months.

2. The global financial crisis has exposed and amplified the challenges facing the European economy

Public debt was not sufficiently reduced over the past decade. There was not enough commitment to fiscal consolidation, in particular during good economic times. In some Member States, revenues were temporarily boosted by tax-rich activity, driven by unsustainable booms in housing, construction and financial services. As these macro-financial imbalances have unwound sharply due to the crisis, tax revenues in concerned Member States have collapsed, revealing a much weaker-than-anticipated underlying fiscal position. Government budgets in the European Union have gone from close to balance (-0.8% of GDP in EU and -0.6% in the Euro area) in 2007 to an expected deficit of close to 7% of GDP in 2010. Public debt continues to rise. According to the latest Commission services' forecasts, public debt will reach 84% of GDP in 2011 (88% in the Euro area), wiping out the results of twenty years of consolidation. Sizeable contingent liabilities related to financial rescues, representing another 25 percentage points of GDP in the EU, present an additional source of concern, adding to the long-standing fiscal challenges related to ageing.

Other macroeconomic and financial imbalances aggravated the vulnerability of the euro-area economy in particular. Persistent competitiveness divergences and macroeconomic imbalances within the euro area cause a risk to the functioning of Economic and Monetary Union. In the years preceding the crisis, low financing costs fuelled the misallocation of resources to often low productive uses, feeding unsustainable levels of consumption, housing bubbles and the accumulation of external and internal debt in some Member States. The competitiveness gap reached an all-time high just before the crisis. From a balanced position in 1999, current account surpluses in the euro area steadily accumulated and reached 7.7% of GDP in 2007, while aggregated deficits rose from 3.5% of GDP in 1999 to 9.7% in 2007[29]. The economic and financial crisis has triggered a partial rebalancing of current accounts. But this rebalancing is only partly structural. Major policy reorientation is needed to bring about the necessary adjustment in terms of costs and wages, structural reform and reallocation employment and capital.

The exceptional combination in Greece of lax fiscal policy, inadequate reaction to mounting imbalances, structural weaknesses and statistical misreporting led to an unprecedented sovereign debt crisis. The underlying public finance situation was brutally revealed to be partly due to data misreporting in the past, but in fact was mainly the result of inappropriate fiscal policy. While this situation was in part made possible by the shortcomings of the existing economic surveillance framework, it clearly highlights the vital importance of ensuring effective compliance with rules. Confronted with an exceptional sovereign debt crisis, for which the euro area was left with no remedial instrument, the Member States agreed on a package of measures to preserve financial stability in Europe[30]. This Communication is intended to resolutely strengthen our surveillance mechanism in order to prevent a Member State from slipping into such a situation again. But the crisis also underscores the need for appropriate tools to manage a situation that threatens euro-area financial stability.

3. Enhancing economic policy coordination

3.1. Reinforcing compliance with the Stability and Growth Pact and deeper fiscal policy coordination

The rules and principles of the Stability and Growth Pact are relevant and valid. But, despite the Pact, Member States failed to build up adequate buffers in good

29 The current account surplus ratios reported here reflect the combined surpluses of Germany, Luxembourg, the Netherlands, Austria and Finland. The current account deficit ratios reflect the combined deficits of Ireland, Greece, Spain, Cyprus, and Portugal.

30 Conclusions of the Ecofin Council of 9 May 2010.

times. Reinforcing the preventive dimension of budgetary surveillance must be an integral part of closer coordination of fiscal policy. Also, compliance with the rules needs to be improved and more focus needs to be given to sustainability of public finances.

The preparation and assessment of Stability and Convergence Programmes forms the core of the preventive work under the Pact. Its impact and effectiveness should be decisively strengthened by increasing the ex-ante dimension of the process, and by giving it teeth. The former is addressed below (in Section III.3) through the introduction of a "European Semester". The latter could be done, for example, by including the possibility of imposing interest-bearing deposits in case of inadequate fiscal policies when Member States make insufficient progress towards their budgetary Medium-Term-Objectives in good economic times. This would require a change in secondary legislation.

National fiscal frameworks to better reflect the priorities of EU budgetary surveillance. Member States should be encouraged to integrate the Treaty objective of sound public finances in their national law. A national fiscal framework is the set of elements that form the basis of national fiscal governance, i.e. the country-specific institutional policy setting that shapes fiscal policy-making at national level. To give concrete meaning to the complementarity between the EU and national fiscal frameworks, the obligation in Protocol Nr 12 TFEU for Member States to have in place budgetary procedures that ensure compliance with their Treaty obligations on budgetary discipline could be specified through legally binding instruments. Such instruments would for instance require national frameworks to reflect multi-annual budgeting procedures, so as to ensure the achievement of the budgetary Medium-Term-Objectives.

The Excessive Deficit Procedure (EDP) forms the cornerstone of the corrective part of the Stability and Growth Pact. But, the corrective dimension embedded in the EDP comes into play too late to provide the right incentives for Member States to tackle emerging fiscal imbalances. The functioning of the EDP could be improved by speeding up the procedures, in particular with regard to Member States in repeated breach of the Pact. This will require changes in secondary legislation.

More prominence should be given to public debt and sustainability. Recent events have highlighted not only the vulnerability of Member States servicing a very large public debt burden, but also the potentially negative cross-border repercussions. High indebtedness weighs on medium- and long-term growth prospects and deprives governments of the ability to run credible counter-cyclical policies when they are needed most. This applies particularly in view of mounting threats to the sustainability of public finances, including those deriving from recent bank rescue packages as well as from ageing populations.

The debt criterion of the excessive deficit procedure should effectively be implemented. The EDP should better take into account the interplay between debt and deficit to improve incentives to run prudent policies. Member States with debt ratios in excess of 60% of GDP should become subject to the EDP if the decline of debt in a given preceding period falls short of an appropriate benchmark. Specifically, the Commission and the Council would need to assess whether the budget deficit is consistent with a continuous and substantial decline in public debt. Fiscal risks stemming from explicit and implicit liabilities should be taken into account as a relevant factor. Symmetrically, the abrogation of the EDP for Member States with debt in excess of the 60% of GDP threshold should be conditional on an assessment of projected debt developments and risks.. This approach is fully consistent with Article 126 of the TFEU and would require some changes in secondary legislation.

To ensure better compliance with the rules of the Stability and Growth Pact, , more attention should be paid to the use of the EU budget. Currently, the suspension of the Cohesion fund, from which only a limited number of Member States is eligible, is only considered at a late stage of the EDP (Article 126(8) of the TFEU).

Broader and more timely use of EU budget expenditure as an incentive for compliance should be considered when decisions on the next Financial Framework are prepared. The aim should be to establish fair, timely and effective incentives for compliance with the Stability and Growth Pact rules. Conditionality could be enhanced and Member States could be asked to redirect funds to improve the quality of public finances, once the existence of an excessive deficit is established (according to Article 126(6) of the TFEU).

Cohesion policy should have a clearer role to play in supporting Member States actions to address structural weaknesses and competitiveness challenges. The forthcoming 5th Cohesion Report will present proposals in this respect, particularly with a view to strengthening institutional capacity and efficiency of public administrations.

During the current Financial Framework a more rigorous and rules-based application of the existing suspension clause for Cohesion fund commitments should be pursued in case of recurrent breaches of the Pact.

Improving the functioning of existing mechanisms under the Stability and Growth Pact

- Increase effectiveness of Stability and Convergence Programmes assessments through better ex-ante coordination
- National fiscal frameworks to better reflect the priorities of EU budgetary surveillance

Addressing high public debt and safeguarding long-term fiscal sustainability

- Give new prominence to the debt criterion of the Treaty
- Take better account of the interplay between debt and deficit

Better incentives and sanctions to comply with the rules of the Stability and Growth Pact

- Interest-bearing deposits in case of inadequate fiscal policies
- More rigorous and conditional use of EU expenditure to ensure better compliance with the rules of the Stability and Growth Pact
- Recurrent breaches of the Pact to be subjected to more speedy treatment and more rigorous use of the Cohesion Fund Regulation

3.2. Towards broader surveillance of intra-euro area macroeconomic and competitiveness developments

The EU's comprehensive Europe 2020 strategy for growth and jobs puts the focus on macro-financial and structural imbalances. Europe 2020 sets out an ambitious and comprehensive strategy towards smart sustainable and inclusive growth for the EU economy. Against the background of the crisis it sets a new focus on addressing Europe's weaknesses in the surveillance of macro-financial and structural challenges. Taking account of the deep economic and financial inter-linkages within the euro area and their impact on the single currency, Europe 2020 calls for the development of a specific policy framework for the euro area to tackle broader macroeconomic imbalances[31]. Accordingly, in March 2010, the European Council called the Commission to present by June 2010 proposals to strengthen coordination within the euro area, making use of the new instruments for economic coordination offered by Article 136 of the Treaty (TFEU).

The accumulation of large and persistent macroeconomic imbalances among euro-area Member States has the potential to undermine the cohesiveness of the euro area and hamper the smooth functioning of EMU. To prevent the occurrence of severe imbalances within the euro area, it is therefore important to deepen the analysis and expand economic surveillance beyond the budgetary dimension to address other macroeconomic imbalances, including competitiveness developments and underlying structural challenges. It is proposed to upgrade the peer review of macroeconomic imbalances now carried out by the Eurogroup into a structured surveillance framework for euro-area Member States by making use of Article 136 TFEU. This framework will imply deeper surveillance, more demanding policy co-ordination and stronger follow-up than envisaged under Europe 2020 for all EU member States. As with the EU's fiscal framework, which also applies to all EU Member States, more stringent rules would apply to euro area Member States.

The surveillance will include a scoreboard that will indicate the need for action. A scoreboard, reflecting both external as well as internal developments, would be defined and regularly monitored. It would encompass a relevant set of indicators and reflect, inter alia, developments in current accounts, net foreign asset positions, productivity, unit labour costs, employment, and real effective exchange rates, as well as public debt and private sector credit and asset prices. It would appear particularly important to detect asset price booms and excessive credit growth at an early stage to avert costly corrections of fiscal and external imbalances at a later stage. This analysis would form the basis for the formulation of the recommendations for preventive or corrective measures in the Member State(s) concerned.

As regards the euro area, the Commission will also assess macroeconomic imbalances developments and prospects as a whole. Looking at the euro area as a whole and on a country-by-country basis, the Commission would assess the risk of all possible forms of macroeconomic imbalances that jeopardise the proper functioning of the euro area. In such a case, the Commission would conduct a more in-depth analysis of the underlying risk of emerging imbalances. This analysis will be the basis for policy orientations. The Council, with only euro-area Members voting, would invite the Member State(s) concerned to take the necessary action to remedy the situation. Should the Member State(s), within a stipulated time frame fail to take the appropriate

31 The Commission made the case for deeper and broader economic coordination in the euro area repeatedly in the past, including in the 2009 Annual Statement on the Euro Area and the 2008 Communication on "EMU@10: successes and challenges after 10 years of Economic and Monetary Union".

measures to correct the excessive imbalance, the Council, with a view to ensure the proper functioning of EMU, could step up the surveillance for the Member State concerned and decide, on a proposal by the Commission, to issue precise economic policy recommendations. Where necessary, the Commission would use its possibility to issue early warnings directly to a euro-area Member State. Recommendations, if and when appropriate, could also be directed to the euro-area as a whole.

Preventive and corrective actions are potentially needed in a wide range of policy areas to effectively influence the macroeconomic imbalances and their underlying structural causes. Unlike in the correction of excessive deficits, economic policies tend to have only an indirect and lagged impact on the development of external imbalances. Therefore, depending on the specific challenges of the economy concerned, policy recommendations could address both the revenue and expenditure side of fiscal policy (in the context of the Stability and Growth Pact) as the crisis has shown that the evolution of the composition of government revenues is also an important lead-indicator of potential imbalances. In this context, recommendations could address the functioning of labour, product and services markets in line with the broad economic policy and employment guidelines. They should also cover macro-prudential aspects to prevent or curb excessive credit growth or exuberant asset price developments, in line with the future European Systemic Risk Board analysis.

Strengthening and broadening surveillance of macroeconomic developments in the euro area

- Building on Europe 2020, develop a framework for enhanced and broader macroeconomic surveillance for euro area Member States in form of a regulation based on Article 136 TFEU
- Develop a scoreboard of indicators to identify alert thresholds for severe imbalances
- Formulate country-specific recommendations
- Recourse to formal Council acts, by the Council voting in euro-area configuration

3.3. An integrated economic policy coordination for the EU: a "European Semester"

With a view to achieving a more integrated surveillance of economic policies, it has been suggested under the Europe 2020 initiative to synchronise the assessment of fiscal and structural policies of EU Member States. The outcome of broader macroeconomic surveillance should be reflected also when fiscal policy recommendations under the SGP are being formulated. In particular, the emergence of sizeable macroeconomic imbalances may call for more ambitious budgetary targets. Likewise, when assessing the risk of severe imbalances and deciding on the appropriate policy response, the Commission would take into account relevant input from the European Systemic Risk Board. Warnings and recommendations from the European Systemic Risk Board addressed to one or several Member States would be considered as a matter of common concern, while applying appropriate peer pressure for remedial action. Synergies and consistency between the different strands of economic surveillance should be facilitated by an integrated surveillance cycle under a European Semester.

Prevention is more effective than correction. The current cycle of economic surveillance consists mainly of an ex-post assessment of the appropriateness of economic policies with the rules of the Stability and Growth Pact (SGP) and the broad economic policy guidelines. The currently missing *ex-ante* dimension of budgetary and economic surveillance would allow the formulation of genuine guidance, taking into account the European dimension, and their subsequent translation into domestic policymaking. The formulation of more timely country-specific recommendations would benefit all aspects of surveillance - fiscal, macro-financial and structural.

A system of early peer-review of national budgets would detect inconsistencies and emerging imbalances. To ensure true and accurate data, a prerequisite would be to strengthen Eurostat's mandate to audit national statistics in line with recent Commission proposals. It is important to bring this proposal swiftly into force as this will improve the quality of reporting on public finances. An earlier tackling of the building-up of fiscal imbalances would ease their reversal and avoid becoming a serious risk to macroeconomic stability and fiscal sustainability. The submission of the Stability and Convergence Programmes should take place in the first half of the year rather than towards the end of the year as is the current practice. In full respect of the prerogatives of national parliaments, the early peer-review would provide guidance for the preparation of the national budgets in the following year.

For the euro area a horizontal assessment of fiscal stance should be carried out on the basis of the national Stability Programmes and the Commission forecasts. Special consideration to the aggregate stance should be given in the cases of serious economic stress in the euro area, when sizeable fiscal policy measures taken by individual Member States are likely to produce important spill-overs. In case of obvious inadequacies in the budget plans for the following year, a revision of the plans could be recommended. The Eurogroup should have a crucial role to play in this new system of enhanced coordination and, where appropriate, have recourse to formal decision making as provided by the Lisbon Treaty.

A European Semester should encapsulate the surveillance cycle of budgetary and structural policies. It would start early in the year with a horizontal review under which the European Council, based on analytical input from the Commission, would identify the main economic challenges facing the EU and the euro area and give strategic guidance on policies. Member States would take conclusions of this horizontal discussion into account when preparing their Stability and Convergence Programmes (SCPs) and National Reform Programmes (NRPs). SCPs and NRPs would be issued simultaneously, allowing the growth and fiscal impact of reforms to be reflected in the budgetary strategy and targets. Member States would also be encouraged, in full respect of national rules and procedures, to involve their national parliaments in this process before submission of the SCPs and NRPs for multilateral surveillance at the EU-level. The Council, based on the Commission's assessment, would subsequently provide its assessment and guidance at a time when important budgetary decisions were still in a preparatory phase at the national level. In this context, the European Parliament should be appropriately engaged.

A "European Semester" for better ex-ante integrated fiscal policy coordination

- Align submission and discussions of SCPs and NRPs to assess the overall economic situation and improve timing with national budgetary cycles
- Ensure effective and timely policy advice from the European Council and the Council based on the Commission assessment

àMore effective integrated surveillance, reaping the full benefits of peer review

3.4. Towards a robust framework for crisis management for euro area Member States

The unravelling of the Greek crisis showed that a robust framework for crisis management for euro area Member States is needed.

Indeed, financial distress in one Member State can jeopardize the macro-financial stability of the euro area as a whole. The crisis has demonstrated that a robust framework for crisis management is a necessary complement to the instruments for surveillance, prevention and adjustment discussed above. The EU's balance-of-payments assistance provided crucial support to non-euro-area Member States in financial distress. The uncertainty related to the availability and modalities of financial assistance to Greece aggravated contagion to other Member States and put at risk the overall financial stability within the euro area.

A clear and credible set of procedures for the provision of financial support to euro-area Member States in serious financial distress is necessary to preserve the financial stability of the euro area in the medium and long term.

A framework for well-designed conditional financial assistance should strengthen euro-area financial stability while avoiding moral hazard. At the heart of this euro-area crisis resolution mechanism are strict conditionality and interest rates that create incentives to return to market-based financing while ensuring the effectiveness of the financial support. When crisis prevention fails, and this is evidenced by an objective financing need, assistance would be activated as a last resort, to safeguard financial stability in the euro area as a whole. It would be accompanied by a detailed and demanding programme of policy conditionality which would ensure that the assistance period is used to implement the necessary adjustments (fiscal and structural) to ensure solvency in the long run and so facilitate the swiftest possible return to market-based financing.

Financial assistance should be provided in the form of lending. Lending to a euro-area Member State – as opposed to assuming its debt - is not in contradiction with Article 125 TFEU. The policy programme and conditionality should be set within Article 136 TFEU. The experience with the EU's balance-of-payments assistance for non-euro area Member States has demonstrated that a single framework, with the EU issuing debt to finance emergency loans, provides a good combination of relative efficiency of management with political oversight by the Council.

Policy conditionality must aim first at tackling the underlying imbalances in the affected Member State to ensure a smooth functioning of EMU. Conditionality would typically involve an appropriate mix of fiscal consolidation and the strengthening of fiscal governance including tax policies; financial sector stabilisation to the extent that financial sector distress is at the root of the public finances problems; and broader policy interventions to restore macroeconomic stability and external viability. Beyond the budgetary dimension priority should be given to addressing macroeconomic imbalances, including competitiveness developments and underlying structural challenges. This will imply closer surveillance, more demanding policy co-ordination and stronger follow-up to ensure that necessary structural reforms are implemented swiftly.

On 9 May, based on a proposal of the Commission, the ECOFIN decided on the establishment of a temporary European stabilisation mechanism to deal with the immediate needs of the crisis. This was part of a wider package, including strong commitments to fiscal consolidation where warranted and involvement of the IMF through its usual facilities in line with the recent European programmes.

This mechanism was created to respond to the current exceptional circumstances and entails an overall financial support of up to EUR 500 billion. Financial assistance will be subject to strong conditionality, in the context of a joint EU/IMF support, and will be on terms and conditions similar to the IMF. This mechanism will be financed through two complementary sources. The first, building-on a Council Regulation based on Article 122(2), can mobilize up to EUR 60 billion. In addition, the euro-area Member States stand ready through an intergovernmental agreement to complement such resources through a Special Purpose Vehicle. This SPV would borrow using financial guarantees of the participating Member Sates up to EUR 440bn.

This mechanism largely respects the basic principles for a permanent robust crisis resolution mechanism. Therefore, the Commission considers that the first priority must now be to make this mechanism fully operational. Based on this experience, the Commission intends in the medium-to-long term to make a proposal for a permanent crisis resolution mechanism..

4. Next steps

The Commission will develop the reform proposals presented in this Communication, in line with its responsibilities under the Treaty. It considers it important to make swift progress on the reform agenda laid out in this Communication: the present economic situation requires urgent action to implement the measures proposed to improve the economic governance of the EU and the euro area. The first European Semester should start with the beginning of 2011.

The Commission stands ready to follow-up swiftly with legislative proposals, including amending the regulations underpinning the Stability and Growth Pact, to enhance the prevention and correction of macroeconomic imbalances within the euro area, and to establish a more permanent framework for crisis management.

Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 30 JUNE 2010

COM(2010) 367

Europe has learned many lessons from the recent financial and economic crisis. We see very clearly now that in a highly integrated Union, and even more so in a monetary union, our economies and our successes are linked. Although the EU has a number of instruments for the co-ordination of economic policy the crisis has shown that they have not been used to the full and that there are gaps in the current governance system. There is broad political agreement that this has to change and that the EU needs to be equipped with a broader and more effective set of policy instruments to ensure its future prosperity and standards of living.

The EU has taken bold, comprehensive and consistent measures to overcome the crisis and draw lessons for the future. The launch of the European Economic Recovery Programme in 2008 helped cushion the shock of the downturn on our economies. Coordinated support was provided to EU Member States that needed it and to safeguard the stability of the Economic and Monetary Union. A set of measures to strengthen the supervision and regulation of the financial system is under negotiation, in the EU and beyond. Now that the framework of the Europe 2020 Strategy is in place, a series of initiatives will follow, designed to unlock the EU's potential to boost growth and create jobs.

What the EU needs is a well defined policy approach that supports economic recovery, puts public finances back on a sound footing and actively promotes sustainable growth and jobs. This is the policy vision set out in the Europe 2020 strategy that has just been endorsed by the European Council. All relevant instruments need to be brought together to ensure that future policy decisions are coherent, serve these goals and, once decided, are implemented and enforced. By strengthening its economic policy co-ordination the EU can deliver a new and sustainable growth agenda for its citizens.

In this context, the purpose of this Communication is to:

- Develop the proposals for greater economic policy co-ordination and surveillance set out in the Commission's 12 May Communication on reinforcing economic policy coordination into concrete proposals by (i) addressing imbalances through stronger macroeconomic surveillance, including alert and sanction mechanisms; (ii) strengthening national fiscal frameworks by specifying minimum requirements for domestic fiscal frameworks, and notably moving from annual to multi-annual budgetary planning; (iii) strengthening the Stability and Growth Pact, in particular by focusing on the issue of debt dynamic as well as deficits.
- Set out effective enforcement mechanisms to ensure that Member States will act in compliance with the EU framework they have agreed. Where developments in Member State economies pose a risk to the overall development of the Union, a series of preventive and corrective measures are proposed, including a range of sanctions that could be applied where breaches occur.
- Establish a European semester for policy co-ordination and explain the process and timing that will provide a European input to national policy decisions, leading to more effective ex-ante policy co-ordination. This also applies to the structural reforms and the growth enhancing elements of the Europe 2020 strategy.

The proposals in this Communication can all be agreed under the terms of the Lisbon Treaty. They are addressed to all 27 Member States although aspects of some of them will apply only to those Member States that are in the euro area. They are designed to bring together, at the same time, the country monitoring under the Stability and Growth Pact and Europe 2020 and to make sure that the thematic monitoring of the Europe 2020 targets is anchored in sound economic and fiscal policies. These proposals develop further the policy ideas set out in the Commission's Communication of 12 May 2010[32] and build on the orientations agreed at the 17 June 2010 European Council, reflecting the progress to date of the Task Force on economic governance. They respond to the invitation of the European Council to the Task Force and the Commission to develop its orientations further and to make them operational.

Taken together, this combination of proposals will equip the EU and national levels to have confidence in the quality of the policy and decision making process and to have earlier warning of where national situations are going off track. This will enable all Member States to maximise the positive synergies of belonging to the same Union. It will bring greater transparency and mutual confidence through a more collective process. It will also minimise the negative spillover effects where Member States do not stick to agreed limits and ultimately, sanction those who endanger the common good through unsustainable national actions. By bringing the Stability and Growth Pact and Europe 2020 processes together the EU can build on the necessary consolidation measures as essential steps in its longer term growth strategy, building a smarter, more sustainable and more inclusive EU for the future.

1. Broader Macroeconomic Surveillance

The EU needs stronger macro-economic country surveillance integrating all relevant economic policy areas. Macroeconomic imbalances should be looked at jointly with fiscal policy and growth-enhancing structural reforms. The objective is to ensure macroeconomic stability, prevent occurrence of harmful imbalances and establish broad macroeconomic framework conditions which allow for sustainable and dynamic growth.

1.1. Surveillance of macroeconomic imbalances

The emergence of large macroeconomic imbalances, including large and persistent divergences in competitiveness trends, proved highly damaging to the EU and in particular to the euro when the crisis struck. It is therefore important to develop a new structured mechanism for the surveillance of harmful macroeconomic imbalances and their correction in all Member States. Following a two-stage approach, the Commission is proposing a mechanism comprising:

- a **preventive arm** with regular (annual) assessments of the risk of macroeconomic imbalances, including an **alert mechanism**,
- a **corrective arm**, designed to enforce the implementation of **remedies** in case of harmful macroeconomic imbalances.

Preventive arm: an alert system

Within the framework of the macro-structural country surveillance under Europe 2020, the Commission would assess macro-structural weaknesses, deteriorating competitiveness and emerging macro-economic imbalances on a country-by-country basis, taking into account the economic and financial interlinkages in particular within the euro area.

A scoreboard establishing a set of indicators revealing external and internal imbalances combined with qualitative expert analyses will be the basis for an alert mechanism. The use of indicators would provide important guidance, but there will not be a mechanical link between the results of the scoreboard and the policy follow up.

For countries exhibiting significant risks, in-depth country analysis would be conducted. Where emerging risks are confirmed, the Commission will propose country-specific Council recommendations to tackle harmful macroeconomic imbalances. The Commission could also issue an early warning directly to that Member State.

Depending on the nature of the imbalances identified in the Member State(s), the recommendations could address a broad range of policy issues covering macroeconomic policies, wages and labour markets as well as the functioning of goods and services markets and macro-prudential policies. These will be incorporated into the single set of country-specific recommendations that the Commission will propose annually, together with the recommendations issued under the thematic surveillance of structural reforms, as described below.

This mechanism will be the central part of the enhanced (non-fiscal) macroeconomic country surveillance foreseen under Europe 2020. Together with fiscal surveillance under the Stability and Growth Pact, country surveillance aims at ensuring a stable macroeconomic environment conducive to growth and employment creation, taking full account of the interdependence between Member States economies, particularly in the euro area. This will ensure consistency within Europe 2020, in particular by identifying the macro/fiscal constraints within which Member States are to implement structural

32 COM(2010) 250 on Reinforcing economic policy coordination.

reforms and can invest in the growth-enhancing policies of Europe 2020.

In particularly serious cases, the Commission would recommend placing the Member State in an "excessive imbalances position". This would trigger the 'corrective arm' of the mechanism described below. In such a case, the Commission could also issue an early warning directly to that Member State.

Main features of the alert mechanism for macroeconomic imbalances

The alert mechanism will identify Member States with potentially problematic levels of macroeconomic imbalances and where further in-depth country-specific analysis is required.

The alert mechanism will consist of a scoreboard of indicators, complemented by more qualitative analysis. These indicators would include measures of the external position and price or cost competitiveness as well as internal indicators. The use of internal indicators is justified on the ground that external imbalances necessarily have internal counterparts. For examples, indicators such as current account balances, net foreign asset positions, real effective exchange rate based on unit labour costs and a GDP deflator, increases in real house prices, government debt, and the ratio of private sector credit to GDP could be part of this scoreboard.

Alert thresholds will be defined and announced for each indicator. The thresholds could be calculated on the basis of a simple and transparent statistical concept. A possible approach could be to use the 75% and 25% percentile of the statistical distributions of each variable (across countries and time) at the level above or below which a further analysis is warranted. It is however important to bear in mind that absolute threshold levels for individual variables have only limited economic meaning and need to be complemented by economic reasoning as appropriate levels can vary depending on the economic circumstances of the country.

A differentiated scoreboard for euro-area and non-euro area Member States appears warranted. Due to differences in exchange rate regimes and in key economic characteristics, the behaviour of some economic variables in the euro area is quite different from the non-euro-area countries. This argues in favour of using different alert thresholds for euro-area and non euro-area Member States. Moreover, in the absence of nominal exchange rates within the monetary union, the euro area deserves also a special analysis of real effective exchange rate developments.

Corrective action

The imbalances surveillance framework would include an **enforcement mechanism**. A Member State presenting significant risks would be placed by the Council in a position of "excessive imbalances" on the basis of a Commission recommendation. Risk warnings and/or recommendations issued by the European Systemic Risk Board on macro-financial stability would be taken into account.

A Member State in "excessive imbalances position" would be subject to stricter surveillance. The Council would issue **policy recommendations** (based on Article 121(4) and Article 136 TFEU for euro-area Member States) and the Member State would be required to report regularly to the Ecofin Council and the Eurogroup (e.g. within 6 months following the Council recommendation and on a quarterly basis thereafter) on progress in implementing the recommended reforms.

This mechanism would apply to all Member States. As with the EU's fiscal framework, which also applies to all EU Member States, more stringent rules would apply to euro area Member States. Taking account of the deep economic and financial inter-linkages within the euro area and their impact on the single currency, **specific enforcement mechanism could be envisaged for euro-area Member States in case of repetitive non-respect of the recommendations to address harmful macroeconomic imbalances that risk jeopardizing the proper functioning of economic and monetary union**.

Insufficient compliance with the recommendations under the surveillance of imbalances would be considered an aggravating factor in the fiscal assessment under the Stability and Growth Pact.

By end-September, the Commission will make formal proposals for secondary legislation, establishing a framework for dealing with **excessive imbalances** based on Articles 121 and 136 of the Treaty on the Functioning of the European Union. These proposals will specify the role of the alert mechanism; the role and obligations of the Commission, Member States and the Council; the procedure for the adoption of recommendations; and the rules and procedures as well as the enforcement mechanisms for euro area Member States.

1.2. Thematic surveillance of structural reforms

To return their economies to sustainable growth and increase competitiveness, Member States need to restore macroeconomic stability and sound public finances. At the same time they need to focus their efforts on the delivery of Europe 2020 objectives and the five headline targets agreed by the European Council An integrated approach to policy design and implementation is essential given the constraints on public finances. The identification of the bottlenecks which impede or delay the attainment of the Europe 2020 objectives is a key element of the thematic surveillance.

The objective of thematic structural reform surveillance is therefore two-fol1:

1. To facilitate the attainment of the Europe 2020 objectives, in particular the five headline targets[33]. This includes measures in the areas of employment, social inclusion, research and innovation, education, energy and climate change as well as measures to tackle any other factors that hinder Member States' economic development or growt2.

2. To ensure ambitious implementation of the structural reforms in a manner that is consistent with the macro-fiscal constraints.

This surveillance will be carried out in accordance with Article 121 and 148 TFEU and on the basis of the Europe 2020 Integrated Guidelines. Based on Member States' National Reform Programmes the Commission will assess the way each country is addressing the bottlenecks it has identified and how it is progressing towards its national Europe 2020 targets.

In case of insufficient progress, or when policies are not sufficiently consistent with the integrated guidelines (i.e. the Integrated Guidelines for economic and employment policies), a country-specific or euro-area recommendation will be issued.

In cases where economic policies are not consistent with the Broad Economic Policy Guidelines, or when they risk jeopardising the proper functioning of the economic and monetary union, the Commission will directly address a **warning** to the relevant Member State(s).

Building on this country-specific monitoring, the Commission will make an overall assessment of progress towards the five EU headline targets, assess performance against that of main (international) trading partners and examine the underlying reasons in case of insufficient progress. In this examination the Commission will also assess how the implementation of the Europe 2020 flagship initiatives is progressing both at EU and at national level as they support and complement the efforts towards these targets.

The Commission will report to the Spring European Council each year, and will propose specific orientations to enhance the implementation of the corresponding reform measures. These orientations will also feed into the single set of country specific recommendations which the Commission will propose in early July.

2. National Fiscal Frameworks

Resilient and effective domestic fiscal frameworks play a crucial role in strengthening fiscal consolidation and sustainable public finances. While Member States' specific needs and preferences must be respected, a number of features stand out as being needed in terms of ensuring minimum quality and complementarity with EU rules[34]1

3. First, in order to ensure **quality standards** in all Member States, a consistent approach is essential regarding accounting (ESA95 accounting is required for EU level fiscal surveillance); the capacity of national statistical offices must be sufficient to ensure compliance with EU data and reporting requirements; and forecasting systems must allow for the provision of reliable and unbiased growth and budget projections. Ideally, Commission forecasts should be used as the benchmark. The Commission proposes to specify clearly the correspondence between national cash data and ESA95 data with monthly data provision on a cash basis with translation in ESA95 terms on a quarterly basis. Forecasting methodologies and macroeconomic assumptions used for budgetary purposes should be the subject of appropriate auditin2.

4. Second, Member States should have in place **national fiscal rules** ensuring that domestic fiscal frameworks reflect the Treaty obligations. Provisions of national fiscal rules should ensure the respect of the Treaty reference values on deficit and debt and be consistent with the Medium-Term budgetary Objective (MTO). Fiscal rules and credible enforcement mechanisms should be codified by national law3

5. Third, reforms of national fiscal frameworks should promote the switch to **multi-annual budgetary planning.** Yearly budgetary objectives should be underpinned by multi-annual frameworks, including a

33 See targets at: http://ec.europa.eu/eu2020/pdf/council_conclusion_17_june_en.pdf

34 See also Ecofin Council Conclusions of 18 May 2010 on Budgetary Frameworks.

breakdown for projected revenue and expenditure and indications of where the adjustment towards the objectives is planned to com4.

6. Finally, domestic frameworks must be **comprehensive** and cover the whole system of general government finance. This is particularly important in decentralised economies. The assignment of budgetary responsibilities across levels of government should be clearly specified and appropriate monitoring and enforcement provisions put in place.

The Commission will make formal **proposals in September specifying the minimum requirements for the design of domestic fiscal frameworks** and the procedural (reporting) requirements to allow for verification of compliance. These will take the form of a new regulation based on Article 126(14) TFEU, to foster the application of Treaty Protocol No 12 on the Excessive Deficit Procedure. Infringement proceedings could be instigated in the case of failure to comply.

3. Increased focus on public debt and fiscal sustainability in the SGP

The Stability and Growth Pact (SGP) should take greater account of the interplay between debt and deficit to improve incentives to run prudent policies.

As regards the **preventive arm** of the SGP, the Commission proposes that a faster pace of progress towards a general government balance that provides a safety margin with respect to the 3% of GDP deficit limit and that ensures rapid progress towards sustainability, i.e. the so-called Medium-Term budgetary objective (MTO) be required for Member States with a high level of debt or pronounced risks in terms of future debt developments.

As regards the **corrective arm**, the Commission proposes that the debt criterion of the excessive deficit procedure be implemented effectively **through a clear and simple numerical benchmark** for defining a satisfactory pace of debt reduction: Member States with debt ratios in excess of 60% of GDP could become subject to the EDP if the decline of debt in a given preceding period falls short of this benchmark (fraction of the gap between the debt level and the 60% of GDP threshold). In the same vein, bringing the deficit below 3% of GDP may not be sufficient for the abrogation of the EDP if the debt has not been put on a sustainable declining path. The precise parameters would be set out in the Code of Conduct accompanying the Stability and Growth Pact.

More than the deficit, public debt developments are subject to factors outside the direct control of governments (in particular inflation, interest rates and cyclical growth developments), therefore judgement is necessary before deciding whether they warrant placing the country in EDP. An overall assessment should be made, taking into account a range of parameters. These include the degree of closeness of the debt ratio to the 60%-of-GDP reference value and whether the debt is temporary and/or exceptional; and other relevant factors reflecting risks of future debt increases and financing strains, such as:

- the maturity structure and currency denomination of debt;
- guarantees to corporations, financial institutions and households;
- accumulated reserves and other government assets;
- implicit liabilities, notably related to ageing;
- the level and change in private debt, to the extent that it may represent an implicit liability for the government;
- the factors behind debt change (primary balance, inflation, growth, interest rates, one-offs); and
- stock-flow operations.

In case of failure to comply with recommendations, sanctions should be applied.

In September the Commission will propose **amendments to both the preventive** (Regulation (EC) No 1466/97) **and corrective arm of the SGP** (Regulation (EC) No 1467/97) to make these principles operational.

4. Effective enforcement of economic surveillance through appropriate sanctions and incentives

The common rules and co-ordination procedures enshrined in the Treaty and the Stability and Growth Pact have not prevented a number of Member States from implementing fiscal policies in defiance of the existing framework. There is clearly a need to strengthen the credibility of the EU's fiscal surveillance framework through a more rules-based application of sanctions. To increase their effectiveness in the future, a wider range of sanctions and incentives should be used more preventively and kick in at an earlier stage. The deterrent effect of financial sanctions should constitute a real incentive for compliance with the rules.

Several types of sanctions are foreseen in Article 126(11) TFEU in cases where a Member States fails to comply with EU guidance. These comprise the requirement to publish additional information, an invitation to the European Investment Bank to reconsider its lending policy towards the Member State concerned, the requirement to make a non-interest-bearing deposit of an appropriate size until an excessive deficit has been corrected, and the possibility to impose fines of an appropriate size.

In refining the functioning and scope of possible financial incentives, it is important and necessary to seek effectiveness and equal treatment between Member States. To ensure proportionality, financial sanctions linked to the EU budget could be defined as a percentage of the GNI or GDP of the relevant Member State up to an identical upper limit for all Member States. This upper limit will ensure that all Member States can de facto be subject to sanctions. Moreover, the amounts of commitments and payments concerned by suspension and/or cancellation would be set on a pro-rata basis for the eligible funds up to this upper limit.

The new sanctions "toolbox" would therefore contain different types of sanctions and incentives, which will be activated depending on the set of circumstances and gravity of the situation. The proposed improvements to the existing enforcement mechanisms would require amending the preventive and corrective arms of the SGP (Regulations 1466/97 and 1467/97) as well as through an appropriate mechanism based on the various legal acts on which EU expenditure programmes are based.

As regards the **preventive arm**, (i.e. when a Member State is not making sufficient progress towards its Medium term budgetary Objective) in good economic times) two sets of incentives/sanctions will be proposed.

First, for euro-area Member States, the incentive will consist **of an interest-bearing deposit** temporarily imposed on a Member State which is making insufficient progress with budgetary consolidation. One option would be to define a simple expenditure-rule consistent with the adjustment towards the country-specific MTO. A significant deviation from the agreed expenditure path would be judged as imprudent fiscal policy-making and give rise to a warning from the Commission in line with the provisions of Article 121(4) TFEU. In case of persistent violations, an interest-bearing deposit would be imposed by the Council until the violation has been corrected. The deposit would be released once the situation giving rise to its imposition had come to an end.

Second, still within the preventive arm, the Commission will propose to establish ex-ante conditionality linking disbursement of cohesion policy support to **structural and institutional reforms** directly linked to the operation of cohesion policy with a view to improving its effectiveness and efficiency.

As regards the corrective arm, (i.e. when a Member State is subject to an excessive deficit procedure) the Commission proposes a new system of financial sanctions and incentives to complement the use of deposit and fines. This would deploy the EU budget as complementary leverage in terms of ensuring respect of the key macro economic conditions of the SGP. Sanctions should not affect end beneficiaries of EU funds but rather payment to Member States or payments for which Member States act as an intermediary. The following criteria will be proposed to establish which EU spending categories and programmes could be considered:

- effectiveness of the funds concerned is dependent on sound fiscal policies,
- clearly attributable to the Member State found not to comply with the SGP or other conditions,
- programmed and implemented under shared management, i.e. where Member States have the main responsibility or representing reimbursements of EU funds to Member States,
- sizeable enough to create credible sanctions or incentives,
- with an impact (potentially) on the quality of public spending and structural adjustment.

These criteria are met in the case of most expenditures related to cohesion policy, Common Agricultural Policy (EAGF and EAFRD) spending and fisheries fund (EFF) expenditures. With regard to the CAP and EFF, a situation in which a reduction of EU spending would lead to a reduction of farmer's and fisherman's income would be excluded. Conditionality on payments should therefore target the EU reimbursements to the national budgets only: Member States would have to continue to pay the farm subsidies, but the reimbursement of this expenditure by the EU budget could be (partially) suspended.

In cases of non-compliance with the rules, incentives can therefore be created by suspending or cancelling part of current or future financial appropriations from the EU budget. Resources cancelled should remain within the EU budget.

As a complement to the provisions of Article 126(11), two types of financial sanctions could be envisaged earlier in the EDP process.

- Step 1 – the establishment of an excessive deficit (Article 126(6) TFEU) would result in the suspension of commitments related to multiannual programmes. This suspension would not have an immediate impact on payments and would therefore allow time for effective remedial action to be taken. Member States could be asked to redirect funds to improve the quality of public finances. Similarly, for CAP reimbursements (EAGF), an announcement of the decision to cancel payments by a set deadline would be made. Re-budgeting would be foreseen as soon as the Member State meets the Council recommendations.
- Step 2 – non-compliance with the initial recommendations to correct the excessive deficit Article 126(8) TFEU) would result in cancellation of commitments of year n. Similarly, CAP reimbursements (EAGF) for year n would be cancelled. This would lead to a definitive loss of payments for the Member State concerned.

Other incentives could also be created by modulating co-financing rates or introducing a **performance Union reserve** to reward sound fiscal policies. Such a reserve could be funded with cancelled commitments under the above-mentioned step-2-procedure.

The financing side of the EU budget also contributes to reinforcing compliance. The present Own Resources system provides that fines paid by the Member States in the context of the EDP automatically reduce the contribution of participating Member States without a deficit that is excessive to the budget (according to their share in the total GNI of the eligible Member States). This system ensures that the contribution of the fined Member State to the budget would effectively increases and the contribution to all other Member Sates decreases. The Commission will also assess whether the EU budget revenue side can be adequately used as an incentive for compliance.

The required changes will be incorporated in the Commission's 2011 proposals for the next multi annual financial framework. In the meantime, a regulation based on Article 136TFEU creating a new sanction toolbox having similar effects will be proposed for the euro-area Member Sates by end-September. The Commission will explore ways of extending these sanctions and incentives toolbox to all Member States as soon as possible.

5. The Co-ordination Cycle under the European Semester

The setting up of a European Semester will integrate the different strands of economic policy coordination and allow for better and ex-ante coordination of economic policies.

Ex ante coordination of economic policies. The core objective of the proposal is to give a clear ex ante-dimension to economic policy coordination in the EU and the euro area. Under the European Semester, complementarity of national economic policy plans will be ensured at European level through policy guidance before final decisions on the budget for the following year are taken in Member States. For the euro area a horizontal assessment of fiscal stance should be carried out on the basis of the national Stability Programmes and the Commission forecasts. Special consideration to the aggregate stance should be given in the cases of serious economic stress in the euro area, when sizeable fiscal policy measures taken by individual Member States are likely to produce important spill-overs. In case of obvious inadequacies in the budget plans for the following year, a revision of the plans could be recommended.

Better integrated surveillance. The European Semester will cover all elements of economic surveillance, including policies to ensure fiscal discipline, macroeconomic stability, and to foster growth, in line with the Europe 2020 strategy. Existing processes – e.g. under the Stability and Growth Pact and the Broad Economic Policy Guidelines – will be aligned in terms of timing while remaining legally separate. Stability and Convergence Programmes (SCPs) and National Reform Programmes (NRPs) will be submitted by Member States at the same time and assessed simultaneously by the Commission.

The content of Stability and Convergence Programmes (SCPs) has to be adapted to the rationale of having a European semester. The intention is obviously not to require Member States to submit full-fledged budgets to the EU for "validation" before they present them to their national Parliaments. However, these Programmes should include the necessary information for meaningful ex-ante discussions on fiscal policy. The minimum requirements should include:

- a full-fledged updated macroeconomic scenario;
- concrete indications on plans for year t+1;
- a description of the envisaged policies;
- medium-term projections for the main government finances variables;
- an assessment of fiscal developments in year t-1;
- an update of the fiscal plans for the current year.

The European Semester. The cycle starts in January with an "Annual Growth Survey" (AGS) prepared by the Commission, reviewing economic challenges for the EU and the euro area as a whole. By end February, the European Council provides strategic guidance on policies, which is taken into account by Member States in their SCPs and NRPs which will be submitted in April. The Council issues country-specific policy guidance as mentioned in section 1 in early July. In the second part of the year, Member States finalise national budgets. In its AGS of the following year, the Commission assesses how Member States took EU guidance into account.

Policy guidance under the European Semester. Recommendations will be candid and concrete. In the area of fiscal policy, there will be a strong focus on year t+1, and surveillance will give clear indications on whether the envisaged targets and underpinning policies are appropriate. Regarding policies to foster growth and address macro-financial risks, recommendations will focus on a limited number of key reforms and deadlines will be set for their implementation.

Stronger involvement of the European Parliament. Every year in January the Commission will present its AGS to the European Parliament.

National Parliaments. This enhanced economic governance of the EU would benefit from an early and strong association of national parliaments to the European semester process and from greater dialogue with the European parliament.

Early implementation. The Commission proposes to implement the European Semester as of 2011. Amendments to the existing Code of Conduct for SCPs[35], including inter alia the new date of submission of SCPs will be presented to the ECOFIN Council for endorsement. Immediate legislative changes do not appear to be necessary.

Transition to the European Semester. The Commission will provide guidance on the contents of the future National Reform Programmes in July. It will also propose bilateral dialogue with Member States in autumn 2010 to discuss:

- A medium term national macro economic scenario to frame policy programmes for the period up to 2015, including growth expectations and broad budgetary orientations;
- Confirmation of national targets in line with the five agreed Europe 2020 targets. Member States should indicate for each target the policies they will pursue to meet their national targets and the public investment needed to meet them;
- How to remove the bottlenecks preventing Member States from meeting their targets and the broader "Europe 2020" objectives.

6. Conclusions and next steps

The Commission will make the necessary formal proposals contained in this Communication by end-September – see annex[36] for details.

In the meantime, the Commission invites the Ecofin Council of 13 July to confirm the launch of the surveillance cycle under the European Semester as of January 2011 and to endorse the revised Code of Conduct for the Stability and Growth Pact SCPs as annexed to the Communication[37].

35 Full title is 'Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes'.

36 http://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52010DC0367&rid=1

37 http://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52010DC0367&rid=1

A Budget for Europe 2020

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 29 JUNE 2011

COM(2011) 500

Foreword

The European Union works everyday to help realise the aspirations of our 500 million people. I believe it can be a force for the renewal of the highly competitive social market economy in Europe and globally. To do this, we need a budget that is innovative. A budget that is attuned to the new realities of globalisation. A budget that responds to today's challenges and creates opportunities for tomorrow.

This is an innovative budget. I invite you to look beyond the traditional headings and focus on how throughout the budget we will deliver the Europe 2020 goals that we have collectively defined. That is why we break from the culture of entitlement where some public authorities expect to spend funds as they wish. Now every request must be clearly linked to the goals and priorities that we have commonly agreed. That is how every euro spent will be a multi-purpose euro. A euro can strengthen cohesion, boost energy efficiency and the fight against climate change, and promote social targets, increase employment and reduce poverty at the same time. It can have a major leverage effect in many areas.

All across Europe, governments, businesses and families are choosing carefully where to spend their money. It is a time to think carefully about where to cut back and where to invest for the future. We need to be rigorous and, at the same time, we also need investment for growth in Europe.

The European Union must also live within its means while investing for the future. We have a relatively small budget of only around 1% of Europe's wealth (measured by GNI) which represents one fiftieth of the budgets of Member States. But we must make a big impact with it, and use every single euro to its full potential.

Today we are making those choices for the period from 2014 to 2020.

The EU budget we propose will not cost taxpayers more than at present. But it will give them more in return. We are modernising the European budget to make savings in some areas so we can spend more in the priority areas that really matter. I am putting forward an ambitious budget in areas where Europe can make a difference. It is a budget based on a pan-European logic, which focuses on where we can exploit synergies by pooling money and which funds actions that would be more expensive to fund separately at national level.

The new budget will be simpler, more transparent and fairer. We propose a budget with the ability to mobilise private finance. And we propose that the way the budget is financed changes with new revenue streams being created to partially replace contributions based on the gross national income of each Member State. We believe that this will give families and governments a better deal. It will make it a truly European budget. A budget for integration. A budget that avoids duplication of expenditure by Member States and that brings added value through the synergy of action that we can decide at European level that cannot be implemented without this European perspective.

A large part of the budget will be aimed at getting people into work and the economy growing, tied in with the Europe 2020 strategy for smart, sustainable and inclusive growth. For example, a Connecting Europe Facility will finance the missing links in energy, transport and information technology, thus strengthening the integrity of the internal market, linking the East with the West and the North with the South, and creating real territorial cohesion to the benefit of all. The budget will invest in

Europe's brains by increasing the amounts allocated to education, training, research and innovation. These areas are so crucial for Europe's global competitiveness so that we can create the jobs and ideas of tomorrow. In a world where we are competing with other blocs, Europe's best chance is to pool the resources at our disposal, so we can deliver a highly competitive social market economy that meets our Europe 2020 targets. With our economies now more interdependent than ever before, we all have a stake in strengthening economic recovery in each and every one of our Member States.

In the same vein, the share of the budget dedicated to agriculture underpins a true common European policy of strategic importance, where more than 70% of the funding is no longer national and where EU funding is less expensive than 27 national agriculture policies. The Common Agricultural Policy will be modernised to deliver safe and healthy food, protect the environment and better benefit the small farmer. It illustrates how one euro can and must serve many goals.

The world is becoming a smaller place. Shifting alliances and emerging new powers mean that Europe must do more to make its voice count. The money invested in helping Europe engage with the world will be increased. There will be more money for our neighbourhood, and more money delivering on our commitments to help the poorest in the world. If we face tough times at the moment, they face the toughest of times all of the time.

The theme of solidarity is enshrined throughout this proposal - solidarity with the poorest Member States and regions, solidarity in tackling together the challenges of migration, solidarity in terms of energy security and solidarity with people in third countries.

The common perception that Europe spends most of its money on civil servants and buildings is wrong. It is actually only 6 per cent of the budget. But I do believe that the European institutions should also show solidarity with European citizens, in an era where rigorous cost savings and maximum efficiency are demanded at all levels. That is why there will be no increase in administrative expenditure and a 5 per cent cut in European staff over the next seven years.

I believe we are presenting ambitious but responsible proposals. We cut in some areas and increase in the priority areas. We have resisted the temptation to make small adjustments that would result in the same kind of budget. Most of all, we aim to give value for money for Europe's citizens.

The European Parliament, the Member States and the Commission now need to come together to turn these proposals into an agreement. I expect many difficult debates in the months to come, but with a real European spirit on all sides, I believe we can reach agreement on an ambitious and innovative budget that can make a real impact on people's lives.

Jose Manuel Durão Barroso

President of the European Commission

1. CONTEXT

In preparing its proposals for the future budget of the European Union, the Commission has faced the challenge of being able to fund the growing number of policy areas where the EU can be more effective by acting through the EU level in the current climate of national austerity and fiscal consolidation. This has led it to propose a budget with a strong pan- European logic, designed to drive the Europe 2020 growth strategy. This proposal is innovative in terms of the quality of its spending proposals and also in terms of how the EU budget should be funded in future, potentially easing the direct impact on national budgets and making it a truly European budget.

In the wake of the economic and financial crisis, the European Union has taken significant steps to improve coordination of economic governance to underpin recovery. The European Parliament and the Member States have recognised the benefits of managing the EU's interdependence through the structured approach set out in the European semester of economic policy coordination. The next Financial Framework has been designed to support this process. It provides a long term vision of the European economy going beyond the current fiscal difficulties of some Member States. The EU budget is not a budget for "Brussels" - it is a budget for EU citizens. It is small in size and is a budget that is invested in the Member States in order to produce benefits for the European Union and its citizens. It helps to deliver the EU's growth strategy because it has a strong catalytic effect, in particular when harnessed to meeting the targets of the Europe 2020 strategy.

Smart, sustainable and inclusive growth is the leading theme for this proposal. The Commission is proposing to increase the amounts allocated to research and innovation, education and SME development. It is proposing to unlock more of the potential of the Single Market by equipping it with the infrastructure it needs to function in the twenty first century. It is proposing to make the Common Agricultural Policy more resource efficient, so that it not only delivers high quality food but also helps to manage our environment and fight climate change. The theme of solidarity also runs through this proposal – solidarity with the poorest Member States and regions by concentrating the biggest part of cohesion spending on their needs, solidarity in tackling together the challenges of migration and in coping with disasters, solidarity in terms of energy security and solidarity with people in third countries who need our support for their immediate humanitarian needs and their long term development.

The Commission shares the concern of the European Parliament that "the way the system of own resources has evolved … places disproportionate emphasis on net balances between Member States thus contradicting the principle of EU solidarity, diluting the European common interest and largely ignoring European added value". In making these proposals, the Commission is seeking to put the EU's finances on a different track – to begin moving away from a budget dominated by contributions based on gross national income by giving the EU budget a share of genuinely "own resources", more in line with the Treaty provisions, which state that the budget shall be financed wholly from own resources.

In drawing up this proposal for the next multiannual financial framework (MFF), the Commission has examined the impact of current spending instruments and programmes, has consulted widely with stakeholders and has analysed options for the design of instruments and programmes under the next multiannual financial framework .

2. THE PROPOSED MULTIANNUAL FINANCIAL FRAMEWORK

In deciding on the overall amount to propose for the next MFF, the Commission has taken account of the views of the European Parliament that "freezing the next MFF at the 2013 level…is not a viable option … [and that] … at least a 5% increase of resources is needed for the next MFF" . It has also borne in mind the conclusions of the European Council that it is essential that "the forthcoming Multi-annual Financial Framework reflect the consolidation efforts being made by Member States to bring deficit and debt onto a more sustainable path. Respecting the role of the different institutions and the need to meet Europe's objectives … [it is necessary] to ensure that spending at the EU level can make an appropriate contribution to this work".

The Commission is convinced of the added value of spending at EU level. Current MFF spending represents just over 1% of EU GNI and is small in relation to the pan-European needs regularly identified in the European Parliament and in the Council. The Commission proposes a financial framework with 1.05% of GNI in commitments translating into 1% in payments coming from the EU budget. A further 0.02% in potential expenditure outside the MFF, and 0.04% in expenditure outside the budget will bring the total figure to 1.11%: this includes financial amounts booked to respond to crises and emergencies (which cannot be foreseen, such as humanitarian interventions), and expenditures which benefit from ad hoc contributions from Member States (for instance, the EDF which has a contribution key which differs from that of the EU budget). In proposing this framework, the Commission has sought to strike the right balance between ambition and realism, given the time period in which the budgetary negotiations will take place.

In line with the established practice for the multiannual financial framework, the Commission presents its proposal expressed in terms of future financial commitments. It also provides details on the expected rhythm of payments so as to give greater predictability, which is of particular importance at a time of budgetary consolidation, which requires a tight control on the payment levels at the start of the next period.

The Commission has decided to propose the following multiannual financial framework for the period 2014-2020:

Multiannual Financial Framework (Eu-27 - EUR million - 2011 prices)[38]

3. FINANCING THE EU BUDGET

The need for modernisation of the financial framework applies not only to the spending priorities and their design, but also to the financing of the EU budget, which has been increasingly called into question in recent years. The Treaty on the Functioning of the European Union reiterates the original intention that the EU budget shall be financed wholly from own resources. However, the reality of the situation is that today more than 85% of EU financing is based on statistical aggregates derived from Gross National Income (GNI) and VAT. These are widely perceived as national contributions to be minimised by Member States. This has given rise to a "my money back" attitude on the part of the net contributors, distorting the rationale for an EU budget and questioning the overarching solidarity principle of the Union. This has also led to over-concentration on net payments and balances

38 For the table, see http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0500. More info on http://ec.europa.eu/budget/mff/index_en.cfm

and has prevented the EU budget from playing its full role in delivering added value for the EU as a whole.

The time has come to start re-aligning EU financing with the principles of autonomy, transparency and fairness and equipping the EU to reach its agreed policy objectives. The purpose of proposing new own resources is not to increase the overall EU budget but to move away from the "my money back" attitude and to introduce more transparency into the system. It is not about giving the EU fiscal sovereignty but rather about returning to financing mechanisms that are closer to the original intention of the treaties. Therefore, the Commission's proposal would lead to a reduction in direct contributions from Member State budgets.

In the budget review , the Commission set out a non-exhaustive list of possible financing means that could gradually replace national contributions and relieve the burden on national treasuries. It also listed several criteria to be applied to their consideration. The Commission has carried out extensive analysis of the options and has decided to propose a new own resource system based on a financial transactions tax and a new VAT resource. These new own resources would partially finance the EU budget and could fully replace the existing complex VAT-based own resource, which the Commission proposes to eliminate, and reduce the scale of the GNI-based resource. The Commission's proposal for a Council Decision on new own resources is detailed in an accompanying legislative text . In this context, the Commission supports the call made by the European Parliament for an inter-parliamentary conference with national parliaments to discuss the issue.

For the reasons highlighted above, the Commission is also proposing an important simplification to the problem of rebates and corrections. Attempts to even out differences between Member States' payments to the EU budget and receipts from different EU spending policies cause distortions in the budget and impair its capacity to deliver its added value. That is why the Commission is proposing, in line with the conclusions of the Fontainebleau European Council of 1984, to contain the contributions of those Member States that would otherwise face a budgetary burden which is excessive in relation to their relative prosperity.

4. PRINCIPLES UNDERPINNING THE EU BUDGET

The EU budget is not like national budgets. The EU does not fund direct healthcare or education. It does not fund the police or defence forces as national budgets do. It has a pan-European, not a national, logic. Its comparatively small size allows it to be concentrated where it delivers high EU added value . The EU budget does not seek to fund interventions that the Member States could finance by themselves. It exists because there are activities that need to be funded to enable the EU to function or because they can be done more economically and effectively through the collective funding of the EU budget. The EU budget exists to:

a. fund the common policies that Member States have agreed should be handled at the EU level (for example, the Common Agricultural Policy);

b. express solidarity between all Member States and regions, to support the development of the weakest regions, which also allows the EU to function as a single economic space (for example, through cohesion policy);

c. finance interventions to complete the internal market – that not even the most prosperous Member States could finance on their own. The EU budget allows for a pan-European perspective rather than a purely national perspective (for example, by funding pan-European investment in infrastructure). It also helps to cut out expensive duplication between different national schemes pursuing partly the same objectives;

d. ensure synergies and economies of scale by facilitating cooperation and joint solutions to issues that cannot be supplied by the Member States acting alone (for example, the pursuit of world class research and innovation, cooperation on home affairs, migration and justice);

e. respond to persistent and emerging challenges that call for a common, pan-European approach (for example, in environment, climate change, humanitarian aid, demographic change and culture).

Against this background, in the design of the next MFF, the Commission has implemented the principles it outlined in the 2010 budget review:

- Focus on delivering key policy priorities
- Focus on EU added value
- Focus on impacts and results
- Delivering mutual benefits across the European Union

The EU budget expresses "policy in numbers". As such, the funding must go hand in hand with the existing regulatory environment and the policy priorities in the relevant areas. The funding must deliver the expected results – public authorities do not have an "entitlement" to receive funds to spend as they wish, rather they receive EU funding to help them deliver on commonly agreed EU objectives. Therefore, the programmes and instruments included in this MFF proposal have been redesigned to ensure that their outputs and impacts push forward the key policy priorities of the EU. Major hallmarks of the next set of financial programmes and instruments will be a focus on results, increased use of conditionality and the simplification of delivery:

- Results will be clearly related to the implementation of the Europe 2020 strategy and the achievement of its targets. This means concentrating programmes on a limited number of high profile priorities and actions that achieve a critical mass. Fragmentation and uncoordinated interventions must be avoided. Where possible, existing programmes will be merged (for example in areas such as home affairs, education and culture) and/or redesigned (such as research and cohesion) to ensure integrated programming and a single set of implementation, reporting and control mechanisms.
- Simplification: current funding rules have evolved not only in response to the need for accountability on how public money is spent but also to take account of previous problems. The result is a diversity and complexity that is difficult to implement and control. This complexity imposes a heavy administrative burden on beneficiaries as well as on the Commission and Member States, which can have the unintended effect of discouraging participation and delaying implementation. Work is currently underway to simplify both the general rules (Financial Regulation) and the sector specific rules.
- Conditionality: In order to sharpen the focus on results rather than on inputs, conditionality will be introduced into programmes and instruments. This is particularly relevant in the large spending blocs of cohesion policy and agriculture, where Member States and beneficiaries will be required to demonstrate that the funding received is being used to further the achievement of EU policy priorities. More generally the Commission will ensure coherence between the overall economic policy of the EU and the EU budget, in particular to avoid situations where the effectiveness of EU funding is undermined by unsound macro-fiscal policies.
- Leveraging investment: By working with the private sector on innovative financial instruments it is possible to magnify the impact of the EU budget, enabling a greater number of strategic investments to be made, thus enhancing the EU's growth potential. Experience in working most notably with the European Investment Bank (EIB) group, national and international public financial institutions has been positive and will be taken forward in the next MFF. Guarantees and risk sharing arrangements can allow the financial sector to provide more equity and lend more money to innovative companies, or to infrastructure projects. In this way, such financial instruments can also contribute to the overall development of post-crisis financial markets.

5. THE MAJOR NEW ELEMENTS

The Commission's ambition for the next EU budget is to spend differently, with more emphasis on results and performance, concentrating on delivering the Europe 2020 agenda through stronger conditionality in cohesion policy and greening of direct payments to farmers. The next budget should be modernised by reallocating resources to priority areas such as pan-European infrastructure, research and innovation, education and culture, securing the EU's external borders and external relations policy priorities such as the EU's neighbourhood. It addresses cross-cutting policy priorities, such as environmental protection and the fight against climate change, as an integral part of all the main instruments and interventions. Full details of the approach in each policy area are provided in the accompanying part II of this Communication. The following section sets out the key changes that will be made in the main spending areas.

5.1. Horizon 2020: A Common Strategic Framework for research, innovation and technological development

The EU faces a significant innovation gap , which needs to be addressed if the EU is to compete with other developed economies and emerging, developing economies. The EU as a whole is lagging behind Japan and the United States in a number of key indicators, such as the number of patents registered, the number of medium-high and high-tech product exports and the percentage of GDP expenditure on research and development.

Research and innovation help deliver jobs, prosperity and quality of life. Although the EU is a global leader in many technologies, it faces increasing challenges from traditional competitors and emerging economies alike. Joint programmes pool research efforts and can thus deliver results that individual Member States cannot deliver on their own.

The challenge is to promote increased investment in research and development across the EU, so that the headline Europe 2020 target of 3% of GDP investment is reached. The EU must also improve its record of turning scientific knowledge into patented processes and products for use not only in high-tech industries but perhaps even more importantly in traditional sectors. This requires effort from the public authorities, the private sector and the research community. The Commission began a major overhaul of the EU's research governance structures with the creation of the European Research Council, which is now producing positive results. The Commission proposes to go further and reorganise the EU's current research and innovation funding instruments (notably the framework programmes for research and the Competitiveness and Innovation Programme) to create a stronger link with defined policy objectives and to simplify procedures for implementation. This will also alleviate the administrative burden on beneficiaries.

The Commission proposes that future research and innovation funding be based on three main areas that are firmly anchored in the Europe 2020 strategy:

- excellence in the science base;
- tackling societal challenges;
- creating industrial leadership and boosting competitiveness.

A common strategic framework (to be called Horizon 2020) will eliminate fragmentation and ensure more coherence, including with national research programmes. It will be closely linked to key sectoral policy priorities such as health, food security and the bio-economy, energy and climate change. The European Institute for Technology will be part of the Horizon 2020 programme and will play an important role in bringing together the three sides of the knowledge triangle – education, innovation and research – through its Knowledge and Innovation Communities. One feature of the new approach to research funding will be the increased use of innovative financial instruments, following the successful example of the Risk Sharing Finance Facility.

The Commission proposes to allocate €80 billion for the 2014-2020 period for the Common Strategic Framework for Research and Innovation.

This funding will be complemented by important support for research and innovation in the Structural Funds. For example, in the period 2007-2013 around €60 billion was spent on research and innovation across Europe's regions and similar levels of spending can be expected in the future.

5.2. Solidarity and investment for sustainable growth and employment

Cohesion policy is an important expression of solidarity with the poorer and weakest regions of the EU – but it is more than that. One of the greatest successes of the EU has been its capacity to raise living standards for all its citizens. It does this not only by helping poorer Member States and regions to develop and grow but also through its role in the integration of the Single Market whose size delivers markets and economies of scale to all parts of the EU, rich and poor, big and small. The Commission's evaluation of past spending has shown many examples of added value and of growth and job creating investment that could not have happened without the support of the EU budget. However, the results also show some dispersion and lack of prioritisation. At a time when public money is scarce and when growth enhancing investment is more needed than ever, the Commission has decided to propose important changes to cohesion policy.

Cohesion policy also has a key role to play in delivering the Europe 2020 objectives and targets throughout the EU. The Commission proposes to strengthen the focus on results and the effectiveness of cohesion spending by tying cohesion policy more systematically to the Europe 2020 objectives. In addition, it proposes to introduce a new category of region – 'transition regions' to replace the current phasing-out and phasing-in system. This category will include all regions with a GDP per capita between 75% and 90% of the EU-27 average.

Unemployment and persistently high rates of poverty call for action at EU and national level. As the Union faces the growing challenges of shortfalls in skill levels, under-performance in active labour market policy and education systems, social exclusion of marginalised groups and low labour mobility there is a need both for policy initiatives and concrete supporting action. Many of these challenges have been exacerbated by the financial and economic crisis, demographic and migratory trends and the fast pace of technological change. Unless tackled effectively, they constitute a significant challenge for social cohesion and competitiveness. It is therefore essential to accompany growth enhancing investment in infrastructure, regional competitiveness and business development with measures related to labour market policy, education, training, social inclusion, adaptability of workers, enterprises and entrepreneurs and administrative capacity.

This is where the European Social Fund (ESF) has a key role to play and it is proposed that Member States be required to set out the way in which different funding instruments would contribute to delivering the headline targets of Europe 2020, including by establishing minimum shares of the structural funds support for the ESF for each category of region (25% for convergence regions, 40% for transition regions, 52% for competitiveness regions, based on the Cohesion Fund continuing to represent one third of the cohesion policy allocation in eligible Member States, and excluding territorial co-operation). The application of these shares result in a minimum overall share for the ESF of 25% of the budget allocated to cohesion policy, i.e. €84 billion. The ESF will be complemented by a number of instruments directly managed by the Commission, such as PROGRESS and the EURES network to support job creation.

The European Globalisation Adjustment Fund (EGF) is a flexible fund, outside the financial framework, which supports workers who lose their jobs as a result of changing global trade patterns and helps them to find another job as rapidly as possible. The amounts which are needed vary from year to year, that is why the Commission is proposing to keep the EGF outside the financial framework.. The EGF can also be used to help those in the agriculture sector whose livelihoods could be affected by globalisation.

In order to increase the effectiveness of EU spending and in line with the territorial approach of the Lisbon Treaty, the Commission proposes to establish a common strategic framework for all structural funds, to translate the Europe 2020 objectives into investment priorities. This is designed to breathe life into the territorial cohesion objective of the Lisbon Treaty. In operational terms, the Commission proposes to conclude a partnership contract with each Member State. These contracts will set out the commitment of partners at national and regional level to utilise the allocated funds to implement the Europe 2020 strategy, a performance framework against which progress on commitments can be assessed.

There should therefore be a strong link to the national reform programmes and the stability and convergence programmes drawn up by the Member States, as well as the country-specific recommendations adopted by the Council on this basis. To ensure that the effectiveness of cohesion expenditure is not undermined by unsound macro-fiscal policies, conditionality linked to the new economic governance will complement the sector specific ex ante conditionality set out in each contract.

The contracts will set out clear objectives and indicators and establish a limited number of conditionalities (both ex ante and linked to the achievement of results so that they can be monitored), and include a commitment to give yearly account of progress in the annual reports on cohesion policy. Funding will be targeted on a limited number of priorities: competitiveness and transition regions would primarily devote their entire budgetary allocation, except for the ESF, to energy efficiency, renewable energies, SME competitiveness and innovation, while convergence regions would devote their allocation to a somewhat wider range of priorities (where necessary, including institutional capacity building).

To reinforce performance, new conditionality provisions will be introduced to ensure that EU funding is focussed on results and creates strong incentives for Member States to ensure the effective delivery of Europe 2020 objectives and targets through cohesion policy. Conditionality will take the form of both 'ex ante' conditions that must be in place before funds are disbursed and 'ex post' conditions that will make the release of additional funds contingent on performance. Lack of progress in fulfilling these conditions will give rise to the suspension or cancellation of funds.

Conditionality will be based on results and incentives to implement the reforms needed to ensure effective use of the financial resources. In order to strengthen the focus on results and the achievement of the Europe 2020 objectives, 5% of the cohesion budget will be set aside and allocated, during a mid-term review, to the Member States and regions whose programmes have met their milestones in relation to the achievement of the programme's objectives related to Europe 2020 targets and objectives. The milestones will be defined in accordance with the regulations for cohesion policy.

Experience with the current financial framework shows that many Member States have difficulties in absorbing large volumes of EU funds over a limited period of time. Delays in the preparation of projects, commitments and spending are responsible for an important backlog of unused appropriations at the end of the present financing period. Furthermore, the fiscal situation in some Member States has made it more difficult to release funds to provide national co-financing. In order to strengthen absorption of funding the Commission is proposing a number of steps:

- to fix at 2.5% of GNI the capping rates for cohesion allocations
- to allow for a temporary increase in the co-financing rate by 5 to 10 percentage points when a Member State is receiving financial assistance in accordance with Article 136 or 143 TFEU, thus reducing the effort required from national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding

- to include certain conditions in the partnership contracts regarding the improvement of administrative capacity.

For the next MFF, the Commission proposes to concentrate the largest share of cohesion funding on the poorest regions and Member States. It also proposes to help those regions which move out of "convergence region" status by limiting the reduction in aid intensity that would occur if they were to move immediately to "competitiveness region" status. Therefore, the Commission is proposing that they should retain two thirds of their previous allocations for the next MFF period. These regions, together with other regions with similar levels of GDP (between 75 and 90% of EU GDP) would form a new category of "transition regions".

The Commission proposes to allocate €376 billion for the 2014-2020 period for spending in cohesion policy instruments.

This amount comprises:

- €162.6 billion for convergence regions,
- €38.9 billion for transition regions,
- €53.1 billion for competitiveness regions,
- €11.7 billion for territorial cooperation
- €68.7 billion for the Cohesion Fund

And €40 billion for the Connecting Europe facility (see 5.3 below)

The European Social Fund (based on the 25/40/52 formula per category of regions) will represent at least 25% of the cohesion envelope, not taking into account the Connecting Europe facility, i.e. €84 billion

Outside the MFF:

- €3 billion for the European Globalisation Adjustment Fund
- €7 billion for the European Solidarity Fund

5.3. Connecting Europe

A fully functioning single market depends on modern, high performing infrastructure connecting Europe particularly in the areas of transport, energy and information and communication technologies (ICT).

It is estimated that about €200 billion is needed to complete the trans-European energy networks, €540 billion needs to be invested in the trans-European transport network, and over € 250 billion in ICT for the period 2014-2020. While the market can and should deliver the bulk of the necessary investments, there is a need to address market failure – to fill persistent gaps, remove bottlenecks and ensure adequate cross-border connections. However, experience shows that national budgets will never give sufficiently high priority to multi-country, cross-border investments to equip the Single Market with the infrastructure it needs. This is one more example of the added value of the EU budget. It can secure funding for the pan-European projects that connect the centre and the periphery to the benefit of all.

Therefore, the Commission has decided to propose the creation of a Connecting Europe Facility to accelerate the infrastructure development that the EU needs. These growth enhancing connections will provide better access to the internal market and terminate the isolation of certain economic "islands". For example, those parts of the EU that are not yet linked to the main electricity and gas grids depend on investments made in other Member States for their energy supply. The Connecting Europe Facility will also make a vital contribution to energy security, by ensuring pan-European access to different sources and providers inside and outside the Union. It will also help to implement the new concept of territorial cohesion introduced in the Lisbon Treaty. Europe-wide availability of high-speed ICT networks and pan-European ICT services will also overcome the fragmentation of the single market and would assist SMEs in their search for growth opportunities beyond their home market.

The Connecting Europe Facility will fund pre-identified transport, energy and ICT priority infrastructures of EU interest, and both physical and information technology infrastructures, consistent with sustainable development criteria. A preliminary list of the proposed infrastructures (the missing links) accompanies the present proposal.

The Connecting Europe Facility will be centrally managed and will be funded by a dedicated budget and through ring fenced amounts for transport in the Cohesion Fund. Co-financing rates from the EU budget will be higher where the investments take place in 'convergence' regions than in 'competitiveness' regions. Local and regional infrastructures will be linked to the priority EU infrastructures, connecting all citizens throughout the EU, and can be (co-) financed by the structural funds (cohesion fund and/or ERDF, depending on the situation of each Member State/region). Considering the infrastructure deficit of the new Member States, the Commission has decided to propose a relatively unchanged allocation for the Cohesion Fund. This will help boost transport investment in eligible regions and support links between them and the rest of the EU.

The Connecting Europe Facility offers opportunities for using innovative financing tools to speed up and secure greater investment than could be achieved only through public funding. The Commission will work closely with the EIB and other public investment banks to combine funding of these projects. In particular, the Commission will promote the use of EU project bonds as a means of bringing forward the realisation of these important projects.

Some of the infrastructure projects of EU interest will need to pass through neighbourhood and pre-accession countries. The Commission will propose simplified means of linking and financing them through the new facility, in order to ensure coherence between internal and external instruments. This implies the existence of integrated sets of rules so that the financing of the relevant projects can be made available from different headings of the EU budget.

The Commission proposes to allocate €40 billion for the 2014-2020 period for the Connecting Europe Facility to be complemented by an additional €10 billion ring fenced for related transport investments inside the Cohesion Fund.

This amount comprises €9.1 billion for the energy sector, €31.6 billion for transport (including €10 billion inside the Cohesion Fund) and €9.1 billion for ICT.

5.4. A resource-efficient Common Agricultural Policy

The Common Agricultural Policy (CAP) is one of the few truly EU common policies. It is designed to deliver a sustainable agricultural sector in Europe by enhancing its competitiveness, ensuring an adequate and secure food supply, preserving the environment and countryside while providing a fair standard of living for the agricultural community. As such, it replaces 27 different national agriculture policies and represents savings for national budgets because direct support to farmers is provided through the EU budget without national co-financing.

Through the changes it is proposing to the funding of the CAP, the Commission is bringing it more fully inside the Europe 2020 strategy, while ensuring stable levels of revenue for European farmers. In future, not only will the agriculture budget be used to increase agricultural productivity, ensure a fair standard of living for the agricultural community, stabilise markets, assure the availability of supplies and ensure that they reach the consumer at reasonable prices, but it will also support the sustainable management of natural resources and climate action and support balanced territorial development throughout Europe. The three strands of Europe 2020 – smart, sustainable and inclusive growth – will be woven into the next phase of development of the CAP.

The changes proposed by the Commission are designed to lead to a fairer and more equitable system of support across the EU, linking agriculture and environment policy in the sustainable stewardship of the countryside and ensuring that agriculture continues to contribute to a vibrant rural economy. Over the years, a number of obligations and duties have been included in the CAP which more properly belong in other policy areas. The Commission will take the opportunity of the new MFF to refocus the CAP on its core and new activities. Thus, for example, the funds devoted to food safety have been moved to Heading 3 of the budget and in future food aid for the most deprived people will be funded out of Heading 1 where it fits more appropriately with the poverty reduction target of the Europe 2020 strategy. The Commission will propose to extend the scope of the European Globalisation Fund to include assistance to farmers whose livelihoods may be affected by globalisation.

The basic two pillar structure of the CAP will be maintained. The main changes proposed by the Commission are as follows:

Greening of direct payments: to ensure that the CAP helps the EU to deliver on its environmental and climate action objectives, beyond the cross-compliance requirements of current legislation, 30 % of direct support will be made conditional on “greening”. This means that all farmers must engage in environmentally supportive practices which will be defined in legislation and which will be verifiable. The impact will be to shift the agricultural sector significantly in a more sustainable direction, with farmers receiving payments to deliver public goods to their fellow citizens.

Convergence of payments: to ensure a more equal distribution of direct support, while taking account of the differences that still exist in wage levels and input costs, the levels of direct support per hectare will be progressively adjusted. This will be achieved in the following way: over the period, all Member States with direct payments below the level of 90% of the average will close one third of the gap between their current level and this level. This convergence will be financed proportionally by all Member States with direct payments above the EU average. Equally, the allocation of rural development funds will be revisited on the basis of more objective criteria and better targeted to the objectives of the policy. This will ensure a fairer treatment of farmers performing the same activities. To enable the CAP to respond to the challenges that are linked with the economic, social, environmental and geographical specificities of European agriculture in the 21st century and to effectively contribute to the Europe 2020 objectives, the Commission will make proposals to permit flexibility between the two pillars.

Capping the level of direct payments by limiting the basic layer of direct income support that large agricultural holdings may receive, while taking account of the economies of scale of larger structures and the direct employment these structures generate. The Commission proposes that the savings be recycled into the budgetary allocation for rural development and retained within the national envelopes of the Member States in which they originate.

The Commission considers that these new elements can be accommodated under the current two pillar structure of the CAP. The future CAP will therefore contain a greener and more equitably distributed first pillar and a second pillar that is more focussed on competitiveness and innovation, climate change and the environment. Improved targeting of policy should lead to a more efficient use of the available financial resources. The second pillar of the CAP, covering rural development, will continue to contribute to specific national and/or regional needs, while reflecting EU priorities, and will be subject to the same Europe 2020 performance-based conditionality provisions as the other structural funds. In the post-2013 period, the European Agricultural Fund for Rural Development (EAFRD) will be included in the common strategic framework for all structural funds and in the contracts foreseen with all Member States. By emphasising the territorial dimension of socio-economic development and combining all available EU funds in a single contract, the economic development of rural areas across the EU will be better supported in future.

Finally, the Commission proposes to restructure the market measures which are currently in the first pillar of the CAP. Today, European agriculture faces a variety of challenges, in particular the need to react to unforeseeable circumstances or to facilitate the adaptations required by international trade agreements. For these reasons, the Commission proposes the creation of two instruments outside the multiannual financial framework which will be subject to the same fast-track procedure as the Emergency Aid Reserve (EAR): an emergency mechanism to react to crisis situations (for instance a food safety problem) and a new scope for the European Globalisation Fund.

The Commission proposes to allocate €281.8 billion for Pillar I of the Common Agricultural Policy and €89.9 billion for rural development for the 2014-2020 period. This funding will be complemented by a further €15.2 billion:

- €4.5 billion for research and innovation on food security, the bio-economy and sustainable agriculture (in the Common strategic framework for research and innovation)
- €2.2 billion for food safety in Heading 3
- €2.5 billion for food support for most deprived persons in Heading I
- €3.5 billion in a new reserve for crises in the agriculture sector
- Up to €2.5 billion in the European Globalisation Fund

5.5. Investing in human capital

The Europe 2020 headline targets on increasing tertiary education and reducing early-school leaving will not be reached without a stronger investment in human capital. The biggest financial contribution from the EU budget in investing in people comes from the European Social Fund. Beyond its activities, there is scope to increase EU support for all levels of formal education and training (school, higher, vocational, adult) as well as informal and non-formal education and training activities. One of the main successes of the current Lifelong Learning Programme (LLP), Erasmus Mundus and Youth programmes is the growth of transnational learning mobility. In order to raise skills and to help tackle the high levels of youth unemployment in many Member States the actions currently supported by the Leonardo programme, which helps people benefit from education and training in another EU country in areas such as initial vocational education as well as to develop and transfer innovative policies from one Member State to another, will be boosted in the next MFF period. At present there is very little financial support available for those who wish to study at Masters level in another Member State. The Commission will propose to develop, with the involvement of the EIB, an innovative programme to provide guarantees for mobile masters students. Therefore, the Commission proposes to strengthen Community programmes for education and training and to increase the funding allocated for these activities.

EU funding for culture and media activities supports the common cultural heritage of Europeans and works to increase the circulation of creative European works inside and outside the EU. The current programmes play a unique role in stimulating cross border co-operation, promoting peer learning and making these sectors more professional. The growing economic role of the culture and creative industries sector is very much in line with the objectives of the Europe 2020 strategy.

However, the current architecture of the programmes and instruments is fragmented. They have been characterised by a proliferation of small-scale projects and some of them lack the critical mass to have a long lasting impact. There are also some overlaps between actions – this has led to increased management costs and has confused potential applicants.

Therefore, the Commission proposes to rationalise and simplify the current structure by proposing a single, integrated programme on education, training and youth. The focus will be on developing the skills and mobility of human capital. For the same reasons synergy will also be brought into the culture related programmes.

The application processes and the monitoring and evaluation of projects will be simplified, including through the management of projects by national agencies.

The Commission proposes to allocate €15.2 billion in the area of education and training and €1.6 billion in the area of culture for the 2014-2020 period.

This funding will be complemented by important support for education and training in the Structural Funds. For example, in the period 2007-2013 around €72.5 billion was spent on education and training across Europe's regions and similar levels of spending can be expected in the future.

5.6. Responding to the challenges of migration

Home affairs policies, covering security, migration and the management of external borders, have grown steadily in importance in recent years. This is also one of the areas which has seen important changes under the Lisbon Treaty. Their importance has been confirmed by the Stockholm Programme and its Action Plan .

The goal of creating an area without internal borders, where EU citizens and third-country nationals with legal rights of entry and residence may enter, move around, live and work confident that their rights are fully respected and their security assured is of paramount importance. At the same time, public concern about irregular immigration and integration has grown. A forward-looking legal immigration policy and integration policy is crucial to enhancing the EU's competitiveness and social cohesion, enriching our societies and creating opportunities for all. The completion of a more secure and efficient Common European Asylum System which reflects our values remains a priority. Overall, this is an area where there is obvious added value in mobilising the EU budget.

For the next multiannual financial framework, the Commission proposes to simplify the structure of the expenditure instruments by reducing the number of programmes to a two pillar structure – creating a Migration and Asylum Fund and an Internal Security Fund. Both funds will have an external dimension ensuring continuity of financing, starting in the EU and continuing in third countries, for example concerning the resettlement of refugees, readmission and regional protection programmes. The Commission also foresees a move away from annual programming towards multi-annual programming, resulting in a reduced workload for the Commission, the Member States and the final beneficiaries.

The Lisbon Treaty foresees EU cooperation in the fight against criminal networks, trafficking in human beings and the smuggling of weapons and drugs as well as in civil protection to ensure better protection of people and the environment in the event of major natural and man-made disasters. The increase in disasters affecting European citizens calls for more systematic action at European level. Therefore the Commission proposes to increase the efficiency, coherence and visibility of the EU's disaster response.

The Commission proposes to allocate €8.2 billion for the 2014-2020 period in the area of home affairs and €455 million for civil protection and the European Emergency Response Capacity.

5.7. The EU as a global player

What happens outside the borders of the EU can and does directly affect the prosperity and security of EU citizens. It is therefore in the interest of the EU to be actively engaged in influencing the world around us, including through the use of financial instruments.

The Lisbon Treaty marks a new departure in the EU's relations with the rest of the world. The creation of the post of High Representative who is also a Vice President of the Commission, with a strong co-ordinating role, comes from a desire to have a united and effective interaction with our international partners, based on the guiding principles of democracy, the rule of law, human rights and fundamental freedoms, human dignity, equality and solidarity, and respect for the principles of the United Nations Charter and international law. The EU will continue to promote and defend human rights, democracy and the rule of law abroad. It is a major aspect of EU external action in defending its values.

Another key priority is to respect the EU's formal undertaking to commit 0.7% of gross national product (GNP) to overseas development by maintaining the share of the EU budget as part of the common effort made by the EU as a whole by 2015, thus making a decisive step towards achieving the Millennium Development Goals. A pan-African instrument under the Development and Cooperation Instrument (DCI) will be created to support the implementation of the Joint Africa Europe Strategy, focusing on the clear added value of cross regional and continental activities. It will be flexible enough to accommodate contributions from EU Member States, African states, financial institutions and the private sector. In addition, the Development and Cooperation Instrument (DCI) will focus on poverty eradication and the achievement of the Millennium Development Goals (MDGs) in the relevant regions of the world.

The EU's engagement needs to be tailored to individual circumstances. Our partners range from development economies to the least developed countries in need of specific assistance from the EU. In line with its recent European Neighbourhood Policy communication , the EU is committed over the long-term to establishing an area of stability, prosperity and democracy in its own neighbourhood. The historic developments in the Arab World also require a sustained investment to support the transformation that is so clearly in our and their interest. The EU will step up its work on crisis prevention in order to preserve peace and strengthen international security.

Our instruments can also facilitate the EU's engagement with third countries on issues that are of global concern, such as climate change, environmental protection, irregular migration and regional instabilities, and allow the EU to respond rapidly and effectively to natural and man-made disasters around the world. The EU is committed to contribute financially to meeting its international commitments on climate change and biodiversity. A major rationalisation of the instruments took place in 2003 and has begun to deliver more effective results. The Commission does not consider that another major alteration of the legislative architecture is necessary for the next MFF period, although some improvements are being proposed and the overall investment is being stepped up.

To reflect international changes that are underway, the Commission proposes to reorientate funding of programmes in industrialised and emerging countries and instead to create a new Partnership Instrument to support our economic interests in the rest of the world. This can deliver increased opportunity for EU businesses through the promotion of trade and regulatory convergence in those cases where funding can contribute to strengthening the EU's economic relationships around the world. It will ensure European businesses can benefit from the economic transformation happening in many parts of the world which create unparalleled opportunity but where competition is also very intense.

The EU's humanitarian aid is now recognised in the Lisbon Treaty as a self standing policy in the area of the EU's external action, bringing a high level of added value. A coherent, complementary and coordinated EU approach to the provision of humanitarian aid ensures that scarce resources are used efficiently to meet identified needs and supports the drive to more effective international humanitarian response. The increase in the number of natural and man-made disasters and their economic impact calls for systematic action at European level to strengthen preparedness and to enhance response capacities, both inside and outside the EU. The Commission proposes that crisis response, prevention and management be pursued with the Humanitarian Aid Instrument, and the Civil Protection Mechanism responding to natural and man-made disasters, which will continue as the effects of climate change make themselves felt.

The Commission believes that the financing instruments in some internal policy areas, such as education and migration, should be used also to support actions in third countries, due to the obvious benefits from streamlining and simplifying the approach.

The Commission proposes to allocate €70 billion for the 2014-2020 period for external instruments.

And outside the MFF:

- European Development Fund (ACP countries), €30 billion
- European Development Fund (overseas countries and territories), €321 million
- Global Climate and Biodiversity Fund
- Emergency Aid Reserve, €2.5 billion

5.8. Items with a specific status

There are different ways of financing activities that are carried out in the name of the EU or as part of EU policies. For several reasons, some activities are financed by a different budget key or by only some Member States. In this MFF proposal, the Commission also draws attention to a number of expenditure proposals with a specific status.

5.8.1. The European Development Fund

The European Development Fund (EDF) finances development assistance for the EU's developing country partners. It has traditionally been financed outside the EU budget to reflect the particular historical relations that certain Member States have with different parts of the world. The Commission considers that, in the current circumstances, with the Cotonou agreement (on the basis of which the EDF provides support to ACP countries) due to expire in 2020, the conditions for integrating the EDF fully into the budget are not yet met. However, in order to create a perspective of future inclusion, the Commission will consider proposing to bring the EDF contribution key closer to the key used for the EU budget. This will also contribute to the visibility of the absolute amounts provided in development aid. It is also proposed to improve democratic scrutiny of the EDF by bringing it into line with the DCI, whilst taking into account the specificities of this instrument.

5.8.2. Large scale projects

Experience over the years has shown that large scale projects of interest to the EU tend to be disproportionately expensive for the small EU budget. As their specific nature means they often overrun initial cost projections, the subsequent need to find additional funding triggers a need to redeploy funds that have already been earmarked for other priority needs. This is not a sustainable solution and the Commission has therefore decided to make alternative proposals for the future funding of large scale scientific projects, making a distinction between Galileo and other projects.

The EU is the sole owner of the Galileo project and a sufficient budget for its future needs is proposed as part of this package. Continued efforts will be necessary to keep costs under control. This will be ensured in the Regulation laying down the MFF. The full deployment phase and the operational stage of the project should be reached at the beginning of the next financial framework, at which point new governance arrangements should be considered for the longer term.

For projects such as ITER and GMES, where the costs and/or the cost overruns are too large to be borne only by the EU budget, the Commission proposes to foresee their funding outside the MFF after 2013. This will enable the EU to continue to fully meet its international commitments.

6. INSTRUMENTS AND IMPLEMENTATION

6.1. Simplification to improve delivery

Implementation procedures and control requirements of EU programmes need to be effective in ensuring accountability but they also need to be cost effective. Changes over the years have given rise to a system that is now widely regarded as too complicated and often discouraging participation and/or delaying implementation. Against this background, the Commission has decided to propose radical simplification across the whole future MFF. In this context, it is important that the future legal bases of all sectoral programmes strike the right balance between the policy objectives, the means of delivery and the cost of administration and control. In particular, the conditions for the achievement of policy objectives will be set up in a cost-effective way while ensuring clear eligibility conditions, accountability and an appropriate level of control that limits risk of errors and exposure to fraud to a reasonable level at a reasonable cost.

Any meaningful simplification of the use of EU funding will require the combined efforts of all the institutions in reviewing both the general rules in the Financial Regulation and the sector-specific rules under preparation. However, simplification efforts at EU level will not produce their full effect if they are not accompanied by parallel efforts at national level, for instance in the area of shared management. The Commission will issue a dedicated Communication on simplification at the end of 2011 once all of its sector specific proposals have been tabled.

6.1.1. Reducing the number of programmes

A first way of achieving this objective is to reduce the number of separate programmes and instruments; multiple policy objectives can be attained without unnecessarily multiplying the number of instruments to deliver them and without huge differences in management rules from one programme to another. Complex programmes which have not been successful will either be redesigned in a simplified and more effective form or discontinued. This approach is being proposed in some areas - maritime affairs and fisheries, justice and fundamental rights, home affairs, education and culture.

6.1.2. Putting different instruments under a single framework

Another way to simplify the management of programmes is to put them under a single framework with common rules, keeping any exceptions or specificities to the minimum. For example:

- The Commission proposes to bring together the three main sources of funding for research and innovation (the current 7th Framework Programme, the current innovation part of the competitiveness and innovation programme and the European Institute of innovation and technology (EIT)) within a single Common Strategic Framework for Research and Innovation (CSF).
- For funds under shared management - the ERDF, the ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development and the future European Maritime and Fisheries Fund - a Common Strategic Framework will replace the current approach of establishing separate sets of strategic guidelines for the different instruments.

6.1.3. Externalisation

The Commission is also proposing to use the option of more extensive recourse to existing executive agencies. As the Court of Auditors confirmed, these agencies provide better service delivery and enhance the visibility of the EU. This instrument is particularly relevant for the continuation of current smaller programmes that have not yet been externalised and which involve a critical mass of homogenous or standardised operations, thus achieving economies of scale. This does not mean creating new executive agencies, but reviewing as necessary the mandate of the existing ones. This approach is being followed for example in proposals for the education and culture programmes.

6.1.4. Mainstreaming priorities across policies

The optimal achievement of objectives in some policy areas - including climate action, environment, consumer policy, health and fundamental rights - depends on the mainstreaming of priorities into a range of instruments in other policy areas. For example, climate action and environment objectives need to be reflected in instruments to ensure that they contribute to building a low-carbon, resource efficient and climate resilient economy that will enhance Europe's competitiveness, create more and greener jobs, strengthen energy security and bring health benefits. In the area of development cooperation, climate and environment, notably biodiversity, will be mainstreamed in all relevant programmes.

Consequently, the relevant share of the EU budget will increase as a result of effective mainstreaming in all major EU policies (such as cohesion, research and innovation, agriculture and external cooperation). Since the same action can and should pursue different objectives at once, mainstreaming will promote synergies in the use of funds for various priorities and result in increased consistency and cost-efficiency in spending.

6.1.5. More efficient administration

Administrative expenditure currently accounts for 5.7% of current spending. This budget finances all of the European Union's institutions – the European Parliament (20%), the European Council and the Council (7%), the Commission (40%) and the smaller institutions and bodies (15%). For its part, the Commission has made considerable efforts in the past ten years to reform the management of its human and budgetary resources, and to ensure more efficiency in their use. The reform of 2004 alone has brought savings of €3 billion since 2004 and, as the reform process works its way through, will deliver a further € 5 billion in the years up to 2020. As part of its ongoing commitment to limit the costs of administering EU policies, the Commission has been operating on the basis of 'zero growth' in human resources since 2007.

The Commission proposes to simplify and rationalise further the administration of the EU institutions, agencies and bodies to make it a modern, effective and dynamic organisation in line with the objectives of Europe 2020. Mindful of the pressures on Member States' budgets and having regard to cut backs in national public administrative expenditure, the Commission has reviewed administrative expenditure across the institutions to identify further sources of efficiency and cost reduction. It has decided to propose a 5% reduction in the staffing levels of each institution/service, agency and other body, as part of the next MFF. Together with other efficiencies, this will keep the share of administrative costs in the next MFF to a minimum.

Without waiting until 2014 when the next MFF will begin, the Commission has decided to propose a number of changes to the staff regulations applicable to EU civil servants in the EU institutions. These include a new method for calculating the adaptation of salaries, an increase in working hours (from 37.5 to 40 hours a week) without compensatory wage adjustments, an increase of the pension age and the modernisation of certain outdated conditions in line with similar trends in Member State administrations. The Commission is preparing a draft Regulation which will first be discussed with the staff representatives as part of the normal social dialogue process and then presented formally to the European Parliament and the Council for adoption as soon as possible.

7. DURATION, STRUCTURE AND FLEXIBILITY OF THE MULTIANNUAL FINANCIAL FRAMEWORK

Taking into consideration the position of the European Parliament, the Commission has decided to propose a seven year timeframe for the next MFF. This will strengthen the link to the achievement of the Europe 2020 targets in time. The Commission will present in 2016 an assessment of the implementation of the financial framework accompanied, where necessary, by relevant proposals. The Commission proposes that the headings used under the 2007-2013 framework are reshaped to reflect the objectives of the Europe 2020 strategy.

The Commission agrees with the European Parliament that more flexibility within and across budgetary headings is necessary to enable the European Union to face new challenges and to facilitate the decision-making process within the institutions. The Commission therefore proposes five instruments outside the financial framework (the Emergency Aid Reserve, the Flexibility Instrument, the Solidarity Fund and the Globalisation Adjustment Fund, and a new instrument to react to crisis situations in agriculture) plus some additional changes that are presented in the accompanying proposals for the MFF Regulation and the new Inter-institutional Agreement on cooperation in budgetary matters and sound financial management. Furthermore, the future legal bases for the different instruments will propose the extensive use of delegated acts to allow for more flexibility in the management of the policies during the financing period, while respecting the prerogatives of the two branches of the legislator.

On the other hand, the management of programmes has to take more into account the need for a more rigorous planning of future spending and avoid that the backlog of future payments increases too much. The Commission will therefore propose measures to ensure more stringent rules for the financial planning and management of EU funded programmes, in particular in structural funds, also taking into consideration the Member States' responsibilities in the management of these funds.

8. CONCLUSION

The Commission proposes in accompanying legislative texts a Regulation adopting a new multiannual financial framework, an inter-institutional agreement (IIA) on budgetary matters and sound financial management, and for a Decision on own resources (with relevant implementing legislation).

In the months to come before the end of 2011, the approach outlined in this Communication will be set out in detail in the legislative proposals for the expenditure programmes and instruments in the individual policy areas.

The European Parliament and the Council are invited to endorse the orientations set out in this Communication and to take the necessary steps in the negotiation process to ensure that the relevant legislative acts, including the sectoral expenditure programmes and instruments, have been adopted in time to allow for the smooth implementation of the new multiannual financial framework on 1 January 2014. The Commission will propose the necessary adjustments to this framework if, as expected, the Republic of Croatia becomes a Member State of the European Union before the next Multiannual Financial Framework enters into force.

Increasing the impact of EU Development Policy: an Agenda for Change

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 13 OCTOBER 2011

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1. Reducing poverty in a rapidly changing world

At a critical juncture - facing new global challenges, close to the 2015 target for achieving the Millennium Development Goals (MDGs) and in the midst of preparations for the next Multiannual Financial Framework (MFF) - the EU must choose the right mix of policies, tools and resources to be effective and efficient in the fight against poverty in the context of sustainable development. The Commission is proposing an Agenda for Change to strengthen Europe's solidarity with the world's developing nations in this fight.

As the Lisbon Treaty states, supporting developing countries' efforts to eradicate poverty is the primary objective of development policy and a priority for EU external action in support of EU's interests for a stable and prosperous world. Development policy also helps address other global challenges and contributes to the EU-2020 Strategy.

The EU has already done much to help reduce poverty and in particular to support the achievement of the MDGs. Yet severe poverty persists in many parts of the world. A series of **global shocks** has left many developing countries vulnerable. As the world's population continues to grow, more action is needed to tackle global challenges like conflict prevention, security, environmental protection, climate change, and to deliver global public goods such as food security, access to water and sanitation, energy security and migration.

Meanwhile, people-led movements in North Africa and the Middle East have highlighted that sound progress on the MDGs is essential, but not sufficient. This leads to two conclusions: first, that the **objectives of development, democracy, human rights, good governance and security are intertwined**; second, that it is **critical for societies to offer a future to young people**.

EU development policy must take into account the increased differentiation between developing countries. Recently, **several partner countries have become donors in their own right, while others are facing increasing fragility**. The EU must now explore new ways of working with them and promote a more inclusive international development agenda.

There is also scope for the EU to work more closely with **the private sector, foundations, civil society and local and regional authorities** as their role in development grows.

At EU level, **the Lisbon Treaty has firmly anchored development policy within EU external action.** The creation of the post of High Representative/Vice-President (HR/VP), assisted by the European External Action Service (EEAS), offers new opportunities for more effective development cooperation and more joined-up policy-making.

The EU is not simply the 28th **European donor**. While the Commission implements 20 % of the collective EU aid effort, it also acts as coordinator, convener and policy-maker. The EU is an economic and trading partner, and its political dialogue, security policy and many other policies - from trade, agriculture and fisheries to environment, climate, energy and migration - have a strong impact on developing countries. It must **translate this multi-faceted role into different policy mixes adapted to each partner country**. To be fully effective, the

EU and its Member States must speak and act as one to achieve better results and to improve EU's visibility.

Difficult economic and budgetary times make it even more critical to **ensure that aid is spent effectively, delivers the best possible results and is used to leverage further financing for development.**

With this new context in mind, in 2010 the Commission launched a consultation on EU development policy[39]. This confirmed the relevance of the existing policy framework, while agreeing on the need to increase impact.

Changes on a number of fronts are called for. In particular, the EU must seek to focus its offer to partner countries where it can have the greatest impact and should concentrate its development cooperation in support of:

- human rights, democracy and other key elements of good governance;
- inclusive and sustainable growth for human development.

To ensure best value for money, this should be accompanied by:

- differentiated development partnerships;
- coordinated EU action;
- improved coherence among EU policies.

The Commission proposes an Agenda for Change that would lead to:

- an increased share of EU country and regional cooperation programmes dedicated to the policy priorities given in sections 2 and 3 below;
- the concentration of EU activities in each country on a maximum of three sectors;
- an increased volume and share of EU aid to the countries most in need and where the EU can have a real impact, including fragile states;
- enhanced importance of human rights, democracy and good governance trends in determining the mix of instruments and aid modalities at country level;
- continued support for social inclusion and human development through at least 20% of EU aid;
- a greater focus on investing in drivers for inclusive and sustainable economic growth, providing the backbone of efforts to reduce poverty;
- a higher share of EU aid through innovative financial instruments, including under facilities for blending grants and loans;
- a focus on helping reduce developing countries' exposure to global shocks such as climate change, ecosystem and resource degradation, and volatile and escalating energy and agricultural prices, by concentrating investment in sustainable agriculture and energy;
- tackling the challenges of security, fragility and transition;
- joint EU and Member States response strategies based on partners' own development strategies, with a sectoral division of labour;
- a common EU results reporting framework;
- improved Policy Coherence for Development, including through new thematic programmes that build synergies between global interests and poverty eradication.

The proposed **Agenda for Change** does not seek to rewrite basic policy principles. There will be **no weakening of the EU's overarching objective of poverty elimination in the context of sustainable development**, as set out in the European Consensus on Development[40]. EU commitments on financing for development, MDG achievement and aid effectiveness remain firm, as do its ambitions as a political leader and key donor.

Development strategies led by the partner country will continue to frame EU development cooperation in line with the principles of **ownership and partnership**. The EU is seeking **greater reciprocal engagement** with its partner countries, including mutual accountability for results. **Dialogue at country level within a coordinated donor framework** should determine exactly where and how the EU intervenes. More effective collaboration within the multilateral system will also be pursued.

39 COM(2010) 629 - http://ec.europa.eu/europeaid/how/public-consultations/5241_en.htm

40 2006/C 46/01.

2. Human rights, democracy and other key elements of good governance

Good governance, in its political, economic, social and environmental terms, is vital for inclusive and sustainable development. **EU support to governance should feature more prominently in all partnerships**, notably through incentives for results-oriented reform and a focus on partners' commitments to **human rights, democracy and the rule of law** and to meeting their peoples' demands and needs.

As long-term progress can only be driven by internal forces, an approach centred on political and policy dialogue with all stakeholders will be pursued. **The mix and level of aid will depend on the country's situation, including its ability to conduct reforms.**

Support for governance may take the form of programmes or project-based interventions to support actors and processes at local, national and sectoral level. **EU general budget support should be linked to the governance situation and political dialogue with the partner country**, in coordination with the Member States[41].

Should a country loosen its commitment to human rights and democracy, the EU should strengthen its cooperation with **non-state actors and local authorities** and use forms of aid that provide the poor with the support they need. At the same time, the EU should maintain dialogue with governments and non-state actors. In some cases, **stricter conditionality** will be warranted.

The focus on results and mutual responsibility does not mean that the EU will neglect **fragile situations** where impact is slower or more difficult to measure. The EU should strive to help countries in situations of fragility to establish functioning and accountable institutions that deliver basic services and support poverty reduction. Decisions to provide budget support to such countries will be taken on a case-by-case basis, weighing up the benefits, costs and risks.

EU action should centre on:

- Democracy, human rights and the rule of law. The EU should continue to support democratisation, free and fair elections, the functioning of institutions, media freedom and access to internet, protection of minorities, the rule of law and judicial systems in partner countries.
- Gender equality and the empowerment of women as development actors and peace-builders[42] will be mainstreamed in all EU development policies and programmes through its 2010 Gender Action Plan.
- Public-sector management for better service delivery. The EU should support national programmes to improve policy formulation, public financial management, including the setting up and reinforcement of audit, control and anti-fraud bodies and measures, and institutional development, including human resource management. Domestic reform and pro-poor fiscal policies are vital.
- Tax policy and administration. The EU will continue to promote fair and transparent domestic tax systems in its country programmes, in line with the EU principles of good governance in the tax area, alongside international initiatives and country by country reporting to enhance financial transparency.
- Corruption. The EU should help its partner countries tackle corruption through governance programmes that support advocacy, awareness-raising and reporting and increase the capacity of control and oversight bodies and the judiciary.
- Civil society and local authorities. Building on the 'Structured Dialogue'[43], the EU should strengthen its links with civil society organisations, social partners and local authorities, through regular dialogue and use of best practices. It should support the emergence of an organised local civil society able to act as a watchdog and partner in dialogue with national governments. The EU should consider ways of mobilising local authorities' expertise, e.g. through networks of excellence or twinning exercises.
- Natural resources. The EU should scale up its support for oversight processes and bodies and continue to back governance reforms that promote the sustainable and transparent management of natural resources, including raw materials and maritime resources, and ecosystem services, with particular attention to the dependence of the poor on them, especially smallholder farms.
- Development-security nexus. The EU should ensure that its objectives in the fields of development policy, peace-building, conflict prevention and international security (including cyber security) are mutually reinforcing. It should finalise and implement the

41 COM(2011) 638.

42 SEC(2010) 265 final.

43 http://ec.europa.eu/europeaid/who/partners/civil-society/structured-dialogue_en.htm

requested Action Plan on security, fragility and development[44].

3. Inclusive and sustainable growth for human development

Inclusive and sustainable economic growth is crucial to long-term poverty reduction and growth *patterns* are as important as growth *rates*. To this end, the EU should encourage more inclusive growth, characterised by **people's ability to participate in, and benefit from, wealth and job creation**. The promotion of decent work covering job creation, guarantee of rights at work, social protection and social dialogue is vital.

Development is not sustainable if it **damages the environment, biodiversity and natural resources and increases the exposure/vulnerability to natural disasters.** EU development policy should promote a 'green economy' that can generate growth, create jobs and help reduce poverty by valuing and investing in natural capital[45], including through supporting market opportunities for cleaner technologies, energy and resource efficiency, low-carbon development while stimulating innovation, the use of ICT, and reducing unsustainable use of natural resources. It should also contribute to improving the resilience of developing countries to the consequences of climate change.

Public actors should forge partnerships with private companies, local communities and civil society. **Corporate social responsibility** at international and national level can help avoid a 'race to the bottom' on human rights, international social and environmental standards and promote responsible business conduct consistent with internationally recognised instruments.

The EU should focus its support for inclusive and sustainable growth on:

- those sectors which build the foundations for growth and help ensure that it is inclusive, notably social protection, health and education;
- the enabling vectors for inclusive and sustainable growth, notably a stronger business environment and deeper regional integration;
- those sectors that have a strong multiplier impact on developing countries' economies and contribute to environmental protection, climate change prevention and adaptation, notably sustainable agriculture and energy.

3.1. Social protection, health, education and jobs

The EU should take a **more comprehensive approach to human development**. This involves supporting a healthy and educated population, giving the workforce skills that respond to labour market needs, developing social protection, and reducing inequality of opportunity.

The EU should support sector reforms that increase access to quality health and education services and strengthen local capacities to respond to global challenges. The EU should use its range of aid instruments, notably **'sector reform contracts'** with intensified policy dialogue.

The EU should take action to develop and strengthen health systems, reduce inequalities in access to health services, promote policy coherence and increase protection against global health threats so as to **improve health outcomes** for all.

The EU should enhance its support for **quality education** to give young people the knowledge and skills to be active members of an evolving society. Through capacity-building and exchange of knowledge, the EU should support vocational training for **employability** and capacity to carry out and use the results of research.

The EU should support the **decent work agenda**, **social protection schemes and floors** and encourage policies to facilitate **regional labour mobility**. The EU will support targeted efforts to fully exploit the interrelationship between migration, mobility and employment.

3.2. Business environment, regional integration and world markets

Economic growth needs a favourable business environment. The EU should support the development of **competitive local private sectors** including by building local institutional and business capacity, promoting SMEs and cooperatives, supporting legislative and regulatory framework reforms and their enforcement (including for the use of electronic communications as a tool to support growth across all sectors), facilitating access to business and financial services and promoting agricultural, industrial and innovation policies. This will also allow developing countries, especially the poorest, to harness the opportunities offered by **globally integrated markets**.

44 Council Conclusions 14919/07 and 15118/07.
45 COM(2011) 363 final.

Better and more targeted Aid for Trade and trade facilitation must accompany these efforts.

In the same vein, crucial to developing countries' success is attracting and retaining substantial **private domestic and foreign investment and improving infrastructure**. The EU should develop **new ways of engaging with the private sector**, notably with a view to leveraging private sector activity and resources for delivering public goods. It should explore up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships and private investment. The EU should only invest in infrastructure, where the private sector cannot do so on commercial terms.

The EU will further develop blending mechanisms to boost financial resources for development, building on successful experiences such as the European investment facilities or the EU-Africa Trust Fund for infrastructure. In selected sectors and countries, **a higher percentage of EU development resources should be deployed through existing or new financial instruments, such as blending grants and loans and other risk-sharing mechanisms, in order to leverage further resources and thus increase impact.** This process should be supported by an EU platform for Cooperation and Development incorporating the Commission, Member States and European financial institutions.

Regional development and integration can spur trade and investment and foster peace and stability. The EU should support regional and continental integration efforts (including South-South initiatives) through partners' policies in areas such as markets, infrastructure and cross-border cooperation on water, energy and security. Support will be offered to tackle competitiveness gaps, as part of the EU's substantial and growing **Aid for Trade activities**, **Economic Partnership Agreements** and **other free trade agreements** with developing regions.

3.3. Sustainable agriculture and energy

The EU should use its support in agriculture and energy to help insulate developing countries from shocks (such as scarcity of resources and supply, price volatility) and thus help provide the foundations for sustainable growth. It should tackle inequalities, in particular to give poor people better access to land, food, water and energy without harming the environment.

In **agriculture**, the EU should support sustainable practices, including the safeguarding of ecosystem services, giving priority to locally-developed practices and focusing on smallholder agriculture and rural livelihoods, formation of producer groups, the supply and marketing chain, and government efforts to facilitate responsible private investment. The EU will continue working on strengthening nutritional standards, food security governance and reducing food price volatility at international level.

In **energy**, the EU should offer technology and expertise as well as development funding, and should focus on three main challenges: price volatility and energy security; climate change, including access to low carbon technologies; and access to secure, affordable, clean and sustainable energy services[46].

In both sectors, the EU should support capacity development and technology transfer, including in climate adaptation and mitigation strategies.

The EU is looking for long-term partnerships with developing countries, based on mutual accountability.

4. Differentiated development partnerships

The EU must seek to **target its resources where they are needed most to address poverty reduction and where they could have greatest impact**.

Grant-based aid should not feature in geographic cooperation with more advanced developing countries already on sustained growth paths and/or able to generate enough own resources. Conversely, many other countries remain heavily reliant on external support to provide basic services to their people. In between, there is a spectrum of situations requiring different policy mixes and cooperation arrangements. A **differentiated EU approach to aid allocation and partnerships** is therefore key to achieving maximum impact and value for money.

The EU should continue to recognise the particular importance of supporting development in its own **neighbourhood**[47] and in **Sub-Saharan Africa**[48]. It should, in all regions, allocate more funds than in the past to the countries most in need, including fragile states.

More precisely, EU development assistance should be allocated according to:

46 Taking account of ongoing initiatives such as the UN High Level Group on Sustainable Energy for all.
47 COM(2011) 303.
48 Including through the Joint Africa-EU Strategy.

Country needs: assessed using several indicators, taking into account, *inter alia*, economic and social/human development trends and the growth path as well as vulnerability and fragility indicators.

- Capacities: assessed according to a country's ability to generate sufficient financial resources, notably domestic resources, and its access to other sources of finance such as international markets, private investment or natural resources. Absorption capacities should also be considered.
- Country commitments and performance: positive account should be taken of a country's investment in education, health and social protection, its progress on the environment, democracy and good governance, and the soundness of its economic and fiscal policies, including financial management.
- Potential EU impact: assessed through two cross-cutting objectives:

1. Increasing the extent to which EU cooperation could promote and support political, economic, social and environmental policy reforms in partner countries;

2. Increasing the leveraging effect that EU aid could have on other sources of finance for development, in particular private investment.

Through **comprehensive political and policy dialogue** with all partner countries, the EU should define the most appropriate form of cooperation, leading to informed and objective decisions on the most effective policy mix, aid levels, aid arrangements and the use of new and existing financial tools, and building on the EU's own experience in managing transition.

For some countries this may result in less or no EU development grant aid and the pursuit of a **different development relationship** based on loans, technical cooperation or support for trilateral cooperation.

In **situations of fragility, specific forms of support should be defined** to enable recovery and resilience, notably through close coordination with the international community and proper articulation with humanitarian activities. The aim should be to maximise national ownership both at state and local levels so as to secure stability and meet basic needs in the short term, while at the same time strengthening governance, capacity and economic growth, keeping state-building as a central element.

This process of country-based decision-making would give the EU the **flexibility** to respond to unexpected events, notably natural or man-made disasters.

5. Coordinated EU action

Fragmentation and proliferation of aid is still widespread and even increasing, despite considerable recent efforts to coordinate and harmonise donor activities. The EU must take a more active leadership role, as mandated by the Lisbon Treaty, and put forward proposals to make European aid more effective.

Joint programming of EU and Member States' aid would reduce fragmentation and increase its impact proportionally to commitment levels. The aim is for a simplified and faster programming process, to be largely carried out on the ground.

Where the partner country has formulated its own strategy, the EU should support it by developing, wherever possible, **joint multi-annual programming documents** with the Member States. Where the partner country has not done so, the EU will endeavour to develop a joint strategy with the Member States.

This process would result in a **single joint programming document** which should indicate the **sectoral division of labour** and financial allocations per sector and donor. The EU and Member States should follow the document when devising their bilateral implementation plans. Participation should be open to non-EU donors committed to the process in a given country.

To boost country ownership, joint **programming should be synchronised with the strategy cycles of partner countries** where possible.

Operationally, the EU and Member States should make use of aid modalities that facilitate **joint action such as budget support (under a 'single EU contract'), EU trust funds and delegated cooperation**.

On cross-country division of labour, the Commission encourages all Member States to be more transparent when entering or exiting, in line with the EU Code of Conduct on Division of Labour[49]. A **coordinated approach** is needed, including a **coordination mechanism for cross-country division of labour**.

The EU should develop a **common framework for measuring and communicating the results** of development policy, including for inclusive and sustainable growth. In line with the Operational Framework on Aid Effectiveness[50], the EU will work with partner coun-

49 9558/07.
50 18239/10.

tries and other donors on comprehensive approaches to **domestic and mutual accountability** and **transparency**, including through the building of statistical capacity.

Transparency is a cornerstone of effective and accountable aid. The Commission, which has adopted the International Aid Transparency Initiative standard, is already one of the most transparent donors. It should continue this effort, along with Member States.

6. Improved coherence among EU policies

The EU is at the forefront of the **Policy Coherence for Development** (PCD) agenda and will continue to evaluate the impact of its policies on development objectives. It will strengthen its country-level dialogue on PCD and continue to promote PCD in global fora to help shape an environment that supports the poorest countries' efforts.

The future MFF should reinforce PCD. Thematic programmes are envisaged as instruments to tackle global concerns and will both project EU policies into development cooperation and help eradicate poverty.

The EU must intensify its **joined-up approach to security and poverty**, where necessary adapting its legal bases and procedures. The EU's development, foreign and security policy initiatives should be linked so as to create a more coherent approach to peace, state-building, poverty reduction and the underlying causes of conflict. The EU aims to ensure a smooth **transition from humanitarian aid and crisis response to long-term development cooperation.**

In terms of the **development-migration nexus**, the EU should assist developing countries in strengthening their policies, capacities and activities in the area of migration and mobility, with a view to maximising the development impact of the increased regional and global mobility of people.

7. Embracing the Agenda for Change

The Commission calls on the Council to endorse the proposed Agenda for Change which seeks to:

- equip the EU with high-impact development policy and practice for the coming decade and give it a leading role in setting a comprehensive international development agenda up to and beyond 2015;
- support the change needed in partner countries to bring about faster progress towards poverty reduction and the MDGs.

The Commission services and EEAS will ensure that the guiding principles set out in this Communication are progressively reflected during the remainder of the current programming cycle and in future programming documents, as well as in the proposals regarding the architecture, legislation and programming of future financial instruments for external action.

Member States are urged to also implement the Agenda.

Action for stability, growth and jobs

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 30 MAY 2012

COM(2012) 299

1. Introduction

The crisis now affecting so many parts of Europe has shaken trust in the ability of Europe's political and economic system to deliver on the EU Treaty's ambition of "sustainable development… based on balanced economic growth." Many of our citizens are angry and bewildered by the speed at which a long period of rising living standards has turned into a huge financial crisis, heavy job losses and the prospect of high debt levels for many years to come. The debts, deficits and imbalances now facing the EU did not happen overnight but built up over many years and the social consequences are far reaching. This is a testing time for national governments and for the EU. Part of our current difficulties was imported into the EU through the financial crisis. Part was home-made. What matters now is the quality and effectiveness of our response.

The financial and economic crisis has underlined the interdependence between all EU economies, and between the EU and other world economies. It has also revealed important gaps, shortcomings and imbalances in global, EU and national policy-making. Since the onset of the crisis, the EU and its Member States have been working to overhaul the EU's economic model and restore its competitiveness. As the Commission put it in its October 2011 Roadmap to stability and growth[51] this has meant:

- Frontloading stability and growth enhancing policies so that the EU can return to sustainable growth and high levels of employment.
- Building a more robust and integrated economic governance so that imbalances are picked up and corrected much earlier, putting national policies under stronger EU level surveillance to reflect the reality that the future strength and prosperity of each Member State is tied to all the others.
- Strengthening the banking system, by insisting that banks show the full extent of their indebtedness, deal with bad debts and restructure their business models so that they are able to lend to business and households in the future without the need for tax payer funded bail outs.
- Giving a decisive response to the problems of Greece through two huge financial support packages and intensive support for a growth oriented recovery programme.
- Enhancing the Euro area's financial backstops by creating new ways of supporting Member States with very high debt levels while they restore their public finances, balancing revenue and spending so that they can pay for social services, healthcare, pensions, education and public infrastructure in the future.

By following this Roadmap we have made solid but uneven progress. There is clear evidence of rebalancing in our economy, following the slowdown in economic activity, a narrowing of the large current account deficits that built up since 2007/8, adjustment of wages upwards in "surplus" and downwards in "deficit" countries and house prices in several Member States returning to levels more in line with underlying economic conditions. Supported by the new EU economic governance system a new, stronger EU economy will emerge from the painful process of stabilisation and reform.

Lasting, sustainable growth and higher living standards can only be built on sound public finances, deep structural reform and targeted investment. But the challenges that these present can only be met if there is sufficient

51 COM (2011) 669

growth to support this process. There is no contradiction between stability and growth; they are the two sides of the same coin. Member States need to confront the current lack of confidence in the economy with bold reforms that reverse the decline in our competitiveness. We need to act now to reduce the alarming gaps in competitiveness inside the EU and inside the euro area. Although the EU as a whole has been able to keep its share of world trade, we also need to tackle the decline in international competitiveness and loss of market share which is clearly visible in the performance of a number of Member States.

In the short term people need hope and a perspective of a better future. Without this perspective we will face increasing political and social difficulties in making the necessary reforms which in turn will delay the recovery. We need to build consensus and confidence in the need for change and in the choices to be made. The social partners will play an important role in this dialogue.

That is why the EU needs to enhance the growth part of its overall strategy. This must be based on combining what the Member States can do at national level with action at EU level, anchoring these efforts in the Europe 2020 strategy and in our new governance structures. Some of the key components of this growth initiative are already in place - but need to be fully implemented. Others will require vision, courage and leadership if their potential is to be unlocked - but the challenges facing the EU today call for bold and effective action.

In this Communication the Commission proposes a number of elements that can form part of a growth initiative built on two mutually reinforcing pillars:

- An EU level pillar drawing on the strength and synergies of working together at EU level.
- A Member State level pillar based on releasing the growth potential of structural reforms identified as part of the European semester.

Following the informal meeting of the European Council on 23 May and in the run up to the June European Council the Commission will continue to work on all possible elements that can help deliver stronger growth and competitiveness.

2. The Role of the EU in a new growth initiative

At EU level we have agreed on the Europe 2020 strategy[52] which is designed to deliver a smart, sustainable and inclusive Europe. This is the platform for a new growth initiative. The Europe 2020 targets on employment, energy, education and training, research and poverty alleviation have been agreed by all Member States. They are indicators of the way reforms should be pursued in Europe. Implementing them will boost competitiveness and help convergence, putting the EU onto a higher growth path. Committing more actively to our R&D target of investing 3% of GDP in R&D could create 3.7 million jobs and boost EU GDP by €800 billion by 2020. Meeting our climate change and energy targets by 2020 would generate up to 5 million jobs, increase Europe's energy security and help meet our climate change goals. Lifting at least 20 million people out of poverty would not only improve their lives, but will also bring economic benefits for the society as a whole. These figures show that it is possible to create new jobs and business opportunities across the EU, significantly reducing unemployment and providing a better, greener future for our citizens.

2.1. Tapping into the growth potential of the Economic and Monetary Union

Much has been done in recent years to put in place the strong economic surveillance mechanisms that are needed to support our Economic and Monetary Union. How the EU and its Member States implement this new system will determine policy effectiveness as well as confidence on the markets. Over a longer time frame there is a need to deepen integration to complete our Economic and Monetary Union. A strong EU needs a stable currency. This benefits all Member States, whether or not they are in the Euro area. The credibility of the Euro in international markets affects Europe's ability to borrow funds at reasonable rates and to repay them out of a strong economy.

- The reinforced **Stability and Growth Pact** gives the EU the rules-based, strong policy instruments it needs to ensure sound public finances. For most Member States the priority is now to correct the excessive deficits. Apart from the recently proposed "two pack" there is no immediate need to change the recently agreed rules. The existing rules provide scope for judgement and for differentiation between Member States according to their fiscal space and

52 COM (2010) 2020

macroeconomic conditions, while ensuring long term sustainability of public finances. Central to the implementation of the rules is the assessment of the budgetary measures taken by the Member States in particular in structural terms. The Commission will monitor the impact of tight budget constraints on growth enhancing public expenditure and on public investment. If necessary it will give guidance on the scope for possible action within the boundaries of the EU and national fiscal frameworks. In the coming months it will issue a report on the quality of public spending which will deal with these issues.

- We made important progress in reinforcing our **financial backstops.** The European Stability Mechanism is scheduled to come into effect on 1 July 2012 – one year ahead of schedule - as the permanent mechanism for financing crisis management in the euro area. Taking the European Stability Mechanism, the European Financial Stability Mechanism and other crisis funding together, we now have a total lending capacity of €800 billion. Together with the recently agreed increase in IMF resources the European financial backstops significantly contribute to global financial safety nets. But how we use our backstops is also crucially important. For those who ratify the Fiscal Treaty, the European Stability Mechanism has a range of new instruments which will enable the EU to respond effectively to crisis situations. In this regard, flexibility and speed of action will be of the essence.

- **A stronger EU banking sector**: a financial meltdown was avoided and the supervision of the financial sector has been completely overhauled. Cross border banks are now supervised by colleges of supervisors and three new EU supervisory authorities are in place. In addition, the European Systemic Risk Board has been established as macro-prudential supervisor at the EU level. There is still a need to complete the recapitalisation of certain banks, as part of the strategy now being co-ordinated by the European Banking Authority. Although some banks are already repaying the public loans they received during the crisis the cost to the taxpayer has been enormous. To ensure that the private sector pays its fair share in any future bail outs, the Commission will propose legislation in June on a common framework for the recovery and resolution of banks and investment firms. This will provide a set of tools allowing for the managed resolution of systemically important institutions where necessary.

- **Deepening of Economic and Monetary Union**: Looking beyond the immediate horizon, a longer term perspective on the future of the EU's economic and monetary union is needed. The Commission will advocate an ambitious and structured response. The EU's growth prospects are heavily affected by the current lack of confidence in the euro area. As long as some key uncertainties, such as the situation in Greece, are not overcome, the confidence needed for investment and job creation will continue to elude us. Building on what has been achieved to date a process will be needed to map out the main steps towards full economic and monetary union. Showing our clear determination to go further, demonstrating the political commitment of Member States to the euro will be part of restoring confidence in the euro area and our ability to overcome current difficulties. This will require a wide ranging process that will take account of legal issues. It must include a political process to give democratic legitimacy and accountability to further integration moves. Mapping out the main building blocks could include, among other, moving towards a banking union including an integrated financial supervision and a single deposit guarantee scheme. The Commission has already made public its ideas on how the euro area can move to joint issuance of debt in its Green Paper[53] of November 2011. The pace and sequencing of these developments will need to be worked out, including a roadmap and a timetable, but an early confirmation of the steps to be taken will underscore the irreversibility and solidity of the euro.

2.2. Tapping into the potential of the Internal Market

By and large the internal market for goods is working but the same cannot be said for services or for the on line single market. Getting more out of the Internal Market is one of the most effective ways of boosting growth across the EU. An immediate boost for innovative companies would come from a decision to finally adopt the **EU patent**. After so many years it is now time to decide.

In June the Commission will propose measures to improve the implementation of the **Services Directive.** Many Member States have chosen to keep barriers and restrictions which deny them and other Member States the full benefits of the Directive in terms of competitiveness and growth. The Commission's analysis shows that if all restrictions were abolished an additional gain of up to 1.8% of GDP could be added to the estimated 0.8% already gained from the partial implementation of the directive. It also shows that reducing or eliminating barriers has a positive effect on trade flows and foreign direct investment as well on productivity levels inside each Member State. This would also contribute to rebalancing between "surplus" and "deficit" countries.

53 COM(2011) 818

Later in the year it will propose a **Single Market Act II** designed to complete the Single Market in key areas such as digital and network industries, where the EU is currently underperforming. Equipping the EU with the physical and virtual infrastructure it needs to tackle 21st century challenges can unleash growth and jobs. New technologies and networks can reduce congestion in our skies and on Europe's roads, help to put in place smart electricity grids that can use renewable energies and power electric cars and make productivity enhancing technology available at lower cost to all businesses through cloud computing. The EU needs to invest in key enabling technologies such as biotechnology, nano and micro technologies to maintain its future industrial competitiveness, by developing new goods and services and restructuring industrial processes to modernise its industry.

The Commission has consistently emphasised the importance of tackling cross-border tax barriers in the Internal Market. Progress at EU level can support and facilitate the actions of individual Member States in the pursuit of their respective growth strategy objectives and help to provide a solid overall framework for strengthening revenue collection, fighting fraud, and ensuring fair and sound conditions of competition. In this context, action is required in the Council to unblock the Commission proposals on savings and in relation to mandates for cooperation with third countries. Later this year the Commission will issue a Communication outlining options for dealing with tax haven issues and aggressive tax planning. The Commission considers that predatory tax planning has to be tackled in parallel with action against fraud. This requires detailed technical work and clear political commitment but the benefits could be substantial in terms not only of increased revenues but also in fairness and better competitive conditions.

A clear example of the positive relationship between EU and Member State level actions is in the area of energy taxation. Here the Commission's proposal restructuring the way in which energy is taxed would support the objective of moving to a low-carbon and energy-efficient economy while at the same time reducing distortions coming from the different taxation of similar products used for the same purpose. Strengthening tax neutrality and rewarding greener energy sources would help to meet the EU's targets on CO_2 reduction, energy efficiency and renewable energy.

2.3. Tapping into the potential of human capital

In its recent employment package, the Commission has proposed a set of concrete measures for a job-rich recovery across the EU. Cooperation between the Commission, the Member States, the social partners as well as public and private stakeholders will be needed to implement the specific actions proposed to tap into the job creation potential of key sectors as ICT (information and communication technologies), healthcare and the green economy. The enhanced monitoring of national job plans through the benchmarking and scoreboard proposed by the Commission will further strengthen the impetus for job creating reforms, which should also benefit from the closer link between the country specific recommendations and the use of structural funds, in particular the European Social Fund, as proposed by the Commission for the next programming period (2014-2020).

With more than three millions jobs vacancies across the EU, higher investment in skills is needed to address skills mismatches. EU level programmes such as Erasmus and Leonardo play an important role in helping people study, train and get work experience in other Member States. New EU level instruments, such as the skills panorama and skills passport, will help to enhance recognition of skills acquired in one Member State in all other Member States. The Commission is working to improve labour mobility and to help match available labour, skills and vacancies. Much more can be done by removing legal and practical obstacles to the free movement of workers, in particular concerning the portability of pensions and the coordination of social security provisions and by improving the matching of jobs with job-seekers by transforming EURES into a true European placement and recruitment tool.

2.4. Tapping into external sources of growth

While the EU's external trade is balanced overall, the Commission's country by country analysis shows a worrying loss of export market shares by some Member States over a prolonged period. But it also shows that the best performing Member States have used their export growth to drive their economies. Moreover, two thirds of the EU's imports are re-exported with a higher value, showing that the EU has everything to gain from stepping up its engagement in trade and investment relations with key partners. A large part of future global growth will come from the emerging economies which have high growth potential. The EU needs to tap into this growth by concluding bilateral and regional trade and investment agreements with key partners. The free trade agreement with Korea, which recently entered into force, is already showing its benefits in a 20 % increase in EU exports during 2011. The EU is actively negotiating several free trade agreements and others are in the pipeline. If the huge benefits they offer are to be realised, we need to step up the pace of negotiation and ratification.

2.5. Tapping into the potential of EU funding of the growth that Europe needs

There is a need for targeted public spending and investment even in times of strict fiscal consolidation. The Commission has been encouraging growth-friendly consolidation, urging Member States to protect spending on research, education, sustainable management of natural resources, energy and social services. Even though the EU budget is small at only 1% of the EU's GDP it offers huge added value and can be a catalyst for growth across Europe.

- **The multi-annual financial framework 2014-2020**: the Commission has presented proposals for a growth and investment budget for the EU for the next financial period. The Commission's proposals link the country specific recommendations for structural reform with the support of the EU budget to help Member States make the necessary changes and investments. The proposals include innovative ideas for research and innovation funding, for connecting Europe in transport, energy and broadband links, as well as for modernising agricultural policy and a stronger rural development. Over €600 billion of the budget proposed by the Commission would go to fund research, trans-European networks, investment in human capital, cohesion policy and rural development. When this amount is combined with the leverage effect of national co-financing and the use of innovative financial instruments it represents **a major budget for smart, sustainable and inclusive growth.**
  The Commission has proposed to use **project bonds** to fund certain infrastructure projects and to make the grant funding of the EU budget go further. Project bonds are designed to establish debt capital markets as an additional source of financing for infrastructure projects and to stimulate investment in key strategic EU infrastructure in transport, energy and broadband. The aim is to attract institutional investors to the capital market financing of commercially viable projects with stable and predictable cash flows by enhancing the credit quality of project bonds issued by private companies. In order to test this approach the Commission has proposed pilot project bonds for the period 2012-2013. The co-legislators are acting quickly to enable the EIB to roll out pilot projects this year.
- **The 2013 EU budget**: the Commission has proposed a necessary increase of 7% in payment appropriations to be able to meet the expected payment requests of the Member States. This increase remains under the ceiling for payment appropriations agreed under the current EU financial framework. All of these payments will go to supporting productive investment, employment and training support and research funding in the Member States. In some Member States EU funds co-finance more than 50% of total public investment so being able to honour EU commitments represents an important way of promoting growth.
- **Targeting the Structural Funds on growth and convergence in 2012-2013**: on average EU cohesion policy mobilises €65 billion a year for investments that support growth and job creation. To better respond to needs arising from the crisis €17 billion have been reprogrammed in a marked shift of funds in favour of research and innovation, support for SMEs and labour market measures for vulnerable people together with investments in infrastructure and energy efficiency. These efforts will continue. More than €7 billion has been reprogrammed more recently as part of the Commission's pilot action team effort to increase support for combating youth unemployment and access to finance for SMEs.
- **Increasing the paid in capital of the European Investment Bank (EIB)**: in order to comply with sound banking practice the EIB needs an increase in its paid in capital if it is to maintain its current high level of annual lending activity around €65 billion a year. As the Commission has proposed, a €10 billion increase in paid in capital should be agreed by its Member State shareholders as part of a new EU growth initiative. This would substantially increase overall lending by up to €180 billion. The additional lending that such a capital increase would permit should be spread across the EU, including in the most vulnerable countries. It should be directed to helping the SME sector, including in areas such as energy efficiency and housing renovation which can generate much needed employment in the hard hit construction sector and help the EU meet its climate and energy goals. If such a capital increase is agreed, the Commission will work with Member States to help them use part of their structural fund allocations to share the EIB loan risk and to provide loan guarantees for SMEs. This combination of financial instruments could boost economic activity across all sectors and regions and help overcome the lack of access to credit currently hampering SMEs.
- **Financial transaction tax**: the Commission has proposed the creation of a financial transaction tax. In line with its proposal[54], the proceeds of such a tax (estimated around €57 billion) could be used to finance

54 COM (2011)594 and COM (2011) 510

growth enhancing investment and/or bank recapitalisation. The Commission has proposed that some of the receipts going to the EU budget should be used to reduce Member States contributions to the EU budget.

3. The role of the Member States in a new growth initiative

3.1. Tapping into the potential of the 2012 European Semester

To bring us closer to the goals of the Europe 2020 strategy, the Commission has transmitted focused recommendations to the Council for each Member State under the 2012 European Semester and the much strengthened Stability and Growth Pact. These recommendations are built on deep analysis of the situation of each Member State, on their implementation of the recommendations of the 2011 European semester[55] and how the guidance of the 2012 Annual Growth Survey[56] has been taken up in the Member States. Every Member State has its specificities and the Commission's country-specific recommendations are tailored to take account of their strengths, weaknesses and capacity to tackle challenges. However, the economies of all Member States are inextricably linked – not only by political choice, history and geography, but also by the dynamics unleashed by new technologies that integrate markets faster than ever before. It is the cumulation of national situations that makes up the overall direction of the EU. There will inevitably be positive and negative spillovers from national actions (or inaction) on the rest of the EU, hence the need for an EU wide economic governance system implemented through the European Semester (see annex 1).

For the first time the Commission has also done in depth reviews based on the macroeconomic imbalances procedure[57]. This procedure has been designed to favour overall macroeconomic stability and growth and to provide a lever for greater competitiveness. Using the procedure, the first alert mechanism report was published in February. In line with the findings of that report, the first set of in-depth reviews was conducted covering twelve countries (Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Slovenia, Finland, Sweden and the United Kingdom)[58]. These confirmed the existence of imbalances that are not excessive but which require attention; including the continuation of the rebalancing now underway between "surpluses" and "deficit" countries.. Preventive recommendations are included in the country specific recommendations covering policies to support competitiveness and labour market adjustment, deleveraging by private and public sectors as well as stable developments in asset markets. .

3.2. Commission assessment and recommendations

The overall assessment of the Commission is that Member States are taking the necessary action to correct imbalances in their public finances and to ensure fiscal sustainability, but not always in the most growth-friendly direction. Unemployment, particularly among the young, is a severe problem that can only be resolved over time but immediate action is needed to increase employment and productivity and to provide stronger job and skills matching and training, to help people get back to work in well functioning labour markets. More generally, the negative social impact of the crisis, including on poverty levels, must be addressed.

Several Member States, particularly the countries under a structural adjustment programme and those under close market scrutiny, are undertaking major structural reforms, including of their labour markets. These efforts are essential to sustain recovery and lasting growth and contribute to the overall reduction of macro-economic imbalances within Europe. Much greater action across the EU is needed, however, to unlock our growth potential, to open up opportunities for business development and tap the potential of new sources of jobs, for instance in the green economy, services, energy sectors, tourism, and in the digital economy as well as to raise the skills and innovation levels. Action is urgently needed to sustain recovery and living standards and to help tackle the challenges of ageing.

The Commission is concerned to see that the level of commitments taken by the Member States would not allow the EU to meet its headline targets for 2020 in essential areas such as employment rates, R&D, education and the fight against poverty. Yet meeting these targets is essential to Europe's future.

How can the Member States unlock their own growth potential?

In its 2012 Annual Growth Survey the Commission indicated that in 2012 efforts at national and at EU level should concentrate on five priorities:

- Pursuing differentiated growth-friendly fiscal consolidation.

55 COM (2011) 400
56 COM (2011) 815
57 Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances.
58 The "programme countries" (Greece, Ireland, Portugal and Romania) were not included in the exercise.

- Restoring normal lending to the economy.
- Promoting growth and competitiveness for today and tomorrow.
- Tackling unemployment and the social consequences of the crisis.
- Modernising public administration.

This section summarises the main findings of the Commission's country by country analysis, based on Member States' Stability or Convergence programmes, national reform programmes and, where relevant, Euro Plus Pact commitments. The text box at the start of each section summarises the main country specific recommendations and indicates how their implementation can contribute to national growth prospects.

Pursuing differentiated growth-friendly fiscal consolidation

Country specific recommendations on growth-friendly fiscal consolidation aim to ensure that, over time, all Member States implement sound fiscal policies. They are in line with differentiated fiscal strategies taking into account the specificities of Member States, in particular existing fiscal and macro-financial risks. In reducing government deficits and debt levels Member States are advised to preserve public investment in research and innovation, education, energy and to make social protection systems including pensions more sustainable and effective. There are several recommendations on taxation designed to shift the burden from labour to environment and consumption, to increase efficiency by removing multiple exemptions (including reduced rates) as well as to fight tax evasion and the shadow economy. It is also recommended to Member States to ensure budgetary discipline at sub-national levels.

Under the Stability and Growth Pact, 23 Member States are currently subject to the excessive deficit procedure. For them, the country-specific recommendations in this package reflect the need for adherence to the corrective recommendations previously issued by the Council. In the cases of Germany and Bulgaria, the Commission has separately decided on 30 May to propose the abrogation of their excessive deficit situation. In addition, following the assessment of action taken by Hungary, and in line with the provisions of the EU Cohesion Fund regulation, the Commission has also adopted a proposal for a Council decision to lift the March 2012 suspension of the Cohesion Fund commitments. For the Member States that are not in the excessive deficit procedure, the country-specific recommendations encourage the authorities to implement fiscal plans that are both growth-friendly and aimed at achieving and maintaining budgetary positions that ensure the long term sustainability of public finances, including the costs of ageing.

The Commission's analysis shows that Member States are broadly on track with their fiscal consolidation efforts, reducing their government deficits. These deficits are set to decline from 4.5% in 2011 to 3.5% in 2012. However, the government debt ratio continues to rise, reaching 86% of GDP in 2012, which is also due to lower growth. The Commission considers it is essential to stick to agreed deadlines for the **correction of excessive deficits** and to move swiftly towards the medium-term fiscal objectives specified by the Council. Such fiscal adjustments should be carried out in a way that supports more sustainable economic growth, as described below. This is in line with the Stability and Growth Pact, which allows the working of automatic stabilisers along the structural adjustment path leading to the correction of excessive deficits and the eventual achievement of the medium-term objectives. At the same time it highlights the need for Member States facing most intense market scrutiny to pursue ambitious consolidation even in the face of a worse-than-expected macroeconomic environment. Using available fiscal space for growth-enhancing investment is also recommended to those countries that are exiting the excessive deficit procedure. Strengthened national fiscal frameworks are being introduced, as required by EU legislation. However, particular efforts are needed to ensure that fiscal discipline at central government level is matched by similarly effective action to keep public finances under control also at the **sub-national levels**. This represents a particular challenge in several federal or regionalised countries.

It will be important to improve the quality of public finances, by prioritising expenditure on Europe 2020 targets and ensuring that such expenditure is as efficient as possible. EU state aid control helps to promote quality spending and minimises distortions. The Commission has recently launched **an ambitious state aid modernisation proposal** and Member States will need to ensure better compliance with the rules and better internal co-ordination of state aid interventions at national level.

Pension systems are being adapted to meet the challenges of an ageing population, with major reforms being implemented in several countries with the common feature of prolonging working life. These reforms are essential to contain financial costs and ensure the long-term financial sustainability of adequate welfare systems. In parallel, it is necessary to attract and maintain older workers in employment beyond current retirement patterns, in line with improvements in life expectancy, and to consider the adequacy of the level of pensions, to prevent poverty in old age. Less progress has been made in the area of healthcare systems, where the need for access to healthcare and long-term care must be balanced with increasing financial pressure resulting from demographic developments.

To sustain fiscal consolidation, several Member States are **raising taxes**. The Commission has called for a shift in taxation away from labour towards environmentally-harmful practices, consumption and real estate, while ensuring that the burden does not fall disproportionately on the poorest sections of society. While a number of Member States have significantly increased consumption taxes and started to reverse the decline in environmental taxation, there is no evidence of an overall reduction in labour taxation. Some efforts are being made and should be pursued to eliminate tax exemptions and subsidies, as well as reduced rates, for instance for VAT. Action is being taken to improve tax compliance but much stronger action is needed to fight the **shadow economy**.

Restoring normal lending to the economy

To help restore normal lending to the economy the country specific recommendations focus on completing the restructuring of the banking sector while avoiding excessive deleveraging.

Efforts are being made to pursue the **restructuring of the financial sector** and strengthen its supervisory framework, in line with EU legislation and recommendations. The situation of banks having been most exposed to the crisis and still presenting vulnerabilities remains a source of concern. This explains calls for more restructuring and precautionary measures in the recommendations of certain countries.

Re-establishing a **normal level of credit flows** to the real economy remains a challenge in many countries, particularly for SMEs. While this is partially explained by the weakness of corporate balance sheets and prospects, the lack of appropriate channels to reach out to SMEs have also played an important role. New pools of capital for firms should be promoted, including access to peer-to-peer lending, private equity and venture capital. The EU structural funds can play an important role in this context in some Member States, by funding loans and guarantees through specific instruments.

Many SMEs are suffering from late payments by public authorities. This problem is being addressed with the new late payments Directive that will enter into force in March 2013. Additional efforts by public authorities may be needed to clear the backlog of arrears that has built up before the Directive enters into force

Promoting growth and competitiveness for today and tomorrow

To help promote growth and competitiveness the country specific recommendations focus on improving the business environment, including by reducing administrative burden, and opening up the network industries such as energy, railways and telecoms to competition to deliver better services at better prices for business and citizens. In some cases they recommend greater independence for the regulators. They address the implementation of the Services Directive through removing unjustified or disproportionate restrictions on providing services, including discrimination based on nationality or residence. They also deal with ongoing restrictions in the retail sector. Other recommendations deal with strengthening research and innovation, improving resource efficiency, and linking education more closely to the requirements of the labour market.

In many Member States there is insufficient access to a number of **services**. A more ambitious implementation of the Services Directive would help, as would steps to enhance competition and competitiveness in the retail sector, reducing barriers for the entry and exit of firms and eliminating unjustified restrictions for business and professional services, legal professions, accounting or technical advice, health and social sectors. Opening up **public procurement markets** by actively seeking cross border tenders would also stimulate new opportunities, processes and innovation.

The performance of key **network industries** - transport, energy and broadband – need to be substantially improved. Investment in infrastructures is necessary in several countries to improve interconnections, broaden supply and allow price competition. Given the limited fiscal room for manoeuvre, innovative forms of funding combining private and public sources, such as the EU project bonds, should be used. Levels of competition remain low on many markets and the EU-wide regulatory framework is not yet fully in force: half of the Member States have not yet transposed the Internal Energy Market Directives or failed to transpose them correctly. In several Member States there is a need for greater competition between energy providers, the removal of regulated prices and greater independence of the regulator. In transport, further efforts are necessary to reduce the regulatory burden and barriers to entry in rail in large or transit Member States. Average penetration of broadband remains low and there is considerable scope for improving services and securing the use of e-commerce.

Improvements in resource efficiency and moving towards a low carbon economy are essential to further develop Europe's competitiveness in the light of growing resource scarcity and price volatility, as well as ongoing climate change. More efficient use of resources and better management of natural resources will open up significant economic opportunities for future growth and jobs, leading to improved productivity, lower costs and greater innovation.

High levels of **R&D and innovation** are essential to maintain Europe's competitiveness. Even if some of its Member States stand today among the world leaders in many areas, overall Europe is losing ground over time. Public expenditure on research has been affected by fiscal consolidation in many Member States instead of being ring-fenced or increased. Additional private R&D investment is clearly needed and if necessary should be encouraged through public incentives. Research outputs should be brought closer to market through pre-commercial procurement. More generally, there is an obvious need for more partnerships between education and lifelong learning institutions, research bodies and business, making full use of available EU instruments.

Tackling unemployment and the social consequences of the crisis

Many recommendations deal with creating the conditions for higher levels of employment, increasing participation and keeping people in the labour market. There is a particular focus on fighting youth unemployment, reducing early school leaving and improving training, including vocational training and developing apprenticeships. Poverty alleviation and helping vulnerable groups is addressed in several recommendations. There are also recommendations on strengthening and providing more individualised support for job seekers and promoting full time female participation. Member States are also recommended to ensure that their wage setting mechanisms appropriately reflect productivity developments and stimulate job creation.

The crisis has led to a significant increase in **unemployment** and has significantly worsened job prospects for many people, who risk withdrawing from the labour market. High levels of unemployment are likely to remain for some time given the lag between economic recovery and improvements in the labour market. Active labour market policies - such as training for the unemployed and guidance from public employment services - are being mobilised but often suffer from weak targeting and low effectiveness.

The social consequences of the crisis are increasingly being felt. **Poverty** and the risk of poverty are increasing and pressures on public spending leads to difficult trade-offs for the provision of social services and benefits.

Youth unemployment has increased dramatically, with young people twice as likely to be unemployed as the adult population. Across the EU, youth unemployment is at 22% and is as high as 50% in some Member States. There are some promising experiences with youth guarantees which could be implemented more widely across the EU, including with support from the European Social Fund.

Progress in expanding affordable childcare and dependent care facilities, reducing pay gaps and improving the fiscal treatment of second earners has been insufficient to increase significantly the **participation of women** in the labour market. There is still not enough emphasis on active ageing strategies, including modernisation of working arrangements and broader access to lifelong learning, which are essential to increase labour participation, particularly for older workers.

Some Member States have introduced far-reaching reforms of their **wage-setting and indexation systems** to ensure that wage developments better reflect productivity developments over time. Limited progress has been made in other countries where the functioning of certain wage indexation systems has been identified as a possible threat to competitiveness. These countries will need to find ways, in consultation with social partners, to reduce this handicap in future. In countries with current account surpluses, some rebalancing in favour of domestic demand, including through wage increases is noticeable and should continue. A balance should be struck between ensuring that wage levels are not too high to discourage the recruitment of the young and the low-skilled in particular but not as low as to risk creating in–work poverty traps.

Whereas some Member States have started far-reaching reforms of their **labour legislation** to enable more flexible forms of contract and working arrangements, in other cases the process of reform appears slow in comparison to the urgency of the situation and to the risks of labour market segmentation, with a large share of the population still in precarious work or outside the labour market. Short time working arrangements and other internal flexibility practices proved effective in several countries in preserving employment at the peak of the crisis, particularly in the manufacturing sector. To help support job creations, the Commission has made proposals to encourage Member States to strengthen employment policies[59] to seize the job opportunities in the green economy, the healthcare sector and in ICT where it estimates that over 20 million jobs could be created. In addition improved mobility between Member States, matching skills and vacancies across borders can be supported by the EURES job vacancies' system.

On-going efforts to address the high levels of **early school leaving**, including preventive measures, and reforms in the education and vocational training systems including to boost apprenticeships, need to be accelerated. This is essential for the employability of the new generations but also for the overall competitiveness of the economy, as the EU is lagging behind its main trade partners. Moreover, the demographic shift creates new risks of skills mismatches and shortages, with additional pressure to work longer and more productively. Several countries have to make particular efforts to reduce the high number of early school leavers, to improve young people's chances on the labour market and reduce youth unemployment. More generally educational performance, including vocational training and university level, need to be improved across the board. In many Member States there is scope for developing apprenticeship schemes. In general, much more needs to be done to link and anticipate education and training with future labour market needs to facilitate the school to work transition.

Modernising public administration

Country specific recommendations on public administration deal with services to business, tackling delays in the legal system and the use of e government to facilitate contact with citizens and business. The issue of strengthening administrative capacity to deal with the EU funds is also covered in several recommendations.

Currently, **public administrations** are under pressure across the EU: not only do they face cut backs in budgets and staff levels but they also have to adapt to increasingly demanding societal and business expectations. As political and economic integration moves forward, they also need to implement more and more sophisticated and demanding EU rules. Weak administrations in different Member States pose problems ranging from difficulties of doing business to poor implementation of EU funds and poor transposition of EU law. The challenge of ensuring high quality public services requires technological and organisational innovation, such as a resolute move towards e-government. A number of administrations could benefit from a more intensive exchange of best practice. The efficiency of **civil justice** systems needs to be improved in many countries, in particular by reducing backlogs, speeding up judicial proceedings and introducing alternative forms of dispute resolution.

Given the pressure on public finances, **EU funds** are an essential lever to stimulate the economy and finance growth-enhancing projects on the ground in many countries. There is a need to strengthen the governance of public institutions by further professionalising the civil service, improving management of human resources, enhancing analytical capacities and ensuring continuity and stability of competent staff. Rules have been simplified at EU level and the Commission is assisting Member States in their re-programming efforts to adjust funding further to growth needs.

Many Member States need to step up their efforts to deal with tax fraud and evasion. All Member States have "shadow economies" some of which are highly developed. The problems posed by tax fraud and evasion must be tackled at different levels through: Member State efforts to make their own tax collection more effective; reinforced and effective co-operation between Member States; clear and coherent EU policy vis-à-vis third countries to ensure that adequate measures can be taken to target fraud and evasion that build on the use of certain non-EU jurisdictions that do not apply equivalent standards; and co-ordinated and effective policy in relation to third countries.

4. Conclusions

The crisis revealed deep rooted imbalances and failure to make necessary reforms across the EU. Just as it took time for these problems to make themselves felt, it will take time to put the EU economy back on a sound footing. The analysis done for the 2012 European semester shows that the new economic governance of the EU is beginning to work, helping Member States to focus on essential reforms that will deliver sustainable growth and jobs. It is also evident that Member States are not always

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choosing the most growth-friendly paths in their fiscal consolidation decisions.

Overall there is a need to give more prominence and urgency to growth measures in the coming twelve months, while continuing with fiscal consolidation and stabilisation of the financial sector. This needs to be done in a co-ordinated way at national and at EU level to get the most out of policy measures and reforms.

Through the proposals contained in this Communication and in its more detailed country specific recommendations the Commission is proposing concrete measures that can help return the EU to growth and to create jobs that will help to raise living standards, alleviate poverty and ensure more sustainable growth for the future. These recommendations need to be implemented as a priority. The Commission will use all the instruments of the new governance framework to monitor and assess progress in the coming year.

At the same time, the Commission will continue to focus strongly on the full implementation of the October 2011 Roadmap to ensure a balanced approach to help the EU emerge from the crisis.

The Commission will work intensively with the Member States and the European Institutions to implement its growth initiative and to develop the building blocks and time horizon for the completion of Economic and Monetary Union.

A Roadmap towards a Banking Union

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

BRUSSELS, 12 SEPTEMBER 2012

COM(2012) 510

1.ntroductionON

Over the past four years, the EU has responded decisively to the economic and financial crisis. Significant improvements have been made to the Economic and Monetary Union (EMU), and a substantial financial reform agenda is being implemented, fulfilling commitments made in the G20 in response to the financial crisis, and to make financial institutions and markets more stable, more competitive and more resilient .

Completing this reform of the EU regulatory framework is essential but will not be sufficient to successfully address significant threats to financial stability across the Economic and Monetary Union. Further steps are needed to tackle the specific risks within the Euro Area, where pooled monetary responsibilities have spurred close economic and financial integration and increased the possibility of cross-border spill-over effects in the event of bank crises, and to break the link between sovereign debt and bank debt and the vicious circle which has led to over €4,5 trillion of taxpayers money being used to rescue banks in the EU. Coordination between supervisors is vital but the crisis has shown that mere coordination is not enough, in particular in the context of a single currency and that there is a need for common decision-making. It is also important to curtail the increasing risk of fragmentation of EU banking markets, which significantly undermines the single market for financial services and impairs the effective transmission of monetary policy to the real economy throughout the Euro Area.

The Commission has therefore called for a banking union to place the banking sector on a more sound footing and restore confidence in the Euro as part of a longer term vision for economic and fiscal integration. Shifting the supervision of banks to the European level is a key part of this process, which must subsequently be combined with other steps such as a common system for deposit protection, and integrated bank crisis management. The report by the Presidents of the European Council, the Commission, the Eurogroup and the European Central Bank (ECB) of 26 June 2012 endorsed this vision. For its part, the European Parliament has recommended steps in the same direction, for example in its report from July 2010 on cross-border crisis management in the banking sector . This was also confirmed by the Euro Area Summit of 29 June 2012 .

Ensuring that bank supervision and resolution across the Euro Area meets high standards will reassure citizens and markets that a common, high level of prudential regulation is consistently applied to all banks. If banks get into difficulties in the future, the public should have the confidence that ailing banks will be restructured or closed while minimizing costs for the taxpayer. This future system will help build the necessary trust between Member States, which is a pre-condition for the introduction of any common financial arrangements to protect depositors and support orderly resolution of failing banks.

This communication accompanies two legislative proposals, respectively for the setting up of a single supervisory mechanism by conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions and for adaptations to the Regulation setting up the European Banking Authority (EBA) . These legislative proposals mark a first important step which will make a qualitative improvement in financial stability and confidence in the Euro Area in particular. This communication sets the single supervisory mechanism in context and indicates further work towards a banking union beyond these first proposals.

2. THE BANKING UNION AND THE SINGLE MARKET

The single market for financial services is based on common rules which ensure that banks and other financial institutions which under the Treaty enjoy rights of free establishment and free provision of services are subject to equivalent rules and proper supervision across the EU.

The creation of the banking union must not compromise the unity and integrity of the single market which remains one of the greatest achievements of European integration. Indeed, the banking union rests on the completion of the programme of substantive regulatory reform underway for the single market (the "single rulebook").

The single market and the banking union are thus mutually reinforcing processes. Work to strengthen the single market must continue across all existing areas covered by Commission proposals.

Moreover, in three areas of specific relevance to the banking union, this work should be accelerated and agreement between the co-legislators on the relevant proposals reached before the end of 2012:

- Stronger prudential requirements for banks have been proposed. With its proposals on bank capital requirements ("CRD4") , the Commission launched the process of implementing the new global standards on bank capital and liquidity. The creation of the single supervisory mechanism should not require substantive changes to the proposed regulation and directive, although in a limited number of areas, some fine-tuning may be required to reflect the new situation. During the final stages of the CRD4 negotiations, the Commission will pay particular attention to ensure that the texts agreed are technically compatible with the proposed Regulation setting up the single supervisory mechanism, and will work with the European Parliament and the Council in this perspective. This will include in particular ensuring that all provisions of the proposed CRD4 Directive are operational for application both at national level and by the ECB.
- The coverage of national Deposit Guarantee Schemes (DGS) has already been raised to a harmonised level of €100,000 per depositor, per institution, effective as of 31 December 2010. In July 2010, the Commission proposed going further, with the harmonisation and simplification of protected deposits, faster pay-outs and improved financing, notably through the ex-ante funding of deposit guarantee schemes paid for by contributions from banks and a mandatory borrowing facility between national schemes within certain fixed limits.
- The Commission's proposal on recovery and resolution tools for banks in crisis, adopted on 6 June 2012 , is the last in a series of proposed measures to strengthen Europe's banking sector and to avoid the spill-over effects of any future financial crisis with negative effects on depositors and taxpayers. To ensure that financial stability is upheld while bank shareholders and creditors bear their full share of bank losses and recapitalisation costs, the Commission has proposed a common framework of rules and powers. This will help Member States prevent bank crises from emerging in the first place and, if such bank crises still emerge, to manage them in a more orderly and effective way. Member States would be required to establish an ex-ante resolution fund paid for by contributions from banks, and provision is made for a mandatory borrowing facility between national schemes, again subject to clear limits.

These rules will therefore constitute a common foundation across the single market on which the banking union proposals can build. This single rulebook is needed for the stability and integrity of the EU's internal market in financial services. It provides a common foundation which allows a move to the banking union without any risk of fragmenting the single market. Swift delivery of the outstanding reforms on capital requirements, deposit guarantee schemes, and bank resolution by the co-legislators by the end of the year, is therefore paramount.

These rules also have to be applied in the same way across the whole Union, through coherent and convergent supervision of credit institutions by national supervisors and the ECB. The European Banking Authority (EBA) has a crucial role in delivering this objective, in particular, by the set of instruments and powers provided by its founding regulation (addressing breaches of Union law, mediation, binding technical standards, guidelines, and recommendations). It is therefore critical that the EBA plays fully its role to build a common legal framework and supervisory culture across the whole Union.

Moreover, in order to avoid any divergence between the Euro Area and the rest of the EU, the single rulebook should be underpinned by uniform supervisory practices. Different supervisory handbooks and supervisory approaches between the Member States participating in the single supervisory mechanism and the other Member States pose a risk of fragmentation of the single market, as banks could exploit the differences to pursue regulatory arbitrage. The EBA should develop a single supervisory handbook to complement the single rulebook.

Any measures adopted by the ECB – for example to spell out further details on how prudential supervision is carried out in the context of the specific supervisory structure created by the single supervisory mechanism – must be in line with the single rulebook including the technical standards set out by delegated acts adopted by the European Commission. Finally, it should be noted that today's proposal maintains the current balance between home and host Member States, including as regards participation in supervisory colleges.

The effective impact and implications of the single supervisory mechanism on the operational functioning of the EBA will be further examined in the forthcoming review on the functioning of the European Supervisory Authorities to be presented by the Commission by 2 January 2014 . In that context, the Commission will in particular examine whether the role of the EBA with regard to stress testing exercises needs to be strengthened, to avoid making the authority too dependent on information and contributions by those authorities competent for assessing the effective resilience of the banking sector across the Union.

In parallel, the Commission will continue to strengthen financial stability and ensure a level playing field in the EU single market for banking through its control of state aid and conditionality for economic adjustment aid.

Key actions

The Commission calls on the European Parliament and the Council to reach agreement by end-2012 on:

1. the CRD4 proposals, making them applicable both across the single market and within the context of the single supervisory mechanism;
2. the proposal for a Directive on Deposit Guarantee Schemes as proposed by the Commission;
3. the proposal for a Directive on bank recovery and resolution.

3. COMPLETING THE BANKING UNION

As set out by the Commission before the June 2012 European Council and in the report of the Presidents of the European Council, the Commission, the Eurogroup and the European Central Bank of 26 June 2012 , completing the banking union will require further work to deliver a single supervisory mechanism, a common system for deposit guarantees and an integrated crisis management framework. The establishment of the single supervisory mechanism is a crucial and significant first step.

3.1. A Single Supervisory Mechanism

The single supervisory mechanism which the Commission is proposing today is based on the transfer to the European level of specific, key supervisory tasks for banks established in the Euro Area Member States. While retaining ultimate responsibility, the ECB would carry out its tasks within the single supervisory mechanism composed of the ECB and national supervisory authorities. This structure will provide strong and consistent supervision across the Euro Area, while making best use of the local and specific know-how of national supervisors. This will ensure that supervision remains highly aware of all national and local conditions relevant for financial stability. The Commission also proposes a mechanism which will allow Member States which have not adopted the Euro, but would like to participate in the single supervisory mechanism, to cooperate closely with the ECB.

Under the single supervisory mechanism, the ECB will become responsible for supervising all banks within the banking union, to which it will apply the single rulebook applicable across the single market. Recent experience has shown that difficulties, even in relatively small banks, can have significant negative impacts on the financial stability of Member States. Therefore, from the first day, the ECB will be empowered to take over the supervision of any bank in the Euro Area if it so decides, in particular if the bank is receiving public support. For all other banks, ECB supervision will be phased in automatically: on 1 July 2013 for the most significant European systemically important banks, and on 1 January 2014 for all other banks. Therefore, by 1 January 2014 all banks in the Euro Area will come under European supervision.

The ECB will be granted key specific supervisory tasks which are indispensable to ensure detection of risks threatening the viability of banks. It will be empowered to require banks to take the necessary remedial action. The ECB will, inter alia, be the competent authority for authorizing credit institutions, assessing qualifying holdings, ensuring compliance with the minimum capital requirements, ensuring the adequacy of internal capital in relation to the risk profile of a credit institution ("Pillar 2 measures"), conducting supervision on a consolidated basis and supervisory tasks in relation to financial conglomerates. The ECB will also ensure compliance with provisions on leverage and liquidity, apply capital buffers and carry out, in coordination with resolution authorities, early intervention measures when a bank is in breach of, or is about to breach, regulatory capital requirements.

The ECB will be vested with the necessary investigatory and supervisory powers to perform its tasks. Active involvement of national supervisors within the SSM is provided for to ensure the smooth and efficient preparation and implementation of supervisory decisions as well as the necessary coordination and information flow regarding issues of both local and European reach, in order to ensure financial stability across the Union and its Member States.

All tasks not explicitly conferred upon the ECB will remain with national supervisors. For example, national supervisors will remain in charge of consumer protection and the fight against money laundering, and of the supervision of third country credit institutions establishing branches or providing cross-border services within a Member State.

The ECB must be able to carry out its new supervisory functions in full independence whilst being fully accountable for its actions. The Commission proposal contains strong accountability safeguards, notably vis-à-vis the European Parliament and the Council, to ensure democratic legitimacy. In addition, the proposal lays down a number of organisational principles to ensure clear separation between monetary policy and supervision. This will mitigate potential conflicts between different policy objectives, while at the same time allowing full advantage to be taken of synergies. All preparatory activities and policy execution will therefore be carried out by bodies and administrative divisions separate from monetary policy functions through a supervisory board established within the ECB for this express purpose.

Finally, the proposed amendments of the EBA Regulation will ensure that the EBA can continue to fulfil its mission effectively as regards all Member States. In particular, EBA will exercise its powers and tasks also vis-à-vis the ECB. Voting arrangements within the EBA will be adapted to ensure EBA decision-making structures continue to be balanced and effective reflecting the positions of the competent authorities of Member States participating in the single supervisory mechanism and those which do not, and thereby preserving fully the integrity of the single market. Amendments of voting arrangements have been targeted to those areas where the EBA takes binding decisions on the application of the single rulebook when pursuing breaches of law and settling disagreements. In other areas, existing procedural safeguards are considered sufficient to ensure balanced and effective decisions making in those areas. For example, draft technical standards are submitted to the Commission for adoption, and the Commission can decide not to endorse or to modify them, in particular when they are not in full conformity with the fundamental principles of the internal market for financial services. Finally, a targeted review clause has been inserted in the draft Regulation amending Regulation 1093/2010 so as to take into account in particular any developments in the number of Member States whose currency is the Euro or whose competent authorities have entered into a close cooperation and examine whether in light of such developments any further adjustments of those provisions are necessary to ensure that EBA decisions are taken in the interest of maintaining and strengthening the internal market for financial services.

Key Actions

The Commission calls:

1. on the Council to consider and adopt urgently the proposal for a Council Regulation conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions taking into account the opinion of the European Parliament;
2. on the European Parliament and the Council to consider and adopt urgently the proposal amending Regulation 1093/2010 establishing the EBA.

Agreement on these two proposals should be reached before the end of 2012.

3.2. Next Steps in the Management of Bank Crises

Global financial integration and the EU single market have enabled the banking sector in some Member States to outgrow national GDP many times over, resulting in institutions which are “too-big-to-fail” and “too-big-to-save” under existing national arrangements. On the other hand, experience shows that the failure of even relatively small banks may cause cross-border systemic damage. Furthermore, bank runs across borders can critically weaken national banking systems, further damaging the fiscal standing of the sovereign, and hastening funding problems for both.

Reinforced supervision within the banking union will help improve the robustness of banks. If a crisis nonetheless occurs it is necessary to ensure that institutions can be resolved in an orderly manner and that depositors are assured their savings are safe.

Against this background, the Commission has underlined that a banking union should include a more centralised management of banking crises. The European Parliament has also called for progress in this area. The need for "common mechanisms to resolve banks and guarantee customer deposits" was also referred to in the report by the Presidents of the European Council, the Commission, the Eurogroup and the European Central Bank of 26 June 2012 .

Therefore, the Commission envisages notably making a proposal for a single resolution mechanism which would govern the resolution of banks and coordinate in particular the application of resolution tools to banks within the banking union. This mechanism would be more efficient than a network of national resolution authorities, in particular in the case of cross-border failures, given the need for speed and credibility in addressing banking crises. It would be a natural complement to the establishment of a single supervisory mechanism. It would also entail significant economies of scale, and avoid the negative externalities that may derive from purely national decisions. It would take its decisions in line with the principles of resolution set out in the single rulebook which are consistent with international best practice and in full compliance with Union state aid rules. In particular shareholders and creditors should bear the costs of resolution before any external funding is granted, and private sector solutions should be found instead of using taxpayers' money.

Moreover, and based on an assessment of its functioning, such a single resolution mechanism could also be entrusted with further tasks of coordination regarding the management of crisis situations and resolution tools in the banking sector, as set out in the report presented in June 2012 by the Presidents of the European Council, the Commission, the ECB and the Eurogroup.

Key actions

Once agreement on the existing DGS and Bank Recovery and Resolution proposals is achieved, the Commission envisages to propose notably a single resolution mechanism to resolve banks and to coordinate the application of resolution tools to banks under the banking union.

4. NEXT STEPS

The European Union has the means to address its current weaknesses and set up the banking union as an essential step towards a genuine Economic and Monetary Union.

The Commission calls on the European Parliament and the Council to:

- give their full support to the banking union and endorse the orientations and roadmap described in this Communication;
- give the highest priority in the legislative process to the actions necessary for establishing the banking union;
- finalise, as soon as possible and in any case before the end of the year, the proposals on the table on:
  - Deposit Guarantee Schemes;
  - access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD);
  - prudential requirements for credit institutions and investment firms (CRR);
  - a framework for the recovery and resolution of credit institutions and investment firms;
  - conferring certain tasks on the ECB relating to the prudential supervision of credit institutions;
  - amending certain provisions of the EBA Regulation.

With this communication and the accompanying legislative proposals, the Commission has acted swiftly and responsibly in response to the mandate given by the European Council and the Heads of State and Government of the Euro area at the end of June. Other institutions now need to do their part to ensure the single supervisory mechanism is established by 1 January 2013.

B blueprint for a Deep and Genuine EMU: Launching a European debate

COMMUNICATION FROM THE COMMISSION

BRUSSELS, 28 NOVEMBER 2012

COM(2012) 777

1. Rationale, aspirations, and benefits of EMU

According to the Treaties, the aim of the European Union is to promote peace, its values and the well-being of its people. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote economic, social and territorial cohesion, and solidarity among Member States. The European Union shall establish an Economic and Monetary Union (EMU) whose currency is the Euro (cf. Art 3 TEU).

The creation of the EMU and the introduction of the euro were milestones of European integration. They stand out among the EU's most far-reaching achievements and the euro is one of Europe's defining symbols at home and across the globe. The founders of the EMU pursued great aspirations with the single currency, both economic and political. Some of these aspirations have already been realised, while others remain to be achieved.

As the world's second largest reserve currency, the euro is an integral feature of the global economy. It is entrenched in balance sheets around the world. Its existence has helped to open up the internal market to more than 330 million citizens living in the euro area, by enabling immediate price comparisons for goods and services across countries. By eliminating exchange rate risk and foreign transaction costs, the euro also facilitates a more efficient distribution of resources, and makes prices for goods and services fully transparent across countries. In our interconnected electronic world, this levelling of the playing field of the single market is a powerful tool for growth. The euro has demonstrably facilitated trade between euro area countries and has equally promoted physical and financial investment between Member States. The stability of the currency has made the euro area an attractive investment destination. These trade and investment gains have boosted growth and jobs. Ample liquidity provision by the Eurosystem has helped to deal with problems in the interbank market during a period of financial disruption and uncertainty. The euro area is a dynamic and open construction. Despite the crisis, membership of the euro area, which is constituted by 17 Member States and is set to increase in the future, has remained an attractive prospect: Slovakia joined the single currency in January 2009 and Estonia joined in January 2011.

Weaknesses in the initial design of EMU and adherence to rules

By the time of the eruption of the financial crisis in 2008 some euro area Member States had accumulated large private and public debts, losses in competitiveness, and macroeconomic imbalances. This rendered them particularly vulnerable when the crisis struck, with considerable contagion effects across the euro area once it turned into a sovereign debt crisis. The build-up of these vulnerabilities was partly due to an insufficient observance of and respect for the agreed rules underpinning EMU as laid down in the Stability and Growth Pact (SGP). In good part these vulnerabilities stemmed from features of the original institutional setup of EMU, in particular the lack of a tool to address systematically macroeconomic imbalances.

EMU is unique among modern monetary unions in that it combines a centralised monetary policy with decentralised responsibility for most economic policies, albeit subject to constraints as regards national budgetary policies. Unlike other monetary unions, there is no centralised fiscal policy function and no centralised fiscal capacity (federal budget)[60]. It has been clear since the inception of the euro that the increased interdependence of its Member States meant that sound budgetary and economic policies were of particular importance. The SGP[61] set down the rules governing the coordination of budgetary policies. It also foresaw action to be taken against Member States that did not comply with the rules. It was thought that this coordination would be sufficient to ensure sound policies at national level. Already in 2008, the Commission's EMU@10 report[62] presented a range of possible changes to this setup. The crisis accelerated the need for change.

The following issues have been at the heart of the challenges faced by the euro area since 2008:

a. The SGP was insufficiently observed by the Member States and lacked robust mechanisms to ensure sustainable public finances. The enforcement of the preventive arm of the SGP, which requires that Member States maintain a strong underlying budgetary position, was too weak and Member States did not use periods of steady growth to pursue ambitious fiscal policies. At the same time, the debt criterion of the Treaty was not rendered operational in practice in the corrective arm of the SGP. The result was budgetary slippages during good times, and an inability to bring down the debt levels of highly indebted countries.

b. The coordination of national economic policies beyond the budgetary area relied on soft instruments – peer pressure and recommendations – and had a limited impact on the action of individual euro area Member States. The instrument was therefore too weak to counter the progressive opening of competitiveness gaps and growth divergences between Member States. Little consideration was given to the euro area-wide spillover effects of national measures. National economic policy-making paid insufficient attention to the European context within which the economies operate. The generalised absence of risks stemming from a global economic liquidity glut contributed to this.

c. Financial markets play an important role in creating incentives for countries to run sustainable public finances, by pricing the risk of default into the rate at which sovereigns can borrow money. With the global easing of inflationary pressure in the late 1990s, there was a rapid and sustained expansion in the money supply by central banks. Along with new approaches to risk transfer in the financial system this resulted in globalised excess liquidity, a pervasive search for yield and ultimately a severe mispricing of risk of both private and public assets. In parallel, with the introduction of the euro the European Central Bank (ECB) relied on national bonds for its open market operations, thereby conferring upon them the top-quality status required for central bank collateral. The result was strong yield convergence, considerably limiting market discipline, despite differences in national budgetary performances. This contributed, inter alia, to the significant investments on sovereign bonds made by banks. Euro area economies in a cyclical expansion and with relatively higher inflation rates tended to enjoy low or even negative real interest rates. This led in some countries to strong credit expansion fuelling significant housing bubbles.

d. The inception of EMU saw a sharp acceleration in the pace of financial integration. While this opened opportunities for portfolio diversifications, it also accelerated the transmission of shocks across national borders. Despite the increased market integration, the responsibility for prudential supervision and crisis management remained predominantly at the national level. This asymmetry between integrated financial markets on the one hand, and a financial stability architecture still nationally segmented on the other, resulted in inadequate coordination among the relevant authorities at all stages of the current crisis. The absence of common rules and euro area-wide supervisory and resolution institutions for the financial sector was a major problem in responding to the crisis. The lack of an integrated EU-level framework and of a mechanism to mutualise the response to risks coming from the banking sector affecting several or all Member States, resulted in powerful and damaging negative loops emerging between the banking system and the sovereigns in the vulnerable countries. These loops fuelled the debt crisis further and led to a reversal in the direction of capital flows. As a result, some

60 The adjective "fiscal" in this text is used in the sense of "budgetary".

61 The EMU policy framework comprises a set of detailed Treaty provisions, which (a) establish the European Central Bank (ECB) as an independent monetary authority for the euro area; (b) elaborate a set of rules governing the conduct of national budgetary policies (such as the excessive deficit procedure, the prohibition of monetary financing and privileged access and the so-called "no bail-out clause"); and (c) govern the surveillance of economic policies more generally in the Member States.

62 http://ec.europa.eu/economy_finance/publications/publication_summary12680_en.htm

Member States have been excluded from market financing and there has been a risk of contagion effects affecting the euro area as a whole. In this context, the absence of an effective mechanism to provide liquidity to Member States in distress and thus to manage contagion risk and to safeguard euro area financial stability emerged as a clear inadequacy in the crisis management arrangements.

While the EU has taken decisive action to address those major challenges, EMU needs to be deepened further. This Blueprint for a Deep and Genuine EMU describes the necessary elements and the steps towards a full banking, economic, fiscal and political union.

2. The measures taken so far: a crisis response

In tackling the crisis, the Commission has taken a leading role in preserving the single market against emerging protectionist tendencies and fragmentation according to national borders, especially in the banking sector; in overhauling EMU's economic governance to address the weaknesses of economic surveillance and in putting forward important legislative proposals to initiate the reform of financial sector supervision, in ensuring EU-level coordination and oversight of bank rescue and in spear-heading support to the real economy under the European Economic Recovery Programme.

The strong support of the European Parliament has been instrumental in enabling quick progress on these initiatives, and in bringing the legislative proposals quickly into force. In 2010, the Task Force set up by the President of the European Council for strengthening economic governance enabled a swift emergence of consensus among member states in support of the proposals by the Commission. Frequent meetings of the European Council have resulted in important commitments and significant steps by the member states to respond to Europe's crisis.

All euro area Member States and most others have committed themselves to incorporating the EU rules and principles of budgetary surveillance into their national legal frameworks under the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG) signed by all EU countries except the Czech Republic and the UK in March 2012. The creation of a financial firewall for the euro area and successive decisions to increase its size and flexibility of operations and to make it permanent have significantly strengthened the crisis management capacity.

2.1. Budgetary surveillance

The Commission presented a strategy for strengthening economic governance in Europe in its two Communications of 12 May 2010 and 30 June 2010[63]. These Communications were followed up by a package of legislative proposals adopted by the Commission on 29 September 2010.

As a result of efficient inter-institutional cooperation, the legislative process proceeded quickly and the European framework of economic and budgetary surveillance was overhauled in December 2011 with the adoption of a package of six legislative proposals (known as the six-pack) designed to address the weaknesses revealed by the economic and financial crisis. It comprised three Regulations strengthening the European budgetary surveillance framework (the SGP), two Regulations introducing a new surveillance procedure for macroeconomic imbalances and a Directive imposing minimum standards for Member States' national budgetary frameworks.

The legislative package drastically reinforced the preventive arm of the SGP by introducing an expenditure rule anchoring expenditure growth to the medium-term growth rate of potential GDP. The legislation also introduced the possibility of sanctions early in the process. Countries will now face lodging an interest-bearing deposit of 0.2% of GDP if their underlying budgetary position is not strong enough. The new legislation also provides for stronger action to correct gross policy errors within the corrective arm of the SGP and a new quantified rule requiring those Member States that exceed the debt threshold of the Maastricht Treaty to reduce the excess rapidly. The launch of an Excessive Deficit Procedure (EDP) can now result from unfavourable government debt developments as well as from high government deficits. The introduction of the reverse qualified majority rule significantly strengthens the Commission's hand in decisions relating to sanctions on euro area Member States. Whereas in the past, such decisions required the support of a qualified majority in the Council, in future, a qualified majority would be required to halt the sanction proposed by the Commission.

The six-pack also included the adoption of a Directive defining minimum requirements for national budgetary frameworks to ensure that Member States' fiscal frameworks are fit to respect the EU rules. This concept, of ensuring that the national decision-making processes are set up to deliver policy in line with the European

63 See the Commission's communications of 12 May 2010 (COM (2010) 250 final) and 30 June 2010 (COM(2010) 367 final), and its "six pack" legislative proposals of 29 September 2010 (COM (2010) 522 through 527 final).

requirements is also at the heart of the intergovernmental Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG). Euro area signatory Member States have committed to integrating the core principles of the SGP straight into their national legal framework through provisions of binding force and permanent character which will include a national correction mechanism supervised by an independent monitoring body to ensure compliance with the budgetary targets in the preventive arm of the Pact. Although it is intergovernmental, the TSCG foresees incorporating its provisions into Union law within 5 years. The Commission is already working with the European Parliament and the Council to integrate some of the TSCG elements into EU law applicable to euro area Member States through the legislative proposals known as the two-pack, which are currently in the EU decision-making process.

The two-pack – which consists of two Regulations – was proposed by the Commission in November 2011 and aims to further reinforce both budgetary coordination and budgetary surveillance, for more targeted prevention and more effective corrective action in case of deviations from the budgetary policy requirements deriving from the SGP. All Member States of the euro area will present ahead of parliamentary adoption their draft budgetary plans for the forthcoming year to the Commission and to their euro area partners, according to a common timetable. The two-pack also strengthens the monitoring and surveillance procedures for Member States experiencing severe difficulties with regard to their financial stability or for those in receipt of financial assistance.

2.2. Economic policy surveillance

A major weakness of the pre-crisis surveillance arrangements was the lack of systematic surveillance of macroeconomic imbalances and competitiveness developments. While such developments were analysed in the context of the Commission's reports on Member States, including the opinions on the Stability and Convergence Programmes, and in the euro area's informal competitiveness reviews every two years, there was no formal instrument for their systematic analysis and follow-up through concrete policy recommendations. The six-pack introduced a new Macroeconomic Imbalances Procedure (MIP) to close this gap: a new surveillance mechanism aiming to prevent macroeconomic imbalances and to identify and allow the timely correction of any emerging competitiveness divergences. It is based on an alert system that uses a scoreboard of indicators and in-depth country studies to identify imbalances and launch a new Excessive Imbalance Procedure (EIP) where necessary. The new procedure is backed up by enforcement provisions in the form of financial sanctions for euro area Member States which do not comply with the EIP.

The various components of economic, budgetary and structural surveillance were also fully integrated as a result of changes introduced since the onset of the crisis which set up the European Semester. While these components were previously assessed separately, their surveillance is now undertaken in parallel over the first six months of each calendar year, allowing Member States to take country-specific guidance into account in their national budgetary processes over the next six months. Policy advice is given to Member States before they finalise their draft budgets for the following year.

2.3. Financial regulation and supervision

Over the past four years, the European Union has taken decisive steps in the area of financial regulation and supervision and an ambitious and substantial financial reform agenda is being implemented. The aim is to make financial institutions and markets, which have been at the heart of the crisis, more stable, more competitive and more resilient. The Commission President asked Jacques de Larosière, the former IMF Managing Director and Governor of the Banque de France, to present a comprehensive report on the appropriate measures. Drawing on the de Larosière Report, the Commission proposed a comprehensive programme of financial regulatory reform.

Stronger prudential requirements for banks have been proposed under the fourth Capital Requirements Directive and the Capital Requirements Regulation (CRD4/CRR) currently under discussion. For the first time, the capital adequacy requirements will be enshrined in a Regulation and not a Directive. The adoption of the Capital Requirement Regulation will be a significant step forward in the completion of the single rulebook for financial institutions in the European Union. The EU has also taken action in the field of governance by introducing binding rules on remuneration practices to avoid excessive risk-taking by the banks.

The EU tightened supervision of the financial markets by establishing a European System of Financial Supervisors (ESFS) composed of three European Supervisory Authorities (ESAs) – the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) – and of a macro-prudential watchdog, the European Systemic Risk Board (ESRB). The three ESAs work together with Member States' national supervisory authorities to ensure harmonised rules and a strict and coherent implementation of the new requirements. The ESRB monitors threats to the stability of the whole financial system, allowing any weaknesses to be addressed in due time.

Credit Rating Agencies, which played an important role in triggering the crisis, are now closely supervised by ESMA. Legislation adopted in 2012 will ensure that all standardised over-the-counter derivatives are cleared by central counterparty clearinghouses, reducing the risk of default of counterparties. In addition, all standardised and sufficiently liquid derivatives will be traded on regulated platforms once the legislation proposed by the Commission is adopted. The issue of short selling has already been addressed, through the adoption of legislation increasing transparency.

2.4. Crisis resolution mechanisms

A key part of the crisis resolution approach was the development of a crisis resolution mechanism that would address financial market fragility and mitigate the risk of contagion across Member States. On the Commission's initiative, in May 2010 two temporary crisis resolution mechanisms were established: the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). The EFSM is a financial support instrument backed by the resources of the EU budget, available to all 27 Member States of the European Union, and based on the existing Treaty framework. The EFSF is a company owned by the euro area Member States, incorporated in Luxembourg, whose functioning is regulated in an intergovernmental agreement. The EFSF's lending capacity is backed solely by the guarantees of participating Member States, and is accessible only to the euro area Member States.

Faced with the further entrenchment of the crisis, euro area Member States made the existing support mechanisms more robust and more flexible; and eventually decided on the creation of a permanent crisis resolution mechanism to better protect the financial stability of the euro area and of its Member States. As a result, the euro area's permanent financial backstop, the European Stability Mechanism (ESM) was finally inaugurated on 8 October 2012, and is now fully operational following completion of ratification of the ESM Treaty by all euro area Member States. The ESM is the world's most capitalised international financial institution and the world's biggest regional firewall (€500 bn). Its creation is a key step for ensuring that the euro area has the capacity needed for rescuing Member States experiencing financial difficulties from default. On 27 November 2012, the European Court of Justice confirmed that the ESM Treaty is in line with EU law as it stands.[64]

The ECB has played a crucial role in the euro area response to the economic and financial crisis. First, the official refinancing rate has been lowered almost to zero, as the economy has slowed. In addition, the ECB has taken a range of measures to address the effects of the crisis on the functioning of financial markets when interbank market activity nearly stalled. One of the earliest of these effects was the drying-up of wholesale funding for banks, amid concerns about the quality of assets on their balance sheets. The ECB responded to this by expanding banks' access to monetary policy operations via a relaxation of collateral rules for both standard refinancing operations and for emergency liquidity assistance. In May 2010, the Eurosystem started the Securities Market Programme (SMP), purchasing government bonds in limited and sterilised interventions. As funding pressures intensified in the second half of 2011, threatening financial stability across the euro area, the ECB provided banks with access to exceptionally long-term refinancing operations (LTROs) with maturities of up to three years (compared to a maximum maturity of three months under normal procedures). The three LTRO allotments have had a powerful impact on investor sentiment and have substantially eased the pressure building in funding markets. While access to wholesale funding remains problematic for many banks, there has been recent evidence of a gradual thawing in these markets especially for larger banks.

The spread of the crisis to sovereign debt markets and the development of negative feedback loops between banks and sovereigns has resulted in a broader fragmentation of the euro area financial system and the emergence of so-called "redenomination risk" linked to fears about the reversibility of the euro. The ECB has adopted a decision as a basis to undertake Outright Monetary Transactions (OMT) in the secondary sovereign bond markets subject to strict and effective conditionality[65]. The objective is to safeguard proper transmission of the ECB's policy stance to the real economy throughout the euro area and to ensure the singleness of monetary policy. The transactions would be undertaken strictly within the ECB's mandate to maintain price stability over the medium term. A necessary condition for Outright Monetary Transactions is strict and effective conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme. As long as programme conditionality is fully respected, the ECB Governing Council will consider Outright Monetary Transactions to the extent that they are warranted from a monetary policy perspective. They will be terminated once their objectives are achieved or when there is non-compliance with the macroeconomic adjust-

64 Judgment of 27 November 2012 in case C-370/12 Pringle. The Court also confirmed the validity of European Council Decision 2011/199/EU amending Article 136 TFEU and that the Member States were free to conclude and ratify the ESM Treaty before the entry into force of that Decision.

65 ECB Press Release of 6 September 2012 on Technical features of Outright Monetary Transactions: http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html

ment or precautionary programme. The liquidity created through Outright Monetary Transactions will be fully sterilised. The announcement of the OMT programme, which replaces the more limited Securities Market Programme, has again had a powerful impact on investor sentiment, resulting in a significant decline in sovereign yields in the vulnerable Member States.

EMU has been overhauled, but the work is not yet complete

The totality of measures taken so far amounts to a strong response to the crisis, particularly when compared with what was considered politically feasible only a few years ago. It has taken time to put in place many of these measures, such as the overhauled instruments of economic and budgetary policy coordination or the permanent financial firewall. Also, for some of these measures to have a positive impact on confidence, they will need to be seen working well for some time. That is one reason why – despite a strong response – it has not been possible to prevent the sovereign debt crises from turning into a crisis of confidence that threatens to put into question the integrity of the euro area itself.

Another factor behind this has been the gap between the sharp acceleration of financial integration under EMU on the one hand, and the comparatively slow progress in the integration of EU-level financial regulation and supervision on the other.

The lack of strong supra-national EU-level institutions for bank supervision made the management of the crisis much more difficult and costly for the taxpayer than it otherwise would have been. More importantly, in the absence of such institutions, the crisis of confidence combined with the lack of appropriate governance of the financial sector (architecture for regulation, supervision and resolution) and the consequent public authorities' response based on national interest, resulted in a re-fragmentation of financial markets, as risk pricing based on national benchmark bonds led to distinctly different financing conditions for businesses and households in different euro area Member States, thereby wiping out many benefits of European financial integration.

This has worked as an additional drag on growth in some Member States, as credit conditions tightened in particular where activity was already slow, further exacerbating the existing feedback interactions between banks and sovereigns in the Member States concerned and further constraining their capacity to grow out of the crisis, ultimately with implications for their capacity to refinance themselves in the markets and the potential need for financial assistance. Conversely, credit conditions eased further in Member States where activity was already relatively strong.

The lack of strong integrated EU-level institutions thus effectively resulted in the reversal of integration and caused damage to the level playing field for businesses and households simply on account of their location on one or the other side of a border between two Member States of the euro area. Quasi-identical businesses within only a few kilometres on two different sides of such a border may no longer be able to finance investments on comparable terms. On one side of the border investment may stall and unemployment rise, as credits are not granted on feasible terms. On the other side, investment costs and unemployment may fall to new lows at the very same time. The same applies to the financing conditions accorded to private households. Such diverging developments that are detached from economic fundamentals and the needs of citizens and businesses can hamper the whole project of European integration.

Ultimately, the negative feedback loop between sovereigns and banks and the associated re-fragmentation of the EU's financial markets led to the emergence of a re-denomination risk, the bet by financial market participants that this development would eventually threaten the existence of the single currency.

Anachronistically, more than 50 years after the foundation of the European Union the crisis of confidence appears to be reinstating the constraining power of national borders, questioning the Single Market and threatening the achievements and as yet unfulfilled aspirations of Economic and Monetary Union. This is also a threat to the European Union's model of a social market economy.

The lessons learned in the context of the economic, financial, and sovereign debt crises since 2008 have been drivers of a major overhaul of the economic governance of Economic and Monetary Union, which has already led to unprecedented steps. This overhaul has made EMU much more robust than it was at the onset of the crisis. The crisis has clearly demonstrated how much the interdependence of our economies has increased since the foundation of EMU. It has also shown beyond any doubt that success or failure of EMU will be a success or a failure for all involved.

The threat entailed in the crisis of confidence is however much more fundamental. It therefore requires a much more fundamental response. That response must be able to restore confidence that the achievements of the Single Market and the single currency will not be undone and that their as yet unfulfilled achievements will be realised and maintained for citizens and businesses for the future.

To be effective and credible, that response must first of all deal with the pressing practical difficulties citizens, businesses, and Member States face today. A banking union would be able to end the disintegration of the EU's financial market and ensure reasonably equal financing conditions for households and business across the EU; it would help sever the negative feedback loops between Member States and banks; and it would help ensure that divergences between the business cycles across the euro area are not artificially amplified. Second, the response must set out the vision for a more deeply integrated EMU to be achieved in the future. And third, it must chart a clear and realistic path towards that ultimate ambition based on the firm commitment of the EU's institutions and its Member States.

3. The way forward: combining substantial ambition with appropriate sequencing

EMU is facing a fundamental challenge, in particular as regards the euro area, and needs to be strengthened to ensure economic and social welfare for the future. The European Council in June 2012 invited the President of the European Council, in close collaboration with the President of the Commission, the President of the Euro Group and the President of the ECB, to present a specific and time-bound roadmap for the achievement of a genuine EMU. An interim report was presented to the October European Council, and a final report is due in December 2012. The European Parliament adopted on 20 November its report "Towards a genuine Economic and Monetary Union", which outlines the Parliament's preferences for a more deeply integrated EMU. The Commission's proposal on the way forward is outlined in this blueprint.

A comprehensive vision for a deep and genuine EMU conducive to a strong and stable architecture in the financial, fiscal, economic and political domains, underpinning stability and prosperity is necessary. In such a deep and genuine EMU all major economic and fiscal policy choices of its Member States should be subject to deeper coordination, endorsement and surveillance at the European level. These policies should cover also taxation and employment, as well as other policy areas crucial for the functioning of EMU. Such an EMU should also be underpinned by an autonomous and sufficient fiscal capacity that allows the policy choices resulting from the coordination process to be effectively supported. A commensurate share of decisions with regard to revenue, expenditure and debt issuance should be subject to joint decision-making and implementation at the level of EMU.

It is clear that the current EMU cannot be completed overnight by a transformation into a deep and fully integrated version, in particular considering the significant additional transfer of political powers from the national to the European level. In order to arrive at an EMU that can ensure its citizens stability, sustainability and welfare on a permanent basis, decisive steps towards the goal need to be launched already in the short term (within the next 6-12 months). Such steps need then to be followed by further steps in the medium and long term. The steps to be taken in the short, medium and long term must build on each other and follow from each other.

The way forward needs to be carefully balanced. Steps towards more responsibility and economic discipline should be combined with more solidarity and financial support. This balance has to be struck in parallel and in each phase of the development of EMU. The deeper integration of financial regulation, fiscal and economic policy and corresponding instruments must be accompanied by commensurate political integration, ensuring democratic legitimacy and accountability.

This chapter identifies the steps and actions required in the short, medium and long term to arrive at a deep and genuine EMU on a permanent basis, from stronger policy coordination to fiscal capacity to greater pooling of decisions on public revenue, expenditure and debt issuance.

Some of the instruments can be adopted within the limits of the current Treaties. Others will require modifications of the current Treaties and new competences for the Union. The former can therefore progress in the short term and should be completed at the latest in the medium term. The latter can only be initiated in the medium term and completed in the long term. It should however be clear throughout that the concept is a holistic one in which each stage builds on the previous one.

In the short term (within the next 6-18 months), while immediate priority should be given to the full deployment of the new economic governance tools brought by the six-pack as well as rapid adoption of current Commission proposals such as the two-pack and the Single Supervisory Mechanism, more can still be done through secondary law, in particular in the area of economic policy coordination and support to structural reforms necessary to overcome imbalances and to improve competitiveness. Once a decision on the next Multi-annual Financial Framework for the EU has been taken, the establishment of a financial instrument within the EU budget to support re-balancing, adjustment and thereby growth of the economies of the EMU would serve as the initial phase towards the establishment of a stronger fiscal capacity alongside more deeply integrated policy coordination mechanisms. Together, the next step in fiscal and economic policy coordination and the corresponding initial phase of the build-up of a fiscal capacity could take the form of a "convergence and competitiveness instrument". Following the adoption of the Single Supervisory Mechanism, a Single Resolution Mechanism for banks will be proposed.

In the medium term (18 months to 5 years), further budgetary coordination (including a possibility to require a revision of a national budget in line with European commitments), the extension of deeper policy coordination in the field of taxation and employment, and the creation of a proper fiscal capacity for the EMU to support the implementation of the policy choices resulting from the deeper coordination should be established. Some of these elements will require amending the Treaties.

The reduction of public debt significantly exceeding the Treaty criterion could be addressed through the setting-up of a redemption fund. A possible driver for fostering the integration of euro area financial markets and in particular to stabilise volatile government debt markets is common issuance by euro area Member States of short-term government debt with a maturity of up to 1 to 2 years. Both of these possibilities would require amending the Treaties.

Finally, in the long term (beyond 5 years), based on the progressive pooling of sovereignty and thus responsibility as well as solidarity competencies to the European level, the establishment of an autonomous euro area budget providing for a fiscal capacity for the EMU to support Member States in the absorption of shocks should become possible. Also, a deeply integrated economic and fiscal governance framework could allow a common issuance of public debt, which would enhance the functioning of the markets and the conduct of monetary policy. As set out in the Commission's Green Paper of 23 November 2011 on the feasibility of introducing Stability Bonds[66], the common issuance of bonds could create new means through which governments finance their debt and offer safe and liquid investment opportunities for savers and financial institutions, as well as a euro area-wide integrated bond market that matches its US dollar counterpart in terms of size and liquidity.

This progressive further integration of the euro area towards a full banking, fiscal and economic union will require parallel steps towards a political union with a reinforced democratic legitimacy and accountability.

The progress in terms of integration will also have to be reflected externally, notably through steps towards united external economic representation of the euro area.

Box 1: The basic legal principles

In order to secure the sustainability of the common currency, the EMU must have the possibility to deepen more quickly and more thoroughly than the EU as a whole, whilst preserving the integrity of the EU at large.

This can be achieved through the observance of the following principles:

First, the deepening of the EMU should build on the institutional and legal framework of the Treaties, for the sake of legitimacy, equity between Member States and efficiency. The euro area is a product of the Treaties. Its deepening should be done within the Treaties, so as to avoid any fragmentation of the legal framework, which would weaken the Union and question the paramount importance of EU law for the dynamics of integration. Only EU decision-making rules provide full efficiency, resting on qualified majority instead of burdensome unanimity requirements and on a robust democratic framework.

Intergovernmental solutions should therefore only be considered on an exceptional and transitional basis where an EU solution would necessitate a Treaty change, and until that Treaty change is in place. They must also be carefully designed so as to respect EU law and governance, and not raise new accountability problems.

Second, the deepening of EMU should primarily and fully exploit the potential of the EU-wide instruments, without prejudice to the adoption of measures specific to the euro area. The European Semester, the internal market acquis and the support to competitiveness and cohesion through the EU budget provide a good basis for developing a comprehensive legal and financial framework for economic coordination, integration and real convergence. On-going efforts to make these policies more effective through e.g. macroeconomic conditionality of the structural funds or the new governance approach of the single market will also contribute to the strengthening of EMU.

66 COM(2011)818.

At the same time, additional financial, fiscal and structural coordination or support instruments specific to the euro area should be established whenever needed and should be designed as a complement to the EU's foundations. The Lisbon Treaty has provided a useful legal basis (Article 136 TFEU) for deepening the integration of the euro area. This legal basis has been already widely used with the successive six-pack and two-pack.

Wherever legally possible the euro area measures should be open for participation of other Member States. Indeed, while the Treaties foresee that a number of rules apply only to euro area Member States, the present configuration of the euro area is only of a temporary nature, since all Member States but two (Denmark and the UK) are destined to become full members of EMU under the Treaties.

Third, moves towards a genuine EMU should primarily be constructed using all the possibilities offered by the Treaties as they stand, via the adoption of secondary legislation. Amendments to the Treaties should be contemplated only where an action indispensable for improving the functioning of the EMU cannot be constructed within the current framework. Possible changes should be carefully prepared, so as to ensure the political and democratic ownership needed for a smooth ratification process.

3.1. In the short term (within the next 6-18 months): measures possible under secondary EU law to move towards the banking union, improve policy coordination as well as taking a decision on the next MFF and creating a "convergence and competitiveness instrument"

The deepening of EMU must address the consequences of excessive public and private debt accumulation, and thereby reduce the associated imbalances that were generated in the European economy. But adjustment is proving a long and difficult task, involving constraints in the credit supply, stretching public finances, and weak growth in the private sector as firms and households clean their balance sheets.

Commitment to budgetary discipline is an essential safeguard of the stability of the euro area, and a necessary step towards a fully-fledged integrated budgetary framework. This will ensure sound budgetary policies at the national and European levels and thereby contribute to sustainable growth and macroeconomic stability. Full deployment of the new tools for budgetary and economic surveillance and quick adoption of the current proposals should be the first priority. In parallel, the progress towards a banking union needs to start through the adoption and implementation of the proposals made on financial regulation and supervision, notably the proposal for a Single Supervisory Mechanism (SSM) for the euro area and for non-euro area Member States wishing to join.

To ensure a smooth functioning of the EMU, more should be done in the area of coordination of economic policies. The weight of the growth and adjustment challenge in the euro area contrasts with the absence of strong forms of policy coordination in the area of structural reforms. The evidence of large cross-country externalities calls for a reinforcement of the way in which economic policy must be run in the euro area. The proper functioning of the EMU requires that euro area Member States work jointly towards an economic policy where, whilst building upon the existing mechanisms of economic policy coordination, they take the necessary actions and measures in all areas which are essential to the proper functioning of the euro area. In particular, the setting-up of a procedure for the ex-ante discussion of all major economic policy reforms is necessary. This should be underpinned with the corresponding initial phase of the build-up of a fiscal capacity for the EMU, providing targeted financial support for the Member States facing adjustment difficulties.

Recalling the importance of sound public finances, structural reform and targeted investment for sustainable growth, the Heads of State or Government signed a Compact for Growth and Jobs on 28-29 June 2012, demonstrating their determination to stimulate job-creating growth in parallel to their commitment to sound public finances. The Commission is also monitoring the impact of tight budget constraints on growth-enhancing public expenditure and on public investment. In this context, the euro area should ensure that investment is kept at an adequate level in order to ensure the framework conditions for competitiveness developments and to contribute to growth and jobs.

All the initiatives presented in this section can be adopted in the short-term and within the limits of the current Treaties.

3.1.1. Full implementation of European Semester and six-pack and quick agreement and implementation of the two-pack

The completion of the current economic governance framework and its full implementation must be the first order of the day.

The introduction of the European Semester as well as the six-pack legislation has addressed central lessons learned in the context of the crisis. They included a reform of the SGP, the creation of the Macroeconomic Imbalances Procedure, and the introduction of minimum standards for national fiscal frameworks. They represent a leap forward in terms of economic policy coordination. This promises stronger policy implementation at national level, in particular for euro area Member States, and a better functioning of EMU as a consequence, thereby contributing to a return of confidence. That promise must now be delivered through the full use and strict implementation of the new tools that are already in place.

For any further steps towards a deep and genuine EMU to become possible the proposed two-pack legislation ought to be agreed by co-legislators without any further delay. The two-pack contains important instruments to sharpen budgetary surveillance and to deal more efficiently with situations of financial instability in Member States. Its swift adoption and implementation thereafter should bolster confidence in the commitment of EU institutions to complete the overhaul of economic governance.

3.1.2. Financial regulation and supervision: single rulebook and proposals for a Single Supervisory Mechanism

The euro area summit held on 29 June 2012 marked a turning point in the approach to the crisis. It recognised the "imperative" need to "break the vicious circle between banks and sovereigns" that is weakening the finances of euro area countries, to the point of threatening the very existence of the EMU. In particular, the agreement to set up a Single Supervisory Mechanism (SSM) was based on the conviction that financial fragmentation must be overcome and that the centralisation of banking supervision is necessary to ensure that all euro area countries can have full confidence in the quality and impartiality of banking supervision.

A true Economic and Monetary Union must indeed include shared responsibility for policing the banking sector and intervening in case of crises. This is the only way to effectively break the vicious circle linking Member States' public finances and the health of their banks, and to limit negative cross-border spillover effects.

An integrated financial framework, evolving over time into a full banking union, would help decisively by providing an integrated set of tools better to monitor and contain the risk in the financial system. That would lessen financial fragmentation, considerably reduce the necessity for public intervention, aid rebalancing and in so doing improve the prospects for growth. The tools are integrated because their impact will be lessened if any individual components are weak. Although some necessary parts of the system will take time to develop, that must not delay the swift implementation of those elements that can bring immediate benefits.

The Commission set out a vision of a gradually unfolding banking union in its Communication of 12 September 2012.[67] The Presidents of the European Council, the Commission, the Euro Group and the ECB have endorsed that vision in principle.[68] The European Council of 18 October 2012 confirmed the "*need to move towards an integrated financial framework, open to the extent possible to all Member States wishing to participate*."[69] In its report "Towards a genuine Economic and Monetary Union" of November 2011, the European Parliament calls for the adoption of the proposals of the Commission in this respect as soon as possible.

The first, crucial step on this path will be the Single Supervisory Mechanism, which must subsequently be complemented by a Single Resolution Mechanism (see 3.2.1).

A Single Supervisory Mechanism must ensure full sharing of information between supervisors about banks, common prevention tools and common action to address problems at the earliest possible stage. In order to restore confidence among banks, investors and national public authorities, it must also allow for supervision to be carried out in a strict and objective manner, with no room left for regulatory forbearance.

On 12 September 2012, the Commission made legislative proposals to create a Single Supervisory Mechanism composed of the ECB and national supervisors,[70] and to amend the 2010 regulation establishing the European Banking Authority in order to adapt it to the creation of the Single Supervisory Mechanism and ensure a balance in its decision-making structures between euro area and non-euro area Member States[71].

67 See Commission Communication titled "A Roadmap towards a Banking Union" outlining the Commission's overall vision for rolling out the banking union, covering the single rulebook, common deposit protection and a single bank resolution mechanism", COM(2012)510, http://ec.europa.eu/internal_market/finances/docs/committees/reform/20120912-com-2012-510_en.pdf

68 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132809.pdf

69 http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132986.pdf

70 http://ec.europa.eu/internal_market/finances/docs/committees/reform/20120912-com-2012-511_en.pdf

71 http://ec.europa.eu/internal_market/finances/docs/committees/reform/20120912-com-2012-512_en.pdf

The Single Supervisory Mechanism as proposed by the Commission is based on the transfer to the European level of specific, key supervisory tasks for banks established in the euro area Member States and for banks established in non-euro area Member States which decide to join the banking union. Under this new framework, the ECB will be responsible for supervising all banks within the banking union, to which it will apply the single rulebook applicable across the single market. The framework proposed by the Commission ensures effective and consistent supervision in all participating Member States, while relying on the specific know-how of national supervisors. It is of crucial importance that the negotiations on the SSM are completed before the end of the year, and that its implementation starts early on in 2013. As a complement, the European Banking Authority (EBA) will be adjusted to the new framework for banking supervision in order to ensure the integrity of the Single Market.

This will pave the way towards the use of the ESM as a public backstop in order, where appropriate, and once an agreement has been reached on this instrument, to directly recapitalise banks in accordance with the conclusions of the European Council of 19 October 2012. This will further reinforce the euro area, by helping to break the negative feedback loop between banks and their sovereigns.

Depositor and market participants' confidence is paramount in resolving banks. To achieve a level of public trust that is comparable to the best resolution authorities around the world, there will need to be a credible single resolution system and a powerful financial backstop in place. That responsibility remains national in the near term. But once the SSM is in place, and subject to the relevant guidelines, the ESM should be allowed to offer mutualised support to directly recapitalise banks that fail to raise funds in the market and that cannot be rescued by their home Member State without endangering its fiscal sustainability.

An integrated financial framework including a single supervision and subsequently a single resolution mechanism must be based on a single rulebook. Therefore, it is essential to conclude as a matter of urgency the negotiations on the Commission proposals establishing new regulatory frameworks in the areas of banking prudential rules, deposit guarantees, and bank recovery and resolution.

3.1.3. A Single Resolution Mechanism

An effective banking union requires not only a Single Supervisory Mechanism ensuring high quality supervision across Member States, but also a Single Resolution Mechanism to deal with banks in difficulties. This was recognised by the European Council on 19 October 2012, which stated that it "*notes the Commission's intention to propose a single resolution mechanism for Member States participating in the SSM once the proposals for a Recovery and Resolution Directive and for a Deposit Guarantee Scheme Directive have been adopted.*"

Following the adoption of the Single Supervisory Mechanism, the Commission will therefore make a proposal for a Single Resolution Mechanism, which will be in charge of the restructuring and resolution of banks within the Member States participating in the Banking Union. This mechanism will be articulated around a separate European Resolution Authority, which will govern the resolution of banks and coordinate in particular the application of resolution tools. This mechanism will be more efficient than a network of national resolution authorities, in particular as regards cross-border banking groups for which, in times of crisis, speed and coordination are crucial to minimise costs and restore confidence. It would also entail significant economies of scale, and avoid the negative externalities that may derive from purely national decisions.

Any intervention by the single resolution mechanism will have to be based on the following principles:

- The need for resolution should be reduced to the minimum, thanks to strict common prudential rules, and improved coordination of supervision within the Single Supervisory Mechanism.
- Where intervention by the Single Resolution Mechanism is necessary, shareholders and creditors should bear the costs of resolution before any external funding is granted, in accordance with the Commission proposal on Bank Recovery and Resolution.
- Any additional resources needed to finance the restructuring process should be provided by mechanisms funded by the banking sector, instead of using taxpayers' money.

Future Commission proposals for a single resolution mechanism will be based on these principles.

The Commission considers that, just as the establishment of an effective Single Supervisory Mechanism, the creation of a Single Resolution Mechanism can be realised by secondary law without require any amendment of the current Treaties.

3.1.4. A quick decision on the next Multi-annual Financial Framework (MFF)

The Commission proposal for the 2014-2020 Multi-annual Financial Framework represents the decisive driver for investment, growth and employment at the EU level. It also foresees to tie the funding from cohesion policy, rural development and the European maritime and fisheries policy more systematically to the different economic governance procedures. The Common Strategic Framework (covering the following 'CSF Funds': the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund) establishes a strong link between these funds and the national reform programmes, the stability and convergence programmes drawn up by the Member States, as well as the country-specific recommendations adopted by the Council for each Member State.

This will be implemented via partnership contracts/agreements between Member States and the Commission and the application of rigorous macroeconomic conditionality. In the Commission proposal macroeconomic conditionality is applied in two ways:

3. Reprogramming: this concerns amendments to the partnership contracts and relevant programmes in support of Council recommendations, or to address an excessive deficit, macroeconomic imbalances or other economic and social difficulties or to maximise the growth and competitiveness impact of the CSF Funds for Member States receiving financial assistance from the EU. Where a Member State fails to respond satisfactorily to such a request, the Commission may suspend part or all of the payments for the programmes concerned.

4. Suspension: when a Member State fails to take corrective action in the context of the economic governance procedures. In such a case, the Commission shall suspend part or all of the payments and commitments for the programmes concerned.

The partnership contracts and operational programmes will ensure that the planned investments co-financed by the CSF funds will effectively contribute to addressing the structural challenges facing Member States. In the case of Council recommendations in the context of Articles 121 and 148 of the Treaty and the corrective arm of the MIP, a reprogramming will be triggered for those recommendations that are relevant for the CSF funds and related to structural challenges that can be addressed through multi-annual investment strategies. Such recommendations cover, among other things:

- Labour market reforms that will improve the functioning of the labour market such as addressing the skills mismatches
- Measures to foster competitiveness such as the improvement of education systems or the promotion of R&D, innovation and infrastructure
- Measures to improve the quality of government such as the improvement of the administrative capacity and statistics

Through a swift adoption of the MFF and the relevant sector legislation, in particular the "Common Provisions Regulation" for the CSF Funds, incentives and support for structural reforms in Member States will be rapidly strengthened.

3.1.5. Ex-ante coordination of major reforms and the creation of a "Convergence and Competitiveness Instrument"

The fact that Member States' economic policies are a matter of common concern has been brought into sharp relief through the experience of the crisis, especially in the euro area. Slow or absent implementation of important structural reforms over long periods of time aggravated competitiveness problems and hampered Member States' adjustment capacity, in some cases significantly. This contributed to increasing these Member States' vulnerability. Short-term costs, be they political or economic in nature, often act as a deterrent to reform implementation even when the medium- to long-term benefits are sizeable. The potentially significant spillover effects associated with structural reforms in the euro area justify the use of specific instruments, as has already been done through the enforcement mechanisms introduced under the six-pack legislation. In view of these considerations, the existing framework for economic governance of the euro area should be strengthened further through ensuring greater ex-ante coordination of major reform projects and, following the decision on the next MFF, through the creation of a "Convergence and Competitiveness Instrument" to provide support for the timely implementation of structural reforms (see Annex 1 for a more detailed description of the intended setup). This instrument would combine deepening integration of economic policy with financial support, and thereby respect the principle according to which steps towards more responsibility and economic discipline are combined with more solidarity. The Commission will, in a forthcoming proposal, set out the precise terms for this instrument.

Ex-ante coordination of major reforms

The current EU economic surveillance framework already provides a basis for economic policy coordination. This framework, however, does not provide for systematic ex ante coordination among the Member States of national plans for major economic policy reforms. Ex ante discussion and coordination of major reform plans, as envisaged in Article 11 of the TSCG, would allow the Commission and Member States to assess the potential spillover effects of national action and comment on the plans before final decisions are taken at national level. In a forthcoming proposal, the Commission will propose a framework for the ex-ante coordination of major structural reforms in the context of the European Semester.

A Convergence and Competitiveness Instrument: contractual arrangements and financial support

The proposed Convergence and Competitiveness Instrument (CCI) would encompass contractual arrangements underpinned by financial support.

The implementation of structural reforms in the euro area Member States would be facilitated by the set-up of contractual arrangements to be agreed between them and the Commission. This new system would build on the existing EU surveillance framework, namely the procedure for the prevention and correction of macroeconomic imbalances (the Macroeconomic Imbalances Procedure or MIP)[72]. Such arrangements would be negotiated between individual Member States and the Commission, discussed in the Euro Group and concluded by the Commission with the Member State. They would be compulsory for euro area Member States subject to an Excessive Imbalance Procedure and the corrective action plan (CAP) they have to submit under this procedure would constitute the basis of the arrangement to be negotiated with the Commission. For the euro area Member States subject to a preventive action as regards their macroeconomic imbalances, the participation would be voluntary and would involve the presentation of an action plan similar to that required under the Excessive Imbalance Procedure.

The arrangements would therefore be always based on the country-specific recommendations emanating from the MIP, which typically focus on enhancing adjustment capacity and competitiveness and promote financial stability, i.e. factors critical to the good functioning of the EMU. The MIP therefore establishes a sensible filter for major reforms eligible to be accompanied by financial support in view of the associated externalities present in a currency union.

The action plan presented by the Member State would then be assessed by the Commission and a final set of reforms and measures and the timeline for their implementation would be adopted as an arrangement. This arrangement would thus set out the more detailed measures which the Member State commits to implement after having obtained the endorsement of its national parliament where appropriate under national procedures. This system of negotiated arrangements would enhance the quality of the dialogue between Commission and Member States as well as the Member States' commitment to and ownership of their reforms.

The reforms taken up in the contractual arrangements would be financially supported, as a complement to the discipline requirements already introduced by the six-pack. The aim of such support would be to lead to timely reform adoption and implementation by overcoming or at least lessen political and economic deterrents to reform. By promoting structural reforms that enhance the adjustment capacity of a Member State the CCI would improve the economy's capacity to absorb asymmetric shocks through enhancing market functioning.

Financial support would only be granted for reform packages that are agreed and important both for the Member State in question and for the good functioning of EMU. The financial support would be supporting the efforts of a Member State and in particular provide support in cases where the emergence of imbalances happened in spite of full compliance with previous country-specific recommendations addressed to the Member State concerned..

The financial support will have a clear signalling effect recognising both the cost of reform for the Member State in question as well as the benefit of national reforms accruing to the rest of the euro area given positive cross-border externalities (which may not be sufficient though to lead to reform impetus by Member States). Where the Commission finds ex post that a Member State has not fully complied with the contract, the financial support can be withheld.

The financial support should be designed as an overall allocation to be used to contribute to financing measures flanking difficult reforms. For example, the short-term impact of reforms raising the flexibility in the labour market could be accompanied by training programmes financed in part through support provided under the CCI. The use of financial support would be defined as part of the contractual arrangement concluded between the Member State concerned and the Commission.

To support this mechanism of financial support a special financial instrument could be set up in principle as part of the EU budget.

The instrument would be established by secondary legislation. It could be construed as part and parcel of the MIP reinforced by the contractual arrangements and financial support as outlined above and thus be based

72 Regulation (EU) N° 1176/2011

on Article 136 TFEU. Alternatively one could envisage having recourse on Article 352 TFEU, if necessary by enhanced cooperation (coupled with a decision pursuant to Article 332 TFEU on expenditure being included in the EU budget).

The financial contributions necessary to the instrument could be based on a commitment of the euro area Member States or a legal obligation to that effect enshrined in the EU's own resources legislation. Contributions should be included in the EU budget as assigned revenues. Being financed through assigned revenue, the instrument would not be placed under the ceilings set in the MFF Regulation. Only contributing Member States would be in a position to enter into a contractual arrangement with the Commission and benefit from the financial support. Support through the CCI would be coherent and consistent with the support from the Structural Funds, in particular the European Social Fund. The volume of the instrument could remain limited in the initial phase but could become larger over the medium term provided that the support mechanism proves to be effective in promoting rebalancing, adjustment and thereby sustainable growth in the euro area.

The Commission will in forthcoming proposals set out the precise terms for this "convergence and competitiveness instrument" based on contractual arrangements and financial support.

3.1.6. Promoting investment in the euro area

Structural reforms supported, first, by the MFF and, second, the Convergence and Competitiveness instrument will be essential to improve the medium-term growth potential of euro area members and their adjustment to shocks. Credible and growth-friendly consolidation that improves the efficiency of the tax structure as well as the quality of public spending will contribute to stimulating growth. As recommended in the Annual Growth Surveys 2012 and 2013, the Member States should strive in particular to maintain an adequate fiscal consolidation pace while preserving investments aimed at achieving the Europe 2020 goals for growth and jobs.

The EU fiscal framework offers scope to balance the acknowledgment of productive public investment needs with fiscal discipline objectives.

Public investment is one of the relevant factors to be taken into account when the fiscal position of a Member State is being assessed in the report foreseen under Article 126(3) TFEU that precedes the launch of an EDP.[73] The importance of relevant factors, such as public investment, for the assessment has considerably increased with the recent reform of the SGP. Under certain conditions, consideration of relevant factors may lead to not placing a Member State in EDP[74]; and relevant factors should be taken into account in formulating recommendations for correcting the excessive deficit, including the deficit reduction path.

In the preventive arm of the SGP, public investment is taken into consideration in the new expenditure benchmark, which is used alongside the structural balance to assess the progress towards the medium-term budgetary objective. Specifically, general government gross fixed capital formation is averaged over a number of years, in order to avoid that Member States penalised because of annual peaks in investment[75].

The Commission will explore further ways within the preventive arm to accommodate investment programmes in the assessment of Stability and Convergence Programmes. Specifically, under certain conditions, non-recurrent, public investment programmes with a proven impact on sustainability of public finances could qualify for a temporary deviation from the medium-term budgetary objective or the adjustment path towards it.[76] This could apply, for example, for government investment projects co-financed with the EU, consistently with the framework of macro-conditionality.

73 Specifically, according to Article 126(3) TFEU: "The report of the Commission shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors (…)".

74 First, consideration of relevant factors may lead to not placing a Member State in EDP despite a breach of the deficit criterion when the debt ratio is below the reference value. Second, a breach of the debt reduction benchmark should result in the opening of an EDP only after the assessment of the relevant factors.

75 Also, expenditure on EU programmes, and thus also investment expenditure, to the extent that it is fully matched by EU funds revenue, is also excluded from the expenditure considered for assessing the compliance with the expenditure benchmark.

76 The SGP embeds specific provisions that allow for such a possibility. Regulation 1466/97 - Article 5(1): "…When defining the adjustment path to the medium-term objective for Member States that have not yet reached this objective, and in allowing temporary deviation from this objective for Member States that have already reached it, provided that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective with the programme period, the Council and the Commission shall take into account the implementation of major structural reforms which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and therefore a verifiable impact on the long-term sustainability of public finances…"

While a fully-fledged framework would have to be worked out to render operational such conditions (notably in terms of information/definitional requirements), a specific treatment of public investment could only lead to a temporary deviation from the medium term budgetary objective (MTO) or the adjustment path towards it. The Commission will issue a Communication on the appropriate path towards the MTO in Spring 2013.

Specific provisions for investment projects should not be confused with a 'golden rule', which would allow a permanent exception to all public investment. Such an indiscriminate approach could easily put in danger the prime objective of the SGP by undermining the sustainability of government debt.

3.1.7. External representation of the euro area

Building on progress achieved in the economic governance of the euro area, a strengthening and consolidation of its external representation should be pursued. This can be fully achieved on the basis of the current Treaties (Article 17 TEU and Article 138 TFEU).

Such strengthening is necessary to ensure that the euro area is represented in a manner commensurate with its economic weight, mirroring the changes taking place in the internal economic governance. The euro area must be able to play a more active role both in multilateral institutions and fora as well as in bilateral dialogues with strategic partners. This should result in delivering a single message on issues such as euro area economic and fiscal policy matters, macroeconomic surveillance, exchange rate policies and financial stability.

To achieve these objectives will require agreement on a roadmap aimed at streamlining and, where possible, unifying the external representation of the euro area in international economic and financial organisations and fora.

The focus should be on the IMF, which through its lending instruments and surveillance is a key institutional pillar in global economic governance. As the crisis has shown, it is of utmost importance for the euro area to speak with a single voice in particular on programmes, financing arrangements and the crisis resolution policy of the IMF. This will require a strengthening of coordination arrangements of the euro area in Brussels and Washington on EMU-related matters, to mirror changes in EMU internal governance and to ensure consistency and effectiveness of the messages provided.

Enhancing the euro area representation in the IMF should be done through a two-stage process. In a first stage, the country constituencies should be rearranged so as to re-group countries into euro area constituencies which could also include future euro area Member States. In parallel, observer status in the IMF executive board should be sought for the euro area [77].

These measures should prepare the ground for the euro area seeking, at a second stage, a single seat in the IMF bodies (the executive board and the IMFC). The Commission will in due course make formal proposals under Article 138 (2) TFEU to establish a unified position to achieve an observer status of the euro area in the IMF executive board, and subsequently for a single seat. The appropriate institution to represent the euro area in the IMF, in accordance with Article 138 TFEU, would be the Commission, with the ECB being associated in the area of monetary policy. More details on this aspect of deepening EMU are found in Annex 2.

3.2. The medium term: Enhanced economic and budgetary policy integration and steps towards a proper fiscal capacity

The medium term should see the establishment of further budgetary coordination (including the possibility to require amendments to national budgets or to veto them), the extension of deeper policy coordination to the fields of taxation and employment and the creation of an autonomous, proper fiscal capacity for the EMU to support the implementation of the policy choices resulting from the deeper coordination. Some of these elements will require amending the Treaties.

The reduction of public debt significantly exceeding the SGP criteria could be addressed through the setting-up of a redemption fund. A possible driver for fostering the integration of euro area financial markets and in particular to stabilise volatile government debt markets is common issuance by euro area Member States of short-term government debt with a maturity of up to 1 to 2 years. Both of these possibilities would require amending the Treaties.[78]

3.3. Reinforcement of budgetary and economic integration necessitating Treaty changes

The overhaul of the budgetary and economic governance that the euro area would have undergone with the

77 I.E., the EU representing the euro area Member States in accordance with the Treaties.

78 See Judgment of 27 November 2012 in case C-370/12 Pringle, points 137 and 138.

adoption of the two-pack and the availability of the Convergence and Competitiveness Instrument would represent major steps forward in ensuring budgetary discipline but also economic competitiveness.

However, moving towards more mutualisation of financial risk would require bringing the coordination of budgetary policy one step further by ensuring that there is collective control over national budgetary policy in defined situations.

In particular, the innovations brought by the two-pack and especially the possibility of a Commission opinion on draft budgetary plans, and in extreme cases, the possibility to request a new draft budgetary plan in case of serious violation of the Member State's obligations under the SGP, are reaching the limit of what is possible under the current Treaties in terms of coordination and intervention from the EU level in the national budgetary process. With the two-pack, once adopted, the EU will largely have exhausted the limits of its legislative competence in these respects.

Moving further in terms of national budgetary policy control, for example by setting up a European right to require a revision of national budgets in line with European commitments, would require a Treaty change.

The following (non-exclusive) avenues could be considered:

- First, an obligation for a Member State to revise its (draft) national budget if the EU level so requires in case of deviation from obligations of budgetary discipline previously set at EU level. This would involve changing the nature of the opinion on national budgets foreseen in the two-pack from a non-binding to a binding character.
- Second, building upon the tighter monitoring and coordination process set up by the two-pack, in certain particularly serious situations to be defined, a right to require a revision of individual decisions of budget execution in line with European commitments which would result in a serious deviation from the path of budgetary consolidation set at EU level.
- Third, a clear competence for the EU level to harmonise national budgetary laws (along the lines of the Treaty on Stability, Coordination and Governance in Economic and Monetary Union[79]) and to have recourse to the Court of Justice in case of non-compliance.

As regards economic policy, tax policy can support economic policy coordination and contribute to fiscal consolidation and growth. Based on the experience to be gained with the structured discussions of tax policy issues which focus on areas where more ambitious activities can be envisaged, one might in future consider in the context of a Treaty change providing scope for legislation on deeper coordination in this field in the euro area. Another area of similar importance where such progress could be considered is labour markets, given the importance of well-functioning labour markets and in particular labour mobility for adjustment capacity and growth within the euro area.

Coordination and surveillance of employment and social policies should be reinforced within the EMU governance, and convergence promoted in these areas. The current Broad Economic Policy Guidelines and Employment Guidelines could be reinforced by merging them into one single instrument.

These changes would provide the basis for developing a proper fiscal capacity for the euro area to support structural reform on a large scale as well as for enabling forms of debt mutualisation to facilitate the solution of the problems of high debt and financial segmentation that are among the legacies of the crisis.

3.3.1. A proper fiscal capacity for the euro area

Building on the experience of systematic ex-ante coordination of major structural reforms and the CCI, a dedicated fiscal capacity for the euro area should be established. It should be autonomous in the sense that its revenues would rely solely on own resources, and it could eventually resort to borrowing. It should be effective and provide sufficient resources to support important structural reforms in a large economy under distress.

This proper fiscal capacity for the euro area could initially be developed under secondary law, as explained in section 3.1.3. Its enhancement would however benefit from new, specific Treaty bases which would be necessary if the capacity had to be able to resort to borrowing.

3.3.2. A redemption fund

A clearly reinforced economic and fiscal governance framework could allow addressing the reduction of public debt significantly exceeding the SGP criteria through the setting-up of a redemption fund subject to strict conditionality.

79 In any event, the substance of that Treaty should be integrated into Union law as foreseen in its Article 16.

The initial proposal of a European Redemption Fund (ERF) as an immediate crisis tool was developed by the German Council of Economic Experts (GCEE) as part of a euro area-wide debt reduction strategy.

In order to limit moral hazard, and to ensure the stability of the structure as well as the redemption of payments, the GCEE proposed several supervisory and stabilising instruments, such as: (1) strict conditionality, similar to the rules agreed within EFSF/ESM programmes; (2) immediate penalty payments in case of non-compliance with the rules; (3) strict monitoring by a special institution (e.g. Court of Justice of the EU); (4) an immediate stop of debt transfer to the fund during the roll-in phase in case of non-compliance with the rules; (5) pledging of Member States' international reserves (foreign exchange or gold reserves) as a security against their liabilities and/or assignment of (possibly newly introduced) taxes to cover the debt service (e.g. VAT revenues) to limit the liability risk.

The Commission agrees that a strong economic and budgetary framework is a pre-requisite for a workable redemption fund. Increased surveillance and power of intervention in the design and implementation of national fiscal policies would be warranted as discussed in the previous section. The credibility of the adjustment plans would require appropriate fiscal conditions to be set when a Member State enters the system. Strict observance of the adjustment path towards the medium-term objective as proposed by the Commission would represent a minimum in this respect.

A European Redemption Fund under such strict conditionality (see also Annex 3) could thus provide an anchor for a credible reduction in public debt, bringing the level of government indebtedness back below the 60% ceiling as foreseen in the Maastricht Treaty.

The introduction of such a framework could give another signal that euro area Member States are willing, able and committed to reduce their debt levels. This could in turn lower the overall financing costs of over-indebted Member States. By assuring the funding of the reduction of the "excess debt" at sustainable cost, in combination with both incentives and continuous monitoring of its reduction, it could provide euro area Member States with the possibility to gear debt reduction in a manner that could facilitate investment in growth-supporting measures. Furthermore, such a framework could contribute to debt reduction being done on a transparent and coordinated basis across the euro area, thereby complementing the coordination of budgetary policies.

The setting up of such a debt redemption fund could only be envisaged in the context of a revision of the current Treaties. For accountability reasons, the act creating such a fund would need to be framed with great legal precision, as regards the maximum transferrable debt, the maximum time of operation and all other features of the fund, to guarantee the legal certainty required under national constitutional laws.

A possible model ensuring appropriate accountability for a debt redemption fund thus designed would be as follows: a new Treaty legal base would allow the setting up of the fund through a decision of the Council, adopted by unanimity of the euro area members with the consent of the European Parliament, and subject to ratification by Member States under their constitutional requirements. That decision would set up the maximum volume, length and conditions of participation in the fund. A European debt management entity within the Commission, accountable to the European Parliament, would then manage the fund in accordance with the rules set up by the Council decision.

3.3.3. Eurobills

An important effect of the crisis has been the reassessment of sovereign-credit risk within the euro area. After more than a decade during which Member States could borrow at almost identical conditions, markets started again to differentiate risk premia across countries. Government securities issued by the weaker euro area Member States have been traded at considerably higher yields, with adverse consequences for the sustainability of public finances for the sovereigns concerned as well as for the solvency of the financial institutions holding those government securities as assets. This segmentation of credit risk together with the "home bias" that characterises financial institutions has proved to be a powerful engine of financial fragmentation in the euro area. Banks overexposed to weaker sovereigns find it increasingly difficult to refinance and credit conditions for the private sector have become significantly diverse according to the location of the borrower. At the same time, segmentation of the financial market hinders the transmission of monetary policy and easing at central level does not translate into an appropriate improvement of lending conditions where it would be more warranted.

In light of this situation, there is a strong argument for the creation of a new euro area sovereign instrument. A possible driver for fostering the integration of euro area financial markets and in particular to stabilise volatile government debt markets is so-called eurobills. This common issuance by euro area Member States of short-term government debt with a maturity of up to 1 to 2 years would constitute a powerful tool against the present fragmentation, reducing the negative feedback loop between sovereign and banks, while limiting the moral hazard. Additionally, it would also help restoring the proper transmission of monetary policy. Eurobills could progressively replace existing short-term debts, and not expand the overall amount of national euro area short-term debt.

These so-called eurobills could contribute to completing European financial markets by creating a large integrated short-term securities market in the euro area. Given the important role of short-term papers for cash management and the short-term nature of bills, these securities typically enjoy a particularly high credit quality. At the same time, the revolving, short-term nature of such bills makes it possible to adjust the funding schemes quickly to national fiscal behaviour, thereby setting incentives for fiscal discipline.

The common issuance would strengthen financial stability insofar as it would ensure a ready supply of short-term liquidity for all euro area Member States. It would also create a pool of safe assets across the euro area, which would greatly facilitate the liquidity management of financial institutions and thereby reduce their often strong home bias, which proved very detrimental in crisis situations. The eurobills would also help greatly for the conduct of monetary policy in the euro area, as the transmission channels would be strengthened and harmonised. Eurobills would thereby be fully compatible and complementary to the concept of a redemption fund.

Due to their character as financial instruments requiring joint and several guarantees by the participating Member States, changes to the Treaties would be required to allow these instruments to be developed. Eurobills are not a substitute for improved economic governance and fiscal discipline. The implementation of such a common debt instrument would require a closer coordination and supervision of Member States' debt management in order to ensure sustainable and efficient national budgetary policies. This monitoring and managing function could be provided by an EMU Treasury within the Commission.

3.3.4. A longer-term vision for EMU

In the longer term, the European Union should move towards a full banking union, a full fiscal union, a full economic union, which all require, as a fourth element, appropriate democratic legitimacy and accountability of decision-making. Major Treaty reform will be required on this path.

3.3.5. FulB bankinU union

Over the longer term, the logic of aiming for a fulB bankinU union for all banks is compelling. The direct supervision by the ECB applying the single Rulebook and the standards developed by EBA ensure a consistently high quality of supervision across the euro area. In combination with euro area level macro-prudential policy tools, there will be an effective system to monitor and contain both micro- and macro-prudential risks in the financial system.

That system and a common system for banking resolution, combined with effective and solid deposit guarantee schemes in all Member States, will lastingly place the banking sector back on a solid footing and contribute to keeping up confidence in the sustainable stability of the euro area. To maximise public trust, there will also need to be a credible and powerful financial backstop. That could ultimately be facilitated by the development of a euro area safe asset.

Combining all these elements, a full banking union is a key part of a long-term vision for economic and fiscal integration.[80]

3.3.6. Full fiscal and economic union

Arriving at a full fiscal and economic union would be the final stage in EMU. As a final destination, it would involve a political union with adequate pooling of sovereignty with a central budget as its own fiscal capacity and a means of imposing budgetary and economic decisions on its members, under specific and well-defined circumstances. How large this central budget would be will depend on the depth of integration desired and on the willingness to enact accompanying political changes. Such a deep degree of integration would have created the conditions for a common issuance of debt through Stability Bonds as set out in the Commission's 2011 Green Paper.

The absence of a central budget with a stabilisation function has long been identified as a potential weakness of the euro area in comparison with other successful monetary unions.

Central Budget providing for a fiscal capacity with a stabilisation function

The current EMU architecture relies on decentralised national fiscal policies under a rules-based framework. The stabilisation function of fiscal policy in this setting is expected to be already exerted at national level, within the

80 See Commission Communication titled "A Roadmap towards a Banking Union" outlining the Commission's overall vision for rolling out the banking union, covering the single rulebook, common deposit protection and a single bank resolution mechanism", COM(2012)510, http://ec.europa.eu/internal_market/finances/docs/committees/reform/20120912-com-2012-510_en.pdf

limits of the rules of the Treaty and the SGP. Indeed, a traditional view of EMU arrangements assigns to national fiscal policies the task of responding to country-specific shocks, and to monetary policy the task of ensuring price stability and in so doing stabilise EMU-wide macroeconomic conditions. Moreover, national automatic stabilisers carry a significant potential for stabilisation in EMU countries, given the relatively large size of welfare states.

Building on the fiscal capacity, an EMU-level stabilisation tool to support adjustment to asymmetric shocks, facilitating stronger economic integration and convergence and avoiding the setting up of long-term transfer flows, could become a component for a genuine EMU. Such a mechanism would need to be strictly targeted to address short-term asymmetries and cyclical developments in order to avoid permanent transfers over the cycle. It must be supportive of structural reforms and be subject to strict political conditionality to avoid moral hazard.

A common instrument dedicated to macroeconomic stabilisation could provide an insurance system whereby risks of economic shocks are pooled across member states, thereby reducing the fluctuations in national incomes. Second, it may help improve the conduct of national fiscal policies throughout the cycle. In particular, it may encourage fiscal retrenchment during economic booms, while providing additional room for manoeuvre for a supportive fiscal stance in downturns. Overall, a shared instrument could deliver net gains in stabilising power, as compared with current arrangements.

Depending on the design, the mechanism could focus on asymmetric shocks or also comprise shocks that are common to the euro area. However, this second approach, while more encompassing, would require strong safeguards to maintain fiscal credibility, as increased stabilisation power against common unfavourable shocks could only be obtained by effectively increasing the total borrowing flow of the euro area in these periods, and thus would have to be financed by higher surpluses in good times. Under this approach, the central budget should probably be given the capacity to borrow and issue bonds. Moreover, monetary policy would still remain the primary instrument to address common shocks.

In its simplest formulation, a stabilisation scheme to stabilise asymmetric shocks could require monetary net payments that are negative in good times and positive in bad times. For example, a simple scheme would determine net contributions/payments of countries as a function of their output gap (relative to the average). No further requirements would be made on the use of the payments received from the fund.

Alternatively, schemes may require that the payments from the fund be earmarked for a defined purpose, with counter-cyclical effects (as e.g. in the US unemployment benefit system where a federal fund reimburses 50% of the unemployment benefits exceeding standard duration up to a given maximum, conditional on unemployment being at a certain level and rising). While earmarking transfers might enhance stabilisation properties, the risk that governments offset the impact of the transfers via fiscal measures with opposite effects cannot be fully prevented.

Schemes should operate in such a way to avoid "permanent transfers" across countries. In other words, they should be designed in such a way to avoid that, over a too long period of time, any country is a net loser or gainer from the scheme. A necessary condition is that cross-country differences in net transfers to the scheme do not depend on absolute income differences but rather on differences in cyclical positions. Income level differences may persist over decades, while relative cyclical positions are likely to change sign in the course of a decade. There is a trade-off between the extent to which transfers are obliged to be temporary and the degree to which asymmetric long-lasting demand shocks (e.g. capital outflows cum deleveraging) could be addressed.[81]

Institutional considerations

Treaty amendments providing the legal bases for such a fiscal capacity with a stabilisation function could, inter alia:

- create a new explicit legal basis allowing to set up a fund serving objectives more broadly defined than is currently possible under Article 136 TFEU, including for macroeconomic stabilisation purposes;
- create a corresponding, dedicated budgetary and own resources procedure;
- create a new taxation power at the EU level, or a power to raise revenue by indebting itself on the markets (presently barred by Articles 310 and 311 TFEU);
- provide for an EMU Treasury within the Commission;

81 Some existing analyses assess econometrically the contribution of existing transfer schemes available in federal states on the absorption of asymmetric shocks. For example, estimates on the stabilisation capacity of transfers across US States vary from 10% to 30% of the shock offset by the transfer for the US.

- and finally if wished, allow other Member States to freely opt in to such a fiscal capacity, as a step in preparing their joining the euro area.

Attaining a deep and genuine EMU involves incremental measures, building on what would have been achieved over the short and the medium-term and introducing further integration on a step-by-step, policy-by-policy basis. In this way deeper economic and budgetary policy coordination accompanied by financial support instruments for implementing jointly agreed policy priorities could eventually be followed by the emergence of a central budget with common stabilisation mechanisms, by the integration of the ESM into the EU Treaty framework and by steps towards the mutualisation of issuance of sovereign debt between the Member States.

The progress towards a deep and genuine EMU would over the medium term necessitate a structure akin to an EMU Treasury within the Commission to organise the shared policies undertaken with the common fiscal capacity to the extent that they imply common resources and/or common borrowing. Such a Treasury would embody the new budgetary authority and manage the joint resources. It would need to be headed by a senior member of the Commission such as the Vice President responsible for Economic and Monetary Affairs and the euro, in appropriate coordination with the Budget Commissioner, and supported by appropriate collegiate structures.

While it would not be excluded to integrate the ESM into the EU framework under the current Treaties, via a decision pursuant to Article 352 TFEU and an amendment to the EU's own resources decision, it appears that, given the political and financial importance of such a step and the legal adaptations required, that avenue would not necessarily be less cumbersome than operating an integration of the ESM through a change to the EU Treaties. The latter would also allow the establishment of tailor-made decision-making procedures.

All the different steps mentioned above imply a higher degree of transfers of sovereignty, hence responsibility at the European level. This process should be accompanied by steps towards political integration, to ensure strengthened democratic legitimacy, accountability and scrutiny.

4. Political Union: Democratic legitimacy and accountability as well as enhanced governance in a deep and genuine EMU

4.1. General principles

Any work on democratic legitimacy as a cornerstone of a genuine EMU needs to be based on two basic principles. First, in multilevel governance systems, accountability should be ensured at that level where the respective executive decision is taken, whilst taking due account of the level where the decision has an impact. Second, in developing EMU as in European integration generally, the level of democratic legitimacy always needs to remain commensurate with the degree of transfer of sovereignty from Member States to the European level. This holds true for new powers on budgetary surveillance and economic policy as much as for new EU rules on solidarity between Member States. Briefly put: Further financial mutualisation requires commensurate political integration. This section sets out preliminary and non-exhaustive avenues for further work.

It follows from the first principle that it is the European Parliament that primarily needs to ensure democratic accountability for any decisions taken at EU level, in particular by the Commission. A further strengthened role of EU institutions will therefore have to be accompanied with a commensurate involvement of the European Parliament in the EU procedures. At the same time, whatever the final design of EMU, the role of national parliaments will always remain crucial in ensuring legitimacy of Member States' action in the European Council and the Council but especially of the conduct of national budgetary and economic policies even if more closely coordinated by the EU. Cooperation between the European Parliament and national parliaments is also valuable: it builds up mutual understanding and common ownership for EMU as a multilevel governance system; concrete steps to further improve it, in accordance with Protocol N° 1 of the EU Treaties and Article 13 of the TSCG, are thus welcome. Interparliamentary cooperation as such does not, however, ensure democratic legitimacy for EU decisions. That requires a parliamentary assembly representatively composed in which votes can be taken. The European Parliament, and only it, is that assembly for the EU and hence for the euro.

The maxim of ensuring a legitimacy level commensurate to sovereignty transfers and solidarity within a political Union leads to two general considerations.

First, the issue of accountability arises in fundamentally different ways as regards short-term action, which can be undertaken through EU secondary law, and the further stages which involve Treaty change. The Lisbon Treaty has perfected the EU's unique model of supranational democracy, and in principle set an appropriate level of democratic legitimacy in regard of today's EU competences. Hence, as long as EMU can be further developed on this Treaty basis, it would be inaccurate to suggest that insurmountable accountability problems exist. Conversely, discussions on medium and long-term Treaty amendments as envisaged in sections 3.2 and 3.3 will need to include reflections on adaptations to the EU's model of democratic legitimacy.

Second, serious accountability and governance issues would however arise if intergovernmental action of the euro area were significantly expanded beyond the current state of play. This would in particular be the case if such action were used to influence the conduct of Member States' economic policies. Such an avenue would first raise problems of compatibility with the EU's primary law in this area. As confirmed by the Court of Justice, the Treaty attributes the task of coordination of the Member States' economic policies to the Union; the ESM is in line with the Treaties precisely because its object is not to achieve such coordination but to provide a financing mechanism and because it contains express provisions by virtue of which the conditionality foreseen by the ESM Treaty - which is not an instrument of economic policy coordination - ensure that the ESM's activities are compatible with EU law and the EU's coordination measures. Moreover, intergovernmental action could entrust only limited tasks to the Union's institutions, such as the Commission and the ECB, which may be tasks of coordination of a collective action or management of financial assistance, to be exercised on behalf of the Member States and which must not denature the functions attributed to those institutions under the Treaties.[82] In any event, one fails to see how parliamentary accountability could be organised for an intergovernmental European level seeking to influence economic policies of individual euro area Member States.

To the extent that a need arises for reinforced governance structures in a deepened EMU, these should therefore be devised, with efficiency and legitimacy, as part of the Union's institutional framework and in line with the Community method.

82 See the judgment in Case C-370/12, Pringle, at points 109 – 111 and 158 - 162.

4.2. Optimising accountability and governance in the short term

Bearing in mind the above principles, the discussion on how to ensure optimal democratic accountability and governance without Treaty change should focus on practical measures, in particular those designed to foster parliamentary debate in the European Semester.

The starting point in this respect should be the Economic Dialogue which has been recently set up by the six-pack and which provides for discussions between the European Parliament, on the one hand, and the Council, the Commission, the European Council and the Eurogroup on the other hand. Thus, one could foresee the involvement of the Parliament in the discussions on the Commission's Annual Growth Survey and that, in particular, that two debates in Parliament be held at key moments of the European Semester, namely before the European Council discusses the Commission's Annual Growth Survey and before the adoption by the Council of the country-specific recommendations (CSRs). This could be achieved through an inter-institutional agreement between the European Parliament, the Council and the Commission. The Commission and the Council could also be present at inter-parliamentary meetings to be held between representatives of the European Parliament and of national parliaments during the European Semester. Moreover, to facilitate the task of national parliaments, members of the Commission could attend debates within such parliaments, on their request, on the EU's CSRs.

The application of the comply-or-explain principle, according to which the Council is publicly accountable (in practice mainly to the European Parliament) for any changes it introduces to the Commission's economic surveillance proposals, such as the CSRs, should be reinforced in practice.

In a deepened EMU, the Parliament should also be more directly involved in the choice of the multiannual priorities of the Union as expressed by the Integrated Guidelines of the Council (Broad Economic Policy Guidelines and Employment Guidelines).

The European Parliament should be regularly informed of the preparation and implementation of the adjustment programmes concerning Member States receiving financial assistance, as foreseen in the two-pack. It should be underlined that this economic policy conditionality vis-à-vis the Member States concerned is framed by the economic policy coordination pursued within the EU framework.

Furthermore, the European Parliament has the possibility of adapting its internal organisation to a stronger EMU. For instance, it could set up a special committee on euro matters in charge of any scrutiny and decision-making pertaining especially to the euro area.

Similarly, some further practical measures can still be taken without Treaty change to improve the functioning of the Euro Group and its preparatory instance, in line with the euro area summit statement of 26 October 2011.

Finally, and without this being a point specific to EMU, a number of steps of significant importance can be taken to foster the emergence of a genuine European political sphere. This includes, in the context of the European elections of 2014, most importantly the nomination of candidates for the office of Commission President by political parties, as well as a number of pragmatic steps that are possible under current EU electoral law. Moreover, the proposal recently tabled by the Commission for a revised statute for European political parties should be rapidly adopted.

4.3. Issues for discussion in case of Treaty amendment

In the context of a Treaty reform conferring further supranational powers to the EU level, the following steps should be considered to ensure a commensurately stronger democratic accountability:

First, for the sake of visibility, transparency and legitimacy, the current Broad Economic Policy Guidelines and Employment Guidelines (currently presented together as "integrated guidelines" but based on two distinct legal bases) should be merged into one single instrument expressing the Union's multiannual priorities, and crucially, that instrument should be adopted through the ordinary legislative procedure providing for co-decision by the European Parliament and the Council.

Second, to be appropriately legitimised, a new power of requiring a revision of a national budget in line with European commitments, if considered necessary, could be taken as a legislative act by co-decision. This solution, ensuring maximum democratic legitimacy, is justified given that Member States' annual budgets are also adopted by their parliaments, usually with legislative character. To ensure speedy decision-making, a Treaty amendment should create a new special legislative procedure consisting of only one reading.

Integration of the ESM into the EU framework, as called for in this blueprint, would allow it to become subject to proper scrutiny by the European Parliament.

Institutional adaptations might also be considered:

A "euro committee" established within the **European Parliament** could also be granted certain special decision-making powers beyond those assigned to other committees, e.g. a greater weight in the preparatory parliamentary stages or even a possibility to perform certain functions or take certain acts in lieu of the plenary.

Within the **Commission**, any steps designed to reinforce even further than today[83] the position of the Vice President for Economic and Monetary Affairs and the euro, would require adaptations to the collegiality principle and, hence, treaty changes. They could be contemplated in the long run to allow for political direction and enhanced democratic accountability of a structure akin to an EMU Treasury within the Commission. In this context, a special relationship of confidence and scrutiny between the Vice President for Economic and Monetary Affairs and a "euro committee" of the European Parliament could be created. Their design should however be carefully pondered. The collegiality principle applies to decisions across all policy areas for which the Commission has competence, from competition to cohesion policy. It stands for a system of collective internal checks and balances which contributes to improving the legitimacy of the Commission's action.

Sometimes a call is also made to strengthen the **Euro Group** further by making it responsible for decisions concerning the euro area and its Member States. This would require Treaty change, since the purely informal character of the Euro Group as set out in Protocol n° 14 implies a mere forum for discussions without decision-making powers. That said, the current Treaties, in Articles 136 and 138 TFEU, have already created the model of the **Council** adopting decisions with only its

83 It should be recalled that, in October and November 2011, the position of the Commissioner for Economic and Monetary Affairs was already significantly strengthened by several acts adopted within the limits set by the current Treaty rules, in order to guarantee the independence, objectivity and efficiency in the exercise of the Commission's responsibilities of coordination, surveillance and enforcement in the area of the economic governance of the Union and of the euro area. In particular, following an amendment to the Commission's Rules of procedure, Commission decisions in this area are adopted upon a proposal from the Vice-President responsible for Economic and Monetary Affairs and the euro by a special written procedure allowing for a more objective and effective decision-making. The Vice-President is also empowered to adopt, acting in agreement with the President, decisions on behalf of the Commission in several areas relating to the 'six-pack' and in relation to economic adjustment programmes in the framework of the EFSM, EFSF and ESM. Finally, all Commission initiatives which have a potential impact on growth, competitiveness or economic stability require the prior consultation of the Vice-President's services.

euro area members voting. In this blueprint, the Commission makes the case for creating further Treaty legal bases following this model. The main practical difference between it, and a Euro Group endowed with decision-making powers, would be that, in the second case, delegates from non-euro area Member States would be excluded not only from voting but also from deliberations and from preparatory work carried out at instances below the ministers' meetings. That would however be undesirable in the Commission's view, since it would in reality lead to building up a "euro area Council" as a separate institution without adequately taking into account the convergence between existing and future members of the euro area.

Furthermore, a specific point to be addressed by Treaty change would be to strengthen democratic accountability over the ECB insofar as it acts as a banking supervisor, in particular by allowing normal budgetary control by the European Parliament over that activity. At the same time, Article 127 paragraph 6 TFEU could be amended to make the ordinary legislative procedure applicable and to eliminate some of the legal constraints it currently places on the design of the SSM (e.g. enshrine a direct and irrevocable opt-in by non-euro area Member States to the SSM, beyond the model of "close cooperation", grant non-euro area Member States participating in the SSM fully equal rights in the ECB's decision-making, and go even further in the internal separation of decision-making on monetary policy and on supervision). A Treaty change creating a special status for Agencies in the field of financial regulation, strengthening the supranational character of these Agencies, and their democratic accountability could also be considered. Not only would this very significantly enhance the effectiveness of the ESAs, but it would significantly facilitate the establishment and working of the Single Resolution Mechanism to be created.

A further way of strengthening the EU's legitimacy would also be to extend the competences of the Court of Justice, i.e. by deleting Art. 126 paragraph 10 TFEU and thus admitting infringement proceedings for Member States or by creating new, special competences and procedures, although one should not forget that some of the issues do not lend themselves to full judicial review.

If a Treaty reform were to extend beyond EMU matters, it should include the objective of generalising the ordinary legislative procedure, i.e. making applicable co-decision by the European Parliament and the Council, voting by qualified majority, instead of the currently remaining instances where special legislative procedures apply.

Finally, special challenges to ensure appropriate democratic accountability would arise in case the Treaty is changed to permit the mutualisation of the issuance of sovereign debt underpinned by a joint and several guarantee of all euro area Member States. The underlying accountability problem is that such a joint and several guarantee, if claimed by creditors, may result in considerable financial burden for one individual Member State's finances, for which that Member State's parliament is accountable, although the burden is the result of policy decisions that have been made over time by one or several other Member States under the responsibility of their parliaments. As long as the EU level is not granted very far-reaching powers to determine economic policy in the euro area and the European Parliament is not responsible for deciding on the resources of a substantial central budget either, this fundamental accountability problem cannot be overcome simply by entrusting the management of mutualised sovereign debt to an EU executive even if it is accountable to the European Parliament.

In contrast, that problem would no longer arise in a full fiscal and economic union which would itself dispose of a substantial central budget, the resources for which would be derived, in due part, from a targeted, autonomous power of taxation and from the possibility to issue the EU's own sovereign debt, concomitant with a large-scale pooling of sovereignty over the conduct of economic policy at EU level. The European Parliament would then have reinforced powers to co-legislate on such autonomous taxation and provide the necessary democratic scrutiny for all decisions taken by the EU's executive. Member States would not be jointly and severally liable for each other's sovereign debt but at most for that of the EU.

If the Treaty were changed so as to allow, as an intermediate step, the issuance of short-term eurobills, combined with reinforced powers of economic governance, an accountability model resting both on the EU and national levels would have to be devised. The European Parliament would provide the necessary accountability for decisions of management of the eurobills to be taken by an EMU Treasury within the Commission. However, there should also be Council decisions, adopted by unanimity of the euro area Member States with the consent of the European Parliament, on the first establishment and subsequent periodic renewal of the eurobills scheme. Member States could provide, within their national constitutional systems, the degree of accountability through their national parliaments that they deem necessary for consenting to these establishment and renewal decisions.

The proposal for a debt redemption fund raises accountability issues of a distinct nature. To design a model ensuring appropriate accountability for a DRF would presuppose that its legal basis can be framed with great legal precision, as regards the maximum transferrable debt, the maximum time of operation and all other features, to guarantee the legal certainty required under national constitutional laws. If this could be ensured, then a new Treaty legal base might be imagined that would allow the setting up of the fund through a decision of the Council, adopted by unanimity of the euro area Member States with the consent of the European Parliament, and subject to ratification by Member States under their constitutional requirements. That decision would set up the maximum volume, duration and precise conditions of participation in the fund. The Commission, accountable to the European Parliament, would then manage the fund in accordance with the precise rules set up by the Council decision.

A decent life for all: Ending poverty and giving the world a sustainable future

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

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Two of the most pressing challenges facing the world are eradicating poverty and ensuring that prosperity and well-being are sustainable. Around 1.3 billion people still live in extreme income poverty and the human development needs of many more are still not met. Two-thirds of the services provided by nature – including fertile land, clean water and air – are in decline and climate change and biodiversity loss are close to the limits beyond which there are irreversible effects on human society and the natural environment.

These challenges are universal and inter-related and need to be addressed together by all countries. It is not sufficient to address the challenges separately – a unified policy framework is needed. Such an overarching policy framework is needed to mark out a path from poverty towards prosperity and well-being, for all people and all countries, with progress remaining within planetary boundaries. It should also be closely related to issues relating to governance, human rights and peace and security issues, which are enabling conditions for progress. It is estimated that 1.5 billion people are living in countries experiencing significant political conflict, armed violence, insecurity or fragility.

In autumn 2013, a UN special event will take stock of the efforts made towards achieving the Millennium Development Goals (MDGs), discuss ways to accelerate progress until 2015 and start exchanging on what could follow after the MDG target year of 2015. In addition, the commitments made at the Rio+20 Conference in June 2012 need to be implemented, including through actions towards an inclusive green economy. Furthermore, it will be necessary to build further on this progress through the Open Working Group that was established in Rio. All of these inputs will provide input for the development of a post-2015 overarching framework.

This Communication proposes a common EU approach to these issues. To do this, it first identifies the main global challenges and opportunities. It then turns to evaluate the success of global poverty eradication agenda and the experience of the MDGs, as well as outlining some of the key steps towards sustainable development as agreed in Rio+20, and outlining key actions. It then describes the challenges and elements for a future framework that can be drawn from the experience of the MDGs and the work stemming from Rio+20, in particular the elaboration of Sustainable Development Goals (SDGs), and indicates how these can be brought together within relevant UN processes.

Based on these considerations, it proposes principles for an overarching framework for post-2015 which would provide a coherent and comprehensive response to the universal challenges of poverty eradication and sustainable development in its three dimensions, thereby ensuring a Decent Life for All by 2030.

2. NEW GLOBAL CONTEXT, NEW CHALLENGES, NEW OPPORTUNITIES

The world has undergone enormous change over recent years, including major shifts in the global economic and political balance, increased global trade, climate change and depletion of natural resources, technological change, economic and financial crises, increased consumption and price volatility of food and energy consumption, population changes and migration, violence and armed conflict and natural and man-made disasters, and increased inequalities. New actors, including private and other non-governmental players, have arisen in the global arena.

While developed and emerging economies account for most of global GDP, the latter have now become the key drivers of global growth and already have a significant impact on the world economy. Trends suggest that the balance is expected to shift further; by 2025, global economic growth should predominantly be generated in emerging economies, with six countries expected to collectively account for more than half of all global growth.

Unemployment remains a worldwide challenge. Some 200 million people are out of a job, among them 75 million young people. Rates of female participation in the labour market often remain low, while social services remain limited. Furthermore, some 621 million young people worldwide are not in school or training, not employed and not looking for work, risking a permanent exclusion from the labour market. Undeclared work and the fundamentals for decent work, including rights at work and social dialogue, are problems in many countries. Most poor people in developing countries are engaged in small-scale farming or are self-employed. Many poor people in these countries are working in unsafe conditions and without the protection of their basic rights. Only 20% of the world population has access to adequate social protection.

At the same time, inequalities within countries have increased in most parts of the world. The majority of the poor now live in middle income countries, in spite of their fast growth. Achieving poverty eradication in such countries appears to be one of the major challenges. However, longer term projections indicate that by 2050 the locus of poverty might again be concentrated in the poorest and most fragile countries.

More than 1.5 billion people live in countries affected by violent conflict. Violence destroys lives and livelihoods and often affects women and people in vulnerable situations, such as children and people with disabilities. The gap between fragile, violence-affected countries and other developing countries is widening. In April 2011, no low-income fragile or conflict-affected country had achieved a single MDG and few are expected to meet any of the targets by 2015. Poor governance, including a lack of democracy, rule of law and respect for human rights, is currently hampering efforts towards poverty eradication and sustainable development.

In addition, there is overwhelming scientific evidence and consensus that the unsustainable use of the natural resources is one of the greatest long term threats to humankind. The effects of environmental degradation and climate change are already being felt and threaten to undo much of the progress already made in eradicating poverty, and so do natural disasters. We are not on track to keep temperature increases within 2°C above the temperature in pre-industrial times, the threshold beyond which there is a much higher risk that catastrophic impacts on natural resources will occur, posing risks to agriculture, food and water supplies and the development gains of recent years. At the global level, the challenge will be to adapt and to mitigate impacts, including through the reduction of greenhouse gas emissions.

Already today, climate change, depletion of natural resources and ecosystem degradation are having a significant impact on livelihoods, for example through the increased number and intensity of natural disasters and the depletion of natural capital and infrastructure. Since 1992, natural disasters have caused € 750 billion of damage and killed 1.3 million people. The effects of unsustainable patterns of current economic development are still largely determined by developed countries and increasingly by emerging economies, while poorer countries are disproportionately impacted and have the least resources to cope with negative effects . These countries are also often particularly dependent on natural resources, in particular for sectors such as agriculture, forestry, energy and tourism, which aggravates their vulnerability to degradation and depletion.

Development and growth contribute to human prosperity and well-being, but also to environmental challenges, such as resource depletion and pollution, which are likely to become more acute over time. These negative effects are mostly determined by the 5.7 billion people that do not live in extreme income poverty, which leads to a significant increase in global demand and consumption, putting additional strain on natural resources. Progress towards an inclusive green economy through sustainable consumption and production patterns and resource efficiency, including in particular low emission energy systems, is therefore essential.

In order to satisfy increasing demand, it is estimated that global agricultural production in 2050 will have to increase by 60% over 2005 levels, putting increasing pressure on already-scarce natural resources, in particular land, forests, water and oceans. At the same time, there are indications that up to half of global food production is wasted. Given urbanisation and population growth, water use is projected to increase by 50% by2025, by which time roughly 5.5 billion people – two thirds of the projected global population – will live in areas facing moderate to severe water stress.

Looking ahead, these challenges must be viewed in the context of demographic trends: it is projected that the world population will reach more than 9 billion by 2050, with the population of sub-Saharan Africa set to more than double. Together, Africa and Asia will represent nearly 80% of the world's population by 2050. The increase in the world's median age is expected to affect developing countries most, with consequences for health services and pensions, as well as tax revenues.

It is in this context that the follow up to Rio+20 and the MDG review special event take place. We need to keep in mind that the challenges are interrelated and require a coherent and comprehensive response, supportive also of other international processes, such as climate and biodiversity negotiations.

3. BUILDING ON THE ACHIEVEMENTS OF THE MDGS AND RIO+20

3.1. Taking stock of MDG achievements

The EU remains committed to doing its utmost to help achieve the MDGs by 2015, in line with its policy framework as set out in the Agenda for Change and the European Consensus on Development .

The MDGs embody a fundamental global agreement to end poverty and to further human development. They have in the last decade proven to be a valuable tool to raise public awareness, increase political will and mobilise resources to eradicate poverty. Impressive progress has been made:

- According to the World Bank, the share of people living on less than USD 1.25 a day (2005 prices) fell from 43% in 1990 to 22% in 2008. It is likely that the target to halve the proportion of people living in extreme poverty was reached in 2010.
- The target to halve the proportion of the population without access to safe drinking water was achieved globally in 2010 – between 1990 and 2010 over two billion people gained access.
- Globally, primary school enrolment has increased to an average of 89%, with girls now almost as likely to be enrolled as boys.
- Children are significantly less likely to die of disease or malnutrition.
- Global HIV infections continue to decline and access to anti-retroviral drugs has expanded widely.

The global partnership for development has complemented national efforts towards the MDGs. Since 2000, annual global Official Development Assistance (ODA) has increased by nearly 70%, to EUR 96 billion, and the share of ODA going to Least Developed Countries (LDCs) has more than doubled. The EU and its Member States collectively are the largest donor, providing an annual EUR 53 billion in ODA (2011), or more than half of global ODA. In parallel, the implementation of the aid and development effectiveness principles and targets has contributed to greater ODA impact. The phenomenal growth in trade has been a major factor in progress: between 2000 and 2009 developing country exports rose by 80%, compared to 40% for the world as a whole The EU is the biggest trading partner for developing countries and has led the way in granting duty-free and quota-free access to all LDC products, under the Everything But Arms initiative. Furthermore, EU-funded research, such as through the European and Developing Countries Clinical Trials Partnership, has also contributed to the achievement of the MDGs.

Challenges to the achievement of the MDGs however remain, with sub-Saharan Africa in particular lagging behind. Globally, 1.3 billion people still live in extreme income poverty. More than 850 million people do not have enough to eat. About 61 million children are still out of school. Women continue to be the subject of discrimination and confront severe health risks, in particular to maternal health and their sexual and reproductive health and rights. Violence affects one third of all women in their lifetime and undermines efforts to reach any MDG. An estimated 2.5 billion people are without access to decent sanitation facilities and 780 million people still lack access to clean and safe drinking water. 7 million people living with HIV/AIDS still do not have access to treatment. The world is still far from reaching the target of full and productive employment and decent work for all. Only 20% of the world's population has access to adequate social protection. Unsustainable use and management of the Earth's limited resources puts at risk the lives and well-being of future generations.

In addition, success is unevenly distributed not only between countries – in particular with a striking lack of progress towards the MDGs in fragile and conflict affected states – but also within countries - including those that already have the means to provide better lives and futures for their population.

Yet the overall picture, especially in view of technological advances and economic progress achieved by many emerging and developing countries since the MDGs were developed, shows that elimination not just reduction of poverty in a single generation is within reach.

3.2. Main Rio+20 outcomes and commitments

The Rio+20 Conference confirmed a common global vision for an economically, socially and environmentally sustainable future for the planet and for present and future generations and underlined that many challenges remain to be addressed. Rio+20 recognised the green economy in the context of sustainable development and poverty eradication as an important pathway for achieving sustainable development, set in motion a process to develop universal sustainable development goals (SDGs) and agreed to take action towards sustainable development. These actions will also help inform the process of developing SDGs and will, in the longer term, also contribute to their realisation. Rio+20 also agreed to reform the institutional framework for sustainable development, to set in place a structure that can deliver the follow-up to the Conference and to work further on means of implementation. It is important that the EU now implements promptly the commitments taken at Rio, actively engages in these processes and takes the necessary action both within the EU and internationally.

3.3. Implementation: Actions at EU and international level

The EU will continue to pursue the sustainable development, including by implementingRio+20 commitments through a range of overarching policies, in particular through its overarching strategy for smart, inclusive and sustainable growth - Europe 2020. This covers, inter alia, resource efficiency, low carbon economy, research and innovation, employment, social inclusion and youth. The implementation and regular review of the Europe 2020 Strategy, which builds on the integrative approach initiated by the EU Strategy for Sustainable Development, should contribute to greater coherence, mainstreaming and integration of the three dimensions of sustainable development in EU policies at large. Sustainable development objectives will be made operational through a range of key policies under preparation, including the reform of the Common Agricultural and the Common Fisheries Policies, the forthcoming 7th Environmental Action Programme, the Innovation Union, Horizon 2020 and the Social Investment Package.

The EU has consistently provided development cooperation in order to contribute to the full implementation of the MDGs. Through its external action and notably the implementation of the Agenda for Change, the EU will continue facilitating progress towards the MDGs and sustainable development in developing countries, with a specific focus on the least developed and the ones most in need. At the same time, a number of actions need to be carried out in order to contribute to the implementation of Rio+20 commitments.

The main current EU activities to implement Rio+20 are brought together in Annex I[84].

3.4. Institutional framework for sustainable development and means of implementation

Rio+20 started a process to reinforce the institutional framework for sustainable development, including strengthening the role of the UN General Assembly (UNGA) and ECOSOC. A major decision was to establish a High-Level Political Forum (HLPF) on sustainable development, which will replace the UN Commission on Sustainable Development. The HLPF will follow up and review progress in the implementation of the outcomes of Rio+20 and is also mandated to strengthen the science-policy interface, which will be crucial for the implementation of SDGs. It should be directly linked to ECOSOC, currently under reform, and work at a higher political level (UNGA) at regular intervals. These linkages provide an opportunity to enhance coherence with the on-going work on the review of the MDGs and discussions on development post-2015.

Another important outcome of Rio+20 was the decision to strengthen and upgrade the UN Environment Programme (UNEP) and, in particular, the decision on universal membership for its Governing Council. This has now been confirmed by the decision on new institutional arrangements for UNEP at its recent Governing Council. The decision to establish a UN Environment Assembly is an important step forward, consistent with the EU's ambition to transform it in the longer term into a UN agency. The EU will take an active role in implementing this revised institutional framework. Ensuring the appropriate participation of the EU in both the HLPF and the reformed UNEP will be a priority.

Rio+20 also decided to promote clean and environmentally-sound technologies and to establish an intergovernmental expert committee to prepare options for a sustainable development financing strategy. The committee needs to ensure coherence and coordination and avoid duplication of efforts as regards the financing for development process. The EU will participate in this process in line with the overall approach to financing and other means of implementation, as indicated below.

84 http://eur-lex.europa.eu/legal-content/EN/TXT/DOC/?uri=CELEX:52013DC0092&rid=1

3.5. Public Consultation

A number of public consultations and dialogues have been held by the Commission on future perspectives of poverty eradication and sustainable development. These consultations have helped guide a number of aspects of proposals contained in this Communication. An overview of these consultations is outlined in Annex II. The Commission will continue active dialogue on all these issues with all stakeholders and civil society.

4. INTEGRATING SUSTAINABLE DEVELOPMENT AND POVERTY ERADICATION IN A POST-2015 OVERARCHING FRAMEWORK

At international level and at the UN, much of the work on poverty eradication and sustainable development has been carried out in separate strands within different communities – one stemming from the Millennium Declaration and the other from the series of UN summits on sustainable development. In reality, these two strands have always had common elements; for example, the MDGs address environmental issues through MDG7 and sustainable development has always placed poverty eradication as a priority objective.

In order to effectively address the challenges of poverty eradication and sustainable development, as a major and interlinked global challenge, the review of MDGs and the work on elaborating SDGs need to be brought together towards one overarching framework with common priority challenges and objectives, so as to ensure a decent life for all by 2030 and give the world a sustainable future beyond it.

In autumn 2013, a UN special event will take stock of the efforts made towards achieving the Millennium Development Goals (MDGs), discuss ways to accelerate progress before 2015 and exchange views on what could follow after the MDG target year of 2015. The first session, in September 2013, of the High Level Political Forum established by the Rio+20 Conference will in addition look at the follow-up to the commitments made at Rio+20 in June 2012. It will also be necessary to progress through the Open Working Group on Sustainable Development Goals (SDGs) that were established in Rio. All of these inputs will provide the framework for the agreement of a Post-2015 Overarching Framework.

In order to further elaborate thinking on goals, the EU will continue its open dialogue with all relevant stakeholders. This will contribute to the EU's active input into the work of the Open Working Group on SDGs, which will make recommendations for action to the UN General Assembly.

This section describes the lessons learnt from the MDG review and the work on the elaboration of SDGs and the kinds of priority elements that emerge from both of these. Then it indicates briefly in practical terms how these can be brought together within relevant UN processes. Then, based on this, some of the key principles of an overarching framework are brought together in the final section.

4.1. Priority elements for the overarching framework

Drawing on MDG experience and the work stemming from Rio+20 on sustainable development and considering current trends, the EU considers that a number of challenges can be identified for the post-2015 overarching framework.

There is a fundamental link between global environmental sustainability and poverty eradication. It will not be possible to eliminate poverty and ensure a decent life for all without, at the same time, addressing global environmental sustainability, and the other way around. Climate change, natural disasters, biodiversity loss and the degradation of oceans, freshwater sources, land and soil have a particularly negative impact on the world's poorest populations. To be able to act on these issues, the overarching framework needs to act as a catalyst for good governance, transparency, social cohesion and the empowerment of women, in all countries and internationally, all of which are essential for sustainable development and the eradication of poverty.

As agreed in the Rio+20 outcome document, goals for sustainable development (SDGs) should be universally applicable to all countries, while taking into account different national realities, capacities and levels of development and respecting national policies and priorities, should incorporate the three dimensions of sustainable development and should be action-oriented, concise and easy to communicate and limited in number. The EU proposals made in the run-up to Rio+20, indicated that they should also focus on resources which represent public goods and basic "pillars of life," such as energy, water, food security, oceans, sustainable consumption and production, as well as social inclusion and decent work. At the same time, goals should also be coherent with existing international agreements, such as goals and targets on climate change and biodiversity, as well as social protection floors.

They should address the three overarching objectives of sustainable development: poverty eradication, changing unsustainable consumption and production patterns and protecting and managing the natural resource base of economic and social development.

Post-2015 goals would need to span into the future and aim at laying the drivers to achieve a sustainable future: with a shared vision for 2050, goals and targets should aim at the timescale of 2030.

Given that the framework should have both poverty eradication and sustainable development as its overall objectives, the priority challenges need to address both perspectives drawing from the above. Based on this reasoning, the framework could be constructed around a number of main elements: ensuring basic living standards; promoting the drivers for inclusive and sustainable growth as well as ensuring sustainable management of natural resources; while promoting equality, equity and justice; and peace and security. In addition, whilst the challenge of addressing planetary environmental boundaries will require an integrated response that will impact on all these elements, and will have to be addressed in some of them, it will also require specific action in its own right. It can therefore also be seen as an additional cross-cutting ingredient of an integrated post-2015 overarching framework.

4.1.1. Basic living standards

The MDGs have provided a framework for human development, setting targets such as minimum income, freedom from hunger, full and productive employment and decent work for all, access to primary education, basic health outcomes, access to water and sanitation, all of which form the very basis of a decent life.

We need to finish the unfinished business of the current MDGs, filling gaps and learning the lessons. For example, we need to address broader issues of education and health and include social protection. Aggregate averages have hidden national inequalities caused by extreme poverty, geographic location or marginalisation. We must move from purely quantitative goals to address quality, for example in education and health. There must be a floor under which no man, woman or child should fall by the very latest in 2030: standards by which every citizen should be able to hold her or his government to account. We should aim at empowering people to lift themselves out of poverty. Goals to stimulate action to deliver key standards in education, nutrition, clean water and air will help eradicate hunger and improve food security, health and well-being. Goals should also stimulate action to deliver productive employment and decent work for all, including youth, women and people with disabilities, depending on countries' levels of development. Unlike the existing MDGs, they should apply to every country and not only be a global target without individual country responsibilities. Each country has the responsibility to ensure progress towards internationally agreed goals.

4.1.2. Drivers for inclusive and sustainable growth

The Commission's public consultation, as well as experience by countries that have succeeded in pulling themselves out of poverty, demonstrate the vital role played by key drivers for inclusive and sustainable growth, in particular in providing essential human development services and creating growth and decent jobs. Structural transformation should be sought by all countries in all stages of development, to allow for market-friendly, open economies that promote inclusive and sustainable growth, improve productive capacities, promote private sector development, investment and wealth creation, promote the transition towards the inclusive green economy and ensure that the benefits are widely shared. Goals would help stimulate opportunities for more inclusive and sustainable growth, supported by indicators looking beyond GDP. Many countries would be able to use these to focus on social cohesion as well as more sustainable agriculture, fisheries and aquaculture, to deliver better nutrition, overcoming water scarcity and avoiding food waste. Others would deliver more resource efficient production, economising on water and reducing and recycling waste. A goal of moving towards sustainable, resilient cities would deliver improvements in air quality, water, energy, accessible infrastructure, housing and transport, leading to solutions that link with employment, health, economic development and also address climate change adaptation and disaster prevention and preparedness. Other important drivers include sustainable energy, science and technology, telecommunications services, financial services and infrastructure, for example facilitating access to markets, as well as migration and mobility. All these aspects require an enabling and stable environment for business, entrepreneurship, innovation and productive employment to thrive.

While economic transformation is necessary, it is also a huge challenge: billions in new investment will be needed . However, experience in countries that have made huge strides in providing these services to their citizens and recent global initiatives – such as Sustainable Energy for All and Scaling Up Nutrition – have demonstrated that such an approach can provide promising results, catalysing rapid growth and investment.

4.1.3. Sustainable management of natural resources

Sustainable management and use of natural resources is essential to support economic growth and employment, in particular in primary production sectors like agriculture, fisheries and forestry or services sectors such as tourism. 70% of the world's poor live in rural areas and depend directly on biodiversity and eco-system services for their survival and well-being, making them more vulnerable to scarcity and climate risks. Good stewardship of natural resources, based on transparency, accountability and good governance, is essential for poverty eradication and developing sustainably towards an inclusive green economy. Action is needed to promote corporate sustainability reporting, which will encourage a broad range of businesses to engage in responsible practices. Goals to move towards a land degradation-neutral world would contribute to economic growth, biodiversity protection, sustainable forest management, climate change mitigation and adaptation and food security, while improving soil quality, reducing erosion, building resilience to natural hazards and halting land take. Given the global importance of oceans, protecting and restoring the health of oceans and marine ecosystems for sustainable livelihoods goals should apply universally, helping deliver sustainable fish stocks also with a view to food security, as well as reducing significant hazards such as marine litter. To address these challenges, each country should steer a path to the sustainable management of their natural resources and establish open and transparent governance structures, to ensure that resources are used in a manner that benefits their citizens in an equitable and sustainable way.

This requires each country to ensure that resources are used in an environmentally responsible manner and, with respect to resources such as land, forests, rivers and oceans, so that they will also benefit future generations. Equally, exploitation of finite resources, such as minerals and groundwater, must be done in an inclusive and responsible manner that guarantees maximum societal benefit, in terms of the way that they are commercialised, the rate of their depletion and the use of the income generated. Phasing out subsidies for use of finite resources, such as fossil fuels, is a cost-efficient key contribution, promoting resource efficiency. States should also enhance their cooperation to manage shared resources, such as fish stocks and marine biodiversity, in areas beyond national jurisdiction.

It will also be necessary to adopt an integrated perspective, in order to ensure that solutions to resource constraints in one area do not place additional constraints on another. The future agenda should commit all countries to manage and use their natural resources sustainably over the coming decades, including such issues as transparency, maximisation of income, protection of tenure, resilience , including to natural disasters, and environmental protection. The global community needs to stand together in these efforts. In particular, private and public companies must be accountable and adhere to high standards of transparency and good governance. A low carbon and resource efficient economy will also require actions and training for the specific skill sets that will be needed.

4.1.4. Equality, equity and justice

The objectives of human well-being and dignity for all are enshrined in the Universal Declaration of Human Rights and the Millennium Declaration, which also explicitly recognise the links between human rights, good governance and sustainable development. This, as well as the commitment to common fundamental values, was reaffirmed at the MDG Summit of 2010 and the Rio+20 Conference in 2012.

The importance of justice and equity, human rights, democracy and other aspects of good governance goes far beyond their impact on progress towards development targets on income, education, health and other basic needs. They are also important in their own right, in all countries. The recent movements in North Africa and the Middle East showed the importance of inclusive political systems, justice and jobs, particularly for young people, and highlighted that progress on the MDGs is essential but not sufficient. Governance will remain a global challenge for the years ahead.

It is important that the new post-2015 overarching framework captures these issues. The role of women is particularly important in unlocking the drive for sustainable development and all forms of barriers to equal participation need to be removed. The framework should put particular emphasis on moving towards a rights-based approach to development, on reducing inequalities, as well as on the promotion and protection of women's and girls' rights and gender equality, transparency and the fight against corruption. It should also capture the fundamental issues related to equity. To meet this challenge, goals and targets should stimulate action needed to ensure increasing coverage by a basic set of social guarantees and improve their implementation.

4.1.5. Peace and security

Where there is physical insecurity, high levels of inequality, governance challenges and little or no institutional capacity, it is extremely difficult to make sustainable progress on the key MDG benchmarks such as poverty, health, education or sanitation. It is therefore essential to address the root causes of such conditions and take action to prevent them from arising.

This agenda goes beyond fragile states, however, since many other countries also struggle with issues relating to insecurity and violence. Trafficking, transnational terrorism, criminal networks and gang violence are undermining the security of citizens and reducing the prospects for a decent life, with women and children particularly affected.

Addressing peace and security issues in the context of the post-2015 overarching framework should use as a starting point the work already done between some fragile states and the OECD countries, the EU, the UN and Development Banks at Busan in November 2011. This should build on the New Deal for Engagement in Fragile States that laid out an agreed set of Peace-building and State building Goals (PSG).

5. TOWARDS A POST-2015 OVERARCHING FRAMEWORK

5.1. Bringing the strands together to respond to future challenges

Poverty eradication and ensuring that prosperity and well-being are sustainable remain the most pressing challenges for the future. To be tackled successfully, they must be tackled together, within a new overarching framework that is universal and directly relevant to all countries, while recognising that different countries are affected to varying degrees and that their responses and contribution to global goals will vary. Even though many will continue to rise above the level of extreme poverty, a strong poverty focus is needed to make this irreversible. Unsustainable patterns of current economic development, impacting the environment and the natural resource base, are still determined to a large extent by developed countries, and increasingly by emerging economies, while least developed countries also feel the impacts. Social exclusion and inequality, unemployment, precarious employment and lack of social protection also have a direct bearing on poverty and sustainable development.

The Millennium Declaration, which remains relevant, should guide work on developing the future framework. Building on the follow up to Rio+20, the MDG review and other relevant international processes, the future overarching framework should set out the path for eradicating poverty and towards achieving prosperity and well-being for all, by focusing on the main drivers for inclusive and sustainable growth, within planetary boundaries. This framework should therefore bring together the three dimensions of sustainable development: economic, social, environmental. It should include responsibilities for all countries.

The underlying objective of this new overarching framework should aspire to provide for every person, by 2030, "A Decent Life for All." This should address simultaneously the need for poverty eradication and the universal vision of sustainable development needed to ensure prosperity for current and future generations.

The above sections outlined how the interrelated processes at the UN level should deliver ingredients for a common overarching framework that are needed if the objective of a Decent Life for All is to be met. The final outcome should be based on the results of constructive interactions with all stakeholders and among international partners. However, the EU believes there are a number of already- identifiable general principles that should be commonly acceptable.

5.2. Principles for a post-2015 overarching framework

The Commission proposes that the EU pursues the following principles in its discussions on the post-2015 framework:

5.2.1. Scope

The framework should be universal in aspiration and coverage, with goals for all countries, applying to all of humanity, focused on the eradication of poverty in all its dimensions, wherever it is found, and promoting prosperity and well-being for all people, within planetary boundaries.

The framework should integrate the three dimensions of sustainable development - economic, social, environmental - taking into account the lessons learnt from the review of MDGs and building on the work for elaborating the SDGs, aiming at poverty eradication and sustainable development. Goals should constitute a floor to living standards under which no person should fall, by 2030 at the very latest, and guide progress towards prosperity and well-being, within planetary boundaries.

- It should recognise that poverty, prosperity and well-being cannot just be seen from a financial perspective, but are multidimensional and reflect the ability of people to grow and develop.

- The framework should cover, in an integrated fashion:
- basic human development (based on updated existing MDGs and also reflecting issues such as social protection), drivers for sustainable and inclusive growth and development that are necessary for structural transformation of the economy, needed to ensure the creation of productive capacities and employment and the transition to an inclusive green economy capable of addressing climate challenges, and
- the sustainable management of natural resources .
- The framework should also address justice, equality and equity, capturing issues relating to human rights, democracy and the rule of law, as well as the empowerment of women and gender equality, which are vital for inclusive and sustainable development, as well as important values in their own right. It should also address peace and security, building on the existing work on Peace Building and State Building Goals.

5.2.2. Nature and number of goals

- Goals should be limited in number and apply universally to all countries, but should have targets respecting different contexts. In order to ensure ownership and relevance, the goals should be tailored and made operational at the national level. Special consideration should be given to the needs of fragile states.
- Goals should be elaborated in a way that takes into account the scientific and research evidence base and related targets and indicators should be measurable.

5.2.3. Transparency, implementation and accountability

- The responsibility for achieving the desired outcomes is first and foremost national. The mobilisation of all resources is needed, domestic and international, private and public. Financing and other means of implementation should be addressed in a comprehensive and integrated manner, given that the potential sources for implementing various global goals are the same.
- The framework should be developed and implemented in close partnership with civil society stakeholders, including the private sector.
- A time frame should be set to start acting at all levels in order to achieve the goals. This could have a vision towards 2050 with goals and targets for 2030.
- The framework should be based on the individual responsibility of countries to take action, coupled with partnership between all countries and stakeholders. Goals should provide incentives for cooperation and partnerships among governments, civil society, including the private sector, and the global community at large. All countries should contribute their fair share towards reaching the goals. Goals should also induce stronger accountability.
- The development of the framework should be accompanied by efforts to enhance coherence at the institutional level.
- To allow good monitoring of progress, the statistical base should be strengthened.

5.2.4. Coherence

- The framework should be coherent with existing internationally-agreed goals and targets, such as on climate change, biodiversity, disaster risk reduction, and social protection floors.

5.3. Implementing the framework: country ownership and accountability

The responsibility for implementing the future framework lies within each country itself, involving all relevant stakeholders, including social partners. The main drivers for development are first and foremost domestic, notably including democratic governance, the rule of law, stable political institutions, sound policies, transparency of public finances and the fight against fraud and corruption. Domestic resource mobilisation, legal and fiscal regulations and institutions supporting the development of the private sector, investment, decent job creation and export competitiveness are essential to make the ambition achievable for all countries. In this context, domestic reforms are crucial to make economic growth sustainable and make it work effectively for poverty eradication, decreased inequalities and improved well-being for all. This is true for all countries, at all levels of development.

Nevertheless, the EU recognises that some countries will continue to need support, including development assistance. In this context, more efficient and effective methods of investing development aid are emerging, ensuring that aid acts as a catalyst for development, leveraging investment, including through innovative financial sources, instruments and mechanisms, such as blending. This updated approach was adopted in the EU's "Agenda for Change." South-South cooperation can make substantial contributions to shaping global development outcomes. The principles of the Global Partnership for Effective Development Cooperation, agreed at the Busan High Level Forum on Aid Effectiveness in 2011, should be applied universally.

Beyond aid, Policy Coherence for Development plays a major role in eliminating poverty and achieving sustainable development. Strong consideration of the role of these policies should therefore be given due place in the future framework. For example, in many developing countries, the income available from trade has greatly increased and can be used to fight poverty. This trend is set to continue in many developing countries and is especially important in sub-Saharan Africa.

To be achievable, the overarching framework should be accompanied by an effort to ensure that all resources are mobilised and harnessed effectively, alongside a commitment by all countries to pursue a comprehensive approach to these resources and coherent and appropriate policies. Goals and targets will contribute to stimulating private sector investment. All countries should report on progress towards achieving future goals in an open and transparent manner.

The EU should promote a comprehensive and integrated approach to the means of implementation including financing issues at the global level. At present, financing discussions related to climate, biodiversity, development and sustainable development are taking place in different fora, even though the potential financing sources are the same. There is a strong need to ensure coherence and coordination and avoid a duplication of efforts with regard to the financing for development process. In mid-2013, the Commission plans to present a Communication proposing an integrated EU approach to financing and other means of implementation related to the various global processes.

6. NEXT STEPS

The EU needs to engage fully in the forthcoming international processes with coherent and coordinated inputs at the UN and in other relevant fora.

In this respect, the adoption of this Communication should be followed by a debate with Council and Parliament during the spring of 2013 for the development of a common EU approach for the next stages of the ongoing processes, which should:

- ensure a comprehensive follow up to Rio+20 and guide the EU position at the UN Open Working Group (OWG) on SDGs, which will report regularly to the UNGA; and
- contribute to the preparation of the UN General Assembly Special Event on the MDGs in autumn 2013, including the report of the Secretary-General and the UN High Level Panel on post-2015, as well as the first meeting of the HLPF.

The EU should support moving towards a post-2015 overarching framework. Discussion on the basis of the orientations set out above should make it possible for the EU to come to a common position on how the SDGs and the MDG review processes should best be converged and integrated into a single process to better deliver such a comprehensive framework. In this respect, the EU should also actively seek a constructive dialogue with all partners and stakeholders, in order to build common ground, including through political dialogues with third countries.

Towards a more competitive and efficient defence and security sector

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 24 JULY 2013

COM(2013) 542

"The world needs a Europe that is capable of deploying military missions to help stabilise the situation in crisis areas…. We need to reinforce our Common Foreign and Security Policy and a common approach to defence matters because together we have the power, and the scale to shape the world into a fairer, rules based and human rights' abiding place." President Barroso, State of the Union Speech September 2012

"The Council reiterates its call to retain and further develop military capabilities for sustaining and enhancing the CSDP. They underpin the EU's ability to act as a security provider, in the context of a wider comprehensive approach (and) the need for a strong and less fragmented European defence industry to sustain and enhance Europe's military capabilities and the EU's autonomous action". Foreign Affairs Council, 19 November 2012, Conclusions

1. EUROPEAN COMMISSION'S CONTRIBUTION TO STRENGTHENING EUROPE'S DEFENCE AND SECURITY SECTOR

This Communication builds on the work of the Commission's Defence Task Force established in 2011 with the objective to strengthen the defence sector by mobilising all relevant EU policies. The EEAS and EDA have been fully associated to the work of the Task Force and in the preparation of this Communication.

1.1. Introduction

The strategic and geopolitical environment is rapidly and constantly evolving. The world's balance of power is shifting as new centres of gravity are emerging and the US is rebalancing its strategic focus towards Asia. In this situation, Europe has to assume greater responsibilities for its security at home and abroad. To punch its weight, the EU needs to develop a credible CSDP. This evolution must be fully compatible with NATO and its principles.

The security challenges we are facing today are numerous, complex, interrelated and difficult to foresee: regional crises can occur and turn violent, new technologies can emerge and bring new vulnerabilities and threats, environmental changes and scarcity of natural resources can provoke political and military conflicts. At the same time, many threats and risks spread easily across national borders, blurring the traditional dividing line between internal and external security.

These security challenges can only be tackled in a comprehensive approach combining different policies and instruments, short and long-term measures. This approach must be underpinned by a large range of civil and military capabilities. It is increasingly unlikely that Member States can bear this burden in isolation.

This is the case in particular for defence, where new equipment is often technologically complex and expensive. Today, Member States encounter difficulties to equip their armed forces adequately. Recent operations in Libya have highlighted important European shortfalls in key military capabilities.

The crisis in public spending induces cuts in defence budgets which exacerbates the situation, in particular, because they are neither co-ordinated nor implemented with regard to common strategic objectives. From 2001 to 2010 EU defence spending declined from €251 billion to €194 billion. These budget cuts are also having a serious impact on the industries that develop equipment for our armed forces with cutbacks in existing and planned programmes. They affect in particular the investment in defence R&D that is crucial for developing capabilities of the future. Between 2005 and 2010 there was a 14% decrease in European R&D budgets down to €9 billion; and the US alone spends today seven times more on defence R&D than all 27 EU Member States together.

Defence budgets are falling, and the cost of modern capabilities is rising. These cost increases come from the long-term trend of growing technological complexity of defence equipment, but also from the reduction of production volumes which are due to the reorganisation and downsizing of European armed forces since the end of the Cold War. These factors will continue to shape defence markets in Europe regardless of budget levels.

This situation has knock-on effects for an industry that plays a crucial role in the wider European economy. With a turnover of €96 billion in 2012 alone, it is a major industrial sector, generating innovation and centred on high-end engineering and technologies. Its cutting-edge research has created important indirect effects in other sectors, such as electronics, space and civil aviation and provides growth and thousands of highly skilled jobs. Defence industry in Europe directly employs about 400,000 people and generates up to another 960,000 indirect jobs. It is, therefore, a sector that is essential to retain if Europe is to remain a world-leading centre for manufacturing and innovation. This is why action to strengthen the competitiveness of the defence industry is a key part of the Europe 2020 Strategy for smart, sustainable and inclusive growth.

At the same time, the importance of this industry cannot be measured only in jobs and turnover. The European Defence Technological and Industrial Base (EDTIB) constitutes a key element for Europe's capacity to ensure the security of its citizens and to protect its values and interests. Europe must be able to assume its responsibilities for its own security and for international peace and stability in general. This necessitates a certain degree of strategic autonomy: to be a credible and reliable partner, Europe must be able to decide and to act without depending on the capabilities of third parties. Security of supply, access to critical technologies and operational sovereignty are therefore crucial.

Currently defence companies are surviving on the benefits of R&D investment of the past and have been able to successfully replace falling national orders with exports. However, this often comes at the price of transfers of technology, IPRs and production outside the EU. This in turn has serious implications for the long-term competitiveness of the EDTIB.

The problem of shrinking defence budgets is aggravated by the persisting fragmentation of European markets which leads to unnecessary duplication of capabilities, organisations and expenditures. Cooperation and EU-wide competition still remains the exception, with more than 80% of investment in defence equipment being spent nationally. As a result, Europe risks losing critical expertise and autonomy in key capability areas.

This situation necessitates a reorientation of priorities. If spending more is difficult spending better is a necessity. There is significant scope to do so. In spite of cuts, in 2011 EU Member States together still spent more on defence than China, Russia and Japan together . Budgetary constraints must therefore be compensated by greater cooperation and more efficient use of resources. This can be done via supporting clusters, role specialisation, joint research and procurement, a new, more dynamic approach to civil-military synergies and more market integration.

1.2. The Commission's strategy

Defence is still at the heart of national sovereignty and decisions on military capabilities remain with Member States. However, the EU does have a significant contribution to make. It has policies and instruments to implement structural change and it is the best framework for Member States to maintain collectively an appropriate level of strategic autonomy. With Members States having amongst themselves around 1.6 million soldiers and annual defence budgets of €194 billion the EU has the capacity to be a strategic actor on the international stage, in line with its values.

The European Council, in its Conclusions of 14 December 2012, therefore called upon "… the High Representative, notably through the European External Action Service and the European Defence Agency, as well as the Commission, (…) to develop further proposals and actions to strengthen CSDP and improve the availability of the required civilian and military capabilities...".

The ultimate objective is to strengthen European defence to meet the challenges of the 21st century. Member States will be in lead on many of the necessary reforms. The European Defence Agency (EDA) has as its mission to support them in their effort to improve the Union's defence capabilities for the CSDP. The Commission can also make an important contribution, and it has already started to do so. As President Barroso has stressed: "The Commission is playing its part: we are working towards a single defence market. We are using our competences provided under the Treaty with a view to developing a European defence industrial base."

With these objectives in mind, the Commission has put forward the two Directives on defence and sensitive security procurement (2009/81) and transfers (2009/43), which constitute today the cornerstone of the European defence market. Moreover, it has developed industrial policies and specific research and innovation programmes for security and space. The Commission has also developed policies and instruments supporting both internal and external security in areas such as protection of external borders, maritime surveillance, civil protection, or crisis management, which have numerous technological, industrial, conceptual and operational similarities and links with defence.

The present Communication consolidates this acquis and develops it further within the scope of its competencies as defined in the Treaty of Lisbon. It tries, in particular, to exploit possible synergies and cross-fertilisation which come from the blurring of the dividing line between defence and security and between civil and military.

To achieve these objectives, the Commission intents to take action in the following strands:

- Further deepen the internal market for defence and security. This means first of all to ensure the full application of the two existing Directives. Based on this acquis, the Commission will also tackle market distortions and contribute to improving security of supply between Member States;
- Strengthen the competitiveness of the EDTIB. To this end, the Commission will develop a defence industrial policy based on two key strands:
  - Support for competitiveness – including developing ‘hybrid standards’ to benefit security and defence markets and examining the ways to develop a European certification system for military airworthiness.
  - Support for SMEs – including development of a European Strategic Cluster Partnership to provide links with other clusters and support defence-related SMEs in global competition.
- Exploit civilian military synergies to the maximum extent possible in order to ensure the most efficient use of European tax payers’ resources. In particular by:
  - concentrating its efforts on possible cross-fertilisation between civil and military research and the dual-use potential of space;
  - helping armed forces reduce their energy consumption and thereby contribute to the Union’s 20/20/20 targets.
- In addition, the Commission suggests actions which aim at exploring new avenues, driving the strategic debate in Europe forward and preparing the ground for more and deeper European cooperation. In particular by:
- Assessing the possibility of EU-owned dual-use capabilities, which may in certain security areas complement national capabilities and become effective and cost-efficient force multipliers;
- Considering launching a preparatory action for CSDP-related research focusing on those areas where EU defence capabilities are most needed.

The Commission invites Heads of State and Government to discuss this Communication at the European Council in December 2013, together with the report prepared by the High Representative of the Union for Foreign Affairs and Security Policy.

Action Plan

2. STRENGTHENING THE INTERNAL MARKET FOR DEFENCE

2.1. Ensure market efficiency

With the Defence and Security Procurement Directive 2009/81 being fully transposed in all Member States, the regulatory backbone of a European Defence Market is in place. For the first time specific Internal Market rules are applicable in this sector to enhance fair and EU-wide competition. However, defence remains a specific market with a longstanding tradition of national fragmentation. The Commission will therefore take specific measures to ensure that the Directive is correctly applied and fulfils its objective.

Action:

- The Commission will monitor the openness of Member States’ defence markets and regularly assess via the EU’s Tenders Electronic Daily (TED) and other specialised sources how the new procurement rules are applied. It will coordinate its market monitoring activities with those of the EDA in order to exploit potential synergies and avoid unnecessary duplication of efforts.

In times of budget constraints, it is particularly important to spend financial resources efficiently. Pooling of demand is an effective way of achieving this objective. The Directive contains specific provisions on central purchasing bodies which enable Member States to use the new rules also for joint procurement, for example via the EDA. Member States should use this tool as much as possible to maximise economies of scale and take full benefit of EU-wide co-operation.

Certain contracts are excluded from the scope of the Directive, since the application of its rules would not be appropriate. This is particularly the case for cooperative programmes, which are an effective means to foster market consolidation and competitiveness.

However, other specific exclusions, namely those of government to government sales and of contract awards governed by international rules, might be interpreted in a way undermining the correct use of the Directive. This could jeopardize the level playing field in the internal market. The Commission will therefore ensure that these exclusions are interpreted strictly and that they are not abused to circumvent the Directive.

Action:

- The Commission will clarify the limits of certain exclusions. To that end, it will provide, in consultation with Member States, specific guidance, notably on government to government sales and international agreements.

2.2. Tackle market distortions

In order to further develop the Internal Market for defence and work towards a level playing field for all European suppliers, the Commission will tackle persisting unfair and discriminatory practices and market distortions. It will in particular mobilise its policies against offsets, i.e. economic compensations required for defence purchases from non-national suppliers. Offset requirements are discriminatory measures which stand in contrast to both EU Treaty principles and effective procurement methods. They can therefore not be part of the internal market for defence.

Action:

- The Commission will ensure the rapid phasing out of offsets. Since the adoption of the defence procurement directive, all Member States have withdrawn or revised their national offset legislation. The Commission will verify that these revisions comply with EU law. It will also ensure that these changes in the legal framework lead to an effective change in Member States' procurement practice.

The Commission has extensively applied the merger control rules to the defence sector. Those cases allowed the Commission to guarantee effective competition control, contributing to an improved functioning of the market for defence. Concerning state aid, and in line with the Communication on the Modernisation of State Aid policy, public spending should become more efficient and better targeted. In that respect, state aid control has a fundamental role to play in defending and strengthening the internal market, also in the defence sector.

Member States have an obligation, under the Treaty, to notify to the Commission all state aid measures, including aid in the pure military sector. They may only derogate from that obligation if they can prove that non-notification is necessary for reasons of essential security interests under Article 346 TFEU. Therefore, if a Member State intends to rely on Article 346, it must be able to demonstrate that the concrete measures in the military sector are necessary and proportionate for the protection of their essential security interests and that they do not go beyond what is strictly necessary for that purpose. The burden of proof that these conditions are fulfilled lies upon Member States.

Action:

- The Commission will ensure that all necessary conditions are fulfilled when Article 346 TFEU is invoked to justify state aid measures.

2.3. Improve Security of Supply

Security of supply is crucial to ensure the functioning of the internal market for defence and the Europeanisation of industrial supply chains. Most security of supply problems are the responsibility of Member States. However, the Commission can develop instruments which enable

Member States to improve the security of supply between them. Directive 2009/43 on intra-EU transfers is such an instrument, since it introduces a new licencing system which facilitates the movement of defence items within the internal market. Member States should now fully exploit the possibilities of this Directive to enhance security of supply within the Union.

Actions:

- The Commission, together with the EDA, will launch a consultative process aimed at bringing about a political commitment by Member States to mutually assure the contracted or agreed supply of defence goods, materials or services for the end-use by Member States' armed forces.
- The Commission will optimise the defence transfer regime by: a) supporting national authorities in their efforts to raise awareness of it with industry; b) establishing a central register on general licences and promote their use; and c) promoting best practices in managing intra-EU transfers.

Security of supply depends also on the control and ownership of critical industrial and technological assets. Several Member States have national legislation for the control of foreign investment in defence industries. However, the more international industrial supply chains become, the more can a change of ownership of one company (also at lower tiers) have an impact on the security of supply of other Member States' armed forces and industries. It is also an issue affecting the extent of the autonomy Europe has, and wishes to retain, in the field of military capacity, as well as the general question of control of incoming foreign investment in that sector. A European approach may be needed to cope with this challenge.

Action:

- The Commission will issue a Green Paper on the control of defence and sensitive security industrial capabilities. It will consult stakeholders on possible shortfalls of the current system, including the possible identification of European capacities, and explore options for the establishment of an EU-wide monitoring system, including mechanisms of notification and consultation between Member States.

3. PROMOTING A MORE COMPETITIVE DEFENCE INDUSTRY

The creation of a genuine internal market for defence requires not only a robust legal framework but also a tailored European industrial policy. The future of the EDTIB lies in more co-operation and regional specialisation around and between networks of excellence. A further reinforcement of their civil-military dimension, can foster more competition and contribute to economic growth and regional development. Moreover, in an increasingly globalised defence market it is essential that European defence companies have a sound business environment in Europe to enhance their competitiveness worldwide.

3.1. Standardisation – developing the foundations for defence co-operation and competitiveness

Most standards used in EU defence are civilian. Where specific defence standards are required they are developed nationally, hindering co-operation and increasing costs for the industry. Therefore, the use of common defence standards would greatly enhance co-operation and interoperability between European armies and improve the competitiveness of Europe's industry in emerging technologies.

This highlights the need for creating incentives for the Member States to develop European civil-military standards. Clearly, these should remain voluntary and there must be no duplication with the standards-related work of NATO and other relevant bodies. However, much more could be done to develop standards where gaps and common needs are identified. This concerns particularly standards in emerging technologies, such as in Remotely Piloted Aircraft Systems (RPAS) and in established areas, such as in camp protection, where markets are underdeveloped and there is a potential to enhance the industry's competitiveness.

Actions:

- The Commission will promote the development of 'Hybrid Standards', for products which can have both military and civilian applications. It has already issued a standardisation request for such a "hybrid standard" in 2012 for Software Defined Radio. The next candidates for standardisation requests could deal with Chemical Biological Radiological Nuclear & Explosives (CBRNE) detection and sampling standards, RPAS, airworthiness requirements, data sharing standards, encryption and other critical information communication technologies.
- The Commission will explore options with the EDA and European Standardisation Organisations for establishing a mechanism to draft specific European standards for military products and applications after agreement with Member States. The main purpose of this mechanism will be to develop standards to meet identified needs while handling sensitive information in an appropriate way.
- The Commission will explore with the EDA new ways of promoting existing tools for selecting best practice standards in defence procurement.

3.2. Promoting a Common Approach to Certification – reducing costs and speeding up development

Certification, as with standards, is a key enabler for industrial competitiveness and European defence co-operation. The lack of a pan-European system of certification of defence products acts as a major bottleneck delaying the placing of products on the market and adds substantially to costs throughout the life-cycle of the product. There is a need for better arrangements in the field of the certification so that certain tasks currently performed at national level should be carried out in common.

In particular, in military airworthiness, according to the EDA, this is adding 50% to the development time and 20% to the costs of development. Moreover, having a set of common and harmonised requirements reduces costs by enabling cross-national aircraft maintenance or training of maintenance personnel.

Ammunition is another example. The lack of a common certification for ground launched ammunition is estimated to cost Europe €1,5 billion each year (out of a total of €7,5 billion spent on ammunition each year).

Action:

- Building on the civil experience of EASA, its experience gained by certifying the Airbus A-400M (in its civil configuration) and the work of the EDA in this area, the Commission will assess the different options for carrying out, on behalf of the Member States, the tasks related to the initial airworthiness of military products in the areas specified by the EDA.

3.3. Raw Materials – tackling supply risks for Europe's defence industry

Various raw materials, such as rare earths elements, are indispensable in many defence applications, ranging from RPAS to precision guided munitions, from laser targeting to satellite communications. A number of these materials are subject to increased supply risks, which hamper the competitiveness of the defence sector. A key element of the EU overall raw materials strategy consists of a list of raw materials that are considered to be of critical importance to the EU economy. The current list of critical raw materials at EU level is expected to be revised by end 2013. Although these are often the same materials that are important for civil and defence purposes, there would be a clear value-added if this work would take into account the specific importance of raw materials to Europe's defence sector.

Action:

- The Commission will screen raw materials that are critical for the defence sector within the context of the EU's overall raw materials strategy and prepare, if necessary, targeted policy actions.

3.4. SMEs – securing the heart of Europe's defence innovation

The defence directives on procurement and transfers offer new opportunities for SMEs to participate in the establishment of a European defence market. This is the case in particular for the subcontracting provisions of the procurement directive which improves access to supply chains of non-national prime contractors. Member States should therefore actively use these provisions to foster opportunities for SMEs.

Further steps are necessary, in particular in the area of clusters. These are often driven by a prime company that works with smaller companies in a supply chain. Moreover, clusters are often part of networks of excellence bringing together prime contractors, SMEs, research institutes and other academic sectors.

Clusters are therefore particularly important for SMEs, as they offer them access to shared facilities, niches in which they can specialise, and opportunities to cooperate with other SMEs. In such clusters, companies can combine strengths and resources in order to diversify into, and create new markets and knowledge institutions. They can also develop new civilian products and applications based on technologies and materials initially developed for defence purposes (e.g. internet, GPS) or vice versa, which is an increasingly important trend.

Actions:

- The Commission will explore with industry – taking a bottom-up approach - how to establish a European Strategic Cluster Partnership designed to support the emergence of new value chains and to tackle obstacles faced by defence-related SMEs in global competition. In this context, the Commission will use tools designed to support SMEs, including COSME, for the needs of defence-related SMEs. To this end the use of European Structural and Investment Funds may also be considered. This work will include clarifying eligibility rules for dual use projects.
- The Commission will also use the Enterprise Europe Network (EEN) to guide defence-related SMEs towards networking and partnerships, internationalisation of their activities, technology transfers and funding business opportunities.
- The Commission will promote regional networking with the objective of integrating defence industrial and research assets into regional smart specialisation strategies particularly through a European network of defence-related regions.

3.5. Skills – managing change and securing the future

The defence industry is experiencing profound change to which Member States and industry must adapt. As the European Council in December 2008 stated: “restructuring of the European defence technological and industrial base, in particular around centres of European excellence, avoiding duplication, in order to ensure its soundness and its competitiveness, is a strategic and economic necessity”.

The restructuring process is mainly the responsibility of industry but there is a complementary role for the Commission, national governments and local authorities. The Commission and Member States have a range of European tools available that foster new skills and tackle the impacts of restructuring. These should be deployed with a clear understanding of the capabilities and technologies critical to the industry. The Commission will encourage Member States to make use of labour flexibility schemes to support enterprises, including suppliers, that suffer from temporary slump in demand for their products and to promote an anticipative approach to restructuring. In this context, Member States can use the support that can be provided by the European Social Fund (ESF) and in certain cases of mass redundancies also by the European Globalisation Adjustment Fund. An important foundation of this work will be to map existing skills and identify skills needed for the future, possibly on the basis of a European Sector Skills Council for Defence under the leadership of the sectors’ representatives.

Actions:

- The Commission will promote skills identified as essential to the future of the industry including through the “Sector Skills Alliances” and “Knowledge Alliances” programmes currently being trialled.
- The Commission will encourage the use of the ESF for workers’ retraining and re-skilling, in particular for projects addressing skills needs, skills matching and anticipation of change.
- The Commission will take into account the potential of the European Structural and Investment Funds to support regions adversely affected by defence industry restructuring, especially to help workers to adapt to the new situation and to promote economic reconversion.

4. EXPLOITING DUAL-USE POTENTIAL OF RESEARCH AND REINFORCING INNOVATION

Since a range of technologies can be dual in nature, there is growing potential for synergies between civil and military research. In this context, there is an on-going coordination between the Security Theme of the 7th Framework Programme for Research and Technological Development and European defence research activities. Work has so far concentrated on CBRNE and has recently also addressed cyber defence in the context of CSDP and its synergies with cyber security. A number of activities in this regard are announced in the EU's Cyber Security Strategy, designed to make the EU's online environment the safest in the world. Furthermore, the SESAR Joint Undertaking has launched research activities on cyber security in the field of Air Traffic Management.

Within Horizon 2020, the areas of "Leadership in Enabling and Industrial Technologies" including the "Key Enabling Technologies" (KETs) and "Secure Societies" (Societal Challenge), offer prospects of technological advances that can trigger innovation not only for civil applications, but also have a dual-use potential. While the research and innovation activities carried out under Horizon 2020 will have an exclusive focus on civil applications, the Commission will evaluate how the results in these areas could benefit also defence and security industrial capabilities. The Commission also intends to explore synergies in the development of dual-use applications with a clear security dimension or other dual-use technologies like, for example, those supporting the insertion of civil RPAS into the European aviation system to be carried out within the framework of the SESAR Joint Undertaking.

Defence research has created important knock-on effects in other sectors, such as electronics, space, civil aviation and deep sea exploitation. It is important to maintain such spill-over effects from defence to the civil world and to help defence research to continue feeding civilian innovation.

The Commission also sees the potential benefits of additional possibilities for CSDP-related research outside the scope of Horizon 2020. This could take the form of a Preparatory Action on defence capabilities critical for CSDP operations seeking synergies with national research programmes. The Commission will define content and modalities together with Member States, EEAS and the EDA. In parallel Member States should maintain an appropriate level of funding for defence research and do more of it co-operatively.

Actions:

- The Commission intends to support a pre-commercial procurement scheme to procure prototypes. The first candidates for these could be: CBRNE detection, RPAS and communication equipment based on software defined radio technology.
- The Commission will consider the possibility to support CSDP-related Research, such as through a Preparatory Action. The focus would be on those areas where EU defence capabilities would be most needed, seeking synergies with national research programmes where possible.

5. DEVELOPMENT OF CAPABILITIES

The Commission is already working on non-military capability needs supporting both internal and external security policies, such as civil protection , crisis management, cyber security, protection of external borders and maritime surveillance. Up until now, these activities have been limited to co-funding and coordination of Member States' capabilities. The Commission intends to go one step further in order to ensure that Europe disposes of the full range of security capabilities it needs; that they are operated in the most cost-efficient way; and that interoperability between non-military and military capabilities is ensured in relevant areas.

Actions:

- The Commission will continue to enhance interoperability of information service sharing between civilian and defence users as piloted by the Common Information Sharing Environment for Maritime Surveillance;
- Building on existing EU networks, the Commission will explore together with Member States the establishment of a civil-military cooperation group in the areas of a) detection technologies, and b) methods to counter improvised explosive devices, man-portable air defence systems (MANPADs) and other relevant threats, such as CBRNE threats;
- The Commission will work with the EEAS on a joint assessment of dual-use capability needs for EU security and defence policies. On the basis of this assessment, it will come up with a proposal for which capability needs, if any, could best be fulfilled by assets directly purchased, owned and operated by the Union.

- The Commission will consider the possibility to support CSDP-related Research, such as through a Preparatory Action. The focus would be on those areas where EU defence capabilities would be most needed, seeking synergies with national research programmes where possible.

6. SPACE AND DEFENCE

Most space technologies, space infrastructures and space services can serve both civilian and defence objectives. However, contrary to all space-faring nations, in the EU there is no structural link between civil and military space activities. This divide has an economic and political cost that Europe can no longer afford. It is further earrcebated by European dependence on third country suppliers of certain critical technologies that are often subject to export restrictions.

Although some space capabilities have to remain under exclusive national and/or military control, a number of areas exist where increased synergies between civilian and defence activities will reduce costs and improve efficiency.

6.1. Protecting space infrastructures

Galileo and Copernicus are major European space infrastructures. Galileo belongs to the EU, and both Galileo and Copernicus will support key EU policies. These infrastructures are critical as they form the backbone for applications and services that are essential for our economy, our citizens' well-being and security. These infrastructures need to be protected.

Space debris has become the most serious threat to the sustainability of our space activities. In order to mitigate the risk of collision it is necessary to identify and monitor satellites and space debris. This activity is known as space surveillance and tracking (SST), and is today mostly based on ground-based sensors such as telescopes and radars. At present there is no SST capability at European level; satellite and launch operators are dependent on US data for anti-collision alerts.

The EU is ready to support the emergence of a European SST service built on a network of existing SST assets owned by Member States, possibly within a trans-Atlantic perspective. These services should be available to public, commercial, civilian, military operators and authorities. This will require the commitment of Member States owning relevant assets to cooperate and provide an anti-collision service at European level. The ultimate objective is to ensure the protection of European space infrastructures with a European capability.

Action:

- The Commission has put forward a proposal for EU SST support programme in 2013. Building on this proposal, the Commission will assess how to ensure, in the long-term, a high level of efficiency of the SST service.

6.2. Satellite Communications

There is a growing dependence of military and civilian security actors on satellite communications (SATCOM). It is a unique capability which can ensure long-distance communications and broadcasting. It facilitates the use of mobile or deployable platforms as a substitute for ground-based communication infrastructures and to cater for the exchange of large quantities of data.

Commercial SATCOM is the most affordable and flexible solution to meet this growing need. Since the demand for security SATCOM is too fragmented pooling and sharing SATCOM acquisition could generate significant cost savings due to economies of scale and improved resilience.

Commercial SATCOMs cannot fully substitute core governmental/military satellite communications (MILSATCOM) which are developed individually by some EU Member States. However, these communications lack capacity to cater for the needs of smaller entities, most notably military aircraft or Special Forces in operation.

Furthermore, by the end of this decade, current Member States' MILSATCOM will come to the end their operational life. This key capability must be preserved.

Actions:

- The Commission will act to overcome the fragmentation of demand for security SATCOM. In particular, building on the EDA's experience, the Commission will encourage the pooling of European military and security commercial SATCOM demand;

- The Commission will explore the possibilities to facilitate, through existing programmes and facilities, Member States efforts to deploy government-owned telecommunications payloads on board satellites (including commercial) and develop the next generation of government-owned MILSATCOM capability at European level.

6.3. Building an EU satellite high resolution capability

Satellite high resolution imagery is increasingly important to support security policies including CSDP and CFSP. EU access to these capacities is crucial to perform early warning, timely decision making, advanced planning and improved conduct of EU crisis response actions both in the civilian and military domains.

In this field several national defence programmes are being developed. Some Member States have also developed high resolution dual systems to complement defence-only national programmes. These dual systems have allowed new forms of collaboration among Member States to emerge for the exploitation of satellite imagery whereby the acquisition takes place either on the market or through bilateral agreements. This successful approach, combining civil and defence user requirements, should be pursued.

As the need for high resolution imagery continues to grow, in order to prepare the next generation of high resolution imagery satellites which should be deployed around 2025, a number of technologies must be explored and developed such as hyper-spectral, high resolution satellites in geostationary orbit or advanced ultra-high resolution satellites in combination with new sensor platforms such as RPAS.

Action:

- The European Commission together with EEAS and EDA will explore the possibility to develop progressively new imaging capabilities to support CFSP and CSDP missions and operations. Also the European Commission will contribute to developing the necessary technologies for the future generations of high resolution imagery satellites.

7. APPLICATION OF EU ENERGY POLICIES AND SUPPORT INSTRUMENTS IN THE DEFENCE SECTOR

Armed forces are the biggest public consumers of energy in the EU. According to the EDA, their combined annual expenditures for electricity alone sum up to an estimated total of more than one billion euros. Moreover, fossil fuels remain the most important source to meet these energy needs. This implies sensitive dependencies and exposes defence budgets to risks of price increases. Therefore, to improve security of supply and reduce operational expenditures, armed forces have a strong interest in reducing their energy footprint.

At the same time, armed forces are also the largest public owner of free land and infrastructures, with an estimated total of 200 million square meters of buildings and 1 % of Europe's total land surface. Exploiting this potential would enable armed forces to reduce their energy needs and cover a considerable part of these needs from their own low-emission and autonomous sources. This would reduce costs and dependences and contribute at the same time to accomplishing the Union's energy objectives.

In the research field, the Commission has developed the Strategic Energy Technology (SET) Plan to promote innovative and low-carbon energy technologies which have better efficiencies and are more sustainable than existing energy technologies. Given its important energy needs, the defence sector could be a frontrunner in the deployment of the emerging energy technologies of the SET-Plan.

Actions:

- The Commission will set up a specific consultation mechanism with Member States experts from the defence sector by mid-2014, based on the model of the existing Concerted Actions on renewables and energy efficiency. This mechanism will focus on a) energy efficiency, particularly in building sector; b) renewable energy and alternative fuels; c) energy infrastructure, including the use of smart grid technologies and will:
  - Examine the applicability of the existing EU energy concepts, legislation and support tools to the defence sector.

- Identify possible objectives and focus areas of action at EU level for a comprehensive energy concept for armed forces.
- Develop recommendations for a guidebook on renewable energies and energy efficiency in the defence sector with a focus on the implementation of the existing EU legislation, innovative technologies' deployment and the use of innovative financial instruments.
- Exchange information with the SET-Plan Steering Group on a regularly basis.

• The Commission will also consider developing a guidance document on implementation of Directive 2012/27/EU in the defence sector.

• The Commission will support the European armed forces GO GREEN demonstration project on photovoltaic energy. Following its successful demonstration, the Commission will also help to develop GO GREEN further, involving more Member States and possibly expanding it to other renewable energy sources such as wind, biomass and hydro.

8. STRENGTHENING THE INTERNATIONAL DIMENSION

With defence budgets shrinking in Europe, exports to third countries have become increasingly important for European industries to compensate for reduced demand on their home markets. Such exports should be authorised in accordance with the political principles laid down in Common Position 2008/944/CFSP, adopted on 8 December 2008, and in accordance with the Arms Trade Treaty adopted on 2 April 2013 by the General Assembly of the United Nations Organisation. At the same time, Europe has an economic and political interest to support its industries on world markets. Lastly Europe needs to ensure a coherent approach to the monitoring of incoming foreign investment (as set out in section 2.3 on ownership and security of supply).

8.1. Competitiveness on third markets

Whereas defence expenditure has decreased in Europe, it continues to increase in many other parts of the world. Access to these markets is often difficult, depending on political considerations, market access barriers, etc. The world's biggest defence market, the United States, is basically closed for imports from Europe. Other third countries are more open, but often require offsets which put a heavy burden on EU companies. Finally, on many third markets, several European suppliers compete with each other, which makes it difficult from a European perspective to support a specific EU supplier.

Action:

• The Commission will establish a dialogue with stakeholders on how to support the European defence industry on third markets. With respect to offsets on third markets, this dialogue will explore ways of mitigating possible negative impacts of such offsets on the internal market and the European defence industrial base. It will also examine how EU institutions could promote European suppliers in situations where only one company from Europe is competing with suppliers from other parts of the world.

8.2. Dual Use Export Controls

Dual-use export controls closely complement arms trade controls and are key for EU security as well as for the competiveness of many companies in the aerospace, defence and security sectors. The Commission has initiated a review of the EU export control policy and has conducted a broad public consultation, which conclusions are presented in a Commission Staff Working Document issued in January 2013. The reform process will be further advanced with the preparation of a Communication which will address remaining trade barriers that prevent EU companies to reap the full benefits of the internal market.

Action:

• As part of the ongoing export control policy review, the Commission will present an impact assessment report on the implementation of Regulation (EC) 428/2009 and will follow up with a Communication outlining a long-term vision for EU strategic export controls and concrete policy initiatives to adapt export controls to rapidly changing technological, economic and political conditions. This may include proposals for legislative amendments to the EU export control system.

9. CONCLUSIONS

Maintaining and developing defence capabilities to meet current and future challenges in spite of severe budget constraints will only be possible if far-reaching political and structural reforms are made. Time has come to take ambitious action.

9.1. A new framework for developing civil / military co-operation

Civil / military co-operation is a complex challenge with numerous operational, political, technological and industrial facets. This is particularly true in Europe, where distribution of competences and division of work adds another layer of complexity. This Communication provides a package of measures that can help to overcome these challenges and incentivise co-operation between Member States. In this context, our objective is to develop an integrated approach across the civ-mil dividing line, with a seamless transition throughout all phases of the capability life cycle i.e. from the definition of capability needs to their actual use on the ground.

As a first step towards this objective, the Commission will review its own internal way of dealing with security and defence matters. Based on the experience of the Defence Task Force, it will optimise its mechanisms for cooperation and coordination between its own services and with stakeholders.

9.2. A call to Member States

This Communication sets out an Action Plan for the Commission's contribution to strengthening the CSDP. The Commission invites the European Council to discuss this Action Plan in December 2013 together with the report prepared by the High Representative of the Union for Foreign Affairs and Security Policy on the basis of the following considerations:

- Decisions on investments and capabilities for security and defence should be based on a common understanding of threats and interests. Europe therefore needs to develop, in due course, a strategic approach covering all aspects of military and non-military security. In this context, a wider political debate on the implementation of relevant provisions of the Lisbon Treaty should be held;
- The Common Security and Defence Policy is a necessity. To become effective, it should be underpinned by a fully-fledged Common European Capabilities and Armaments Policy as mentioned in Article 42 of the TEU;
- To ensure coherence of efforts, CSDP must be closely coordinated with other relevant EU policies. This is particular important in order to generate and exploit synergies between the development and use of defence and civil security capabilities;
- For CSDP to be credible, Europe needs a strong defence industrial and technological base. To achieve this objective, it is crucial to develop a European Defence Industrial Strategy based on a common understanding of the degree of autonomy Europe wants to maintain in critical technology areas;
- To maintain a competitive industry capable of producing at affordable prices the capabilities we need, it is essential to strengthen the internal market for defence and security and to create conditions which enable European companies to operate freely in all Member States;
- Facing severe budget constraints, it is particularly important to allocate and spend financial resources efficiently. This implies inter alia to cut back operational costs, pool demand and harmonise military requirements;
- To show real added value of the EU framework, what is needed is to identify a joint project in the area of key defence capabilities, where EU policies could fully be mobilized.

9.3. Next Steps

On the basis of the discussions with Heads of State and Government, the Commission will develop for the areas defined in this Communication a detailed roadmap with concrete actions and timelines.

For the preparation and implementation of this roadmap, the Commission will set up a specific consultation mechanism with national authorities. The mechanism can take different forms, depending on the policy area under discussion. The EDA and the External Action Service will be associated to this consultation mechanism.

A new EU Framework to strengthen the Rule of Law

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

BRUSSELS, 11 MARCH 2014

COM(2014) 158

1. Introduction

The rule of law is the backbone of any modern constitutional democracy. It is one of the founding principles stemming from the common constitutional traditions of all the Member States of the EU and, as such, one of the main values upon which the Union is based. This is recalled by Article 2 of the Treaty on European Union (TEU), as well as by the Preambles to the Treaty and to the Charter of Fundamental Rights of the EU. This is also why, under Article 49 TEU, respect for the rule of law is a precondition for EU membership. Along with democracy and human rights, the rule of law is also one of the three pillars of the Council of Europe and is endorsed in the Preamble to the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR)[85].

Mutual trust among EU Member States and their respective legal systems is the foundation of the Union. The way the rule of law is implemented at national level plays a key role in this respect. The confidence of all EU citizens and national authorities in the functioning of the rule of law is particularly vital for the further development of the EU into "an area of freedom, security and justice without internal frontiers"[86]. This confidence will only be built and maintained if the rule of law is observed in all Member States.

The different constitutions and judicial systems of the EU Member States are, in principle, well designed and equipped to protect citizens against any threat to the rule of law. However, recent events in some Member States have demonstrated that a lack of respect for the rule of law and, as a consequence, also for the fundamental values which the rule of law aims to protect, can become a matter of serious concern. During these events, there has been a clear request from the public at large for the EU, and notably for the Commission, to take action. Results have been achieved. However, the Commission and the EU had to find ad hoc solutions since current EU mechanisms and procedures have not always been appropriate in ensuring an effective and timely response to threats to the rule of law.

The Commission is the guardian of the Treaties and has the responsibility of ensuring the respect of the values on which the EU is founded and of protecting the general interest of the Union. It must therefore play an active role in this respect[87]. In September 2012, in his annual State of the Union speech to the European Parliament, President Barroso said: "We need a better developed set of instruments, not just the alternative between the 'soft power' of political persuasion and the 'nuclear option' of Article 7 TEU. In the following year's speech, he said that "experience has confirmed the usefulness of the Commission role as an independent and objective referee. We should consolidate this experience through a more general framework […]. The Commission will come forward with a communication on this. I believe it is a debate that is key to our idea of Europe."[88]

85 See the Preamble of the ECHR and Article 3 of the Statute of the Council of Europe (http://conventions.coe.int/Treaty/en/Treaties/Html/001.htm).

86 See Articles 3(2) TEU and 67 TFEU.

87 See the speech of Vice-President Reding, EU Justice Commissioner, "The EU and the Rule of Law – What next?"(http://europa.eu/rapied/press-release_SPEECH-13-677_en.htm).

88 See http://europa.eu/rapid/press-release_SPEECH-12-596_en.htm and http://europa.eu/rapid/press-release_SPEECH-13-684_en.htm

In June 2013, the Justice and Home Affairs Council underlined that "respecting the rule of law is a prerequisite for the protection of fundamental rights" and called on the Commission "to take forward the debate in line with the Treaties on the possible need for and shape of a collaborative and systematic method to tackle these issues". In April 2013, the General Affairs Council held a comprehensive discussion on the topic.[89]

In July 2013, the European Parliament requested that "Member States be regularly assessed on their continued compliance with the fundamental values of the Union and the requirement of democracy and the rule of law"[90].

This Communication responds to these requests. On the basis of the Commission's experience, the inter-institutional debate and broad consultations[91], the Communication sets out a new framework to ensure an effective and coherent protection of the rule of law in all Member States. It is a framework to address and resolve a situation where there is a systemic threat to the rule of law.[92]

The framework seeks to resolve future threats to the rule of law in Member States before the conditions for activating the mechanisms foreseen in Article 7 TEU would be met. It is therefore meant to fill a gap. It is not an alternative to but rather precedes and complements Article 7 TEU mechanisms. It is also without prejudice to the Commission's powers to address specific situations falling within the scope of EU law by means of infringement procedures under Article 258 of the Treaty on the Functioning of the European Union (TFEU).

From a broader European perspective, the framework is meant to contribute to reaching the objectives of the Council of Europe, including on the basis of the expertise of the European Commission for Democracy through Law (Venice Commission)[93].

2. Why the rule of law is of fundamental importance for the EU

The principle of the rule of law has progressively become a dominant organisational model of modern constitutional law and international organisations (including the United Nations and the Council of Europe) to regulate the exercise of public powers. It makes sure that all public powers act within the constraints set out by law, in accordance with the values of democracy and fundamental rights, and under the control of independent and impartial courts.

The precise content of the principles and standards stemming from the rule of law may vary at national level, depending on each Member State's constitutional system. Nevertheless, case law of the Court of Justice of the European Union ("the Court of Justice") and of the European Court of Human Rights, as well as documents drawn up by the Council of Europe, building notably on the expertise of the Venice Commission, provide a non-exhaustive list of these principles and hence define the core meaning of the rule of law as a common value of the EU in accordance with Article 2 TEU.

Those principles include **legality**, which implies a transparent, accountable, democratic and pluralistic process for enacting laws; **legal certainty**; **prohibition of arbitrariness of the executive powers**; **independent and impartial courts; effective judicial review including respect for fundamental rights**; **and equality before the law**[94].

Both the Court of Justice and the European Court of Human Rights confirmed that those principles are not purely formal and procedural requirements. They are the vehicle for ensuring compliance with and respect for democracy and human rights. The rule of law is therefore a

89 In March 2013, the foreign ministers of Denmark, Finland, Germany and The Netherlands called for more European safeguards to ensure compliance with fundamental values of the Union in the Member States. On the discussion in the General Affairs Council see http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/genaff/136915.pdf. On the conclusions of the Justice and Home Affairs Council see http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/jha/137404.pdf

90 See the EP resolutions setting out various recommendations to the EU institutions on how to strengthen the protection of Article 2 TEU (the Rui Tavares Report of 2013, the Louis Michel and the Kinga Göncz Reports of 2014 - http://www.europarl.europa.eu/committees/en/libe/reports.html).

91 At the Assises de la Justice, a high level conference on the future of justice in the EU in November 2013 which was attended by over 600 stakeholders and interested parties, one session was specifically dedicated to the topic "Towards a new rule of law mechanism". A call for input was organised before and after the conference that attracted numerous written contributions (see http://ec.europa.eu/justice/events/assises-justice-2013/contributions_en.htm).

92 As President Barroso highlighted in his State of the Union address of September 2013, the framework "should be based on the principle of equality between Member States and activated only in situations where there is a serious and systemic risk to the rule of law, and triggered by predefined benchmarks" (see http://europa.eu/rapid/press-release_SPEECH-13-684_en.htm).

93 The Venice Commission, officially named the European Commission for Democracy through Law, is the Council of Europe's advisory body on constitutional matters (see http://www.venice.coe.int/WebForms/pages/?p=01_Presentation).

94 For an overview of the relevant case law on the rule of law and the principles which the rule of law entails see Annex I.

constitutional principle with both formal and substantive components[95].

This means that respect for the rule of law is intrinsically linked to respect for democracy and for fundamental rights: there can be no democracy and respect for fundamental rights without respect for the rule of law and vice versa. Fundamental rights are effective only if they are justiciable. Democracy is protected if the fundamental role of the judiciary, including constitutional courts, can ensure freedom of expression, freedom of assembly and respect of the rules governing the political and electoral process.

Within the EU, the rule of law is of particular importance. Compliance with the rule of law is not only a prerequisite for the protection of all fundamental values listed in Article 2 TEU. It is also a prerequisite for upholding all rights and obligations deriving from the Treaties and from international law. The confidence of all EU citizens and national authorities in the legal systems of all other Member States is vital for the functioning of the whole EU as "an area of freedom, security and justice without internal frontiers". Today, a judgment in civil and commercial matters of a national court must be automatically recognised and enforced in another Member State and a European Arrest Warrant against an alleged criminal issued in one Member State must be executed as such in another Member State[96]. Those are clear examples of why all Member States need to be concerned if the rule of law principle is not fully respected in one Member State. This is why the EU has a strong interest in safeguarding and strengthening the rule of law threats across the Union.

3. Why a new EU Framework to strengthen the rule of law

In cases where the mechanisms established at national level to secure the rule of law cease to operate effectively, there is a systemic threat to the rule of law and, hence, to the functioning of the EU as an area of freedom, security and justice without internal frontiers. In such situations, the EU needs to act to protect the rule of law as a common value of the Union.

However, experience has shown that a systemic threat to the rule of law in Member States cannot, in all circumstances, be effectively addressed by the instruments currently existing at the level of the Union.

Action taken by the Commission to launch **infringement procedures**, based on **Article 258 TFEU**, has proven to be an important instrument in addressing certain rule of law concerns[97]. But infringement procedures can be launched by the Commission only where these concerns constitute, at the same time, a breach of a specific provision of EU law.[98]

There are situations of concern which fall outside the scope of EU law and therefore cannot be considered as a breach of obligations under the Treaties but still pose a systemic threat to the rule of law. For these situations, the **preventive and sanctioning mechanisms provided for in Article 7 TEU** may apply. The Commission is among the actors which are empowered by the Treaty to issue a reasoned proposal in order to activate those mechanisms. Article 7 TEU aims at ensuring that all Member States respect the common values of the EU, including the rule of law. Its scope is not confined to areas covered by EU law, but empowers the EU to intervene with the purpose of protecting the rule of law also in areas where Member States act autonomously. As explained in the Commission's Communication on Article 7 TEU, this is

95 The Court of Justice does not refer to the rule of law as simply a formal and procedural requirement, but also highlights its substantive value by specifying that a "Union based on the rule of law" means that the EU institutions are subject to judicial review of the compatibility of their acts not only with the Treaty but "with the general principles of law which include fundamental rights" (see ex pluribus, Case C-50/00 P, Unión de Pequeños Agricultores [2002] ECR I-06677, para 38 and 39; Joined Cases C-402/05 P and C-415/05 P, Kadi, [2008], ECR I-06351, para 316).This has been also confirmed by the European Court of Human Rights which gives the rule of law a substantive nature by establishing that it is a concept inherent in all articles of the ECHR (see for example ECtHR Stafford v United Kingdom, 28 May 2001, para 63). It must be highlighted that in the French version the Court does not use only the terms "pre-eminence du droit" but also "Etat de droit".

96 See Case C-168/13, Jeremy F v Premier Ministre, not yet published, para 35 and 36.

97 See, for example, cases C-286/12 Commission v Hungary, not yet published (equal treatment as regards the compulsory retirement of judges and public prosecutors); C-518/07 Commission v Germany [2010] ECR I-01885 and C-614/10 Commission v Austria, not yet published (independence of data protection authorities).

98 The Commission's action to ensure compliance with the Charter of Fundamental Rights illustrates this legal limitation stemming from the Treaty itself. As explained in its Communication "Strategy for the effective implementation of the Charter of Fundamental rights" of 19 October 2010 (COM(2010) 573 final), the Commission is determined to use all the means at its disposal to ensure that the Charter is fully respected by the Member States. This concerns in particular Article 47 of the Charter which provides that everyone whose rights guaranteed by EU law are violated has the right to an effective remedy before an independent tribunal. However, this can be done by the Commission vis-à-vis Member States "only when they are implementing Union law", as set out explicitly in Article 51 of the Charter. See for example Case C-87/12, Kreshnik Ymeraga and Others v Ministre du Travail, de l'Emploi et de l'Immigration, not yet published, C-370/12 Thomas Pringle v Governement of Ireland, Ireland and The Attorney General, not yet published and C-617/10, Åklagaren v Hans Åkerberg Fransson, not yet published.

justified by the fact that "if a Member State breaches the fundamental values in a manner sufficiently serious to be caught by Article 7, this is likely to undermine the very foundation of the EU and the trust between its members, whatever the field in which the breach occurs"[99].

Nevertheless, the preventive mechanism of Article 7(1) TEU can be activated only in case of a "clear risk of a serious breach" and the sanctioning mechanism of Article 7(2) TEU only in case of a "serious and persistent breach by a Member State" of the values set out in Article 2 TEU. The thresholds for activating both mechanisms of Article 7 TEU are very high and underline the nature of these mechanisms as a last resort.

Recent developments in some Member States have shown that these mechanisms are not always appropriate to quickly respond to threats to the rule of law in a Member State.

There are therefore situations where threats relating to the rule of law cannot be effectively addressed by existing instruments[100]. A **new EU Framework to strengthen the Rule of Law** as a key common value of the EU is needed in addition to infringement procedures and Article 7 TEU mechanisms. The Framework will be complementary to all the existing mechanisms already in place at the level of the Council of Europe to protect the rule of law[101]. It reflects both the objectives of the EU to protect its founding values and to reach a further degree of mutual trust and integration in the area of freedom, security and justice without internal frontiers.

By setting up a new Framework to strengthen the Rule of Law the Commission seeks to provide clarity and enhance predictability as to the actions it may be called upon to take in the future, whilst ensuring that all Member States are treated equally. On the basis of this Communication, the Commission is willing to engage in further discussions with the Member States, the Council and the European Parliament on these issues.

4. How the new EU Rule of Law Framework will work

The purpose of the Framework is to enable the Commission to find a solution with the Member State concerned in order to prevent the emerging of a systemic threat to the rule of law in that Member State that could develop into a "clear risk of a serious breach" within the meaning of Article 7 TEU, which would require the mechanisms provided for in that Article to be launched.

In order to ensure the equality of Member States, the Framework will apply in the same way to all Member States and will operate on the basis of the same benchmarks as to what is a systemic threat to the rule of law.

4.1. What will trigger the new Framework

The Framework will be activated in situations where the authorities of a Member State are taking measures or are tolerating situations which are likely to systematically and adversely affect the integrity, stability or the proper functioning of the institutions and the safeguard mechanisms established at national level to secure the rule of law.

The new EU Rule of Law Framework is not designed to be triggered by individual breaches of fundamental rights or by a miscarriage of justice. These cases can and should be dealt with by the national judicial systems, and in the context of the control mechanisms established under the European Convention on Human Rights to which all EU Member States are parties.

The main purpose of the Framework is to address **threats to the rule of law** (as defined in Section 2) which are **of a systemic nature**[102]. The political, institutional and/or legal order of a Member State as such, its constitutional structure, separation of powers, the independence or im-

99 Communication from the Commission of 15 October 2003: Respect for and promotion of the values on which the Union is based, COM(2003) 606 final.

100 In some cases, systemic deficiencies related to the rule of law may be tackled using the Cooperation and Verification Mechanisms (CVM) based on the Acts of Accession for Romania and Bulgaria. However, these mechanisms, which have their basis directly in primary EU law, address pre-accession-related and therefore transitional situations. They are therefore not suitable for addressing a threat to the rule of law in all EU Member States.

101 Article 8 of the Statute of the Council of Europe provides that a Member State that has "seriously violated" the principles of the rule of law and human rights may be suspended from its rights of representation and even be expelled from the Council of Europe. Like the mechanisms set out in Article 7 TEU, this mechanism has never been activated.

102 With regard to the notion of "systemic deficiencies" in complying with fundamental rights when acting within the scope of EU law, see, for example, Joined Cases C-411/10 and 493/10, N.S., not yet published, para 94 and 106; and Case C-4/11, Germany v Kaveh Puid, not yet published, para 36. With regard to the notion of "systemic" or "structural" in the context of the European Convention on Human Rights, see also the role of the European Court of Human rights in identifying underlying systemic problems, as defined in the Resolution Res(2004)3 of the Committee of Ministers of 12 May 2004, on Judgments Revealing an Underlying Systemic Problem, (https://wcd.coe.int/ViewDoc.jsp?id=743257&Lang=fr).

partiality of the judiciary, or its system of judicial review including constitutional justice where it exists, must be threatened – for example as a result of the adoption of new measures or of widespread practices of public authorities and the lack of domestic redress. The Framework will be activated when national "rule of law safeguards" do not seem capable of effectively addressing those threats.

The Framework would not prevent the Commission from using its powers under Article 258 TFEU in situations falling within the scope of EU law. Nor would it prevent the mechanisms set out in Article 7 TEU being activated directly, should a sudden deterioration in a Member State require a stronger reaction from the EU[103].

4.2. The Framework as a three stage process

Where there are clear indications of a systemic threat to the rule of law in a Member State, the Commission will initiate a structured exchange with that Member State. The process is based on the following principles:

- focusing on finding a solution through a **dialogue** with the Member State concerned;
- ensuring an **objective and thorough assessment** of the situation at stake;
- respecting the principle of **equal treatment** of Member States;
- indicating **swift and concrete actions** which could be taken to address the systemic threat and to avoid the use of Article 7 TEU mechanisms.

The process is composed, as a rule, of three stages: a Commission assessment, a Commission recommendation and a follow-up to the recommendation.

The Commission's assessment

The Commission will collect and examine all the relevant information and assess whether there are clear indications of a systemic threat to the rule of law as described above. This assessment can be based on the indications received from available sources and recognized institutions, including notably the bodies of the Council of Europe and the European Union Agency for Fundamental Rights[104].

If, as a result of this preliminary assessment, the Commission is of the opinion that there is indeed a situation of systemic threat to the rule of law, it will initiate a dialogue with the Member State concerned, by sending a "rule of law opinion" and substantiating its concerns, giving the Member State concerned the possibility to respond. The opinion could be the result of an exchange of correspondence and meetings with the relevant authorities and, where appropriate, be followed by further exchanges.

The Commission expects that the Member State concerned cooperates throughout the process and refrains from adopting any irreversible measure in relation to the issues of concern raised by the Commission, pending the assessment of the latter, in line with the **duty of sincere cooperation** set out in Article 4(3) TEU. Whether a Member State fails to cooperate in this process, or even obstructs it, will be an element to take into consideration when assessing the seriousness of the threat.

At this stage of the process, while the launching of the Commission assessment and the sending of its opinion will be made public by the Commission, the content of the exchanges with the Member State concerned will, as a rule, be kept confidential, in order to facilitate quickly reaching a solution.

The Commission's recommendation

In a second stage, unless the matter has already been satisfactorily resolved in the meantime, the Commission will issue a "rule of law recommendation" addressed to the Member State concerned, if it finds that there is objective evidence of a systemic threat and that the authorities of that Member State are not taking appropriate action to redress it.

In its recommendation the Commission will clearly indicate the reasons for its concerns and recommend that the Member State solves the problems identified within a fixed time limit and informs the Commission of the steps taken to that effect. Where appropriate, the recommendation may include specific indications on ways and measures to resolve the situation.

The Commission's assessment and conclusions will be based on the results of the dialogue with the Member State concerned as well as on any additional evidence on which the Member State would also need to be heard in advance.

The sending of its recommendation and its main content will be made public by the Commission.

103 See also the Commission Communication of 15 October 2003 (footnote 15).
104 See in particular Article 4(1)(a) of Council Regulation (EC) No 168/2007 establishing a European Union Agency for Fundamental Rights (OJ L 53, p.1).

Follow-up to the Commission's recommendation

In a third stage, the Commission will monitor the follow-up given by the Member State concerned to the recommendation addressed to it. This monitoring can be based on further exchanges with the Member State concerned and could, for example, focus on whether certain practices which raise concerns continue to occur, or on how the Member State implements the commitments it has made in the meantime to resolve the situation.

If there is no satisfactory follow-up to the recommendation by the Member State concerned within the time limit set, the Commission will assess the possibility of activating one of the mechanisms set out in Article 7 TEU[105].

Institutional interaction

The European Parliament and the Council will be kept regularly and closely informed of progress made in each of the stages.

Benefitting from third party expertise

In order to obtain expert knowledge on particular issues relating to the rule of law in Member States, the Commission may, notably during the phase of assessment, seek external expertise, including from the EU Agency for Fundamental Rights[106]. Such external expertise could notably help to provide for a comparative analysis about existing rules and practices in other Member States in order to ensure equal treatment of the Member States, on the basis of a common understanding of the rule of law within the EU.

Depending on the situation, the Commission may decide to seek advice and assistance from members of the judicial networks in the EU, such as the networks of the Presidents of Supreme Courts of the EU[107], the Association of the Councils of State and Supreme Administrative Jurisdictions of the EU[108] or the Judicial Councils[109]. The Commission will examine, together with these networks, how such assistance could be provided swiftly where appropriate, and whether particular arrangements are necessary to that end.

The Commission will, as a rule and in appropriate cases, seek the advice of the Council of Europe and/or its Venice Commission, and will coordinate its analysis with them in all cases where the matter is also under their consideration and analysis.

5. Conclusion

This Communication sets out a new EU Framework for the Rule of Law as the Commission's contribution to strengthening the capacity of the EU to ensure effective and equal protection of the rule of law in all Member States. It thereby responds to requests from the European Parliament and the Council. While not excluding future developments of the Treaties in this area – which will have to be discussed as part of the broader reflections on the future of Europe –, it is based on Commission competences as provided for by existing Treaties. In addition to the action of the Commission, the role of the European Parliament and the Council will be crucial in reinforcing the EU's determination to uphold the rule of law.

105 See also the Commission Communication of 15 October 2003 (footnote 15).

106 The FRA can give advice within the scope of its tasks as defined by Council Regulation (EC) No 168/2007 (see footnote 20).

107 Network of the Presidents of the Supreme Judicial Courts of the European Union (see http://www.networkpresidents.eu/).

108 Association of the Councils of State and Supreme Administrative Jurisdictions of the European Union(see http://www.aca-europe.eu/index.php/en/).

109 European Network of Councils for the Judiciary (see http://www.encj.eu).

Regulatory Fitness and Performance Programme (REFIT): State of Play and Outlook

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN SOCIAL AND ECONOMIC COMMITTEE AND THE COMMITTEE OF THE REGIONS

BRUSSELS, 18 JUNE 2014

COM(2014) 368

1. Introduction

European Union regulation plays a key role underpinning growth and jobs. Businesses need the EU to ensure a level playing field and facilitate competitiveness. The public looks to the European level to protect their interests, whether in regard to health and safety, the quality of the environment, the right to privacy and so on. One common rule to apply in all Member States can be much simpler and more efficient than a complex web of varying rules on the same subject-matter at national and regional level. The challenge is to keep this legislation simple - not to go beyond what is strictly necessary to achieve policy goals and to avoid overlapping layers of regulation.

The European Commission is meeting this challenge through its Regulatory Fitness and Performance Programme (REFIT) which commits to a simple, clear and predictable regulatory framework for business workers and citizens.[110] This programme aims to cut red tape, remove regulatory burdens, simplify and improve the design and quality of legislation so that the policy objectives are achieved and the benefits of EU legislation are enjoyed at lowest cost and with a minimum of administrative burden, in full respect of the Treaties, particularly subsidiarity and proportionality. Under REFIT, the Commission is screening the entire stock of EU legislation on an ongoing and systematic basis to identify burdens, inconsistencies and ineffective measures and identified corrective actions.

In the October 2013 Communication on REFIT[111], the Commission set out an ambitious agenda. It identified areas where initiatives foreseen would not be taken forward. It withdrew a number of proposals that had been long blocked in the legislature and repealed a number of pieces of legislation. In total, over 100 actions were identified, half of which were new proposals aimed to simplify and reduce regulatory burden in existing legislation. The other actions are Fitness Checks and evaluations designed to assess the efficiency and effectiveness of EU regulation and prepare future burden reduction initiatives.

The Commission has delivered on these commitments. This Communication reports on the state of play in implementing the REFIT programme and identifies new actions. It indicates how the Commission is further strengthening its horizontal regulatory tools - impact assessment, evaluation and stakeholder consultations. It also looks at how EU institutions, Member States and stakeholders in business and civil society are playing their part in exercising this shared responsibility for Regulatory Fitness. REFIT actions - withdrawals, amendments and repeals - reinforce the broader benefits that regulating at EU level can bring by replacing 28 different national measures by one EU measure, leading to a simpler regulatory environment for businesses and citizens across Europe.

The Communication is accompanied by a detailed scoreboard setting out the state of play in the implementation of each individual REFIT initiative and an indication of further action. The scope for new action is influenced by the timing of this report. New commitments will carry-over into the next mandate and have been considered carefully in this context.

110 SWD(2013)401final of 1 August 2013
111 COM(2013)685final of 2 October 2013.

2. Implementation of the Regulatory Fitness and Performance Programme (REFIT)

The swift and thorough implementation of REFIT is a priority for the Commission and considerable progress has been made in the preparation of proposals, their adoption by the European Parliament and the Council and their implementation by Member States. The following takes stock of these actions.

Action taken by the Commission

Most of the legislative proposals for simplification and burden reduction identified in last October's REFIT Communication are planned for adoption this year.[112] Important simplification proposals for business, such as the introduction of a standard EU VAT declaration[113] and the improvement of the European small claims procedure[114] have already been tabled by the Commission and are awaiting decision of the legislator.

The Commission formally approved 53 withdrawals of pending proposals after consultation of Parliament and Council, including all nine REFIT initiatives, including those on simplification of VAT obligations, the statute of a European private company[115] and on the protection of soil.[116] The Commission decided not to present a number of proposals during its current mandate on which it had been working[117] and is preparing repeals as foreseen[118].

Work has started on the Fitness Checks in the legislative areas of waste, the protection of birds and habitats (Natura 2000), passenger ship safety and the General Food Law. They will provide the basis for further initiatives for simplification and regulatory burden reduction in the respective areas, including the reduction and streamlining of reporting obligations.

Fitness Check on the General Food Law

The FC will examine the key principles of the framework regulation as well as its implementation through subsequent regulations and administrative action. It will focus on relevance, EU value added, effectiveness, efficiency and coherence. Aspects of food security will also be covered. The Fitness Check is e an example of joint evaluation work between the Commission and Member States.[121]

The Commission applies the Think Small First principle[120] and has also taken action to apply lighter regimes for SMEs and exemptions for micro-companies wherever appropriate. Seventeen REFIT actions in the scoreboard contain exemptions for micro-companies and lighter regimes for SMEs. In addition, fees for micro-companies for registration and authorization were reduced in the areas of chemicals, health and consumer protection.

The REFIT Communication of October 2013 recognised that, given the length of the legislative process, all efforts should be made to provide immediate relief of burden within the existing regulatory framework, with a particular focus on supporting SMEs. This is being done in the area of food information to consumers[121], for example, where food business operators and in particular SMEs have difficulties to identify which rules (EU and/or national; general or food category specific) apply to their particular situation. The Commission has published guidance documents and is working on a database on EU and national labelling requirements.[122] This should help food business operators to quickly identify which requirements are applicable to them.

Additional initiatives are being taken to better use the internet to simplify and improve the implementation of regulatory requirements to the benefit of administrations, businesses and consumers alike. Building on the experience with energy labelling which is now uniformly presented in

112 Out of a total of 23 proposals the Commission committed to make in order to simplify and reduce regulatory burden, 2 were adopted in 2013 and 15 more are planned for adoption in 2014.

113 COM(2013)721

114 COM(2013)794.

115 The proposal for a Single-Member Company adopted on 9 April 2014 takes up substantial elements of this earlier proposal.

116 Other proposals withdrawn under REFIT included proposals regarding information to the general public on medicinal products, for a regulation on European statistics on safety from crime, on the legal protection of designs, the Community patent (proposal converted into enhanced cooperation) and on driving licenses with the functionality of a driver card.

117 This concerned the areas of occupational safety and health for hairdressers, muscular skeletal disorders, environmental tobacco smoke and carcinogens and mutagens.

118 This includes legislation on the classification, packaging and labelling of dangerous preparations, the scientific cooperation on questions relating to food, steel statistics, the cooperation between Financial Intelligence Units and retrofitting of mirrors to heavy goods vehicles.

119 This work is followed by the High Level Group on Better Regulation containing national regulatory experts. This group works with the Commission to review and develop the Smart Regulation agenda at the EU and national level.

120 http://ec.europa.eu/enterprise/policies/sme/small-business-act/think-small-first/

121 Regulation 1169/2011 in application from December 2014 with the exception of mandatory nutrition labelling which will start to apply from December 2016.

122 http://ec.europa.eu/food/food/labellingnutrition/foodlabelling/proposed_legislation_en.htm

online sales a similar approach is being explored in the field of food information to consumers, for example.

Finally, legislation on food information to consumers includes exemptions, lighter regimes for small quantities and retailers[123] and flexibility provisions which allow Member States to adapt labelling provisions to the specific needs of SMEs.[124] The legislation also foresees one standard application date for new measures in every calendar year and generous transition measures. All of these efforts should facilitate improved implementation within the existing legal framework.

Action taken by the Legislator

Since October 2013, the legislator (Parliament and Council) has adopted a number of important proposals for simplification and burden reduction: The amended Directive on recognition of professional qualifications will simplify recognition procedures and facilitate the access to information[125]; the new legal framework for public procurement contains measures to make procurement easier and administratively less burdensome and promotes electronic procurement. The new regulation on tachographs reduces administrative burden and improves enforcement through the introduction of "digital tachographs" linked to satellite navigation systems and control authorities. To accommodate the specific situation of craftsmen, vehicles of less than 7.5 tons driving within a limited range of 100 km from the craftsmen's base of activity were taken out of the scope of the social and tachograph rules.

These proposals should bring substantial cost savings to SMEs. The Regulation on the simplification of prospectus and disclosure requirements in relation to the Internal Market of securities[126], for example would save 20% or between 20.000 and 60.000 EUR per prospectus. The legislation on the digital tachograph[127] would entail a cost reduction of 20% or 415 million EUR in total.

Public Procurement:

New public procurement Directives were adopted in February this year and enter into application from April 2016. They encourage increased use of e-procurement and further measures to reduce regulatory burden and simplify access of SMEs through reduced requirements for the provision of authentic documents and promotion of smaller procurement parcels. For example, the Commission estimates that increasing the use of self-certifications could reduce administrative burden on firms by €169 million[130], the overall savings through e-procurement could amount to between 5% and 20% of procurement costs.[131]

At the same time, there are also cases where cost savings projected at the stage of impact assessment could not be delivered due to amendments in the legislative process, such as regarding producer registration in the context of waste of electrical and electronic equipment.[130] Simplifications in environment proposals on waste shipment and environmental impact assessment were not supported by the legislator.[131] Combating late payments in commercial transactions, company accounting requirements, collection of statistics[132], co-ordination on VAT and simplification of VAT obligations are also areas where Member States have been reluctant to reduce burdens, citing subsidiarity or additional national policy justifications.

123 Exemptions cover i.e. food sold directly from the farm or small local retailers. Lighter regimes are applied in other cases relevant to SMEs, i.e. nutrition information can be based on calculation from generally established and accepted data avoiding costly laboratory analysis.
124 These provisions allow Member States for instance to require that information concerning allergens or regarding intolerances in non-packed food and in restaurants is only provided orally or on request.
125 Directive 2013/55/EU published on 28 December 2013 (OJ-L354).
126 Commission Delegated Regulation 862/2012
127 Regulation (EU) No 165/2014 of the European Parliament and of the Council of 4 February 2014 on tachographs in road transport, repealing Council Regulation (EEC) No 3821/85 on recording equipment in road transport and amending Regulation (EC) No 561/2006 of the European Parliament and of the Council on the harmonisation of certain social legislation relating to road transport.
128 Directives 2014/24/EU and 2014/25/EU: The adoption of self-declarations as preliminary evidence and the 'winning bidder' approach to documentary evidence would reduce administrative burdens associated with public tenders by 80%. See also the impact assessment: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011SC1585&from=EN.
129 Contracting authorities and entities that have already made the transition to e-procurement commonly report savings between 5 and 20%; experience also shows that investment costs can be rapidly recouped. Given the size of the total procurement market in the EU, each 5% saved could return around €100 billion to the public purse. (E-procurement strategy – COM(2012)179final)
130 Directive 2012/19/EU: The proposed interoperability and data-transfer between national producer registers was expected to lead to cost savings to producers of about 66 million EUR/year. This aspect of the Commission proposal was not adopted by the legislator.
131 A mandatory one-stop shop to coordinate and integrate assessment procedures and measures to accelerate decision–making under the Environmental Impact Assessment Directive (2011/92/EU) were opposed by the legislator limiting efficiency benefits to business. A mandatory electronic data exchange within the area of waste shipment with estimated yearly savings to business of 44 MEUR was equally opposed by the legislator.
132 See section III below: A new architecture for EU business statistics.

Furthermore, a number of important simplification proposals with significant savings are still pending adoption by the legislator: for instance the Commission proposal for a common set of rules to calculate the corporate tax base which would considerably reduce tax compliance costs of businesses operating in the Single Market.[133] There are also other cases where current discussion in the legislative process could result in a reduction of estimated savings. For example, savings to business estimated at 15 billion EUR per year, included in the Commission's proposal for an EU standard VAT declaration risk being substantially diminished if certain changes discussed in Council are adopted.

Action taken by Member States

Member States have the important responsibility of the timely implementation and full application of EU Law. In that regard, it is up to Member States authorities to use simplification options offered by EU legislation and ensure that EU laws are applied on the national, regional and local level as effectively and efficiently as possible. It is estimated that up to one-third of administrative burden linked to EU legislation stems from national implementing measures.[134]

> An example of significant variations in Member State practice is the area of public procurement where a recent evaluation found that the typical duration of a procurement procedure varied between 11 and 34 weeks, while the average cost in person days of work varied by a factor of four between different Member States.[137] Another example concerns the environmental impact assessment process, where the average duration of the process in the Member States varies between less than 5 and 27 months, and the average direct cost to developers varies between less than 4,000 and 200,000 EUR per project.

Several Simplification proposals in the areas of customs enforcement of intellectual property rights (IPR) and take-back of electronic waste (WEEE) have entered into force in early 2014. The IPR Regulation[136] will reduce administrative burdens and costs, enable better risk management and improve the enforcement of intellectual property rights. The WEEE Directive[137] provides an exemption of small retailers from the take-back obligation for electric and electronic waste. It is important that all Member States fully implement and take advantage of the simplification and burden reduction provisions in these proposals.

There are however significant examples where Member States do not use simplification options offered by EU legislation or burden is added through national regulation in areas not directly covered by EU rules. This is the case, for instance, in the area of food safety, where optional lighter regimes for small establishments are not always used,[138] in the area of road freight transport, where some national requirements for recording of driving time for light commercial vehicles in areas not covered by EU law add regulatory burden for small companies,[139] and in company accounting requirements[140]. Significant benefits can also be brought for SMEs through full use by Member States of the flexibility allowed under the regulation on how food information is provided to consumers. The Commission will monitor the implementation practice by Member States of these and all other REFIT actions and include the state of play in the next edition of its scoreboard planned for 2015.[141]

While the Commission works closely with Member States on implementation across all sectors of the acquis, monitoring horizontal regulatory impacts has developed alongside the increasing focus on regulatory fitness. It has started, for example, under the Administrative Burden Reduction Plus Programme (ABR+)under which the Commission is following up on the implementation choices of Member States regarding the 12 most

133 The Commission proposal for a Common Consolidated Corporate Tax Base (CCTB) – COM(2011)121 – is pending in legislative procedure since March 2011
134 COM(2009)544: 'Action Programme for Reducing Administrative Burdens in the European Union – Sectoral Reduction Plans and 2009 actions'
135 http://ec.europa.eu/internal_market/publicprocurement/docs/modernising_rules/executive-summary_en.pdf

136 Regulation 608/2013.
137 Directive 2012/19/EU.
138 EU Food Safety legislation allows Member States authorities to adopt lighter regimes concerning certain investments for small business in the meat processing sector.
139 EU law requires recording of driving time for light commercial vehicles from 3.5 tons and exempts craftsmen on local trips in vehicles up to 7.5 tons while some national rules require the recording of driving time from 2.8 tons up.
140 Directive 2006/46/EC.
141 The first edition of the REFIT scoreboard presented in conjunction with this Communication does not yet include information on Member States' implementation.

advanced priority measures[142] taken within the Administrative Burden Reduction Programme between 2007 and 2012.[143] The purpose of this exercise is to share best practice in implementation and to verify whether the estimated reduction in administrative burdens have been achieved on the ground. Initial findings indicate that estimations of savings can be confirmed in some Member States in the areas of Intrastat, the Industrial Production Survey and the Digital Tachograph. However, difficulties have been encountered in obtaining sufficient and consistent quantitative data and statistics, and relatively few examples of best-practice in implementation and opportunities for further simplification at national level have been received. Strong support has been expressed in the Group of High Level National Regulatory Experts for this collaborative follow-up between Commission and Member States on the practical impact of EU regulation on-the-ground. The Commission continues to work with Member States and stakeholders to produce more sound information on the impacts of EU regulation. The results of this work will feed into the next REFIT scoreboard.

142 (1) Allowing more SMEs to benefit from simplified accounting/auditing regimes - Directive 2006/46/EC of 14 June 2006; (2) Allowing Member States to exempt micro enterprises from certain provisions of the accounting directives - Directive 2012/6/EU of 14 March 2012; (3) Simplifying and streamlining the notification system for shipments of waste - Commission letter of recommendation to Member States of July 2010; (4) Only the winning enterprise needs to submit the documents demonstrating suitability as a tenderer in a procurement procedure – COM (2011) 896; (5) Reducing the number of respondents when compiling statistics on intra-EU trade - Regulation 638/2004 of 31 March 2004; (6) Reducing reporting requirements on industrial production in the EU – Council Regulation 3924/91 of 19 December 1991 and Commission Regulation 36/2009 of 11 July 2008; (7) Suppressing additional requirements on invoices and enabling wider use of electronic invoicing - Council Directive 2010/45/EU of 13 July 2010; (8) Suppressing in the VAT refund procedure the obligation to fill out paper forms in the language of the Member State of refund – Council Directive 2008/9/EC of 12 February 2008; (9) Digital Tachograph (in particular introduction of digital tachographs and simplifying the use of digital tachographs, keeping in mind the future widening of the exemption of small craft business from tachograph requirements and further simplifications - Regulation 3821/85 of 19 July 2011; (10) Abolishing the notification of transport tariffs/alleviating the obligation to keep documentary evidence on board – Council Regulation 569/2008 (amending Regulation 11/60) of 12 July 2008; (11) Simplifying obligations for road haulage and road passenger transport - Regulation 1071/2009 of 21/10/2009 and Regulation 1072/2009 of 21/10/2009 and (12) Simplifying egg labelling – Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013.

143 See the Final report of the Administrative Burden Reduction Programme (ABR) in SWD(2012)423final.

3. Future REFIT initiatives

Keeping EU legislation 'fit for purpose' requires continuous efforts. For this reason, the Commission implements REFIT as a rolling programme and recently updated the mapping and screening exercise of the EU's legislative stock which was first carried out under REFIT in 2013. The comments and suggestions by various stakeholders to the Commission's REFIT agenda received since October 2013 were also taken into consideration.[144]

On the basis of this analysis, the Commission considers that new initiatives for simplification and burden reduction are warranted in several areas. These initiatives include the simplification of EU legislation on identity and travel documents, the development of a new comprehensive architecture for business statistics (see below), the extension of the one-stop-shop in the area of VAT to all business to consumer supplies[145] together with the development of an EU VAT Web portal to inform businesses about national and EU VAT rules and the codification of legislation on third country listings for visa requirements[146].

A new Architecture for EU Business Statistics

The Commission is working to streamline the reference framework and simplify data collection for business statistics. In response to business complaints, a project on intra-EU trade statistics (SIMSTAT) has been launched. It will test new data collection techniques which should facilitate better use of statistical data which has been collected, thereby simplifying and reducing reporting obligations for business. This cost-effective approach has the potential to be implemented in other statistical domains (e.g. statistics on multinationals, international trade in services and foreign direct investments) and will be rolled out, if tests are positive within the broader Framework Regulation Integrating Business Statistics (FRIBS).

144 The Commission has received comments and suggestions from Member States authorities (FI, DE, NL, UK) from business stakeholders, trade unions and other organizations of civil society. The submissions can be consulted at the Commission's Smart Regulation Website: http://ec.europa.eu/smart-regulation/refit/index_en.htm

145 The objective of the initiative is to reduce obstacles to cross border trade and safeguard Member States' VAT revenues by making the EU VAT system simpler, neutral and more robust.

146 Other initiatives include the review of legislation on nuclear issues, a proposal in the area of emergency travel documents and the review of Regulations on the import of textile products and of dual-use items.

The Commission will prepare repeals of legislation in further areas: energy labelling,[147] transport rates and conditions,[148] the Common Agricultural Policy and in relation to standardized reporting in the area of environment. In addition, the Commission is also screening the acquis in respect of police cooperation and judicial cooperation in criminal matters to identify acts which could be repealed in the context of the expiry of the transitional period set out in the Treaties.[149]

The Commission considers it good legislative management to withdraw proposals that do not advance in the legislative process, in order to allow for a fresh start or for alternative ways to achieve the intended legislative purpose. A close scrutiny of all pending proposals before the legislator has resulted in the identification of further proposals which are either outdated or without support by the legislator and should therefore be suggested for withdrawal. These include proposals on investor compensation schemes, aviation security charges, pregnant workers[150], a compensation fund for oil pollution damage and exempting micro companies from certain food hygiene provisions, even though the latter would have brought significant benefits for smaller businesses.[151]

Given timing considerations relative to the new legislature, the current Commission will focus on key items in 2014. The Commission has screened its planning agenda and decided to retain only the most essential items.

Finally, the Commission envisages launching over the medium term several new evaluations and Fitness Checks of the performance of existing EU regulations and the application of Treaty law, including on consumer protection on timeshares, late payments, the legal framework for pre-packaging, the design system in the EU, the Directives on Prospectus, the application of the mutual recognition principle in view of improving its functioning in the internal market[152], carbon capture and storage and CO_2 emissions of light commercial vehicles and passenger cars, telecoms, and legislation on unauthorized entry, transit and residence[153].

In other key areas where wider policy reviews are in preparation such as the Digital Single Market, it will be important to identify the remaining barriers and assess the regulatory framework for costs and simplification potential.[154] There is a clear REFIT aspect to these types of exercises.

All new initiatives are set-out indicatively in the Staff Working Document and are subject to confirmation in the Commission Work Programme for 2015.

Chemicals Legislation

The Commission considers that a continued effort is needed at EU, Member State and stakeholder levels to further facilitate the implementation of legislation on chemicals, notably REACH, and to reflect on specific areas where rules can be simplified and burdens reduced. This needs to be done in such a way as to achieve a high level of protection of health and of the environment, while at the same time maintaining the competitiveness and innovation of European industry in this area, as well as the free circulation of goods in the Internal Market. The Commission review of REACH in 2013 identified some needs for adjustments, but concluded positively on the functioning of this legislation and that it need not be amended at this point. However, the Commission recognises the need to reduce the financial and administrative burden of REACH on SMEs and to improve its implementation at all levels.

147 Energy labelling of fridges (Directive 2003/66), household dishwashers (Directive 1999/9) and washing machines (Directive 1995/12) following the adoption of new implementing measures.
148 Council Regulation No 11 concerning the abolition of discrimination in transport rates and conditions, in implementation of Article 79 (3) of the Treaty establishing the European Economic Community of 16 August 1960.
149 Protocol 36 on transitional provisions, Article 10
150 COM(2008)600/4
151 COM(2007)90 final
152 Following an invitation by Council in December 2013 to report on the application of the principle of mutual recognition by mid-2015 (see: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/intm/139846.pdf).
153 Other areas include marketing standards for veal, labelling rules for beef, the programme for outermost regions, the Fuel Quality Directive (once transposed and fully implemented), oil stocks, the Fisheries Control Regulation, nuclear safety, standardization, asbestos pollution, animal testing, strategic environmental assessment, flood risks, volatile organic compounds, insurance (once sufficient experience is gained with the implementation), training, qualification and licenses in road transport, maritime transport and safety, port reception for ship generated waste, VAT e-invoicing and the mini one-stop shop as well as the industrial sectors of construction and glass and ceramics.
154 This will include the examination of legislation on online-services - Directive 98/84/EC on the legal protection of services based on, or consisting of conditional access and Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market.

A number of corrective actions have already been implemented for this purpose including a substantial reduction of fees. New measures are being taken in 2014: specific assistance to SMEs to meet the 2018 registration deadline for small production volumes; identification of more efficient ways of managing substances of very high concern and of identifying alternatives to hazardous chemicals; improving communication with SMEs; and analysis of impacts of REACH on SMEs and on competitiveness and innovation. In the medium term, other measures are being considered to improve the authorization process of chemical substances to make it more predictable for business. These measures include for example, reducing the frequency of amendments of the list of substances subject to authorization, simplifying the authorisation process for some specific low-risk cases and a stronger consideration of socio-economic impacts when including new substances in the authorisation list.[157]

It is important that industry and Member States play their active roles in implementing REACH. This could include, for instance, increasing the capacity of national helpdesks and/or chambers of commerce advising on REACH implementation as well as ensuring a better level of coordination between and within Member States.

A package of initiatives covering regulatory fitness of the chemical sector will be launched in 2014, including a Cumulative Cost Assessment and a Fitness Check of the most relevant chemicals legislation other than REACH.

The conclusions of the various strands of this work including the ongoing evaluation of the occupational health and safety legislation and the results of the earlier REACH Review will provide a complete picture and an outlook on any further possibilities to improve regulatory fitness in this area. The Commission invites stakeholders and Member States to enter into a joint reflection on these questions and feed into a stock-taking report foreseen for 2016.

4. Horizontal actions

REFIT is part of the Commission's wider smart regulation policy which also includes the regulatory tools of impact assessment, stakeholder consultation and evaluation. The Commission is committed to further strengthening these instruments and other horizontal actions, including a stronger focus on the assessment of costs and benefits of regulation and the reduction of administrative obligations, such as reporting requirements.[156]

Impact Assessment

The Commission's impact assessment (IA) system operates at an early stage of the policy cycle, when new proposals are being developed to establish an evidence-base for informed policy making and to ensure that Commission proposals comply with the principles of subsidiarity and proportionality. The system has undergone continuous strengthening and improvement since it was set up in 2002 such as the publication of revised guidelines in 2009 and complementary guidance in various areas (competitiveness and micro-enterprises, fundamental rights, social and territorial impacts). The evidence-base – better data and scientific advice – is being continuously strengthened in the IA process. To facilitate the quick identification of IA results, including benefits and costs, the Commission introduced a standard two-page summary sheet in its impact assessment reports in 2013. Building on experience gained (over 350 impact assessments since 2010), the Commission has committed to update its IA guidelines and will seek stakeholders' views through a public consultation which will be launched in June 2014.

Ex-Post Evaluation

Systematic ex-post evaluation of EU regulation verifies whether the expected results and impacts of EU regulation have been achieved. Evaluation planning has been improved with the planning of evaluations being published on Europa.[157] In order to further strengthen evaluation policy and practice, the Commission carried out a public consultation of its new evaluation guidelines between November 2013 and February 2014. The results will feed into the upcoming revision of the evaluation guidelines.[158] These will include reference to Fitness Checks which were introduced in 2010 as comprehensive policy evaluations assessing coherence and consistency between and within regulatory areas and whether a larger regulatory framework for an entire policy sector is fit for purpose. Fitness Checks have since been completed in several policy areas, such as environment (EU Freshwater Policy), employment and social policy (Information and Consultation of Workers), industrial policy

155 See the accompanying Staff Working Documents for further details.

156 See COM(2012)746

157 See the Commission's Smart Regulation Website: http://ec.europa.eu/smart-regulation/evaluation/index_en.htm

158 responses have been received from public authorities, stakeholders and citizens in the context of this public consultation. They will be published together with a summary report on the Commission's Smart Regulation website: http://ec.europa.eu/smart-regulation/index_en.htm

(Type-approval of Motor Vehicles) and transport (Internal Aviation Market)[159] and can lead to the preparation of several legislative proposals for simplification and burden reduction.[160]

Stakeholder consultation

Dialogue with citizens, social partners and other stakeholders in business and civil society helps to make sure that EU law making is transparent, well targeted and coherent. The consultation of social partners and other stakeholders is enshrined in the Treaties and is particularly important in relation to detecting issues of proportionality and subsidiarity.[161] The Commission carries out consultations at each stage of the policy cycle. In order to further strengthen the quality, scope and targeting of consultations, the Commission will continue to improve its planning of consultations through the preparation of consultation strategies at the policy preparation stage and continued publication of its evaluation planning. It will issue internal guidelines to advise and support Commission staff carrying out consultations with stakeholders outside the EU institutions with a view to enhance the quality of consultations. These guidelines will be put out for public consultation before adoption by the Commission. The Commission will also continue its efforts to extend the reach of its consultations through wider language accessibility, within budgetary limits. The Commission will strengthen the use of consultations in evaluations and Fitness Checks by applying minimum standards of consultation as it is currently done for impact assessments.[162] The Commission will recommend that agencies apply the minimum standards when running consultations. The Commission is also considering how to improve public consultations on implementing and delegated acts.

The Commission will take steps to improve feedback. Stakeholders can already react on both the consultation planning on Your Voice in Europe[163] and on roadmaps which are published by the Commission as early indications on its legislative intentions. An electronic alert system has recently been introduced.[164] Efforts will be made to improve the web sites to facilitate those comments and feedback. Individual replies received from stakeholders will normally be published within 15 working days of the closure of the consultation and a summary report will be published at the latest with the adoption of the proposal by the Commission. Some Member States are also systematically collecting comments and suggestions from stakeholders which can provide valuable inputs to the Commissions efforts for regulatory fitness at the European level.

The Commission also plans to bring forward suggestions to extend its outreach to social partners and stakeholders, particularly small and medium-sized enterprises (SMEs) through direct contact at conferences in Member States, and through consultation via European and national SME associations and the Enterprise Europe Network.

Measurement of Regulatory Costs and Benefits

The measurement of costs and benefits is an important aspect of Smart Regulation. The Commission has recently published the results of an external study on methods of assessing the costs and benefits of regulation which will provide an input to updating the impact assessment guidelines.[165] The measurement of regulatory costs and benefits is also a focus in fitness checks and ex-post evaluations.

In order to assess the variety of regulatory costs incurred by specific industrial sectors, the Commission undertakes Cumulative Cost Assessments (CCAs). Two CCAs on the steel and aluminium industries have already been completed,[166] a CCA has started on the chemical industry and more work is planned for the forest based industries, the ceramics and glass industry and the construction sector. CCAs provide industry-wide assessments of a variety of key cost factors. Given their limited scope and the focus on regulatory costs rather than benefits, CCAs cannot be the sole basis for policy recommendations. Their results will feed into evaluations, Fitness Checks and impact assessments.

Measuring regulatory costs at EU level presents particular challenges as the estimated costs of legislative proposals

159 Final reports available at http://ec.europa.eu/smart-regulation/evaluation/documents_en.htm

160 I.e. the Fitness Check on information and consultation of workers could lead to the consolidation of 3 Directives, taking into account the results of the consultation of the Social Partners, the Fitness Check on type approval of motor vehicles will be followed by a revision of the Framework Directive 2007/46/EC, see complete indications in the REFIT scoreboard.

161 Consultation is laid down in Article 11 / TEU and in protocol nr. 2 on the application of the principles of subsidiarity and proportionality. Consultation of social partners in the context of social policy is laid down in articles 153, 154, and 155 TFEU also providing opportunities for their involvement in REFIT.

162 Specific consultation frameworks which are set out in the Treaties, other EU legislation or international agreements (e.g. social partner consultations) are excluded.

163 http://ec.europa.eu/yourvoice/index_en.htm

164 Subscriptions can be made at: https://webgate.ec.europa.eu/notifications/homePage.do?locale=en

165 Consult the study 'Assessing the costs and benefits of regulation' at http://ec.europa.eu/smart-regulation/impact/commission_guidelines/docs/131210_cba_study_sg_final.pdf

166 See: http://ec.europa.eu/enterprise/sectors/metals-minerals/files/steel-cum-cost-imp_en.pdf and: http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=7124&lang=en&title=Final-report

by the Commission are often modified through amendments in the legislative process and depend on implementation choices by Member States. This implies that the assessment of costs and benefits must be updated by Parliament and Council if proposals are changed in the legislative cycle.[167] In addition, the accuracy of cost and benefit measurement in impact assessments and ex-post evaluations depends on the quality of data provided by Member States , social partners and stakeholders.

The ex-post assessment of actual costs can show significant variation from the ex-ante estimate. Costs can be overestimated as can cost savings.[168] In its ex-post evaluation work the Commission is increasingly looking into the extent to which real costs and benefits match estimates made in earlier impact assessments.

Reporting requirements

Reduction of regulatory burden can be achieved by improving efficiency, coherence and consistency as well as reducing reporting requirements.[169] When making new proposals, the Commission strives to minimise reporting requirements and seeks alignment of different requirements. Actions to streamline and consolidate reporting requirements should engage the cooperation of Parliament and Council, as reporting requirements are often added in the legislative process.[170] Reviews should also be carried out at national, regional and local levels in order to identify obligations exceeding the requirements set in EU legislation.

With regard to reporting to and by the Commission, the Commission has carried out reviews in the areas of environment[171] and health and safety at work.[172] Areas where reporting requirements have been streamlined include cohesion policy and energy[173]. This work can be extended into other areas in 2015.

5. Regulatory Fitness: A Shared Goal

The Commission welcomes the interest in REFIT by Member States and stakeholders and in particular the support by the European Council and the European Parliament.[174]

Since the publication of the Commission's REFIT agenda last October, a large number of comments, suggestions and contributions have been received by Member States[175] and stakeholders. They have been considered during the update of the regulatory screening performed under REFIT in 2014 and are published on the Commission's smart regulation website to inform further joint reflection, discussion and action.[176]

The Commission also welcomes the confirmation by stakeholders in business and civil society that regulatory fitness is necessary and important. As a response to the concerns expressed by some stakeholders, the Commission reconfirms that REFIT does not question established

167 One example where this may be warranted are rules for importing plants and plant products into the EU where amendments to the Commission proposal currently under discussion in legislative procedure risk increasing costs to business (COM(2013)267 - Commission Proposal for a Regulation on protective measures against pests of plants, see also the accompanying scoreboard).

168 Real costs established ex-post can differ from ex-ante estimations due to technological advance and business innovation and efficiency. In the area of steel, for instance, the costs of environmental protection per ton of product have remained stable or declined over the last 20 or so years despite the sector's improving environmental performance. (Cumulative Cost Assessment for the Steel Industry: http://ec.europa.eu/enterprise/sectors/metals-minerals/files/steel-cum-cost-imp_en.pdf)

169 Reporting requirements are often linked, so that for instance a requirement for the Commission to report to Council or Parliament can bring additional reporting obligations to Member States' authorities, stakeholders and business.

170 The Regulation on Common Provisions for Cohesion Policy lists 28 individual reporting requirements in 11 areas; six of them require regular reporting. The final Directive on enforcement on posting of workers contains additional reporting requirements for Member states added in the legislative process (see REFIT scoreboard).

171 Significant advances have been made in the streamlining of previously unlinked reporting streams in the field of water (between the Marine Strategy Directive, the Water Framework Directive and the Habitats and Birds Directives), such that data and information need only be reported once to meet the requirements set out under the various Directives, significantly reducing administrative burden. The results of a separate pilot exercise to reduce reporting requirements in the area of urban waste water will lead to simpler and more effective reporting requirements.

172 Since 2007 Member States submit a single report to the Commission instead of separate reports on the practical implementation of 24 Directives in the area of health and safety at work (Directive 2007/30/EC amending the Framework Directive 89/391/EEC).

173 In 2013, the Commission carried out a screening exercise on reporting obligations in the areas of energy and cohesion policy in order to simplify and streamline requirements. In the area of energy alone, this exercise allowed 43 reporting obligations to be merged into 14.

174 See the Conclusions of the European Council of 24-25 October 2013, Conclusions of the Competitiveness Council of December 2013 and the European Parliament Resolution of 17 April 2014 on the 'top ten' consultation process and lightening the burden of EU regulation on SMEs.

175 Contributions have notably been received by Finland, Germany, the Netherlands and the United Kingdom.

176 http://ec.europa.eu/smart-regulation/refit/index_en.htm (needs to be verified)

policy objectives or come at the expense of the health and safety of citizens, consumers, workers or of the environment. It is important to raise awareness so that all stakeholders can see benefits arising from REFIT, namely that the Commission is trying to make sure that EU legislative action is taken in an effective and efficient way and at the right level, with EU added value clearly demonstrated.

Experience in implementing REFIT has shown that regulatory fitness can only be achieved jointly by European Institutions, Member States (national, regional and local level) and stakeholders in business and civil society. Regulatory fitness should be given priority and all EU institutions should assess the impacts of their policy choices whether at the preparation stage or in the legislative process. Cooperation with Member States is essential to gather data and assess whether EU legislation has had expected effects. National Parliaments also have their role to play in providing input to the Commission at an early stage of the policy-making cycle and in scrutinising Commission proposals under the subsidiarity control mechanism.[177] Input from social partners, stakeholders, NGOs and the general public are also essential to the maintain momentum on Smart Regulation.

This joint effort has been supported over recent years from contributions to the Smart Regulation agenda from two High Level Groups on Better Regulation and Administrative Burdens. The Commission considers that this support and expertise can most usefully be combined in one single group, with a revised mandate to assess the impact of EU regulation on the ground in Member States, contributing to the results announced annually through the REFIT Scoreboard. This work could also contribute to the identification of areas of regulation ripe for evaluation, as well as contributing to evaluations and fitness checks on selected key issues. A proposal for creating a new High Level group to accompany future work will be made in the coming months.

6. Conclusions and Outlook

The Commission has acted on its Regulatory Fitness commitments since December 2012. This Communication shows the results achieved under REFIT and points to areas where future efforts should be focused.

Several lessons can be drawn from the experience in implementing REFIT thus far.

First, smart regulation and regulatory fitness require a firm political commitment and related adjustment of policies and processes at all levels - within the Commission, between the European institutions and within the Member States. Regulatory fitness is not a one-off 'quick fix', or a box ticking exercise. It demands that administrations be given the mandate and be equipped to deliver evidence based policy making, with the active involvement of social partners and stakeholders at all stages of the policy cycle – from impact assessment to ex-post evaluation.

Second, there is a need for scrutiny of the regulatory processes. The Impact Assessment Board has provided an essential quality control function. It has been supported with procedural rules which have ensured that only those proposals accompanied by a sound impact assessment can be tabled for consideration by the College. The European Parliament and increasingly the Council provide another level of scrutiny, assessing the soundness of the Commission's impact assessment. This is a unique situation – few regulators or administrations themselves apply or are subject to the same levels of quality control and scrutiny as the European Commission. Some suggest that an additional external quality control entity should be established. The Commission does not support this idea since it would interfere with its policy making and legislative role – for the Commission to make good, well balanced proposals it must carry out its own impact assessments. Once the Commission has published its assessments they are available for full public scrutiny and comment.

Third, experience shows that quantification – looking at costs and benefits - is a necessary part of regulatory assessment. However, the limits of quantification also need to be recognised. The Commission systematically examines costs and benefits in its impact assessments which cover economic, social and environmental impacts in an integrated manner. It quantifies these when possible. Neither cost nor benefit calculation is an exact science. Often, needed data is not available. The expected costs and benefits of the preferred option emerging from the impact assessment will go up or down depending on the choices made by the European Parliament and the Council in the legislative process and by the Member States in implementation. Actual costs can only be calculated ex-post. As a consequence, one focus in REFIT should be on quantifying costs and benefits to the extent possible throughout the regulatory cycle through the application of sound monitoring and evaluation frameworks, reviewed and adjusted with each significant revision of the legislation, which will ensure availability of the necessary data when it comes to assessing real costs and benefits.

Fourth, the need for legal certainty and predictability combined with the length of time it takes to change

177 Foreseen by protocol no. 2 of the treaties.

legislation at EU level argue against quick fixes and catchy schemes for legislative reduction. Every change has a cost and the transitional cost of change is not always sufficiently taken into account. Transition costs have to be carefully weighed against the costs of inaction.

Fifth, the detection of unnecessary burden and cost by those directly affected by legislation can be an important complement to quantitative assessment. Consultation and debate are therefore essential.

Taking these observations into account, and looking to the future, the Commission will continue to give priority to and keep up the momentum on regulatory fitness. It will continue to focus on areas of significant EU value added respecting the principles of subsidiarity and proportionality. It will complete the preparations for the revision of its guidelines on impact assessment, stakeholder consultation and evaluation in the coming months. It will firmly anchor REFIT in the Commission's procedures and practices.

The Commission will continue to work closely with Parliament and Council to ensure that benefits in simplification and burden reduction are confirmed in the legislative process and calls upon the legislator and upon all Member States to develop sufficient capacity to contribute to these efforts in their respective areas and to carry-out ex-ante impact assessments of significant amendments to Commission proposals in the legislative process.[178]

The Commission will also continue to work with Member States and stakeholders, notably within the ABR+ Programme, to confirm estimated cost savings, to identify best practice in implementation and to improve the quality and collection of data on regulatory costs and benefits needed for assessing impacts of EU regulation on-the-ground.[179]

Cooperation between the European Commission and the Member States on evaluation and assessment of regulatory costs and benefits should be strengthened. Collaborative efforts in assessing implementation of EU legislation at national, regional and local levels should be launched.

The new mandates for Parliament and Commission starting this year offer an opportunity for all EU institutions to strengthen their commitment to smart regulation and regulatory fitness.

The Commission invites input, data and evidence from social partners and stakeholders on the state of play and outlook on REFIT presented in this Communication and in the accompanying staff working document.

178 See also the analysis of modifications in the legislative process of simplification and burden reduction proposals in the REFIT scoreboard accompanying his Communication.

179 According to estimations, one-third of regulatory burden of EU legislation is connected to national implementation.

Support package for Ukraine

PAPER FROM THE EUROPEAN COMMISSION

BRUSSELS, 25 JUNE 2014

This paper sets out the main concrete measures that the Commission is proposing for the short and medium term to help stabilise the economic and financial situation in Ukraine, assist with the transition, encourage political and economic reforms and support inclusive development for the benefit of all Ukrainians. These measures combined could bring overall support of at least **€11 billion** over the coming years from the EU budget and EU based international financial institutions (IFIs) in addition to the significant funding being provided by the IMF and World Bank.

This engagement constitutes both a response to help stabilise the country as well as to support the reform programme and further enhance ownership by the Ukrainian authorities. While some of these measures can be carried out quickly, others will require further planning and preparation. For many of them, the urgent and active support of the Council and Parliament are necessary.

Underpinning this approach is the ambition to help Ukraine fulfil the aspirations which have been clearly demonstrated by citizens and civil society in recent weeks in the unprecedented events in Kiev and throughout the country.

Highlights

- €3 billion from the EU budget in the coming years, €1.6 billion in macro financial assistance loans (MFA) and an assistance package of grants of €1.4 billion;
- Up to €8 billion from the European Investment Bank and the European Bank for Reconstruction and Development;
- Potential €3.5 billion leveraged through the Neighbourhood Investment Facility;
- Setting up of a donor coordination platform;
- Provisional application of the Deep and Comprehensive Free Trade Area when Association Agreement is signed and, if need be, by autonomous frontloading of trade measures;
- Organisation of a High Level Investment Forum/Task Force;
- Modernisation of the Ukraine Gas Transit System and work on reverse flows, notably via Slovakia;
- Acceleration of Visa Liberalisation Action Plan within the established framework; Offer of a Mobility Partnership;
- Technical assistance on a number of areas from constitutional to judicial reform and preparation of elections.

All these measures should be seen as the Commission's contribution to a European and international effort at providing a sustainable way out of Ukraine's difficult economic situation and to support its economic and political transition. The action of Member States in complementing and reinforcing what the Commission can mobilise on its own is crucial. The participation of partner countries as well as of the international financial institutions, notably the IMF, the EIB, the EBRD and the World Bank, is essential to leverage what we can all offer, increase the visibility of our collective action and improve its impact. All elements and instruments need to be pulled together to ensure an effective and coherent European Union and international response.

Part of the EU's effort is to support Ukraine on its path towards political and economic reform, including those set out in the Association Agreement /Deep and Comprehensive Free Trade Area (AA/DCFTA), which we stand ready to sign. It is essential to raise public awareness in Ukraine as well as in third countries on the benefits and opportunities that such reforms can offer both for Ukraine and the region as a whole.

Economic and financial assistance

Economic support takes the form of both macro financial and development assistance. The Commission is ready to mobilise some **€3 billion** from the EU budget in the coming years with the undertaking that a substantial amount of money can be made rapidly available to help Ukraine address its more urgent needs, including stabilising the financial situation and supporting the functioning of the new administration.

Macro-Financial Assistance

A total of **€1.6 billion** is foreseen for macro financial assistance (MFA). In the short term, the Commission is ready to mobilise €610 million in loans under MFA which has already been agreed but is conditional on the signature of an agreement between the government and the IMF. The Commission is willing to propose further MFA of up to €1 billion. The Commission has already deployed a mission on the ground to assess Ukraine's financial needs and to prepare the ground for such MFA. This team is working closely with the IMF.

Development assistance

Over the next seven years, a development assistance package to Ukraine in the form of **grants** could amount to a minimum of **€1.4 billion**.

The Commission is currently preparing a new **€140 million** programme for **2014** that would aim at improving the financial capability of the government and support the institutional transition, thus reinforcing the foreseen impact of the MFA. This would be complemented by actions aimed at supporting civil society. The size of such a programme could be **increased up to €200 million** if there were to be redeployment from within the European Neighbourhood Instrument (ENI) and if Ukraine were to benefit from the umbrella programme ("more for more") on the basis of proven progress in deepening democracy and respect of human rights.

For the remaining period of **2015-2020**, a **yearly** bilateral envelope of approximately **€130 million** is currently foreseen as part of the ENI with an **additional €40-50 million per year** from the afore-mentioned umbrella programme ("more-for-more") subject to proven progress in deepening democracy and respect of human rights and further significant funding from the Neighbourhood Investment Facility (NIF) described below.

As far as existing programmes are concerned, the Commission is currently funding a number of on-going sector budget support and technical assistance programmes which will provide input to the new Government in key areas such as economic development, public financial management and justice. This represents approximately **€400 million**.

In addition, the NIF will be mobilised in favour of bankable investment projects in Ukraine. Experience with the implementation of the NIF in the East over the past programming period has shown that, for an amount of **€200-250 million of grants** foreseen for Ukraine **for blending**, one could expect a leverage effect that would generate loans of **up to €3.5 billion**. The participation of International Financing Institutions (IFIs) will be crucial to allow this leveraging and to exploit its full potential.

Within the NIF framework, the Commission is now working on the possibility of setting up a dedicated window to support the implementation of the AA/DCFTA for the relevant countries. This would allow our partners to have access to a guaranteed and dedicated envelope to support investment in sectors crucial for modernisation and the adoption of EU standards (in areas such as environment and energy). We are also looking at using this facility to further leverage the investment opportunities in the private sector.

The Instrument contributing to Stability and Peace (IcSP), formerly the Instrument for Stability, could be deployed to target urgent actions, for example, on police reform and electoral support. **Up to €20 million** could be mobilised quickly if appropriate actions are identified and **a further €15 million** could be added from the CFSP budget to support measures in relation to security sector reform.

Finally, Ukraine is the most important country for the EU for operations in the area of nuclear safety and security. Currently, projects are being implemented under the Instrument for Nuclear Safety Cooperation for a total amount of **€50 million**, in the field of nuclear waste management and social projects in the affected area around the Chernobyl exclusion zone. In addition, a further envelope of **€36.5 million** can be contracted in the very short term for actions in this field. The programming period for the new financial period is on-going, which will allow the EU efforts in this area to be further stepped up.

The Commission reiterates its readiness to establish an **EU Trust Fund** should Member States support such an initiative. This would create a vehicle that would allow Member States to make substantial further financial contributions and would increase the visibility of the EU, including its Member States, and contribute to an effective, swift and coordinated disbursement of funds.

The **European Investment Bank** (EIB) is the EU's own policy-driven bank and already has a project pipeline in Ukraine of up to **€1.5 billion for the next three years**. The EIB could significantly scale this up, without diverting from other regions, if adequate guarantee provisions were to be granted and if the political and operational conditions allow. The EIB could then provide financing for long-term investments of **up to €3 billion for 2014 – 2016** in support of both the local private sector and economic and social infrastructure. After the Mid-Term Review of the EIB External Lending Mandate planned by end 2016, the EIB could further increase its activity until 2020 via the activation of the **€3 billion** optional mandate already foreseen, subject to the agreement of additional funding by the budgetary authority.

In its operations, the EIB works closely together with the other IFIs active in the region thereby contributing to a significant leverage effect. The Commission will also explore the opportunity for ring fencing and front loading some of the additional guarantees for the EIB funds secured with the FEMIP reflows for AA/DCFTA related lending.

For its part, the **European Bank for Reconstruction and Development** (EBRD) is an IFI in which the EU and its Member States account for a majority of the shareholding. As part of a coordinated financial assistance programme in support of credible structural and macroeconomic reforms, the EBRD could make **€5 billion** available over the same period, though that amount could be exceeded if economic circumstances permit.

International donor co-ordination mechanism

The Commission remains in close contact with both the IMF and the World Bank on the ground in Ukraine and at Headquarters. In order to help ensure effective delivery and maximise the impact of the EU economic and development assistance described above, as well as heighten its visibility, the Commission is exploring avenues to enhance international donor coordination by setting up, together with the international community and IFIs, an ad hoc donor coordination mechanism.

Such a mechanism could take work forward on the basis of a needs assessment and of the reform programme prepared by the Ukrainian authorities, and provide a sustainable way out of Ukraine's difficult economic situation supporting economic and political transition.

This donor coordination mechanism could take the form of an **international platform** based in Kiev which would meet regularly to closely coordinate donor efforts to address the economic situation of the country. The political guidance will be provided by high level coordination meetings of the international platform. The Commission is willing to host the meetings in Brussels. This mechanism is open to the participation, namely, of EU Member States, IMF, World Bank, EBRD, EIB, and interested third countries. EU participation would be led on the ground by the EU Delegation.

Trade and investment

While economic and financial assistance are essential, trade and investment are also key instruments in helping secure long term sustainability for Ukraine. All Ukrainians stand to benefit enormously from the ambitious DCFTA trade deal with the EU. For example, Ukrainian exporters will save almost half a billion euros annually due to reduced EU import duties; Ukrainian agriculture will benefit from cuts in duties on agricultural and processed agricultural products of almost €400 million. The different levels of economic development of the EU and Ukraine are reflected by the asymmetrical nature of the Agreement. It is designed to provide Ukraine with favourable treatment, for example, through the faster and broader opening of the EU market by the front loading of tariff dismantlement granted by the EU combined with a longer period for similar measures on the Ukrainian side.

The Commission stands ready to react quickly to ensure the rapid provisional application of the AA/DCFTA once a decision on its signature has been made.

In the meantime, the Commission is ready to offer the early application of those provisions of the agreement related to the imports of goods (i.e. the reduction of tariffs and opening of tariff rate quotas) by proposing a draft Council/Parliament Regulation on such so called 'autonomous trade measures'. These transitional trade measures, unilateral in nature from the EU side, would allow Ukraine to benefit substantially from many of the advantages offered by the Agreement already now, that is to say, in the period until it could be signed and provisionally applied. However, the rapid implementation of such support measures would require a clear commitment by the Council and the EP to fast track the approval process.

As part of the effort to mobilise all of its assets and instruments in support of Ukraine at this exceptional time, the High Representative and the Commission are also ready to convene a High level Investment Forum/Task Force to explore investment and co-operation possibilities in Ukraine. This should bring together a wide range of private and public economic actors, Ukrainian and EU and IFIs together with the host country to maximise their collective impact and ensure a sustainable, democratic and prosperous future for the people of Ukraine. Such an event would also provide an opportunity to help Ukraine to maximise the benefits of autonomous trade measures and the AA/DCFTA.

Energy and transport

Energy and energy security, and affordable prices, are essential for the stability and security of Ukraine. The EU will work with the new government in Ukraine, including through budget support, to ensure long term diversification of supplies and to make sure that the Ukrainian gas transmission system continues to be an essential transit route for gas supplies to the Europe. As such, the Commission will continue to work with the government in Ukraine to modernise its gas transmission system in co-operation with the EIB, EBRD and World Bank, as gas sector reforms in line with the Energy Community commitments are carried out. Provided that certain conditions are fulfilled, an initial loan could be possible in the near future.

In the short term, the Commission is ready to assist Ukraine in diversifying its gas supply routes, notably by ensuring that reverse flows with the EU, notably via Slovakia (in addition to Poland and Hungary as is currently the case), can be operationalised as soon as possible. The Commission should ensure, together with Slovakia, that the Ukrainian and Slovakian transmission system operators establish the necessary rules and process that allows gas to flow from EU to Ukraine in increased capacities in order to enhance the security of supply in Ukraine. The text of a Memorandum of Understanding between the transmission system operators of Slovakia and Ukraine for the physical reverse flow via the Ukraine-Slovak pipeline was brokered by the Commission in December 2013 but was not signed. The Commission is ready to facilitate the signature by the two operators if requested. The Commission remains committed to continue working with the relevant Member States to facilitate the creation of additional reverse flow corridors to Ukraine via Bulgaria and Romania and via Croatia and Hungary.

In the medium term, should circumstances allow, the Commission continues to be ready to promote a trilateral approach (between EU, Russia and Ukraine) for the modernisation of the Ukrainian gas transmission system.

With regard to transport, following the initialling of the EU-Ukraine Common Aviation Area Agreement at the Eastern Partnership Summit in Vilnius, the Commission is advancing rapidly in preparatory work to allow the Council to take a decision on the signature of the Agreement and stands ready for its early implementation. The Commission is determined to continue working on the enhancement of the EU-Ukraine transport relations, in particular in the framework of the Eastern Partnership Transport Panel.

Mobility

Mobility is an important area where the Commission believes meaningful, visible, short-term steps should be taken. While a number of them depend on the political decisions of the Member States, the Commission is willing and ready to pro-actively facilitate swift and efficient coordination in this area. The Commission fully recognises the importance of mobility and people-to-people contacts for Ukrainian citizens and will support Ukrainian efforts to move forward the visa liberalisation process as quickly as possible in line with the agreed conditions of the Visa Liberalisation Action Plan. Progress will of course depend on how the new authorities are able to tackle the most important outstanding issues. However, the Commission can and will do its outmost to help solve the remaining issues in an accelerated manner. Completing the visa liberalisation process will lead to the abolition of the visa obligation for Ukrainian citizens wishing to travel to the Schengen zone for up to 90 days within 180 days.

In the meantime, a Visa Facilitation Agreement (VFA) is in operation between the EU and Ukraine and the Commission encourages Member States to fully exploit its potential. It gives Member States the possibility of choosing from a series of measures, including waiving visa fees for certain categories of citizens. In addition, the Visa Code gives the Member States additional options to waive the visa fees for further categories, such as, for example, children.

In addition, the Commission is willing, subject to the agreement of Member States, to offer Ukraine a Mobility Partnership promoting people-to-people contacts and legal migration options, and offering a framework for co-operation and practical support to the Ukrainian authorities going beyond the visa liberalisation process. Such a Mobility Partnership could be established very quickly should there be an interest on the Ukraine side to do so.

People to people links and education

Under the new Erasmus+ programme, the EU will offer more opportunities for student mobility, academic cooperation and youth exchanges. The Erasmus programme will support short-term student mobility in both directions to obtain credits in a host institution, which are then recognised by the home institution. It is estimated that more than 4,000 young Ukrainians will benefit from university exchanges under Erasmus+, and more than 7,000 will take part in youth projects and exchanges.

Staff mobility for training and teaching will also be promoted. Ukrainian students and universities will be able to participate in high-level joint Master degrees offered by consortia of European universities. Capacity building measures will be offered to universities, to modernise curricula, teaching practices, upgrade facilities and improve governance. Erasmus + will also fund youth mobility through youth exchanges, European Voluntary Service and mobility of youth workers.

Ukraine will continue to take part in eTwinning for schools, with 101 schools and 280 teachers already registered since the official launch in March 2013. Researchers will be able to apply for doctoral or post-doctoral fellowships of other research grants available under the Marie Sklodowska Curie actions.

Additional actions

More broadly, the Commission remains committed to helping Ukraine build institutions which serve the interests of the state and the people by promoting good governance, rule of law and fighting corruption, etc. Making these institutions fit for purpose is not just an end in itself, but also a means to securing the country's medium and long term development, both socially and economically. Support for sustainable economic and political transition will also require grants providing technical expertise in many of the areas outlined in this paper.

In addition to this, the Commission and the High Representative will continue to provide support for **constitutional reform**, together with the Council of Europe and the Venice Commission. Assistance to support reform of the Prosecutor's Office and of the police through the EU-Ukraine Judiciary Reform Dialogue is also on-going. In addition, in the area of **electoral assistance**, the possibility of providing electoral support and technical assistance, including to monitoring in the context of an OSCE-ODHIR Electoral Observation Mission for future elections is being explored.

- Restrictive measures: The EU has demonstrated that it can act in a rapid and flexible manner to adopt the necessary relevant legislation. The Commission presented its proposal on Monday 24 February and is about to be adopted by the Council, updated to reflect the changing reality on the ground so as to now focus on the freezing and recovery of assets of persons identified as responsible for the misappropriation of State funds. The Commission stands ready to come forward with more proposals if and when necessary.
- Humanitarian aid and civil protection: The Commission has opened an antenna office in Kiev to monitor the situation and provide information, including to Member States, on humanitarian and civil protection issues. This office is in touch with all main relief and aid organisations to coordinate any possible future activities and carry out contingency planning. The Commission stands ready to provide assistance from the EU Civil Protection Mechanism should Ukraine request it. In anticipation, the Commission has already asked Participating States to the Mechanism to take stock of possible medical related offers of assistance.

Support to Ukraine: indicative assistance package

Source	Indicative amounts/ranges (in € million)
European Commission (2014-2020)	
Overall development assistance (grants)	**1,565**
Bilateral envelope where:	
=> Annual Action Programme (AAP) for 2014	140-200
=> AAPs (average) - for 2015-2020	780
=> Umbrella programme ("more for more") for 2015-2020	240-300
Neighbourhood Investment Facility	200-250
Instrument contributing to Stability and Peace (IcSP)	20
CFSP	15
Macro financial assistance (loans)	**1,610**
European Financial Institutions	
EIB	up to 3,000
EBRD	5000
Grand total	**€11,175**
p.m : previous programming period	
AAP for 2013 (committed)	199
AAPs for 2011-2012 (on-going)	201
Instrument for Nuclear Safety Cooperation	
(i) on-going	50
(ii) committed	36.5
Total	**€ 486.5**

My heartfelt and sincere thank you to those that worked closely with me during these challenging, but rewarding years!

JMDB

Composition of the Barroso I – College of Commissioners (in alphabetical order)

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European Commission 2004–2014
A testimony by the President with selected documents
José Manuel Durão Barroso

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