



**EUROPEAN COUNCIL
THE PRESIDENT**



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**Speech by Herman Van Rompuy
President of the European Council
at the European Parliament**

It may at first sight appear strange to be addressing the issue of longer term reforms to our system of economic governance when we have not yet completely dealt with the immediate difficulties, which are the legacy of past mistakes.

Yet these are two sides of the same coin: short-term solutions will not be credible in the absence of a longer-term perspective. The longer term perspective also presupposes that we can turn the corner on the current crisis. But in today's debate, I will focus, as the Parliament has suggested, on the longer term.

As you are aware, the conclusions of the Eurozone Summit of 26 October 2011 charged me, in close cooperation with the President of the European Commission and the President of the Eurogroup, to identify possible steps to strengthen the economic union to make it commensurate with the monetary union, focussed on strengthening economic convergence within the euro area, improving fiscal discipline and deepening economic union, including exploring the possibility of limited treaty changes. I will present an interim report to the December European Council, which will include a roadmap on how to proceed in full respect of the prerogatives of the institutions, including the European Parliament. A final report will be finalised by March or June 2012. The task I see for us is clear: we have to bring the economic monetary union to a solid end-state. I relish this opportunity to listen to your views.

P R E S S

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In discussing this, I think it is first advisable to look at what we have already done over the last twenty months, and then to see where it is desirable to move further. At that point it will become clear whether or not such further advances need treaty change, and if so what changes.

What is it that we have achieved so far? It is often overlooked and underestimated, not least by the outside world and the markets, and we need to be extremely vigilant in implementing it.

We have in fact put in place a multifaceted reform combining institutional pressure, peer pressure and market pressure. I mentioned these in the debate last month, but allow me to be more detailed now.

Institutional pressure has been strengthened, also thanks to your Parliament, through:

- The establishment of the three financial sector supervisory authorities and the European Systemic Risk Board
- The reform of the Stability and Growth Pact, providing for shorter deadlines, a greater focus on debts (and not just on deficits), and making it easier to sanction a Member State not fulfilling its obligations.
- Adding a new Macroeconomic Surveillance Procedure, looking at other macroeconomic imbalances: after all, debt is only a part of the wider economic picture.
- And finally, establishing the EFSF (and the longer-term ESM) capable of providing support in return for strict conditionality. Conditionality is a powerful tool, as is now becoming clear to all those who follow these matters.

At the same time, peer pressure has been enhanced. A few examples:

- For a start, all governments now realise much more acutely how the conduct of another country can have an enormous economic and financial impact on their own.
- Peer pressure will also be exerted at the highest political level, through regular Euro area Summits. The events of the past few weeks show how effective this can be for some countries.
- The European Semester provides an annual cycle of intense macro-economic, budgetary and structural policy coordination.
- 23 of the 27 Member States have agreed to go further and work together in the "euro-plus pact" on structural reforms that have a bearing on their competitiveness, over and beyond the important Europe 2020 programme.

Market pressure will complement the above because institutional and peer pressures will also have an impact on the market, amplifying their political effect. Markets may now be over- reacting, but they will not go to sleep again!

Indeed, the combination of these three pressures is already producing results. At their summit last month, Eurozone Member States entered into a number of additional commitments, notably the following:

- To translate the Stability and Growth Pact rules into national legislation, preferably at the constitutional level or equivalent, by the end of 2012
- To ensure that national budgets are based on independent growth forecasts
- To consult one another and the Commission before the adoption of any major fiscal and economic policy reform plans with potential spillover effects
- To also stick voluntarily to the recommendations of the Commission and the relevant Commissioner regarding the implementation of the Stability and Growth Pact
- Finally a number of Member States have adopted further reform measures, not least as a result of these pressures.

It was also agreed that, for Euro area Members in an excessive deficit procedure, the Commission and the Council will be enabled to examine national draft budgets and adopt opinions on them prior to their adoption by the relevant national parliament. The Commission will now bring forward proposals on closer monitoring to the Council and Parliament under Article 136. The Commission has already strengthened the role of the competent Commissioner in this field, and I would like to congratulate Olli Rehn on his elevation to the Vice-presidency of the Commission.

The Eurogroup of finance ministers will, together with the Commission and the ECB, remain at the core of the daily management of the euro area, as is explicitly mentioned in the conclusions of the Euro Summit. As you know, the treaty provides for the Eurozone finance ministers to elect their own President, currently Jean-Claude Juncker, to whom I want to pay tribute today for his work and engagement. When his mandate expires next year, a decision will be taken on whether his position should become a full-time one based in Brussels.

The Eurozone Summits will, and I quote, "define strategic orientations for the conduct of economic policies and for improved competitiveness and increased convergence in the euro area", in the same way as the European Council does for the Union as a whole. We will also organise a better coordination among the Eurozone institutions, and strengthen the existing administrative support without creating new bodies.

Does this strengthening of cooperation among 17 -- I repeat: among 17, no more no fewer - create a two-tier Europe? There has been much exaggerated talk about this. It is time to de-dramatise this debate.

After all, it is perfectly natural that those who share a common currency take some decisions together. Indeed, the existing treaty already provides for that, with a special chapter containing "provisions specific to Member States whose currency is the euro" and other provisions where only members of the Council from euro Member States can vote.

It is thus a perfectly normal part of our current institutional arrangements, a specific working method. And, as I said to you last month, the Eurozone is not a derogation from the European Union, it is part of the European Union. The treaty is quite clear: it is the Member States who have not joined the euro which are referred to as "Member States with a derogation". And, of course, most of them will in due course join the euro.

It is in the interest of the non-Eurozone EU members that its financial stability is organised and secured. A better structured Euro area is in everybody's interest, while ensuring coherence among the 27.

It is my intention to organise Eurozone Summits as a rule, in conjunction with European Council meetings, if possible following them. This will enable all 27 to contribute in the full European Council meeting and make points, should they so wish, on the issues to be discussed among the 17. Likewise, the Commission and the Parliament will continue to play their substantial roles, involving their members from all Member States. And I will report to Parliament on Eurozone summits.

Dear colleagues, I wanted to outline all this to you, because it shows that the steps taken over the last months -- each one perhaps small in itself -- amount cumulatively to a significant change already in our governance structures.

It is clearly the starting point for any reflection of where to go further.

In doing so, it is my intention to examine the "what" before the "how": we should examine the goals, only afterwards the legal instruments required to get there, including limited Treaty changes, should these prove necessary.

A lot can be done within the treaties, including the use of instruments such as enhanced cooperation. For Treaty changes a unanimous ratification is needed by every single Member State.

Institutional changes are no substitute for dealing with the immediate financial crisis. So we have to get the different time perspectives right.

However, improvements of all kinds are possible and in themselves desirable. It is useful, too, to give the public and the markets a sense of our medium term direction.

Some of the areas in which improvements to our economic governance could be envisaged are obvious, and others less so.

Let me mention the three issues in the mandate from the Euro Summit statement: strengthening economic convergence, improving fiscal discipline, deepening economic union.

Firstly, as regards strengthening economic convergence, we need to examine whether to go beyond the "sixpack" in terms of further macroeconomic surveillance, how to strengthen the framework for commitments under the Euro plus Pact, and whether there are areas in which enhanced cooperation is desirable among the 17 in areas of economic policy that are crucial for competitiveness.

Secondly, in terms of improving fiscal discipline, should we go further in terms of the automaticity of the sanctions provided for under the Excessive Deficit Procedure? Should we provide, in extreme cases, for further sanctions such as a suspension of voting rights, suspension of structural funds or other payments, or power for a central authority to intervene in national budgetary procedures?

Thirdly and finally, in terms of deepening economic union, is there a need for harmonisation in certain areas such as taxation or even some social fields? Should there be a limited mutualisation of public debt? What further regulations are needed for the financial sector?

Again, all these questions are interlinked and changes in one aspect cannot always be assessed independently of changes in others.

The crisis in the euro area does require us to do more. We have come a long way from the empty or de-credibilised tool-box I discovered when I took office -- which I still consider as a major error, all the more so that during the Convention warnings were given by lucid observers. But we now need to go further, and we need both fiscal discipline and economic and fiscal integration focussed on growth. Not only to punish the "sinners" but also to link our policies. To demonstrate that we share a common destiny.

We need to acknowledge that this means a sharing of sovereignty for all members of the Eurozone, and not only a loss for the countries in difficulty. We need to find the right balance between intrusiveness and legitimacy, discipline and incentives, effectiveness and accountability.

This will guide my thinking on the fundamentals of the Economic & Monetary Union in the months ahead.

But above all, today, I want to listen to your views, your ideas and your suggestions. This Parliament has always been a rich source of ideas, a laboratory of proposals for the development of our Union. I look forward to hearing them.