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The question we need to consider is 'Where will we be by 2020?', 'Where is Europe heading?' I will start by saying that I think we have reasons to be confident.

I would ask you to look at the facts before listening to people's comments. I am well aware that these days it is fashionable to be pessimistic in Europe, that as well as the eurosceptics who have always attacked EU policy, we are now facing pessimism from the europhiles, those who are in favour of Europe, but who are now starting to ask questions, particularly after the failure of the Constitutional Treaty in France and the Netherlands.

I would ask you now to think strategically, to think of Europe over time. First of all, let me tell you the sort of Europe that I would like to see by 2020: a Europe of vitality, imagination, openness, a competitive Europe attracting investors and encouraging young people to private initiative. A Europe that seeks to create jobs, that trains the best professionals, the best academics, the best researchers. A Europe too that provides the solidarity that society needs for its well-being. A Europe at the forefront of cutting-edge technologies, a Europe that innovates. A diverse and united Europe that is comfortable with modernisation and does not see it as a threat, that is not turned in on itself and that is capable of economic and political integration, as an example of globalisation, the best example in human history.

That is what Europe is all about. It is the first non-imperial empire, where independent states have freely joined together to form a stronger whole. This is the first time in history that states, in voluntary association, have shared their sovereignty without a centrally-imposed diktat. Europe is currently the world's leading trading partner and leading donor of development aid, so there is no reason for it to sink into depression. Yet this is a very fashionable attitude among many commentators today, and I have to say among many politicians too, who set themselves up as commentators, but do not realise that being a political guide involves more than just giving a lucid analysis, it also means setting an example by encouraging confidence in the leadership. So the Europe I hope to see will be a global partner, a Europe that has pride and confidence in itself.

We do, admittedly, have certain problems here, particularly two basic ones.

First, there is a structural problem to do with globalisation. Europe has not yet entirely come to terms with the idea of adopting a proactive response to globalisation. Most of the concerns that many Member States share - people in France think that they are the only ones with these concerns, but that is not the case - stem from fears about Europe's economic performance, which is poorer than the performances of some Asian countries in particular, and the USA. There are fears about relocation and job losses, there is anxiety, sometimes even distress. So how can we position Europe in relation to globalisation? This is our first challenge.

Our second challenge, which is also very important, is an institutional one. Here I think that the failure of the Constitutional Treaty through the 'no' votes in France and the Netherlands has indeed cast the shadow of doubt.

And as you know, once the shadow of doubt has been cast, it makes it more difficult to take any positive measures, even when there are positive results.

So how can we respond to the two big challenges of globalisation and the institutional question?

Let's take globalisation first. I think we can do more by making the best possible use of the single market. We do not yet have a proper single market in many fields in Europe. It exists for goods, which are the main thing, but not for services, nor do workers enjoy complete freedom of movement. There is still work to be done, and we are doing it: the Commission is applying the single market rules and competition rules to the letter, which is the best way to defend the huge market that we now have in Europe.

Let's not forget that the largest economies export to other European countries, sometimes up to 80% of their total exports. For instance, 75% of Germany's total exports go to European countries. So it is in our interest to defend the single market, first and foremost. This is why we are currently carrying out a fundamental review of the single market in order to determine what is needed to complete it and what obstacles are preventing it from being extended to other areas such as financial services, insurance or even postal services, health services and copyright. There are a lot of areas where we can push the single market forward.

I think the single market is important in the energy field, for example. It obviously makes no sense for Europe today to have 25 energy markets. And it obviously makes no sense to have 25 voices in Europe talking to their main suppliers and partners at global level. Here again we can see the 'need for Europe'.

The truth is that the results confirm that the reforms were valid, and this year we are beginning to reap the first rewards. Growth for 2006 is forecast at 2.6%, the highest since 2000. Unemployment is falling, and is now 8% on average. This is still very high, but it is at its lowest since 1998, in other words since statistics exist, for the 25 EU Member States. This year has seen the strongest growth in jobs in Europe since 1998.

Of course, we are still behind the USA and the Asian economies, but it must be borne in mind that the Asian economies are starting from a much lower basis. I would not swap our problems for theirs when it comes to social issues, long-term democracy and the environment.

We have problems in Europe, but I can assure you that other regions of the world which currently have more rapid growth have much more serious structural problems, such as most of their population living in absolute poverty. We have problems, and we know exactly what they are. But let's put them in perspective and compare them with the problems of poverty that other continents have, or with the problems facing more developed countries, such as the chronic deficit of our American friends, with all the insecurity that this may lead to in future.

We have now realised that we have to make more progress with everything that is helping to create better conditions for investment in Europe. This is not, as is very often claimed, a programme designed to promote business, it is a programme for ordinary people. We are all consumers. It is, admittedly, a programme that makes life easier for businesses, but that is because it is businesses that create jobs! And if the system does not encourage businesses to create jobs, it is not a good system for workers.

This is why we need to think about how to eliminate obstacles in terms of regulations, obstacles that are preventing us from getting the most out of the single market's potential. This is also why we are still determined to pursue a policy of better regulation, in order to avoid pointless red-tape whether in Brussels or in the Member States.

Let me tell you something: we have launched a simplification initiative to get rid of unnecessary legislation in Brussels, and every time we try to abolish a directive or a regulation, you always find people either in the European Parliament or in the capital cities who stand up for that same directive and say that it is essential. Sometimes the opposition even comes from the very countries that want to abolish the legislation. It's strange how much people want to keep all this red-tape.

However, we also have an approach on practical aspects. As I have already mentioned, we intend to carry out specific projects.

On energy, four or five years ago it would have been impossible to call for a European energy policy to be introduced. People would have said that it wasn't in the Treaties. Yet today, there is a demand for a common energy policy.

On immigration policy too, it is obvious that in a market and a system where the free movement of people is of primary importance, it is absurd, completely absurd, to have twenty-five different immigration policies. We need to have an approach that favours legal migration and that combats illegal immigration in Europe, at the risk that certain countries will suffer the consequences of other countries' decisions. So here again we need to fight for integration, for greater integration in the areas of justice and fighting crime in Europe. And this is the path the Commission intends to pursue.

We are now asking the Member States to decide on something that should go without saying: whether they are prepared to give up the unanimity rule on measures to combat organised crime, terrorism or immigration. We cannot carry on with a system that requires unanimity every time we try to tackle these fundamental problems.

So in some sectors we do have more Europe. I wouldn't say that people in Europe want less Europe, but that people want less red-tape. People want more Europe on immigration and energy, or in order to have a stronger presence in the world, as we saw recently with Lebanon.

We are now in an enlarged EU, and I think this is a great time for Europe. I know that in some circles there is still a certain nostalgia for the old 'mini' Europe, and that people are not yet completely used to the paradigm of an enlarged EU. But as I said and I say again, we need an enlarged Europe if Europe is to be powerful. We are not too big. If we compare Europe's size geographically with that of China, India or Russia, or its economic, financial and military power with that of our American friends, we can see that we are not too big.

I can tell you this, by way of a personal statement: today, when I meet the Russian President, the US President, the Chinese President or the Indian Prime Minister as part of my official duties, I notice that there is much more

respect for Europe than when I was doing the same thing as my own country's Foreign Affairs Minister in the 1980s and early 1990s.

Contrary to the perception that we here have, Europe today is more respected. One of the main reasons for this is that, as well as having introduced the euro, which is a great success, it has also succeeded in expanding and achieving a continental dimension. As I said before, having an enlarged EU is essential if Europe is to be powerful. However, this enlarged Europe does, of course, need to keep and strengthen the very principles on which it was founded, principles which we will be commemorating next year on the fiftieth anniversary of the Treaty of Rome.

Very soon now we will be welcoming Romania and Bulgaria, thus completing the latest major enlargement to date. I think we should be proud, because it means that finally, less than twenty years after the fall of the Iron Curtain, less than 20 years after the fall of the Berlin Wall, Europe will be reunified, and this is a great moment for Europe.

I also have to say, based on my experience as President of the Commission - which I have been for less than two years, but they have been two very intense years, I can assure you - that it is obvious to me that before there is any further enlargement, we need to reform the EU institutions.

We will not be ready to welcome more members to our Union if we do not first reform our institutions. But as everyone knows, or at least those who have worked on these issues do, reforming the institutions involves more than changing just one of them: we have to take a comprehensive view. I can tell you that we need a Constitutional Treaty in Europe, in order to answer three fundamental questions, and for three different reasons.

The first has to do with efficient decision-making. Clearly, when there are greater numbers involved, more time is needed to take a decision. If we want to respond to this challenge more efficiently, we need to introduce a more practical and efficient decision-making system.

The second reason is also to do with democracy: enlargement means that the institutions are more remote from the people who may be affected by their decisions. In order to avoid this feeling of distance, we need to strengthen the mechanisms of responsibility, democratic response and transparency in the EU.

Lastly, the third reason is external coherence, and here the solution recommended by the Constitution is a good one: a Minister of Foreign Affairs should be created who is responsible to the Member States - which would, of course, still have very considerable powers in the foreign policy field - but who is at the same time a Vice-President of the Commission, and who would ensure convergence of intergovernmental and Community instruments.

For all these three reasons, we need to find a solution to the institutional question.

We need to change our institutions, not for reasons of European 'theology', but for practical reasons. Here I think we are beginning to see the way forward. This is why I have proposed, and the Heads of State and Government

have agreed, to take the huge opportunity offered to us next year, on the 50th anniversary of the Treaty of Rome, to make a political declaration.

We must make it clear that the Member States are determined to live together, because ultimately the institutions are not just instruments; they actually provide a framework for planning our life together. A process to find a solution to the institutional problem will then formally be launched under the German Presidency, and could be completed by the end of 2008, under the French Presidency.

However, in order to find a solution to the institutional problem, we must not, as some people think, become obsessed by institutional matters and talk about nothing but the Constitution. That would be a mistake, because that is not what ordinary people are most concerned about. The best way of solving the institutional problem is not, as some people insist or suggest, to claim that Europe doesn't work in its present form. It is an illusion and a serious mistake to think that people will vote for something that they think isn't working. Everyone who has political responsibility knows this.

Sometimes people ask me 'Does the Commission work?' 'Can a Commission of 25 work?' They want me to say that it doesn't work, because they think this is an argument in favour of the Constitution. First of all, I have to tell you that it does work. We take decisions just as often as any other Commission. Up to now all our decisions have even been taken without needing a vote. This clearly shows that it is possible for people with different backgrounds from 25 different countries to find solutions, if they are European-minded.

The only way to get people to vote for Europe is to show that Europe is meeting their expectations, that it has practical projects. These projects are not inconsistent with the overall European project. On the contrary, it is confidence in a Europe of practical projects and results that will revive confidence in Europe as a whole and put an end to the pessimism that is currently preventing Europe from putting up a stronger response to the challenges it faces.

This is why we have proposed, again with the agreement of the European Council, to move forward on two levels: in achieving practical goals, and in finding a medium-term solution to the constitutional problem. Not as alternatives to each other, but as mutually beneficial objectives.

After all, Europe's history since the days of Konrad Adenauer, Jean Monnet and Robert Schuman has been based on the idea of small steps, of progress based on practical solidarity. What we are looking at now are large-scale projects: a proper common immigration policy, a proper common energy policy, a proper knowledge economy with investment in innovation and in our universities, creating a genuine European area.

I recently invited to Brussels the chairmen of the biggest companies and multinationals involved in state-of-the-art innovation and research in Europe. Two were Americans, one working in a Finnish company and the other in a Dutch firm. They told me something very interesting: 'One of the first shocks we had in Europe was to find that, unlike in the USA, there is no pan-European institution supporting research'. As you can see, even American liberals are taking advantage of the extraordinary size of their country to develop a series of instruments that we in Europe are sorely lacking!

The Commission is now proposing to set up a European Research Council and a European Technology Institute in order to provide this European dimension. Clearly, even the biggest countries are not big enough on their own to meet these huge challenges. We need this European dimension, we need to use Europe's diversity as our biggest asset in facing up to globalisation.

So I think that despite all the fashionable pessimism, there is a strong trend in Europe towards economic and political integration. And if there is sometimes resistance to this, that very resistance is proof that there is movement. And if some European leaders have not yet realised this, the globalised world will soon remind them. I think that external factors are actually one of the great driving forces behind European integration.