

Romano Prodi

President of the European Commission

Europe: adding value, changing quickly

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Introduction

I feel particularly at home here at the London School of Economics. I was here as an industrial economist under Basil Yamey, so I regard the LSE as one of my intellectual homes. And next time you read in the press about the Brussels bureaucrats, at least you will know there is an LSE man at the helm of the Commission, at least for the next future.

Economics or Politics?

I find it interesting that the debate about the European Union here so often starts by asking whether this is essentially an economic or political enterprise.

There seems to be agreement that an EU based on economics and trade makes sense. But the implication is that the EU should steer clear of anything "political".

Here on the platform at the London School of Economics and Political Science, however, it seems that it might not be so easy to draw clear distinctions.

However, it is clear that the Europe of the single market and the single currency has assumed a stronger political dimension, as a broad area of shared principles and values, and it will assure a more and more political dimension. And consider this as a remarkable result of my mandate.

Enlargement

Now, enlargement is about to move the European Union onto a new level.

In May this year, ten new Member States will join the Union. Yes, this means 75 million more consumers. Yes, the economic opportunities available in an expanded single market are the subject of business seminars up and down the UK and other Member States. But enlargement is about much more than just economics.

Enlargement takes place because the Governments and peoples of the new Member States see their destinies as part of the EU family, even if with some contradictions and some fears that can be totally eliminated only through a period of common life.

It represents a major political process in European history.

And it is based on the will expressed clearly by millions of people

In eight of the new Member States, the decision to join has been backed by referendums with impressive majorities in favour. It is perhaps a paradox that although the EU may have become less popular in some of the current Member States there has never been such a wave of positive political support and desire to join from so many aspiring members.

But if you really think about it, is that a paradox?

In my experience as President of the Commission I have realised that Europe is often considered far more of a reality and an ambitious – and necessary – political project when viewed from the outside.

When I went to the EU–China or EU–India summits in autumn last year, I could really sense the great interest and the high expectations that the European Union has stimulated in emerging powers such as China or India.

When you look at Europe in a global context, it is far less easy to doubt our need for it.

Think, for instance, of the great interest of China for the euro!

The world is becoming increasingly interdependent. Economies have become transnational and the major political issues are global. This breaking down of borders has already affected societies and cultures in ways that go beyond economics and politics.

The new situation requires a response that cannot be met within national frameworks.

Of course, Nation States are here to stay, but they need to cooperate more and manage their relations in a wider European framework better if they are to defend and pursue interests that are increasingly shared. If European Nation-States want to be stronger, they must act together.

This feeling and the desire to join a large area of prosperity and stability are the roots of the success of the referendums in the new Member States.

The EU and its current Member States now have a clear political obligation to make the prosperity and stability of the EU framework a fact of life for those in the new Member States. Some might look at this wave of political positivism and ask what positive contribution has Europe really made that so many should want to join. I can give you a number of reasons that show the importance and the need for Europe today.

Lisbon

EU enlargement is perhaps the defining success of my term at the Commission.

Now, looking forward, one of my biggest concerns for the future is to maintain prosperity across the enlarged EU.

It was back in spring 2000 that EU Heads of State and Government set out an ambitious agenda – nothing less than to make the EU the most dynamic place to do business on the planet by the end of the decade.

The “Lisbon Process” has brought liberalisation to new areas of the EU economy – energy, telecommunications, intellectual property law and so on.

Lisbon was also about benchmarking – EU Governments learning from one another. The economic dream for any European country would surely be to achieve both Britain’s high levels of employment and the best of continental productivity levels. The process of peer review is still continuing.

The third aspect of Lisbon was about improving the mechanisms for developing effective common EU legislation – so often dismissed as “red tape” in many quarters, but absolutely necessary for a working single market and for the necessary productivity growth.

Financial Services

To give one example of the benefits of the Lisbon Process I would like to turn to the financial services sector - the forgotten frontier of Europe's single market. Here in London, the financial services capital of the EU, it is perhaps easier to see the potential benefits for the City of expanding markets for their services. The Financial Services Action Plan which my Commission has driven forward since Lisbon is our vision for removing regulatory and other public policy barriers.

But of course greater integration of financial markets has broader benefits for the economy as a whole.

A consolidated, deep and liquid capital market creates enormous potential to the entire continent. We have already started to witness the appearance of new markets and new financing techniques. Venture capital and private equity markets are increasingly important sources of capital, not just for established businesses, but for the all-important small start-ups, which are so vital when it comes to creating the jobs of the future.

And for individual households, the integration of financial markets brings with it the prospect of lower mortgage and borrowing costs.

But it is also necessary to accompany the formation of a new financial market with a common set of regulations necessary to prevent fraud and mismanagement.

The recent examples of financial scandals demonstrate that we cannot have a different dimension between the markets and the regulatory authorities.

The Euro

The enlargement of the financial market has gone hand in hand with the introduction of the single currency in twelve EU Member States. It is clear that we hope that the UK will eventually join Economic and Monetary Union but it is not for us to say or suggest if and when the UK should pursue membership in the Euro.

In any case, benefits are already being felt in the UK by firms trading with the eurozone, holidaymakers travelling there and the growing number of Britons living there. These benefits range from lower exchange and transfer costs to the deeper and more liquid capital markets I have mentioned.

The Euro is a reality.

I know that the UK Government keeps its assessment of whether to pursue membership of the Euro under review, weighing the costs and benefits of joining. Meanwhile the Euro has already become a great protagonist of the world economy and the world financial markets.

Growth Initiative

But despite all that has been achieved through the euro and the Lisbon agenda, Europe still needs to improve its economic situation. The productivity gap between the EU and the US is widening. Labour productivity is growing four times faster in the US than in Europe.

This is not surprising.

Not only for the urgent need of important reforms in some European countries but also because the benefits of an enlarged market are always slow to materialize. However, after two difficult years, the EU economy is finally showing timid signs of recovery. This recovery is encouraging and we must make every effort to speed it up.

That is why last October I launched the European Growth Initiative with the European Investment Bank.

The simple aim was to bolster and speed up the implementation of the Lisbon strategy. The initiative mobilises public and private funds to finance key infrastructure and research projects of truly European dimensions that can have an impact throughout the Union.

Overall, the growth initiative establishes a stable long-term framework for priority infrastructure and research projects until 2020.

And whilst the means are relatively modest by comparison with the budgets of Member State Governments, the end results have the potential to attract multiplier capital and to inspire other projects. With resources of around five billion euros annually, this spending is fully compatible with the Stability and Growth Pact. It is also well within the ceilings which we believe will be necessary for the future financing of the EU.

I would like to say a few words about this last issue.

Future financing

On future financing, I want to underline again that the EU budget is extremely modest by comparison with public expenditure by Member States, most of which spend between 40 and 50% of their national GDP. The current ceiling of 1.24% of GDP (that we never reached as a consequence of an increasingly severe control of the budget) corresponds to the social security budget of a large Member State.

This ceiling is something that has stood the test of time, surviving past enlargements and the expansion of activities of the EU Institutions.

We are on the eve of the biggest enlargement in the EU's history, which many people see as uniting for the first time in history the European continent. This is an odd moment to propose lowering the ceiling on the EU's own resources to 1%, as some Member States have suggested.

For the years from 2007 it is important that the EU Institutions are given the resources to achieve the goals that EU leaders themselves have set in the European Council.

Thanks to the improvements in efficiency the Commission has made over the past 4 years, I do not need to argue for an increase in resources. But I have a duty to the future of the organisation to defend it against any cuts in resources in real terms.

I could never approve a contradiction between our tasks and the necessary resources.

I am talking about major tasks that are urgently needed and will greatly benefit the citizens of Europe and which were unanimously approved by all 15 member states.

We are asked to increase our prosperity, we are asked to strengthen the competitiveness of our firms, we are asked to meet the demands of our citizens for more security, freedom and justice, we must satisfy their concerns about the environment, public health and food safety.

To face these challenges in the years to come Europe will have to pursue and further strengthen the Lisbon Strategy, focusing on key issues such as improving the quality of education and training in the Union and increasing European research and technological development.

Human capital is the major factor that determine growth and we must do much more to modernise and make our education, training and research systems more competitive.

Research and economic development are strongly interlinked as factors for economic growth and we have to redouble our efforts in this area.

The challenge is such that the EU Heads of State and Government have set themselves the goal of an increased European investment in research and development to 3% of GDP by 2010, of which two thirds should come from the private sector.

Europe will also have to build up an effective area of security, freedom and justice as the necessary and natural complement to the Single Market.

Think of the increased frequency of cross-border transactions, the need to ensure better protection of common EU interests and values against criminal activities, and the challenges of immigration and asylum, which all require a common European response, thanks also to the growing need for security.

Finally, Europe must fill the gap between its economic weight and its political role on the world scene.

It must assume the responsibilities of a regional leader, creating new special relationships with all its neighbours in the East and in the Mediterranean. I want to see a **"ring of friends"** surrounding the Union and its closest European neighbours, from Morocco to Russia and the Black Sea. This is the objective of our new neighbourhood policy.

And it must assume the responsibilities of a global actor, by developing a new strategic approach to international challenges.

The Union is neither a purely civil power nor a purely military one.

It will have to develop civil protection and defence policies focusing on preventive engagement and multilateralism to face fundamental threats such as terrorism, the proliferation of weapons of mass destruction and the organised crime.

This is why the last European Council in December 2003 in Brussels was correctly perceived as a serious negative event. It is clear that at that European Council we missed a great opportunity.

The Constitution – Europe is changing

We missed a great and necessary opportunity because Europe needs some fundamental institutional changes.

Europe must understand the new political challenges that have confronted it since the beginning of the present millennium. It must renew its processes and procedures in order to meet the challenges it faces. Europe needs a Constitution if we want to bring the process closer to the people.

These objectives, identified by all our Heads of State and Government three years ago at the Laeken Summit when they decided to set up a European Convention, are even more compelling today.

I welcome the progress which has been made in the European Convention in one year and half of transparent work.

The Convention is the most ambitious and democratic institutional project in our history. And, thanks to the contribution of delegates from the national parliaments and governments, representatives of the European parliament and of the Commission, it did a very good job.

The fact that EU Governments have on their table a single text with relatively few open questions exceeds the expectations many had in the aftermath of the Nice European Council three years ago, when I proposed radically changing the way of negotiating European treaties and called for the creation of this new, more democratic and legitimate body.

The draft text is the result of an open debate, not just among EU Institutions, but also between Governments and – for the first time - national Parliaments. This was the first time that the goals and purpose of the EU have been discussed so openly and by representatives from so many walks of life.

In terms of substance, the discussions made enormous progress – simplifying the way the EU works, adapting it to cope with 10 New Member States and introducing political innovations for the future.

It is my view that finalising this Intergovernmental Conference is one of the biggest political priorities for the EU this year.

That is absolutely possible: The Convention has produced a very good basis.

Therefore I am sorry that in Brussels there was no agreement and, as a matter of fact, not even a general open debate.

I repeat that, as many have made it clear, there were no discussions about the most important matters at the European Council in Brussels.

We have to start again from the Convention.

But the failure of the Brussels meeting has increased the level of preoccupation and the commitment of all the European heads of State and Government.

They know and openly admit that an agreement is needed and the text of the Convention can be a strong, positive compromise.

Even more, they recognize the heavy negative consequences for the life of the Union in case of a lack of agreement in the year 2004.

It is clearly up to the European Governments to take the final decisions but I am confident that the passionate, professional and discrete work of the Irish Presidency can reach the agreement during this semester or can prepare a draft that can be completed by the following Dutch Presidency.

The EU machine needs to be equipped to respond to the aspirations of its current and new Members. That response needs to be one of vision and leadership, not paralysis and recrimination.

Moreover, agreement on the text will give to the citizens giving clear answers to some key issues.

From a UK perspective, for example, looking at how the European debate has developed in the last years, the new text clarifies once and for all that the EU is **not** a super-state.

It is neither “the end of 1,000 years of an independent Britain” nor “a blueprint for tyranny”, as some in the UK press would have you believe.

It clearly delineates the relationships between the Member States and the EU framework.

It extends the European Parliament's co-decision powers to new areas and will for the first time give a formal role to national Parliaments in shaping EU decisions.

The myth that a proposal by Romano Prodi today will become law in the UK tomorrow without any democratic control or discussion is one of the most pernicious misrepresentations of the reality.

Ladies and Gentlemen,

We have to move ahead with the institutional reform, and we must do it this year.

Politically, Europe needs a new Constitution. Without one, it will much more difficult for the EU to deliver the goals of prosperity and stability which European leaders have set.

Clearly, there are risks involved in any solution and the Commission is determined that we should **all move forward** together, sharing the same rights and the same responsibilities.

But, as I said last week before the European Parliament, if efforts in this direction were to become bogged down, it would clearly be impossible to remain passive, simply looking at the complete paralysis of the European Institutions.

As it happened so many times in 50 years of European history, a group of Member States will decide to enhance their level of integration.

Conclusion

Ladies and gentlemen,

Europe is already an area of peace, prosperity and stability and is increasing its efforts to address the concerns of its citizens and accomplish practical concrete projects and achievements.

Europe is also an example to the world of an area of sustainable development, guaranteeing practical benefits well beyond just the single market.

And Europe is the best answer to the new challenges of globalisation, bringing added value where it is most needed while respecting the diversity and traditions of each of its members.

These are major successes, of which we must be proud and which make Europe a unique model in the world

But this is not enough to face the new challenges ahead of us.

We need a new Constitution that will give the Union the necessary means and instruments to pursue its policies in new, globalised world.

Only if we are united can we preserve and increase our autonomy and our influence.

Only if we are united can we successfully meet the new historical challenges.

Thank you.