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**Speech by President of the European Council
Herman Van Rompuy
at the Annual Conference of EU Heads of Delegation**

Excellencies, Ladies and Gentlemen, and after two and a half years, I can say: dear friends, it gives me great pleasure to speak once again at your Annual Conference.

Every year, I get to know a greater number of you in person: many of you have attended meetings with me in Brussels or prepared and accompanied me on visits abroad – ... while Pierre Vimont has become an "old" acquaintance, we see each other regularly...!

I should like to start by thanking you personally for the skilful assistance I have received from you and your staff during the past year, in all the countries that I have visited. Your active involvement and sound advice is always precious. The External Action Service has now reached its cruising speed! It is one of High Representative Cathy Ashton's many successes.

For me it is a privilege to be able to talk to all of you, at least once per year. For you it must also be useful to "touch base", the more so since rarely have internal developments impacted your work as much as they do today. As the financial crisis unfolded, our international partners have been – understandably – anxious to follow our every move.

Explaining our course of action, clarifying the political constraints under which we work, reassuring partners on our ability to keep moving forward: these are currently amongst our highest foreign policy priorities.

In this respect, you stand at the forefront in the EU's overall response to the crisis. That is why I should like to use this opportunity first and foremost to share my views on where we stand now.

P R E S S

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First of all: we have come a very long way. In almost three years we have re-enforced rules for oversight of budgets, bubbles and banks; built rescue mechanisms; developed assistance programmes for countries in difficulty; embarked upon a path of fiscal consolidation and structural reform in all Member States; and on top of that we are stepping up our joint investment in growth and jobs.

Some of these decisions would have been unthinkable two years ago. True, we are still not at the end of the road. But I am convinced we will get there, and I will tell you in a moment why.

Let us pause first to understand why many observers – and no doubt many of your daily interlocutors ! – underestimate the coherence of our actions.

For one thing, this is a complex crisis. We are talking about a fiscal crisis, a competitiveness crisis, a banking crisis, that overlap and sometimes mutually reinforce each other. Unsurprisingly, this creates divergent readings of the root causes of the crisis among political leaders and public opinions.

Some blame reckless government spending, others careless lending by banks or failing supervision, others still point at systemic flaws within the EMU. There is no single answer. Just as there is no easy fix. To quote Einstein: "For every problem there is a solution that is clear and simple and wrong". In our case, there are several such clear, simple and wrong solutions. For instance: just let Greece go from the eurozone, or just pump money unconditionally into the system, or magically create a US-style federal state.

There is also the obvious complexity of our own institutional set-up. Seventeen (or sometimes twenty-seven) governments have to agree, and to convince their own, often lukewarm, public opinions and parliaments. As a result, the speed of our decision-making is not always up to expectations. We are not a state, we are a Union!

From the start, we have worked on two fronts: combating the immediate crisis, and ensuring it never happens again. From the start, we have said in words and showed in deeds that "we-will-do- whatever-is-necessary-to-safeguard-the-financial-stability-of-the-Eurozone". This is almost becoming our new European motto, our mantra... !

Which brings me to the reasons I am convinced we will get there. Three points.

First: there is a genuine willingness amongst EU leaders to address the systemic nature of the crisis. To finish a house half-built. And this is new. All now acknowledge that the crisis is not only the sum of individual countries' problems, but also the result of deficiencies in the Economic and Monetary Union architecture. All are now willing to put every issue on the table, without taboos. And all recognise that we can no longer solve our short-term problems without addressing the longer-term challenges.

As one central banker put it, if we want investors to buy 10-year government bonds, they expect an answer on what the Eurozone will look like in ten years' time.

The clearest signs to date of this shift in mindset: in May the European Council approved my initiative to report on options for the future of the Economic and Monetary Union. In June, it asked me to develop, in close collaboration with the Presidents of the Commission, the European Central Bank and the Eurogroup, "a specific and time-bound roadmap for the achievement of a genuine Economic and Monetary Union". Nobody should misread the typical subdued language of our Conclusions. This is an important and ambitious sentence.

The leaders commit themselves to bringing the EMU to its solid and stable end-state in the years ahead. And having talked with many of them in the past weeks and even days, I can confirm their political will is unyielding.

In practical terms, there will be a consultation process with all institutions and Member States, resulting in an interim report in October (focused on substance) and a final report in December (which will also look at legal and institutional matters). They will focus on the four building blocks identified in the report we released in June:

- (i) a banking union - to avoid tax payers systematically picking up the bills for bank failures;
- (ii) a fiscal union - to avoid unsustainable deficits, including through central enforcement and solidarity mechanisms;
- (iii) an economic union - to jointly improve competitiveness of the euro area as a whole;
- (iv) and a deeper political union - to ensure that these measures are underpinned by strengthened democratic legitimacy and accountability.

These four building blocks are inextricably linked: progress on one will depend on progress on another. The underlying key principle is that we need to do what is necessary to make the euro solid and safe. Some commentators – and no doubt many of your interlocutors – pretend we are faced with the stark choice between either breaking-up or turning instantly into a federation. They are wrong. Europe does not work like that. We will overcome the crisis not through revolution, but through reform and evolution. The work ahead is to define the content and sequencing of all the steps.

Let me move to the second reason why I am confident we will overcome the crisis: the reform efforts by individual Member States are starting to bear fruit. This is crucially important. Countries in difficulty need the perspective that things are moving in the right direction. Reforms may be costly and difficult in the short term but they will contribute to growth and employment in the medium term.

Here we already see real changes. A recent report shows how two key indicators for competitiveness, 'unit labour costs' and trade deficits, are improving. Progress in structural reforms is also ongoing. There is now much more convergence on economic developments and policies than two years ago. Spain and Portugal have made their labour markets more flexible. Greece has opened up 150 closed professions. Italy adopted an impressive set of structural reforms. In Ireland labour costs have fallen substantially and the country is already in part back to the markets.

Last week I visited Prime-Minister Mariano Rajoy, later this week I will meet Prime-Minister Samaras and Prime-Minister Monti. However different their circumstances, they are all determined to steer their countries into safer waters. Ireland is on track, and so is Portugal. And obviously all other Member States are also continuously reforming their economies! And they have to.

Which brings me to the third reason for my confidence: in the meantime, whilst these reforms are underway, there is a readiness to take the short-term measures needed.

As I said, adjustments in countries under market pressure are difficult and need time to yield results. Risk premiums for some countries are not always justified by their economic fundamentals (and I speak mildly when I speak in those terms). In addition, financial markets within the euro zone are becoming increasingly fragmented to an extent that it is making very difficult to conduct a single monetary policy. This is not sustainable. In this context, national reforms are necessary, but they may not be sufficient in the short term. For these cases, European leaders have stated during the June European Council their readiness to provide additional assistance. In parallel, the ECB has presented on 2 August a framework, outlining a series of possible actions to deal with the fragmentation in financial markets. I fully support the European Central Bank's efforts in this respect.

It is key to keep in mind that all decisions on short-term measures – be it by the ECB or other institutions – are driven by our long-term vision. And in this vision, one thing is clear: the euro is here to stay!

Fighting the financial crisis is not a mere "domestic" issue. It was the focus of the G20 discussions in Cannes and Los Cabos – which was not the happiest of times for us (I put it mildly again).

For the European Council, the defence of the euro has become central for our foreign policy. Yet, of course, we do more. The so-called "traditional" foreign affairs is a constant feature on our agenda. I find it key that we devote time to it in the meetings of the European Council. Giving strategic orientations and impulses. Preparing for upcoming bilateral and multilateral summits, from G8 and G20 meetings to climate change negotiations or nuclear security talks. Responding jointly to those events which require the Union's engagement and action at the highest level: the escalating crisis in Syria and its regional implications, but also Iran, the Arab Spring, the Eastern Neighbourhood. Building, as required, on the valuable work of the Foreign Affairs Council, led by the High Representative -- whose dedication I would like to commend.

More generally speaking, there are no grounds to the existential pessimism that sometimes portrays an EU foreign policy in decline. In fact it is impressive just how "common" and wide-ranging our foreign policy has become. From Myanmar to the Middle East, from Kosovo to Somalia – the 27 share a common position. This is indeed often underestimated by outsiders – and even by insiders!

In my experience, this also provides a solid basis for bilateral summits with our strategic partners. When President Barroso and I meet with our counterparts, we build on these common positions and speak on behalf of the Union as a whole.

With the United States – where we benefit from excellent relations with the Obama administration and where both sides know that, for all the geopolitical tectonic shifts in the world, we remain each other's closest partners. With China – where relations are deepening on many fronts, allowing us to seek solutions in areas where problems remain, such as equal market access for our industries. With Russia, geographically closest to us and therefore an indispensable partner, we can acknowledge joint successes, such as its WTO entry, and continue to work to build greater trust and overcome differences. Relations with our neighbourhood remain key: Maintaining the European perspective for the Western Balkans remains one of my priorities.

I have also travelled to most of the countries in the Eastern partnership and keep regular contacts with their leaders. We remain engaged in the resolution of the so-called "frozen conflicts". In all these countries' efforts for economic and political reform you can feel the Union's power of attraction at work.

Looking South, the Arab Spring remains for us Europeans the most momentous event in recent years: history in the making. It will be a complex process to establish stable democracies, with many obstacles and counter-forces, but the genie is out of the bottle. That is why we must work jointly with the new governments.

I want to ensure that the European Council keeps providing orientations to ensure the Union's position on the global scene. In June, I set out some priorities for the remainder of my mandate, from now until late 2014. As regards foreign affairs, along the areas I just mentioned, I should also like to devote more time to trade and to defence.

Trade: as a tool to help restore growth and create jobs in Europe: the European Council must continue to support ongoing and upcoming FTA negotiations. And defence, including "pooling and sharing" our military capabilities, is another issue I want to bring to the European Council table.

Your job on the ground – coordinating and guiding the positions of the 27 – is vital to ensure that the EU continues to be fully part of the solutions to regional crisis and global challenges. This is and remains the task for Europe, also in these challenging times – of rising new powers, of geopolitical shifts, of environmental threats, of forces fuelling hatred and violence, undermining the solidarity between and within societies.

To ensure the security of our citizens, their economic wellbeing and the survival of the democratic values that we have worked so hard to develop and consolidate, we Europeans have no choice but to work closer together, at home and abroad. Here also we need 'more Europe'. And – without falling into the trap of the self-congratulation – I am deeply convinced that Europe still has a message for the world at large: a continent of peace, a way of life to which many aspire.

In a changing world, we can take nothing for granted and we have to adapt constantly.

But history is on the side of our values. The world has never been as democratic as it is today. This should give us confidence, in overcoming our internal challenges and in reaching out to the rest of the world.

Thank you for the role you play in this regard. Merci.
