

State of the Union 2012
11 September 2012. 20h00

Mr President,

Honourable Members,

1. Analysis of the situation

I 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;
- A lack of competitiveness in some Member States.

On top of that, the Euro area 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 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 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.

Mr President, Honourable Members,

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, have we really drawn all the consequences for our action? When we speak 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 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 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 the new reality. We are now in a transition. We are 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.

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 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. And if you look at some of our new Member States, the political and economic transformation going on is really impressive..

Europe has all the assets that 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 them 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 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 member states, 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 the sense of responsibility. 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 European Union must banish all doubts about the irreversibility of the Euro.

This decisive deal is in the interests in each and every one of us. The idea that we can grow without reform, or that we can prosper alone is false. We must recognise that we are in this together and must resolve this together.

This decisive deal requires the **completion of a deep and genuine economic union, based on a political union.**

a) Economic union:

Let me start with Europe's economy.

[Growth]

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. 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 about 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 to develop pro-active trade agreements 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. The Commission and this Parliament, indeed all pro-European forces, 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 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.

This will be a real test of credibility for some Member States. Now we will see if they only talk about growth or if they are ready to invest in a budget for growth.

The budget we have proposed will be 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.

[Fairness]

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 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 a hindrance to prosperity. It is 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 to fulfil their potential. 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 equality framework to facilitate vocational training.

Fairness and equity 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.

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 Central Bank has consistently shown that it 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 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. And 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 our family. It should stay in the Euro area

And allow me to say a word on the integrity of the Euro area. Securing it 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.

I have spoken about the economic policy 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 mechanisms.

Today, the Commission is presenting proposals for a single European supervisory mechanism. This is a quantum leap - 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. When bankers' losses become the people's debt, and put into doubt the financial stability of whole countries, there is something fundamentally wrong with the system.

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 house is essential. The Commission endeavours to work in close partnership with you.

The second element of a deeper economic union 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 cooperation.

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 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 separate 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, the President of the European Central Bank and the President of 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. 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,

b) 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 with 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 with national solutions.

This debate has to take place in our societies and among our citizens. Today, I would like to make an appeal especially 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 cannot be done without strengthening **European political parties**. Right now, European political parties are not really visible at national level. Indeed, we have a real disconnect between political parties in the capitals and the European political parties. The political debate is cast all too often as if it were just between national parties. This is why we need a better 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 in 2014. 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 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. Not everything can be a priority.

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 European societies. 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 make a proposal soon.

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, the European values.

More than ever our citizens and the new world order need an active and influential Europe. 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.

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 help make this happen.

The world needs a EU that is still 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 defense planning.

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

a) 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 word: we will need to move towards a **federation of nation states**. 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 its citizens 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.

I said a federation of nation states because in these turbulent times, 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.

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 already be done today.

A deep and genuine economic and monetary union can be started under the current Treaties, but can only be completed with a new Treaty.

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 diplomatic. It has to be ever more democratic.

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.

b) 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!

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 – but the process must be open to all who want to participate.

Because the European Union is stronger as a whole in keeping the integrity of its single market, its membership and in its institutions.

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 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, less coherent and less capable to act.

c) Expanding public debate:

This is 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 where we are heading.

About the possible consequences of fragmentation.

About what we could achieve if we truly work 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 this debate. Because even more dangerous than the scepticism of the anti-Europeans, is the indifference or the pessimism of the pro-Europeans. This project will not be sustained without all those who believe in it standing behind it. It must be mobilised by a positive agenda.

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 the following.

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 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, still this autumn

We will present here again all proposals in line with the current Treaty provisions as soon as possible.

And thirdly, where we cannot move forward under the existing treaties, we will present a explicit proposals for the necessary Treaty changes ahead of the next European Parliamentary election in 2014, including elements for reinforced democracy and accountability

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 more than 50% of young people without jobs in some of our member states? Is it realistic to go on trying to patch up our 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. If there is a bias, let it be a bias for hope. We can do it. 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. With high levels of social cohesion. Respect for human rights and human dignity. Equality between men and women and respect for our environment. They are among the most decent societies in human history.

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 moral project, the values that are at the heart

of the European Union. Europe 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, this House. Together, we will build a better, stronger and a more united Europe, a citizens' Union for the years to come.

Thank you for your attention.

