

**SPEECH BY
VERHOFSTADT
PARLIAMENT** **PRIME
TO** **MINISTER
THE** **GUY
EUROPEAN**

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Mr President, Honourable Members of the European Parliament,

If I understand correctly, I am going first in a series of debates on the future of Europe that you wish to hold with the heads of government. I am very flattered. This initiative is evidence of the efforts made and perseverance shown by the European Parliament. Your Parliament has already played a decisive role in the Convention. I am pleased that, with this initiative, the European Parliament is once again assuming its responsibilities in shaping the future of Europe.

I would not wish to start my address on the future of the European Union without first mentioning a date from the recent past: the first of May 2004. A milestone in the history of Europe. A key date for the European Union. Sixty years after the Yalta Conference, forty-eight years after the Hungarian Uprising, forty-three years after the construction of the shameful Berlin Wall, and thirty-five years after the Prague Spring, this day was, as Bronislaw Geremek put it, "the real end of the Second World War."

I mention that day briefly because many people today seem to have a very short memory when they talk about the enlargement of Europe. The Union is said to have been too hasty in welcoming the former Soviet satellite states into its fold. The Union is said to be expanding too fast. The Union is said to have reached its natural borders, and to have exceeded the limits of its so-called absorption capacity. But what does "too fast" mean for people who were oppressed for nearly half a century? What is "too hasty" for people that we scarcely bothered about before they freed themselves from the Communist yoke? And what are "natural borders?" Where do such borders lie, when we see that European cities such as Belgrade and Dubrovnik are still outside the European Union? And what "absorption capacity" are we talking about? The one in our head or the one in our purse?

What I wish to make clear at the outset of my speech, is that the future of the Union must not be thought of in terms of "either...or." Either "enlargement" or "deepening." Either Turkey or the constitution. The direction of history is unequivocal. The Union must continue to grow. This is the only guarantee for lasting peace and stability in Europe. The only guarantee that Bosnia or Kosovo, or the entire Balkans for that matter, will not go up in flames again tomorrow. The only hope, too, that countries such as Ukraine will become stable democracies.

At the same time, the Union must be deepened further, and European integration must continue

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unabated. In any event, it is time to put an end to the period of stagnation in Europe. Lack of progress in European integration did not start with the referendums in France and the Netherlands. The citizens have been experiencing a crisis in Europe for longer than that: division over Iraq, non-compliance with the stability pact, and the debate on financial perspectives. I would also dare to add the Lisbon strategy to this list. Let me be perfectly clear: there is nothing wrong with the goals of the Lisbon strategy. But the so-called "open method of coordination" used to implement it has been far too weak to give European integration a decisive impetus after the successful introduction of the euro.

No choice should be made between deepening or enlarging first. Both are necessary. Nor should a choice have to be made between Europe as a free trade area or Europe as a political entity. Here once again, the direction of history is unequivocal. We are in fact evolving very rapidly, from a uni-polar world dominated by the United States of America, to a multi-polar world in which countries like China and India are rightly demanding an emphatic role. If Europe wants to continue to play a leading economic, political or military role in this new world order, then political union is the only alternative. No single Member State, not even the large ones, can harbour any illusions about going it alone on the world stage. As my illustrious predecessor, Paul Henri Spaak, cynically put it: "Europe still consists solely of small countries. The only relevant distinction that remains is that some countries understand this, while others still refuse to acknowledge it."

In short, the question is not whether the Union will evolve into a more federal, political entity; but rather when this will happen, or better yet, whether this will happen in time.

I, for one, have doubts as to whether we will make the leap in time. On 29 May and on 1 June 2005, the referendums in France and the Netherlands dealt a blow to the emergence of a European political Union. The rejection of a constitution, which - although far from ideal - could have ushered in much more democracy, more transparency and more efficient decision-making, was a sledgehammer blow; a blow so great, that it is unclear even now whether the Constitution can still survive. The ratification process continues. And fifteen countries have so far approved it. But let us be honest with ourselves. Some Member States may have been relieved when France and the Netherlands voted "no". At any rate, they have postponed their own referendums indefinitely. In any case, the outcome of these two referendums has left Europe in confusion. And today, exactly one year on, there is no end in sight to that confusion. For we must face the facts. The subsequent 'reflection period' has yielded little or nothing at all. Over the last twelve months, there has been no noisy brainstorming session about the future of Europe, but rather a deafening silence.

A few new ideas have surfaced in the past few weeks, it is true. But I doubt whether they will amount to much. One example is the "Europe of projects", but what we really need is "a project for Europe". Or the idea of having everyone renew their vows to Europe. Or the intention to save part of the constitutional treaty by 2009, without any certainty that it will not be voted down again.

Be that as it may, we are going to extend the reflection period in just a few weeks. Elections will be held in France and the Netherlands, and the German Presidency is coming up. There is a right time for everything, conventional wisdom has it. Deciding when to act based on an election in another Member State or on who presides over the Council of Ministers is not the best approach, in my view. There will always be an upcoming national election somewhere. And waiting for the right presidency means running the risk that no one will grasp the urgency of the matter. Habits set in. Wear and tear take their toll. Why should we make a fuss about the future of Europe? It's doing just fine, without a project,

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without a constitution.

Yet I firmly believe that we must act as a matter of urgency. And I would like to reiterate the reasons for this: Europe's economic growth is limping along, our political influence in the world is waning and our military strength is below par.

To find out what we need to do, we must first take a close look in the mirror, and answer questions such as: Why are so many citizens turning away from Europe? What motivates them? What went wrong in France and the Netherlands?

In my view, two main answers or explanations can be given. The first is that many political leaders have long painted a negative picture of Europe in their own country. When things go well, the feathers are immediately donned in the national cap. But when something goes wrong, the accusing finger is always pointed at Europe. And it must be said: Europe is a willing victim. No reaction or reply is ever forthcoming when you abuse or lay into it. The most grotesque distortions gain currency: Brussels is supposedly home to an immense, Kafkaesque bureaucracy. The truth is, that some twenty-four thousand civil servants work in the European institutions. This figure is smaller than the civil service of nearly every large European city. Europe is also said to be an enormous money-squandering machine. The truth is that the budget of the European Union is twenty times smaller than that of the United States, and forty times smaller than that of all other (national, regional and local) governments combined. Each European citizens pays less than five euros a week for Europe - a fraction of what he or she has to pay for his or her national, regional and local governments. In return for these five euros, the citizens has enjoyed peace and prosperity for years, some of them for more than half a century. But as we know, gossip is more stubborn than the truth. Especially when that gossip is bandied about constantly, whether or not it is relevant.

But there is a second, and in my view, more decisive reason why citizens are put off. In their judgement, Europe no longer provides a sufficient -- if any -- answer to their many questions and concerns. In this age of unbridled globalisation, they see the European engine sputtering and the European economy gasping for breath. Unemployment remains high. Companies are relocating to the (Far) East, taking jobs with them. A powerful European response is not forthcoming. Cross-border crime is on the rise. Yet we had to wait until the Twin Towers were levelled before an agreement could be reached on the European arrest warrant. And the same thing is happening now with the European patent. Everyone knows that this tool is absolutely necessary if we are to make up for our lag in research and development. But in spite of all the declarations of intent, this could drag on for years. So it should come as no surprise that European citizens are dropping out. And let's be honest: it isn't a surprise that they are doing so. We are all too aware that the European Union, as it functions today, lacks the necessary power to provide clear and decisive answers. And we are only too aware of why this is so.

Until such time as Europe embarks on the road towards a real federation where the unanimity rule is scrapped, or at least limited to the strict minimum, it will continue to be powerless to react rapidly and decisively to new challenges. A confederation, based on the inter-governmental method and the principle of unanimity, is paralysing the European Union's decision-making process.

Fifty years after the launch of the Union, it is high time to make a choice once and for all. Confederation or federation. Unanimity or qualified majority. Inter-governmental or community approach. A 'board' led by a number of Member States, or a strengthened European democracy based on an active European

Commission and a fully fledged European Parliament.

Let me illustrate the crucial importance of this crossroads by returning to the greatest challenge facing us today - the modernisation of the European economy. The figures speak volumes. Average GDP growth in Europe in the last ten years was 2.3% a year, compared with 3.3% in the United States. During that period, the total employment rate grew by 9% in Europe, compared with 14% in the United States. In the 1980s, per capita income was still at the same level in Europe and in the United States. Today, per capita income in Europe is thirty percent below that of the United States. And I haven't yet talked about China, India and Japan. Last year, China's economy grew by just under 10%. The European Union's trade deficit with Asia rose to €100 billion, and is expected to rise even further. The European Union's response to this is called the "Lisbon strategy". As I have already said, there is no dispute about the goals of this strategy. Europe must develop into the "world's most competitive knowledge-based economy". But the method used to meet that objective, whereby the Member States can themselves decide how they intend to go about achieving these goals, is not very successful. The facts show that we are falling further and further behind in many areas. And the reason is easy to explain. The Lisbon strategy makes use of the so-called "open method of coordination", a form of inter-governmental approach, based essentially on "best practices," "benchmarking" and "peer review." Apart from defining a number of general objectives, the role of the European institutions is limited to drawing up rankings and tables. Exactly the same way as is done in the annual reports of the World Competitiveness centre (the IMD) and the World Economic Forum (WEF).

The only difference between the Lisbon Reports and these reports is that, in the latter two, nearly all European countries are declining collectively. Undoubtedly because of the strong euro, some would say. But in my view, the primary reason is the lack of common reforms. In short, rather than becoming the most competitive knowledge-based economy in the world, we look set to become less and less competitive.

The conclusion is inevitable: the informal, intergovernmental method that underlies the Lisbon strategy does not work as it should – or indeed not at all. What we really need is a much more compelling, more Community-oriented approach. "Social and economic governance" in the true sense of the word. A joint European socioeconomic policy in which the Union sketches out the main lines of much-needed reforms that will allow us to cope with rising competition in new growth areas, while protecting the social model of which we in Europe are rightly proud. These reforms include taking action in industry, innovation, research, taxes, the labour market, pensions, social security and health care.

The method that must be used here cannot simply consist of unquestioning harmonisation, in other words a form of standardisation that takes no account of the differences between Member States. Crudely ignoring the differences in customs and traditions is not an option. No, what I am advocating is a policy of convergence, the same approach that was also successfully applied to the Growth and Stability Pact and that led to the introduction of the euro. Unlike 'harmonisation', which employs absolute values, 'convergence' is about setting minimum and maximum levels, in other words a range of values; it is about a framework within which the EU Member States must operate and modernise their economies. The maximum levels are needed in order to move the Member States towards implementing reforms. The minimum levels are needed in order to prevent social dumping. Convergence makes it possible to gradually ensure the even development of the various Member States, making the Union competitive once more with the world's other growth regions. But the big difference is that cutthroat internal

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competition is avoided and the Union is not obliged to give up its social approach. For their part, European citizens will once again see the Union as a solid cooperative venture, a federation of peoples and nations, which this time round is capable of providing answers to the challenges of globalisation.

Anyway, by changing the course of the Lisbon strategy and bolstering the process by employing a more imperative and clear-cut Community method, the Union can once again capitalise on past successes. After all, neither the single market nor the euro could have come about without the Community driving them forward. For the single market, it was the principle of mutual recognition and qualified-majority voting, as developed by Jacques Delors. The euro never would have been achieved without the Maastricht criteria and the standards set out in the Growth and Stability Pact.

Ladies and Gentlemen,

While this kind of new Community economic strategy is highly desirable for the Union, I would say it is vitally important for the euro zone. A common currency and a monetary Union are ultimately doomed to disappear if they are not supported by a common approach to social and economic challenges. The absence of reforms in one country inevitably has negative consequences on the health of other countries, in other words the entire zone. For anyone who has doubts, just imagine the United States of America with one currency - the dollar - and one central bank - the Federal Reserve Board - but 50 different social and economic policies - one for every state. We would say that such a situation is "unwieldy". But it is exactly that unwieldy situation that we are facing today in the European Union, at least in the euro zone.

That is why, for some time now, I have advocated taking an initiative to strengthen the Eurogroup. Not in a bid to exclude anyone. But because here again, if the development of a new Community strategy is to be possible with all 25 Member States together, than such a common approach deserves to be given my priority. But if this is impossible - which I increasingly fear to be the case - then that cannot be a reason for not taking any action at all. Moreover, when I talk about the Eurogroup, I am not just talking about the current members of the euro zone, but about all countries which, under the treaty, are destined to join the euro zone. In other words, no one is being excluded

What might 'bolstering' the role of the euro zone entail? Here, I am thinking of strengthening the institutional aspects and enhancing the actual content, such as (1) jointly preparing for the EU spring summit, (2) drafting reports and recommendations frequently for the euro zone within the European institutions, (3) defining common macroeconomic starting points when drafting national budgets, (4) drawing up convergence criteria on social, fiscal and economic matters, (5) holding meetings of ministers for labour, social affairs and science, and (6) ensuring autonomous representation within the international financial institutions.

Ladies and Gentlemen,

So far, I have talked almost exclusively of the economic challenges facing the Union, but there are many other areas where we need more Europe, not less. One such area is justice and security, where we need to tackle illegal immigration, organised crime and terrorism more effectively. Progress needs to be made in concrete judicial issues with which European citizens are faced in their everyday lives. I am thinking more particularly about the consequences arising from cross-border marriages, inheritances, minimum guarantees in legal proceedings, etc.

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Another area is research and development, where we urgently need the European patent. Yet another such area is the common foreign policy. Where the latter is concerned, we must realise that only a European defence can move us closer to a common foreign policy. My experience in 2003, shortly before the start of the war in Iraq, was painful but instructive. At that time, it seemed totally impossible to exchange ideas about the Iraq crisis in the European Council. Since we were so divided, we all preferred to keep our cards close to our chest. In short, only when we develop common instruments, such as a European army and European diplomacy, will we be forced to show our colours in international crises. To die-hard Atlanticists, the idea of developing a European army can still sound like a curse or a denial of our transatlantic obligations. But that is not at all what it is. In the 21st century, NATO may evolve from a regional defence alliance into an international security network, consisting of allies and partners. At the same time, it is to be expected that efforts will be made to tackle international security issues with increasing urgency within this kind of renewed international cooperative association, rather than to continue calling on the so-called coalitions of the willing. The disadvantage of such coalitions is that they easily disintegrate in the wake of successive changes of government. Within this new transatlantic "global security network", Europe's defence must be developed and promoted as an autonomous European pillar. Obviously, a great deal of resistance will have to be overcome. From some Americans, who can only see NATO as an alliance of countries. And from some Europeans, who continue to view European defence as an alternative or rival to NATO. But such resistance can be overcome. As the European operations in Bosnia, Kosovo, Macedonia and Congo have shown. Be that as it may, the subsequent development of a European defence which is not only autonomous but which can also serve as a pillar of NATO is urgent and inevitable. We cannot play the role of the world's moral conscience, if we cannot back it up with military action. And we cannot always ask America to come to our rescue when we are faced with a civil war on our own continent, as was the case in Bosnia and Kosovo.

Ladies and gentlemen,

The question remains: What does all this have to do with the constitution? Theoretically, of course, there are various possibilities. We can opt for the "status quo", consider the constitution to be a lost cause and continue to work on the basis of the treaties signed in Nice and elsewhere. In that case, we would retain the unanimity rule, which in turn means vetoes and, perhaps, paralysis.

We can also take a "pick and choose" approach, trying to save the most attractive parts of the constitution. But which parts? Every member of the Council will have a different priority. For one member it will be the subsidiarity test. For the other, larger powers, it will be the European Parliament. I'll let you guess. Ultimately, the odds are that at the end of the ride, we will end up with more or less the same constitution. It is highly doubtful that ratification in two or three years will have a greater chance of success than today.

We could also take a "roll-back" approach, where we interpret the outcome of the referendums as a sign that the citizenry actually want less Europe, meaning that we should reduce Europe back to nothing more than a free-trade zone. Dropping our European ambitions and going against the course of history would be like abdicating, a form of betrayal. Because European unification has so far been an undeniable success. It has proven to be the best remedy for poverty, dictatorship and war. Europe has brought long-lasting peace, social protection and unprecedented prosperity. So we must stop being cynical and painting a picture of the Union as some kind of inconvenience.

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Practically and politically, there is just one option: move forward with the ratification of this constitution. Of course, each country and each citizen of the Union has the right to express an opinion on the constitution. But remember, there may have been two 'no' votes in the Netherlands and France, but there were 15 'yes' votes in 15 other EU Member States. Europe would not be a democracy if it did not take that fact into account. Moreover, in my view those who in recent months have put ratification on the back burner are duty-bound to start or resume the ratification procedure.

In fact, we agreed on this. That is why we added a special declaration to the constitution, declaration 30, which states: "If four fifths of the Member States have ratified it and one or more Member States have encountered difficulties in proceeding with ratification, the matter will be referred to the European Council". Well then, if not all of the countries start a ratification procedure, then the content of this declaration will obviously be pointless, which means that any breakthroughs in the European Council will be blocked.

Anyway, I think that four fifths of the member states is feasible. If we manage to reach that quorum, then a totally new situation would arise, a situation which certainly opens up new prospects. After, if that happens, I cannot imagine the Council simply running through the agenda as usual, in the knowledge that the necessary ratifications were missing.

In the meantime, however, whether or not we reach the four fifths quorum, nothing is standing in the way of further integration, as I have just described. Just the opposite. It would be good if a second track were opened alongside the ratification track. This second track would not require any changes to the treaties. It would be a project involving all countries that wanted to take part.

In other words, I am suggesting that we quickly develop a new strategy along two lines. The first involves moving forward with ratification and fully fleshing out and applying declaration 30; the second involves making a new and significant leap forward in European unification, without requiring any amendments to the treaties. This two-track strategy is the only way to benefit from the current period of uncertainty, which could drag on for years, and the only way not to waste time. After all, time is the last thing we can allow ourselves to waste.

Ladies and Gentlemen,

Fifty-two years ago, the European Defence Community collapsed after a 'no' vote in the French parliament. There was great dismay at the time. But the European leaders of the day did not let that setback throw them off balance. They knew perfectly well what they had to do. They didn't need time to think and discuss. They didn't need to make enquiries or organise opinion polls. They spent two years negotiating in one place, Val Duchesse, just a couple of kilometres from here. They then took the results and went to Rome, where they signed a treaty that led to the creation of the European Economic Community. That was when they put Europe on the right track for good.

Today, we need exactly the same thing. After all, the situation today is not all that different from the situation fifty-two years ago. Today, the majority of the French and Dutch citizens voted against the constitution. And today we must not let ourselves be thrown off balance. Today, the time is ripe for a major leap forward. And today we need to put Europe back on track.

Why, so far, have we not done the same thing they did fifty-two years ago? What is the big difference? What is needed? The answer is simple: courage, political courage. The same courage that Jean Monnet, Alcide de Gasperi, Konrad Adenauer, Max Kohnstamm, Paul-Henri Spaak and Robert Schuman demonstrated back then. The courage to get back up after a major setback, square our shoulders and

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keep on going.
Thank you.