

EUROPEAN COMMISSION

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**Joint European Parliament Debate on the forthcoming
European Council meeting and the Multiannual financial
framework**

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Mr President,

Minister,

Honourable members.

You have invited me to prepare with you the next European Council, and to discuss the economic situation and the multiannual financial framework. I welcome this choice of topics. The MFF is indeed a crucial part of our response to the challenges we face as it is a tool for investing in jobs and growth, while reinforcing stability.

We are now in a defining moment for European integration and the European Union. We are seeing that even when governments are taking the right steps towards reform, they can be negatively impacted by events beyond their control, or by the lack of decisive and comprehensive long-term response. We must recognise that we have a systemic problem and we need to articulate the vision of where we need to go, and a very concrete path for how to get there. I am not sure whether the urgency of this is fully understood in all the capitals.

The Commission has always maintained that a combination of immediate measures with medium and long-term steps is part of the comprehensive response we need to overcome this crisis. This was precisely the multi-track approach we developed further in our Communication of 30 May.

The European Union has proven time and again that it is capable of taking immediate measures when necessary. Just last week, the Euro area Member States, the Commission and the ECB, decided unanimously to support Spain in its effort to recapitalise its banking sector. This has again proven wrong those critics who say that we do not tackle our problems. On the contrary, our ability to react quickly shows our determination to tackle them head on. But we need also the perspective of the medium and long term.

In the medium term we must continue to implement what has been agreed, from the programme for Greece - and let me state here again that I believe Greece should stay in the euro area, assuming that it will respect its commitments - to our proposals to address the more systemic issues: from setting up financial back stops, proposing initiatives for growth, reforming the financial sector and to building a real economic union for the future, namely through the steps we have been taking on economic governance, the six pack that was already approved by this Parliament and the two pack that I hope today we will also endorse. We have been making progress on all of these areas, but I believe that more should be done.

For the long term, I will urge the European Council to take concrete commitments towards a fully developed economic and monetary union and a process that maps out the steps how to get there.

More than ever we need a strong ambition for Europe - an ambition for the structural reforms that we need now and ambition for the deeper economic and monetary union we need to build in the medium and longer term.

Honourable Members,

This European Council will focus on growth. I will urge it to endorse a decisive commitment towards sustainable and jobs-rich growth. This growth can only come from the combination of sound public finances, deep structural reforms and targeted investment.

At national level, at the end of the second European Semester, I am encouraged that Member States have clearly taken last year's country specific recommendations seriously, at least more seriously than the previous year. Great efforts have been made to implement last year's recommendations. But more needs to be done.

To supplement national action on jobs and growth, the European level is playing its part and indeed it is playing its part.

On unemployment, to tackle the biggest social challenge we face, the Commission has taken a number of measures, including refocusing structural funds, our youth employment initiative, and adopting a major employment package, which I presented to you here in April.

Implementation on the ground is very much in the hands of the Member States, and I will continue to urge them at the European Council to take the social emergency situation very seriously. In some of our countries we have worrying developments in terms of the rise of poverty and social exclusion.

On growth, the European Council should agree a growth initiative, building on the ideas we have put forward and which were well received at the informal European Council of 23 May. This includes a number of elements:

First, the reprogramming structural funds, focusing them on growth and competitiveness.

Second, boosting investment at European level through increasing the lending capacity of the EIB, and project bonds, are ideas I set out to you here in this house for the first time in my State of the union address in September last year. Now it was about time they are building momentum. Two weeks ago we got agreement on our project bonds proposal to unlock up to €4.6 billion in a pilot phase and I expect a clear decision on the EIB at the next European Council.

Third, we need to realise the full potential of the Single Market. I would like to see swift approval in the Council and the European Parliament for the measures of the Single Market Act 1. The Commission will, moreover, present a Single Market Act 2 in the autumn. As you know just last week we presented a Communication on the governance of the Single Market – how to reinforce it and also an analysis of the implementation of the Services Directive.

Honourable Members,

I believe that if Heads of State and Government agree to these strategic orientations set out in the growth initiative, we should go further in cementing this approach.

Many of the decisions we need to deliver results must be taken by the European Parliament and Council together. That is why today, I want to propose that we conclude an inter-institutional agreement on the growth initiative. Given the urgency of the situation, it is important to prioritise key decisions. An inter-institutional agreement would set a fast timetable and get things moving. It would also be a strong message about our partnership between the Parliament, the Council, the Commission. It would also be a strong message about our determination for growth in the European Union.

Moreover, it would ensure the required democratic legitimacy and involvement of the European Parliament - without whom we cannot advance and without whom the Commission does not want to advance: On these issues that are so necessary and relevant to our citizens, it is unthinkable that this directly elected body, this expression of European democracy, could be sidelined.

Honourable members,

On the matter of growth it is highly appropriate that you singled out the European Union's future budget to debate today. Quick adoption of the MFF would send an immediate signal that Europe is ready to invest in our future, that we are serious about growth. It would send a strong message on our commitment to stability and responsibility, given the clear link we have proposed between the MFF and the European semester of budgetary coordination. In other words, adoption of the MFF is a key stepping stone towards the deepening of the Economic and Monetary Union, and towards sustainable growth in Europe as a whole.

However, the path ahead will not be easy. With reduced spending power at home, some member states view the MFF as an extravagance to be minimised, and a potential source of savings to repatriate. This is a great mistake. Our budget is a budget for investment and for growth and I believe that we all agree that in current times we need to combine stability with growth.

We need to dispel the myth that the EU budget is a budget for 'Brussels', for the EU structures or institutions. No – the EU budget is money for our regions, our cities, our rural areas. It is money for our citizens, our students, our workers, our entrepreneurs, our scientists, our innovators, our farmers. It is money for the unemployed and those who are afraid of being unemployed. It is money for the future of Europe and for all those who want to have a future in Europe.

We have a strategy for growth – Europe 2020 – and indeed we are preparing new initiatives for growth. The important issue now is to link the MFF and the programmes under the future budget with our overall growth strategy.

If we agree that for growth, targeted public investment is necessary to complement structural reforms, then this needs to be reflected in our budget.

In many of our Member States, EU funds are the biggest and most stable source of public investments. Since 2009, Cohesion policy, just as an example, has been equivalent to 97% of total public investment in Hungary, 78% in Lithuania, and over 50% in both Poland.

What would the situation be in these countries without the contribution of the European budget? It has provided stability in times of crisis, but also flexibility in times of need.

These figures show that the European Union budget has a major impact for growth. At the same time, the MFF is in line with sound public finances. At around 1% of EU GDP and less than 2.5% of all public spending in the EU, the EU budget is focused on priorities, and its impact on deficit positions of Member States is minor. A cut of the Commission's proposal by "at least € 100 Billion" over the 7 year period, as some Member States propose, would have an effect of 0.084% of the EU GDP on public finances and deficits. This is an amount that certainly does not make or break sound public finances in Europe!

Thus the proposed financial framework for 2014-2020 is an essential piece of a medium to long term European growth and competitiveness agenda. The new rules governing EU spending will ensure that smart fiscal consolidation, investment funding and structural funds will go together. The proposed new own resources, including the financial transaction tax, will improve transparency and provide new opportunities for fiscal consolidation and growth. This is the best recipe for growth in Europe.

Can our project be improved? Certainly, and we are very open to listen to proposals.

This being said, I am also concerned with some ideas that threaten to unbalance what we have proposed. Take the idea to squeeze all items outside the MFF into it, from ITER to GMES. I fear that this will ultimately lead to further pressure on our margin for growth-oriented investments. I fear that this will endanger the other programmes in the different headings from competitiveness to cohesion. I can assure you: for all items outside the MFF, the European Parliament will keep its full institutional prerogatives through the normal annual budget procedure. I hope that the EP resolution on the MFF will take this into account.

We are now approaching the phase when the big strategic questions will be considered. While figures matter, we first need a serious look at design, modernisation and simplification, and added value of the budget. In this, the Commission shares plenty of common ground with this Parliament, which will adopt a resolution tomorrow. We will continue to press for Parliament's early involvement in the negotiations, as the outcome will have major implications for the Union's ability to generate growth, to demonstrate solidarity and to deliver on its common Europe 2020 objectives.

I know that this will not be an easy negotiation. But we are defending – and will continue to defend - our proposals very robustly.

Honourable members,

At the core of this European Council will also be a discussion on the building blocks for the future of the economic and monetary union. The European Council asked its President, in close cooperation with the President of the Commission, the President of the European Central bank and the President of the Euro group, to prepare a report that should propose the way forward. This report will be the start, not the end, of a process. A process that will be vital for anchoring our current efforts to ensure stability and growth in a longer term perspective. A process in which the European Parliament should be involved from the early stages.

Let me be clear: Member States must pursue the deep structural reforms that are indispensable for Europe's competitiveness and growth immediately. The longer term vision should not be seen as a substitute for these reforms. National leaders must leave no doubt about this.

But, without confidence in the irreversibility of the economic and monetary union, our prospects are limited. Therefore, we need a clear and credible commitment to a vision for the deepening of the union, combined with a process which maps out the main steps towards that goal. The process should generate a progressive dynamic. It would start with steps that could and should be taken immediately and leading to medium and longer term steps which might require treaty changes. Greater solidarity and greater responsibility must go hand in hand: each step towards further solidarity would be accompanied by a corresponding step towards greater responsibility, and vice-versa.

Such a commitment will send a clear signal that the Member States and the EU institutions consider economic and monetary union and the euro as indispensable assets for Europe's future.

The main building blocks include moving towards a banking union and a fiscal union. The timing and nature of the process will vary for each building block. Some elements will require a higher degree of political integration with in parallel measures to ensure increased accountability and democratic legitimacy. To this end, the whole process must have the Community method as its guiding principle to ensure ever greater coherence both on principles and on methods and instruments.

Here, a fundamental point needs to be made.

The Commission believes that it is essential to pursue this process as far as possible with all Member States. We advocate further integration within the Euro area. It is now evident that this is indispensable for the sustainability of our common currency and we are happy to see that also outside the euro area, in Europe and outside of Europe, now there is a consensus that we need further integration in the euro area. But under no circumstances must this be seen as an alternative to the integrity of the single market, or indeed the integrity of the Union as a whole. It must be seen as a mutually reinforcing process. Our economic relations bind us all: Euro area members and non-members alike, our futures are linked.

This is why the treaties are clear, and I have to say that because the Commission is also the guardian of the Treaties: There is only one Union. There is only one Parliament. There is only one European Commission. This is so because fragmentation is not an option. Financial stability and economic prosperity through the economic and monetary union, and within it through the Euro as common currency, are common goals. For those who are already in the common currency as much as for those who are preparing to join it.

We must recognise that some countries do have opt outs. These opt outs must be taken into appropriate account in the future architecture. But they remain the exception, not the rule. Those who wish to advance must be able to do so. But enhanced cooperation or properly circumscribed derogations can allow for this without creating a risk for the integrity of the European Union.

Let me now briefly sketch out the main building blocks.

Financial integration is one area where major progress could quickly be made, even without Treaty changes.

Thus, the creation of a banking union appears as a natural priority.

I see two major steps.

First, we should accelerate the adoption of proposals already on the table. That means adopting the Commission's proposals for a single rulebook - the capital requirements rules - and beyond that, the proposals we have made concerning deposit guarantees and bank resolution, including provisions to introduce solidarity via obligatory mutual lending between national funds.

Second, by autumn the Commission could be ready to come with key proposals to introduce more integrated banking supervision and common deposit guarantee and resolution funds.

The full benefits from deepening the economic and monetary union and from creating the banking union could however only be reaped by the development of the fiscal union.

Here, the immediate step is building on the effective coordination of fiscal and economic policies through the European semester, including through the swift adoption of the "two pack" proposals.

Going beyond that, three further steps can be identified:

First, we should further refine our financial backstops – the EFSM, the EFSF and its successor, the ESM – to strengthen our potential to intervene in support of financial stability.

Second, we need a serious discussion of the joint issuance and mutualisation of national debt in the form of stability bonds. This includes agreement on their pre-conditions, namely much more joint decision-making in all economic and budgetary matters. We will

not achieve stability bonds without a greater degree of integration. The Commission has already made public its ideas on how the Euro area can move technically to joint issuance of debt in its Green Paper of November 2011. A roadmap and a timetable will need to be worked out that also takes into account the need to build the necessary political and democratic momentum.

Thirdly, other options for a deeper fiscal integration need also be explored.

Fiscal union is about much more than just stability bonds. For instance, it also means more coordination in taxation policy and a much stronger European approach to budgetary matters, both at national and European level. I have already discussed the EU budget in the context of the MFF. In the longer term, stronger solidarity mechanisms could play an even more important role.

Honourable Members,

I have already referred to the need to link the development of the fiscal union with the development of the political union. A deeper economic and monetary union requires deeper accountability and legitimacy. Making the technical proposals is ironically the easier part. But if the technical proposals are made without proper support all across the European Union, we risk a backlash. Decisions of historic dimension need to be prepared, and the citizens need to be involved in the debate.

We must work together to ensure this. And we can only ensure this if the Community method remains at the heart of our move forward. I am convinced that this house, directly elected by the citizens, must and will play a crucial role in this respect: the European Parliament is the basis of the European democracy.

It is among other reasons for this very reason that I deeply deplore the recent orientation taken in Council on our Schengen proposals and the European Parliament's involvement in the relevant legislation. This is the wrong signal to send at the wrong time on a core area of European construction in terms of freedom of movement. We need more, not less parliamentary democracy in our union.

Allow me to finish by saying a word on the G20 meeting next week.

The EU representatives will be able to report on how Europe is meeting its difficulties with determination. We are not complacent about our difficulties. We will be open about it, but at the same time, I hope that we will be proud to say what is our determination. For instance, the proposal we put forward last week on a common framework for banking crisis management and resolution makes Europe the first jurisdiction in the world to be delivering on all the G20 commitments to strengthen regulation and supervision of the banking sector.

We can expect others in the world to point the finger at the European Union and the Euro area as the source of all the world's problems, including their own.

It is always easier to talk about the problems of others, thus distracting from one's own. But in the end, we all have challenges. Ultimately, these are common challenges. We need to address them together, also on the global scale.

Europe's contribution must be far-reaching reforms. We need reforms in Europe. Europe's contribution must be a big step for an ever closer, ever stronger Union of stability and growth. I believe we have the right case to make.

Thank you for your attention.