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**"Looking back, looking forward"**

**Speech at the Conference "Dove va l'Europa" - "The State of the Union"**  
**(Accademia dei Lincei)**

It is a pleasure to speak at this Conference in Rome. In the Palazzo Corsini, a place of the arts and the sciences..., and to such a distinguished audience. These past five years I've come many times to Rome, with many memorable meetings – in the Palazzo Chigi, in the Quirinale... – but I am glad today to address this public forum.

We are in a season of political renewal for the European Union. A new cycle of five years opens: this week the new European Commission started; at 1 December, the European Council will get a new President, Donald Tusk, my successor. And I also salute the Italian Presidency of the Council of ministers!

At the same time, 2014 is a year of commemorations – the centennial of the First World War; in two days, 25 years after Fall of the Berlin Wall... – which was, as much as a German, a truly European event. So it is a good moment for “Looking back, looking forward”.

In tune with the spirit of our session – on *"Lo Stato dell'Unione"* –, I want to keep my remarks relatively panoramic. I propose to offer three series of reflections.

First on the economic crisis and the current economic situation;

Second, some practical and institutional lessons on the office of European Council president, including on the role of the body in foreign policy;

Third and final: a wider reflection how people experience Europe and how the Union can be more caring and protecting.

The economic and financial crisis – it is the indispensable starting point for both looking back and looking forward. The next five years will necessarily be influenced by the period we are leaving behind us. Europe has changed. It has been a difficult, sometimes painful period. The solidarity between our countries has been put to the test. But we overcame it.

The most important lesson of the Eurozone crisis is that we have fully realised our interdependence. What happens in one of our countries, can affect the whole. The fate of a country of 10 million people (like Greece) influences the monetary zone of 350 million, yes even the global economy. Governments have realised all this, and it took them some time to do so. And public opinions have discovered it too – for them it took even more time, which is natural. We overcame the existential threat to the eurozone; we won that battle – also against the Cassandras and the speculators!

The other important lesson from the crisis was that, to deal with this interdependence, we needed and still need “more Europe” (certainly in the Eurozone). We must strengthen the Economic and Monetary Union.

Much of the work in the past years was aimed at this, and as a result we clearly have a stronger EMU architecture today than five years ago. With better budgetary and macro-economic oversight; with rescue funds; and also, since this week, with the European Central Bank overseeing all banks in the Eurozone. It is the start of the banking union – probably the biggest step in European integration since the launch of the euro itself.

But more will be needed, in particular on economic coordination. You cannot have a common currency and nineteen separate economic policies. A minimum of convergence is required.

Here lies one of my personal regrets. On economic coordination, I would have preferred to go further than we have been able to decide under my mandate. I put a proposal on the table, which did not get enough support. But: one can ignore a solution, one cannot ignore a problem.

So I am not surprised that already in December, for the first European Council meeting under my successor, the issue is back at the table. It is a decision by the last Euro Summit I chaired, two weeks ago.

Of course, today the current economic debate is elsewhere. It is on growth, on reforms, on how we can find the right balance, within and between countries. The economic crisis is lasting longer than we had expected, or hoped, after the return of financial stability to the Eurozone in autumn 2012. Why is this?

Growth is weak mainly because our potential for structural growth is weak, today around 0,5 %. This is the result of high levels of unemployment and too low levels of investment. After all, growth is the sum of the increase in working hours and productivity. A lack of jobs and of investment puts both factors under pressure. So a “cyclical” return of growth very soon runs into structural limits.

Apart from that, there were negative external factors. Geopolitical uncertainty affects confidence in Europe, and the performance of the BRICs countries – weaker than foreseen in the case of China, simply weak in the cases of Russia and Brazil – weighed on our exports and hence on the export-led growth of some of our countries.

We should not seek the causes of weak economic growth on the side of monetary policy, which is accommodating. They should not be sought on the side of budgetary policy either, because the net effect of budgets on growth has been neutral this year. The past few years, Europe has shown budgetary flexibility, in emphasizing not so much nominal figures of deficits, but the structural deficit. The extra delays agreed in 2013 for countries to come under the 3 % ceiling of the Maastricht Treaty prove it.

Now we must concentrate on structural reforms. They are necessary in all countries (including Germany). The world is in permanent change: nobody can rest on yesterday’s efforts or today’s laurels.

A top priority is improving the functioning of the labour markets. Fighting the duality between insiders and outsiders, between those who have a job with a fixed contract, and those who have a precarious job or no work at all – very often women, young people, immigrants... This duality is for many countries a main explanation behind the steep rise in unemployment during the crisis.

Other essential structural reforms concern the single market (an issue dear to the heart of Senatore Monti...), and also the energy union, the digital market and of course the research and innovation area.

Two weeks ago, at the last European Council I chaired, leaders welcomed the intention of the new European Commission to stimulate extra investments for a volume of up to 300 € bn. during the next three years. The responsibility for the Member States in terms of reforms but also investments is large. And do not forget : stimulating investments, economically speaking, means acting on the side of demand and on the side of supply !

The current economic situation is complicated, because we have not only too low growth, but also exceptionally low inflation – more so for euro countries than for the other Member States. This weighs on both public and private debts (which are too high), and therefore also on investments.

This is why, as I said a few days ago in the European Parliament, we need to mobilise means, without taboos, without fear, without obsessions, without ideology, with a mix of short-term and long-term objectives, and respecting the founding principles of the Economic and Monetary Union. Our whole socio-economic system is built on growth and employment. Everybody is very much aware of it.

Let me add one strategic remark. If we cannot present tangible results to people in terms of growth and jobs in the upcoming years..., if we cannot demonstrate that all these sacrifices and efforts are bearing fruit..., the European idea will be under very heavy pressure.

The euro-negative vote in last May does not prevent the EU institutions from functioning. But without perspective and hope for a better life, the next European elections and upcoming national elections can become disastrous. So: much is at stake. We must be very much aware of this. The upcoming five years are as critical as the past five years.

I noticed there would be many distinguished lawyers in the audience, practitioners and professors – like Giuliano Amato (*il Dottor Sottile*) and Joseph Weiler with whom I discussed in the past... So I thought it could be of interest to share a few institutional reflections on my experience in office, and on how I shaped the role.

For me, the office was just as new as for everybody. I was elected on 19 November 2009. I will never forget it. I had prepared a statement for the press in which I gave an idea. Still worth quoting. It is not so often one can read back an old statement without blushing. Back then I said: “*Every country should emerge victorious from negotiations. (...) As President of the European Council, I will listen carefully to everyone and I will make sure that our deliberations turn into results for everyone.*” I also said: “*There has been much debate about the profile of the future president but only one profile is possible and it is one of dialogue, unity and action.*”

The legal experts among you will know that the EU Treaty sets out the role and tasks of the European Council and its President in just a few lines. The body does not have legislative power and does not get involved into executive management decisions. It is essentially a political body, whose role it is to set the overall direction. Or in treaty language, to “*provide the Union with the necessary impetus for its development*” and “*define its general political directions and priorities*”.

The institution's vocation is to keep out of day-to-day business – the other EU institutions do it much better within the well-tested framework of the "Community Method" – yet to spring into action when special cases arise: changing the treaty, setting the budget, and also, dealing with crises...

In the Treaty (and its blank spots) you will also notice that the European Council's President has a relatively short mandate (two-and-a-half years, renewable once), no budgetary responsibility, no administration of his own and no right of appointment, and a very small staff.

Quite a paradox: the European Council is generally considered to be the highest political authority in the Union but the job description and formal competences of its President are rather vague, even meagre. A lot therefore depends on what you do with it or make of it! I can put it differently: everything what was not foreseen formally, had to be created informally.

It starts with something simple: building trust. Building trust is in my view perhaps the most important task of a European Council President. Building trust among leaders, among institutions, among countries: it is basis for political decision-making. Especially when decisions are difficult and when they have to be taken by consensus, as normally is the case in the European Council.

How does one build trust? By meeting people, by listening to people, by taking their views into account. For instance, I've made a point throughout my mandate of visiting all members of the European Council in their own capital, in principle once per year. Speaking to presidents and prime ministers in their own working environment – from Helsinki to Nicosia and from Dublin to Sofia – gives you a much better idea of what really drives them. And as a regular visitor to the governmental palaces in other capitals I cannot but notice that most of them seem, I would not say lavish or luxurious, but nicer than the soviet-style offices we have in Brussels!

All such efforts to build trust paid off at moments of need, at moments of crisis. Unfortunately, we have lived them. The euro crisis and the situation in Ukraine stand out. A few words on the role of the European Council during each.

It is true that the financial and economic crisis was very visibly being dealt with by Europe's national leaders, in person – especially in the years 2010-2012. There were two obvious reasons for this.

Firstly, there was a lot of money at stake. The public debt crisis, like the banking crisis before that, called for the use of taxpayers' money. The common EU budget is relatively small (roughly one per cent of GDP), so the Union's institutions could not act decisively on their own. The member states had to step in. And the amounts were such that within most countries the decision could only be taken at the highest political level... in all the Palazzo Chigis and all the Quirinales across our Union... The need for national money and therefore the involvement of national leaders and national parliaments was simply a fact of life.

Second reason: in times of crisis the limits of institutions built on attributed competences are quickly reached. The Union can only act in fields where governments have jointly given it a mandate to do so. But when we enter uncharted territory and new rules have to be set, the European Council is well placed to play its part.

Yet even if we were obliged to use this 'intergovernmental' path, all the work we did has actually resulted in stronger central institutions. The Commission has been given probably unprecedented power to scrutinise budgets and economic policies (we are seeing it these weeks...). The Parliament is more influential. Earlier this week the European Central Bank started to supervise all eurozone banks. Such shifts in competences naturally require the prior consent of all the countries involved.

This brings me to the European Council's role in foreign affairs. Whereas the first two-to-three years were dominated by the economic crisis, the last year our political attention shifted more to the world around us. And in particular Ukraine. Obviously.

The Ukraine crisis was and is the gravest threat to the European security order since the end of the Cold War. The invasion of Crimea, last March, marked a turning point. Of course there were momentous events taking place in Ukraine before that, and there still are – but that was the watershed. When you tamper with borders, you tamper with peace.

Early March, I called an emergency meeting on Ukraine. (It was only the second such summit on foreign affairs; the first one was three years before, on Libya, which was also very important.)

In the Ukraine meeting, after Crimea, the European Council set out the Union's response. Towards Ukraine: political support, with the Association Agreement, and support for reforms. Towards Russia: three-staged sanctions to make it change its behaviour. Ever since, we have remained faithful to that dual approach.

The European Council does not deal so often really with foreign affairs. Most of the time, most Presidents and Prime-Ministers leave this to their Foreign Ministers (just as, in normal times, they prefer to leave financial matters to their Finance Ministers!). But when it becomes really political, when it became a matter of stability on the continent, of energy dependency, of inflicting pain on Russia and thereby potentially affecting our economies in return, then all national leaders want to be personally involved, and they have been all along the way. And no doubt, under my successor Donald Tusk, this involvement of leaders with Ukraine will continue as long as necessary. The recent energy deal for the winter was a positive step. The acknowledgment, by Russia, of the so-called elections in Donbass, a very negative one.

So from my experience, it is clear that, when the pressure is there, the European Council can act. When we really have to, it is possible to bring 28 leaders, 28 countries into line. It is not easy, but it is possible. My question today is, how to preserve this capacity to act, for Europe, when there is no immediate crisis, when there is no external pressure. It will be much more difficult.

In any case, it will depend on the European Commission and its sense of initiative, and also – whatever one may think – it will depend on the ability of France and Germany, joined by others, to find common solutions. Of course, they are but two countries, out of 28, but they do represent two political and economic ways of thinking within the Union, and without them agreeing on a common direction, things become very difficult.

Their agreement is not a sufficient condition, but often a necessary one. That, in any case, is my experience. And I happily leave it to my successor to prove me wrong!

Speaking about Germany and France..., not to forget Italy and the others, let me also mention the United Kingdom – also here in the presence of Peter Mandelson. In the next five years, it will be one of the crucial challenges. We must do our utmost to keep the Union together. "Better together!"

My impression is other Member States are ready to listen, to talk, to negotiate if needed, provided the fundamental values and principles of our Union are respected.

Please allow me, in a third and final part of my speech, some concluding reflections.

Looking at the past years and at the disappointing economic situation, it is clear that "Europe" has not become popular during the crisis – quite the contrary. That is why the next 5 years are so important.

But there also is a crisis of politics in general, at all levels. There even is a general malaise, after the financial crisis, related to the way our economies work, to the distribution of wealth, of the tax burden, to the rise of inequality... Not to mention a fear for globalisation, for migration, for the violence of fanatics.

Of course, nuance, populist parties emerged in a number of countries years before the outbreak of the financial crisis and euro-crisis. Every day, we must fight, to “turn fear into hope”.

For sure, there also is a specific European dimension of this problem. But in my view, it is not just about institutions and elections. More fundamentally, it is worthwhile to look at how people perceive and relate to the Union. How they experience it. And I should like to develop this point to conclude.

The starting point is a sad observation. It seems people today see Europe as a reason they feel powerless and without a say – whereas our Union was precisely built to make them stronger and regain a grip on their own history.

One way to understand this public disenchantment better – as I set out last May in a speech in Aachen when I received the Charlemagne Prize – is to see how our Union is above all experienced by people as a space and hardly ever as a place. Space and place are really not the same thing. A place brings protection, stability and belonging. It is a home, where people feel at home. A space on the other hand opens up movement and possibilities. It is about direction, speed and time. As human beings, we need both. A space in which to fly, and a nest we can call ours. We are very simple creatures!

With Europe, our focus has always been on space. Just think about it. From the very start, the typical action was to remove borders, for goods, workers, investment, to let people and companies move, take initiatives, seize opportunities. Even today – on fields as diverse as energy, telecom or the digital economy – it is still about bringing down borders, creating this big common space.

But we've never really thought of Europe as a home, a shelter, and today we pay a price for it. For decades it worked well. The open borders brought huge opportunities, for working, trading, studying abroad. And the impact of all the opening was mostly cushioned – by economic growth, and by the welfare states, set up in parallel.

Crucially, the division of labour through all these years was that Europe opened, and national governments protected. Nobody expected otherwise. But things have changed. Globalisation has put the welfare states under strain. The crisis forced European Union institutions into a new role.

The result is a dramatic and rapid shift: whereas for decades Europe had been all about opening, liberating, unlocking, emancipating, empowering... today it is suddenly seen as meddling, judging, prescribing, dictating, correcting, even punishing... Europe, the great 'opener' of opportunities is now perceived by many as an unwelcome 'intruder', the friend of freedom and space is seen as threat to protection and place.

We need to get the balance right. It is essential for the Union to be also on the protecting side. It is urgent for the Union not to be seen as only benefiting businesses, but also employees; not only the "movers", but also the "stayers"; not only those with diplomas and language skills, but all citizens; and people not only as consumers, who like cheap products and a wide choice, but also as workers, who can see in others, competitors for their jobs.

How to get this balance right? When it comes to protection, people expect two things from the European Union.

First, for problems that individual countries are clearly not big enough to fight on their own, that the Union steps in. On global and cross-border issues, people really want Europe to defend their interests and keep threats at bay. Second, where national authorities are best-placed to provide care, people expect that the Union does not get in the way. Indeed, there are cases, where precisely because of its scale, the Union must tread softly. Not disrupt, but respect familiar places of protection and belonging – from national welfare choices, to regional traditions and identities, all the way down to local cheese.

From this perspective, the citizen's message to the Union is clear. *"The Union must be stronger outside, be more caring inside."* For me, this is one of the main challenges ahead to regain people's confidence in our Union. And I have full confidence that the new leadership team will address this important responsibility head-on. Thank you. Grazie.

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