# Speech delivered by H.E. Ambassador David Daly, Head of Delegation of the European Union to Australia, to the European Union Centre at RMIT University, in conjunction with the Contemporary European Studies Association of Australia

## Melbourne, 30 April 2012

## *"The European Union's management of the economic crisis"*

Thank you for giving me the opportunity to speak at this event, jointly hosted by the EU Centre at RMIT and the Contemporary European Studies Association of Australia.

Having just announced the winners of the essay competition - to whom I again extend my congratulations - it is clearly apparent that I am among esteemed scholars of European affairs. I am therefore delighted to segue from the role of awards presenter to offer some thoughts on what has been described as the biggest challenge in the history of the European Union, namely the financial and economic crisis, and provide an insight into Europe's response.

I would like to focus on three related themes; firstly, that the European Union is more <u>resilient</u>, both economically and politically, than many people might realise; secondly, that European countries are engaged in widespread economic reforms involving a renewal of the European economy and a deepening of European integration; and thirdly that this demonstrates the need to combine greater <u>responsibility</u> for economic reforms with the necessary solidarity to help those Member States most in difficulty.

**Resilience: the EU is resilient, economically and politically, especially in a crisis**

The **economic resilience** of the European Union is not to be underestimated; it comes from the fact that the EU represents a large open competitive economic area.

In this regard, Europe's best asset is its huge Single Market, comprising 500 million consumers and 23 million companies situated across 27 countries, accounting for around 20 per cent of global GDP. The benefits of this Europe without borders are enormous for companies operating there according to a single rulebook which encourages EU companies to be global in their search for competitive inputs and forces EU suppliers to sharpen up their products. While it remains a work in progress in certain areas, we can be rightly proud of what we have achieved, namely the most internationally competitive economic space in the world, which in terms of value remains almost three times the size of the China's economy.

Externally, Europe is the world's biggest trader, possessing an open market with very low effective tariffs (*3.2%*), slightly lower than Australia's (*3.9%*). Over half (*55%*) of Europe's non-agricultural imports enter the market duty-free, as does 41% of our agricultural imports. The EU accounts for 15-16% of world trade in goods (+17-19%, 2010/11) and 25% world Services' exports (+12%, 2010/11).

If you believe in the economic dynamism which comes from trade and economic liberalisation, then you must be positive about Europe's large open market and the underlying economic resilience which it provides.

The underlying **political resilience** of the European Union is less apparent to outsides but it is no less important, derived as it is from the unique method of cooperation between European sovereign states.

The pooling of sovereignty is at the heart of the EU but it is hard to understand from outside the system. Basically it means agreeing to find EU-level solutions to EU-wide problems; this involves monthly meetings of Ministers, from 27 member countries and across a wide range of portfolios. These meetings are prepared by senior officials across the civil services of these countries. Together they strive to reach genuine European solutions rather than purely national ones; a huge premium is placed on dialogue and the search for consensus; concepts such as solidarity and partnership are ever-present, tempering the pursuit of pure national interest at all costs.

Imagine what this sort of system would mean for Australia, were it part of such a regional integration project.

The EU has its own unique institutional and legal system to ensure fair play. The European Parliament, the European Council, the European Commission, the European Court of Justice and the European Central Bank all play specialized roles.

This way of working together for over 50 years has made it more natural for member countries to participate in finding solutions which work for the EU as a whole rather than just to look for narrow national advantage. Sometimes the political rhetoric from Europe might seem to indicate a greater degree of disagreement than actually is the case; sometimes however, there is real disagreement between leaders, but this is all the more visible today precisely because it has become so unusual. What is much more common is for a vigorous political debate to yield the sort of European solution I mentioned earlier; an agreement which brings 27 countries (and soon Croatia will bring the EU membership to 28) along the same path and which brings Europe further.

The European integration story is littered with examples of deeper integration coming as a result of having had to face up to crises; crises often present issues in stark relief, with basic choices to be made; mostly, these are choices between moving forwards (greater integration between European countries or "more Europe") or moving backwards.

The current economic crisis is no different; it is a crisis which is prompting a European renewal.

## Renewal: realizing Europe's ambitions

*"Visit the euro zone and you will be invigorated by gusts of reform" (The Economist*, 31 March 2012)

The economic and financial crisis has been a stark wake up call for many countries, Europe included. The economic forecasts published by the European Commission in February point towards real GDP in 2012 remaining unchanged in the EU (0.0%), although modest growth is predicted to return in the second-half of the year. Conditions are being established to deliver financial stability and – beyond the necessary fiscal consolidation - sustainable growth.

Reforms are being put in place across a wide range of areas; they represent the foundation for a stronger European economy and for a stronger euro system; they are designed to ensure that the present crisis affecting the European economy is not repeated – "never again".

<u>More structural reforms</u>

The serious economic challenge Europe faces is bringing about profound structural economic reforms, at both the national and regional level. Many of these necessary reforms are in areas which pose challenges not just to European countries but to developed countries everywhere; with increasing competitiveness and productivity at their heart:

- Striking a better balance between tax and social benefits via welfare and labour market reform;

- Facing up to demographic challenges through addressing the pensions burden; and

- Investing in physical and human capital to boost productivity.

These reforms all reside within the European Union's growth strategy for the coming decade, the Europe 2020 strategy adopted in 2010. Europe 2020 aims to achieve smart, sustainable and inclusive growth through a range of flagship initiatives – on a digital agenda for Europe, on innovation, on resource efficiency – and to bolster Europe's economic governance, showing that Europe is capable of balancing the necessary degrees of solidarity with responsibility.

Fiscal consolidation

Member States are implementing hard but necessary budgetary adjustment. This action will restore confidence in public finances and create the right conditions to revive growth.

- Despite recent budget revisions, Italy is still projecting a primary budget surplus in 2012 and 2013;

- In Spain, the recently-presented budget contains significant fiscal tightening in a concerted bid to reduce its public deficit to within EU guidelines in 2013;

- Ireland's fiscal consolidation remains on track and structural reforms have propelled it on the path towards recovery;

- Portugal is making good progress with its programme to enable fiscal sustainability and improved competitiveness; and

- Greece has made major fiscal adjustments under exceptionally difficult circumstances and is committed to its economic reform programme.

Better functioning of the European economy

Improved economic policy coordination: We have strongly reinforced the rules for fiscal discipline under the EU's Stability and Growth Pact, boosting ex-ante coordination of fiscal and economic policies through the European Semester and Annual Growth Survey launched in January last year, and adopting legislation to apply more rigorous fiscal surveillance and, through a new system of peer review, impose financial sanctions if a Member State does not follow EU recommendations to put its fiscal house in order. In parallel, a fiscal compact was signed last month in the form of a new Treaty establishing a "balanced budget rule" which must be incorporated into the Member States' national legal systems, and reinforcing fiscal rules for the euro area.

New euro area funds: The euro area is mobilising an overall firewall of approximately A$1 trillion, combining the lending power of the temporary European Financial Stability Facility and the permanent European Stability Mechanism, which comes into operation from July this year.

Leaders have also agreed on new EU/IMF funding for Member States in difficulty.

New/better EU-level financial supervision: We are changing the face of European financial markets with an ambitious regulatory agenda, in January 2011 setting up three new European supervisory authorities for banks, markets, and insurance and pensions to foster harmonised supervision and enforcement, as well as establishing a European Systemic Risk Board. The Board monitors financial risks to the EU and, when necessary, issues risk warnings and/or policy recommendations to Member States, who will have to comply or else explain why they have not done so. We also now have strict rules for hedge funds, private equity funds and credit rating agencies, and are delivering on key G20 commitments (*financial derivatives and Basel III compliance*).

In the midst of all the negative commentary about the euro, let's be clear: it was not the euro that created the crisis. We have countries that are not in the euro and that are in situations that are at least as serious as those who are in the euro (CZ, HU, UK); we have euro countries that are doing well (EE, MT, SK); we have even countries that are not in the European Union which share similar problems to ours. Despite some systemic shortcomings, the euro remains the foundation of economic stability in Europe as well as being a prime political project. In adopting the euro, Europe does not suffer from excessive integration. Our problem is rather we did not create all the tools to go with it. We did not push integration far enough. But we are now.

Again in response to a crisis: More Europe, not less.

Of course, we are not at the end of the reform process. Challenging work remains ahead. Already, the European Commission has put forward two new initiatives on deepening European Union and euro area economic governance, allowing for enhanced surveillance of euro area Member States experiencing financial difficulties or in excessive deficit procedure. In November last year, the Commission proposed options for the introduction of 'Eurobonds' and a Europe-wide financial transactions tax.

These new instruments for the governance of the euro area and for economic policy convergence across the EU show that the EU system is capable of adapting, of creating new tools and of refining those tools in the light of circumstances. The system is resilient and capable of renewal.

In terms of broader integration efforts, the European Commission and the Member States are working to deliver the Europe 2020 agenda I mentioned earlier.

- This year marks the 20th anniversary of the **Single Market** – crucial to the success of Europe 2020. Commission proposals currently under consideration include simplifying rules for recognising professional qualifications across Member States; strengthening standardisation procedures; and creating a uniform market for venture capital to lessen obstacles faced by SME's in accessing financing;

- We are creating a real Digital Single Market through the **Digital Agenda for Europe** – removing barriers to e-commerce and ending mobile roaming charges – a quarter of the action items were already completed by the end of last year; and

- We are investing in an **Innovation Union** to boost spending on research and development and create more favourable conditions for researchers and innovators. This includes the Single European patent – a long-held ambition which would reduce translation and related costs of patents in Europe by up to 80%.

**Responsibility and solidarity**

As these efforts at renewal demonstrate, the crisis has caused a sea-change in the realisation of the need for economic reforms across Europe. Of course this takes time because the EU is a democratic club and measures need to be agreed and voted upon.

This heightened sense of responsibility balances the greater degree of solidarity that is needed, as demonstrated by the large new financial firewall; responsibility and solidarity are two sides of the same coin. As European Commission President Barroso first stated in 2010, there is "no stability without solidarity, and no solidarity without stability".

## Conclusion

I conclude by observing that the European Union will exit this crisis better organised and more integrated. But to reiterate, we are not at the end of the road. We must continue the work which has been carried out to date. This is reflected in the IMF Managing Director Christine Lagarde's message earlier this month, when she exhorted Europe to deepen the integration, implement the reforms and build on existing efforts.

Similarly, President Barroso has echoed the calls of other European leaders for Europe to take a further step towards political integration, supporting the case for even greater solidarity.

"We must now build with the citizens the next stage of a political union. We have strengthened the economic union. We now need to apply the same impetus to our foreign, security and defence policy. It is in our common interest to do this."

Europe continues to renew itself. The European Union has a proven history of growing stronger in difficult times. Challenges motivate us to improve and carry on. There has been the tendency of markets and commentators to belittle the far-reaching measures already taken and the complexity of moving forward 27 democracies. However, the European vision has delivered lasting global political and economic benefits, and in overcoming the crisis will continue to do so in the future. Europe has, after all, come a very long way since it was founded by six countries dealing with issues just relating to coal and steel!

Thank you for your attention.