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Preparations for the EU Summit

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President, Honourable Members, Right Honourable Minister,

I have been invited to discuss the preparations for next week's European Council with this House on behalf of President Barroso. The European Council will take place in a very challenging economic and political environment. Its focus will inevitably be on the economic situation and on the measures we have proposed to restore confidence in the euro area and the European economy.

It is clear that our room for manoeuvre is now much more constrained than two years ago. To respond to the current situation, the Commission has utilised the current Treaty scope to the maximum and proposed forceful measures to complete the Economic and Monetary Union. Economic governance has been strengthened and mechanisms to address the financial crisis have been put in place.

Last Wednesday the Commission adopted the Growth and Governance Package, which consists of three parts. The Annual Growth Survey spells out our view of the policy priorities in the coming 12 months to restore macro-financial stability and boost sustainable growth. Two proposals for new regulations will further strengthen economic and budgetary surveillance in the euro area. The feasibility study on stability bonds examines the potential benefits for financial stability of jointly issues bonds and the preconditions for their possible introduction.

The AGS launches the next European Semester of economic governance by setting out Commission's views on the challenges and priorities for the next year. This AGS is being published when the EU is going through the most challenging times in its history. In this context, the AGS sets out the following five priorities for 2012:

First, continue with fiscal consolidation. The consolidation has to be differentiated across countries, as we agreed in October. We also have to pay more attention to the impact of consolidation on growth. In this respect, we have to analyse carefully which expenditure we reduce and how we raise revenue.

Second, normal lending to the economy has to be restored. It is necessary to strengthen the banking sector via appropriate regulation and recapitalisation and set up credible financial backstops for banks and sovereigns in order to break the negative feedback loop between the two sectors.

Third, structural policies are key to revive growth at the current juncture, when macroeconomic policies are heavily constrained. Structural reforms have to be stepped up, in particular in services, network industries, the public sector and the digital economy.

Fourth, unemployment and other social consequences of the crisis have to be tackled. Reforms are necessary to make labour markets more flexible and conducive to job creation.

And the final priority is to modernise public administration at all levels. Modern, efficient and effective public administration is necessary to implement the difficult reform measures in the current challenging economic conditions.

Some of these priorities are not new. It is for purpose: we have already made many commitments; now we have to focus on their implementation.

This Annual Growth Survey kicks off the second EU Semester. The ECOFIN Council and other involved Council formations are invited to discuss the Annual Growth Survey and establish the priorities and concrete actions for the Member States and the EU level for the next year.

The discussions will culminate in the March European Council, after which the national programmes are prepared in the light of the guidance from the Heads of State or Government. In parallel, the European Parliament should also debate the Annual Growth Survey and make your views known before the work on Member States' programmes starts.

To conclude on the Annual Growth Survey, I want to underline once more the following: without swift and determined implementation, these priorities will do none of us any good, nor help achieve smart, sustainable and inclusive growth. I have full confidence in the European Parliament that it will help accelerating the adoption of what is currently on your desks in co-decision procedure.

Honourable Members,

As part of the Growth and Governance package we proposed two regulations based on article 136 for the euro area member states. The proposals are a major step forward in euro area integration. They build on the sixpack, complete the European Semester with rules for the second part of the year and establish a link between intergovernmental financial assistance and Treaty-based surveillance.

The first regulation proposes the introduction of binding rules for balanced budgets into the national legislation, preferably at constitutional level. It also requires independent forecasts to be used as the basis of budgetary plans and draft budgets. But most importantly, it proposes tight monitoring of national budgets. We propose harmonised budgetary timelines with draft budget laws to be submitted to the Commission by 15 October.

The Commission then assesses draft budgets against Country Specific Recommendations under the European Semester, and against possible Excessive Deficit Procedure recommendations. Should the draft clearly not be in line with recommendations, Commission can ask for new draft. Otherwise, the Commission issues an opinion, if necessary. The Commission would present its opinion in national Parliament, if requested.

When a Member State is in EDP, the Commission can issue recommendations for additional measures. Again, we are ready to address the national Parliament.

The other regulation specifies the modalities for enhanced monitoring of EAMS receiving financial assistance or suffering from serious risks to its financial stability and to the euro area as a whole. It codifies the current practice of negotiating and surveillance for countries receiving financial assistance. In addition, it allows enhanced surveillance of a country that is considered to be at risk to financial stability, even without a programme.

Furthermore, enhanced surveillance would be continued until 75% of loans received as financial assistance under a programme are paid back. Finally, it suggests that the Commission will have the right to propose to the Council to recommend a MS to seek financial assistance if the Member State concerned is posing a risk to financial stability, based on Commission's analysis in liaison with ECB.

Honourable Members,

The fragmented European sovereign bond market is under great stress. Investors require substantial risk premia on the sovereign bonds of some euro area Member States. This situation has revived interest in jointly issued euro area bonds to create a large, liquid bond market.

As a part of the deal on the "six-pack" between the European Parliament and the Council, the Commission presented a Green Paper on stability bonds last week.

The two key findings are: 1) Yes, jointly issued stability bonds would likely produce substantial benefits in terms of reducing and stabilising MS borrowing costs, better shock resilience of the financial sector and improved market efficiency over time. 2) But as common bonds would reduce market discipline, their introduction would only be meaningful on the condition that euro area economic governance were to be substantially further strengthened.

The "Six pack" constitutes the foundations for reinforced economic governance, and last week's proposals represent a further step in this direction. But we would have to go far beyond these reforms to facilitate a safe introduction of the stability bonds, which would most probably require amendment to the Treaty.

Let me say a few words on the Treaty change. Let's be clear: a Treaty change cannot offer an immediate contribution to the solution to the current crisis. But it is true that by working to embed stricter discipline and stronger governance into the Euro area in particular, we may help to prevent a future crisis by creating a real stability union.

The President of the European Council was asked, with the Presidents of the Commission and the Eurogroup, to identify possible steps on further strengthening economic convergence within the euro area, including exploring the possibility of limited Treaty changes. These deliberations on improving euro area economic governance are on-going and an interim report will be presented to the European Council.

The Commission's view is that any Treaty change should be based on the principle of one Union, based on the current institutional framework, distinguished by the community method. European integration can only be achieved by a single legal framework of one Union. That is the best way of building a stability union, in fact a true economic union.

Equally important, only the community method can guarantee coherence between European economic and monetary policy and all other EU policies as well as the completion of the Single Market. That is the guarantee of the fair and just treatment of the member states and EU citizens. I trust both the European Parliament and EU Member States will stick to this and be ready to justify the benefits of the community method vigorously also in future negotiations.

Furthermore, in the possible case of any of revision of the Treaties, balance has to be maintained. There will be diverging views - some will want put more weight on stability, others might wish more emphasis on stimulating growth. Some will call for more solidarity, others will want more discipline. It will be important to incorporate all these elements in future work so that the end result will be a balanced set of rules ensuring both stability and solidarity.

Honourable Members,

Let me now move on to the second item on the Council agenda – energy. The February European Council recognised the key importance of energy for Europe's future growth and prosperity.

Energy efficiency is a critical area where we need decisive progress. The new Energy Efficiency Directive was tabled in June proposing binding measures to use energy more efficiently at all stages of the energy chain. The Directive should be adopted swiftly, by summer 2012 so as to allow the EU as a whole to meet the 20% target in energy efficiency.

On the goal of full completion of the internal energy market by 2014, work has accelerated on the establishment of EU-wide rules, thus ensuring efficient network and market operation across borders. We call on Member States to confirm their commitment to internal market by implementing the Third Energy Package.

Moreover, the Commission tabled in September a comprehensive strategy for the EU's external relations in energy that includes the proposal for a Decision setting up an information exchange mechanism for intergovernmental agreements in the field of energy between Member States and third countries. This mechanism will help to strengthen the negotiating positions of Member States vis-a-vis third countries, while ensuring security of supply, proper functioning of the market and creating legal certainty for investment.

Honourable Members,

The European Council will also discuss the Schengen accession of Bulgaria and Romania. The Commission's view is clear: the Council should take the decision to lift internal border controls with Romania and Bulgaria without any further delay. We fully support the efforts made by the Presidency for a compromise solution. Splitting into two phases the decision on lifting of internal border controls is feasible and politically sound. The second phase - the decision on the lifting of internal border control at land borders - should then be taken without undue delay.

Finally, a word on enlargement and the Accession Treaty of Croatia, which commissioner Stefan Füle will come back to after this debate. Real progress has been made during the last year with all countries – progress in which the cooperation with the European Parliament plays a significant role! The Commission has already given its favourable opinion on Croatia's accession and we hope that the vote tomorrow will pave the way for the Council's decision and the signature of the Treaty on 9 December. But I will leave the details to my colleague.

President, Honourable Members,

Let me conclude on the likely main item of the European Council, the further economic governance and coordination.

We have arrived at a point in time where serious choices and commitments have to be made. The Economic and Monetary Union will either have to be completed through much deeper integration or we will have to accept a gradual disintegration of over half a century of European integration.

This is a choice that needs to be consciously taken by the Governments of the EUMS, and by all European citizens and their representatives in the national Parliaments and the European Parliament.

Our choice is clear – it is a choice for an ever closer union, for the sake of sustainable growth ad job creation in Europe, and thus for the sake of legitimacy and, not least, for the sake of the future of the European unification. I trust such will also be the choice of the European Parliament, and of the citizens it represents.