

Inaugural event – 25 January 2018

Keynote speech

by *Herman van Rompuy*, first President of the European Council

1. Brexit

Brexit is full of surprises. The result was a surprise even for the Leavers. For me and many others it was a sad surprise. No longer was the European Union an irreversible project. It was established to create irreversible economic and political bonds for the sake of an ever-lasting peace. The Union embodied values and the most important of all: peace. The EU was and is much more than an economic added value. The Union is not an aim in itself. It is a peace project. Brexit has national sovereignty as a goal in itself. If the EU falls apart, peace is not guaranteed. It is a sad thing that the Brexit debate is mainly about trade and the City of London. Much more is at stake.

It was a happy surprise that support for EU membership among the citizens of the remaining 27 EU member states increased dramatically after Brexit. For a large majority of them Brexit was not a template. It would add instability to an already unstable world. The EU had become part of our DNA, even if we lack enthusiasm for it. For young people, a return to the old world of borders and national currencies seems unworldly. If any Britons thought that Brexit would be the beginning of the end of the EU, the start of the unravelling process, this was not the case at all. It was the first in a long series of miscalculations on the part of some in Britain.

Another surprise was the unity of the remaining 27 Member States during the first phase of the Brexit negotiations. Britain is negotiating with a bloc that speaks with one voice. It means that we have an answer to Henry Kissinger's question, "Who I call if I want to speak to Europe?" You can now call Brussels! By contrast, Britain speaks with many voices and is not so united anymore. It is obvious that in the talks on the future EU-UK relationship the EU has to work hard to remain united, but we are used to compromise. The EU is based on compromise. Compare this with the USA today, which is falling apart into two opposed groups because compromise is not possible anymore.

Our British friends were surprised about their weak negotiating position. The main reason is that the UK is economically much more dependent on the EU27 than vice versa: 45 per cent of UK

exports go to the EU27, while only 8 per cent of EU exports go to the UK. The EU also remains the biggest single market in the world, even after Brexit. The Euro is the world's second currency. The economies of the Eurozone are doing well, and 8 million jobs were created between 2014 and 2018. The EU27 are negotiating with self-confidence and in unison. Therefore, it is not a surprise that Britain accepted the EU's proposals on the status of their citizens in the UK and on the divorce bill. It should also be noted, that the EU's proposals were not extravagant.

From day one after the referendum, it was clear that an arrangement was needed to cover the period between Brexit and an agreement on the future relationship. Now it is clear that there is no alternative than to stay in the single market and in the customs union during the transition. Negotiating a bespoke transitional arrangement could be as difficult as discussing the future relationship. Two years will even be short to negotiate that new relationship. It can always be prolonged. All this was known in advance. It took time for some in Britain to acknowledge reality.

The British position is also affected by the breakdown of the 'special relationship' with the USA. The policy differences with the American President were and are huge. The most striking example is trade. The UK wants to become the champion of free trade at a moment that the Trump Administration is pushing the US towards protectionism. At the same time, the EU finalized a trade deal with Japan, the biggest ever in history. Other Free Trade Agreements (FTA) are in the pipeline. Never forget that FTAs are mainly about goods but British industry is only half as important as those in many other European countries. It is in services that the UK economy's strength lies, and agreement on services in an FTA is extremely difficult to secure.

It remains a paradox that Britain is eager to conclude trade deals with non-European countries, whilst it is giving up free access to its biggest market. But it is not the only paradox.

What is also surprising is that exports to the EU27 require compliance with the EU's norms and standards, and the same would apply in an FTA with the EU. But the rhetoric is about regaining control and Britain establishing its own standards.

Regarding our future relationship, there are two options for Britain: either staying in the single market and the customs union or agreeing to a FTA. The first option is economically less destabilizing but makes Britain dependent on external decisions. The second one is in any case worse than the first one, especially for the City of London which will lose passporting rights. The first choice is difficult for the Leavers and I doubt there is a majority for an FTA in Westminster, precisely because the British people will be worse off. For Ireland and the EU, there is also a difficulty with option 2: introducing a hard border between the Irish Republic and Northern Ireland would be a major hurdle.

My assessment is that there is only very limited leeway for compromise.

Is Brexit reversible? Nothing in life is irreversible. One can reject a first decision at any time and change one's mind.

The most rational decision is to opt for more prosperity and more power. When you lose both, there will be a backlash sooner or later.

When Belgium gave up its national currency, we won on both issues. We lost monetary sovereignty, but it meant nothing because we were already loyal followers of the Deutschmark. On the contrary, we now had a say in the Board of the European Central Bank. We gained in terms of influence while we gave up monetary sovereignty. What we perceive as reality is not necessarily real!

Many of these ideas, concerns and hopes are to be found throughout this timely book. As it shows, Brexit is not only about Britain or EU-UK relations. It is about the EU, how the Union moves forward without the UK, and what that will mean for Britain, Europe, and the wider world.

2. What should be the content of the new European programme?

It has to be focused on three objectives:

A. Prosperity

The EU (and the US) need a higher productivity growth through higher private and public investments. Improving the business climate is first and foremost a job for the Member States. It has to go beyond lowering corporate taxes, which can end in worldwide fiscal competition.

Investment has to do with financial capital (venture capital; Capital Markets Union), human capital (education; formation; 'war on talents') and physical capital.

At European level the 'Investment Plan for Europe' ("Juncker Plan") has to become permanent. It triggers until 2020, €500b or more than 3% of GDP. Our common, ambitious climate policy is an incentive for massive investment in renewable energy.

The EU-budget (2020-2027) has to focus on merit-based R&D and on joint efforts in future-oriented activities. Horizon 2020 is the biggest scientific programme in the world.

Prosperity demands a further deepening of our single market (digital; energy; services, public as well as private) with high potential for productivity gains. It is a work in progress, but too slow.

A "genuine" EMU leads to a completion of the Banking Union, a Fiscal Union (an adapted Stability and Growth Pact) and an Economic Union (efforts towards economic reforms and more convergence. A common policy needs more common policies). We are aware that gradualism is inevitable, but the first new steps have to be taken immediately. Postponing would undermine the Union's credibility again.

A financial crisis in the future is a real possibility. The euro area and the Schengen zones were designed for normal times, not for facing the biggest financial crisis since the thirties and not for facing the biggest influx of people coming from outside the Union. We have to anticipate on future crisis. Deciding on reforms not being with the 'back against the wall' needs leadership.

We will have to overcome at least two taboos in each and every proposal: the transfer of sovereignty and more solidarity. Otherwise, the exercise will be restricted to symbols of a 'Minister of Finance', an 'European Monetary Fund'.

Prosperity also depends on open markets, inside and outside the EU. The FTA agenda of the Commission is huge: India, Mercosur, Australia and New Zealand, Indonesia are all on the to-do list.

The EU is still in a process of enlargement whilst we are negotiating with Serbia and Montenegro. Croatia became a member in 2013. Actually, there is less enlargement fatigue than most people think.

Employment is to a large extent a national competence. A new balance has to be found between flexibility (which in some countries is too high, creating social "malaise") and security (often too much rigidity).

B. Security

On the agenda are:

- Promoting legal migration and actively combatting illegal entries; only when we can control illegal migration we will get enough public support for the inevitably needed legal migration (for demographic reasons).
- A more common asylum and migration policy;
- Protection of our external borders in order to maintain the passport-free zone (as we did until now), in cooperation with riparian countries;
- Fighting and eradicating terrorism via more integrated policies and agencies;

- Developing Africa, a continent of demographic revolution and huge migration potential;
- A military dimension of the Union by spending more and spending better: cooperation among armies and industries; using economies of scale and avoiding fragmentation; making European "battle groups" operational etc. Interesting steps have already been taken-ahead of the formal debate of the 'future of Europe', in recent months; i.e. a unified command of EU crisis operations, permanent structured cooperation (PESCO) among, but with 25 countries.

C. Fairness

There are differences between the EU and the US. A qualitative difference is the high degree of inequality of incomes in the US, which has dramatically increased since the 80's, with wages lagging productivity. One has the same trend to rising inequalities in Russia and in China, but not in the EU, at least not within our Member States. There are few exceptions, especially in Member States where unemployment has risen strongly during the Eurozone crisis (but all in all you notice in the West, a difference between the Anglo-Saxon model and those which are more inspired by the Rhineland model).

Fairness is first and foremost a national competence.

The EU as such can contribute (and is actually doing so since 2013) by combatting international tax fraud and evasion, by fighting against other kinds of dumping (social and commercial), by tackling discrimination between SMEs and multinational corporations.

A country in a standalone has no impact on international and global evolutions. Only a bloc such as the EU has enough leverage to correct market distortions.

Those **three objectives** are meeting deep-rooted frustrations and desires among citizens. It is a joint effort of the 27. But some Member States are already more integrated than others (Eurozone; Schengen). Countries shouldn't hinder others to integrate further, and in more domains. The instruments for this purpose are foreseen in the Treaties: enhanced cooperation and PESCO. In any case, every Member State must have the possibility to join the vanguard later.

Tackling these challenges requires a sense of compromise. We need to balance responsibility and solidarity, security and solidarity national sovereignty and integration growth and cohesion. We always need both blades of a scissor. One cannot applaud with one hand. We will fail to find an agreement between North and South on future EMU reforms and between West and East on the migration challenge if we cannot combine solidarity with security and responsibility. Tensions are surmountable on one condition: we need the political will and leadership to overcome them. Then we will obtain the win-win solutions.

In Western Europe populism is the answer to uncontrolled migration; in Southern Europe to unemployment and in the Anglo-Saxon world to inequality.

The European Council agreed on a "leaders' agenda", a timetable of 18 months to make decisions in specific domains. But we shouldn't lose sight of the bigger picture. Our citizens have to see what the purpose of the exercise is. They have to feel that their concerns are being taken seriously. The agenda is very ambitious. The "leader's agenda" will need leadership! The "window of opportunity" is small in size and time, taking into account the European elections of June 2019.

Defeating populism is not an aim in itself. It is the result of a positive action to better protect our citizens against threats whilst keeping our democracies, our economies and our societies open. The defeat of populism is a 'collateral benefit' of that action.

"Plus est en vous", "More in you", should be the slogan for a programme of re-energising Europe.

3. Conclusion

The challenge now is to decide on a stronger Eurozone (and a stronger Schengen Area) out of the context of a crisis. How to convince leaders what we have to anticipate? One day - hopefully far away - there will be a new financial or migration crisis. Are we ready to face them?

We know what to do for the EMU. The reports of 4 or 5 presidents of the EU institutions show the way. The new proposals of the Commission, the ideas of President Macron or of 14 leading economists are extremely helpful. The question is: Who will take the lead? It can only be France and Germany, respectively sensitive to solidarity and responsibility. It will not be about reinventing the EU but re-energising the Union.

Of course, we all need Member States on board but leadership, especially in times of populism and the re-emergence of nationalist feelings (and after Brexit, the most strong and dramatic recent example of nationalism).

I notice now in some Member States, a sentiment of uneasiness about a possible Franco-German initiative. But who else will do the job? And a standstill or cosmetic reforms are not an option. This should not be a time of narrow-mindedness but of a rational, longer term view.

The Union is used to making hard decisions in times of crisis. We have to do it differently now, we have to act in good times to "make the Union great again" but in a constructive and positive

way, far from aggressiveness and negative feelings such as revenge, nostalgia, conflict, anger and jealousy.

This exercise of relaunching the European project should not be restricted to a catalogue of technical matters. We have to touch upon "the heart of the matter". What do I mean by that? We have (at all levels of power) to reconcile openness with protection.

- We need open economies with free and fair trade but also with the free movement of goods, services, people and capital.
- Open societies, accepting minorities in a tolerant way, integrating newcomers whilst safeguarding our borders,
- Open democracies with respect of pluralism and the rule of law, (also within our Union) gender equality, the separation of church and religion, the freedom of speech and religion
- And we need protection against unemployment, insecure jobs, huge inequalities, climate change, uncontrolled migration, social, commercial and tax dumping, terrorism and violence, corruption and fraud. If people are not well protected they choose protectionism, tribalism and nationalism.

Every state has to protect its people without holding back on itself. We have to create a space and a place. We have to reconcile the web – people and the wall *people*, the movers and those who stay at home, those from nowhere and those from somewhere. If that message can't be conveyed, the Franco-German initiative and the European Council have failed.

The answer to many of the challenges will be "more" European cooperation and integration. Not less'. But this is the result of the search for this compromise between openness and protection. It is not an a priori position of pro-Europeans!

I repeat this balance has to be found also at national and regional level as well. Look at the US; they are facing the same kind of problems such as migration, terrorism, inequalities, free and fair trade, insecurity of jobs, etc. The current answer is populist, more closedness than openness. America was great when it was open. A real paradox.

"Plus est en vous", "More in you", should be the slogan for a programme of re-energising Europe.