



Address to the European Council by the President of the European Parliament Martin Schulz

Brussels - 19-12-2013



The Banking Union

Ladies and gentlemen,

In the early hours of this morning, your Finance Ministers took decisions on the Banking Union to which I should like to turn my attention first. In the Ferreira report, adopted on Tuesday, the European Parliament again adopted a clear position on these points by an overwhelming majority, with support across all party lines. I must again present this position clearly and unambiguously, as Parliament has co-legislative powers in this regard.

Firstly, we wish the Commission to be responsible for decisions on the winding-up of banks.

Secondly, we wish the community method to provide the legal basis for the Banking Union and also for the resolution fund. We reject the idea of a further intergovernmental treaty.

Thirdly, during the transitional phase, in which a resolution fund funded by levies on banks might not yet be ready for action or perhaps might be too small for very large banks or several of them, we wish to see a solution which could involve the ESM backing the resolution fund as an insurer of last resort. As there are strict rules governing the use of public funds in the ESM, the risk of using the ESM as a residual solution in an emergency would be clear, but the advantages would be substantial and manifest: it would have an additional calming effect on the markets and would further stabilise banks, rendering it even less likely that the extreme case might arise. This reinsurance should also apply in the long term.

A Banking Union worthy of the name needs three characteristics:

First, integrated supervision, enabling the European Central Bank to supervise banks in the Eurozone;

Second, a single resolution mechanism, which tackles problems identified by the ECB quickly, independently and efficiently:

quickly in order to avoid drawing on tax revenue,

independently in order to be credible in the eyes of the market,

efficiently in order to avoid unnecessarily increasing the costs;

Third, reinsurance, which would be activated in an extreme emergency, if all else fails and the money in the fund is insufficient, if a systemic crisis is impending once again.

The agreements reached in the Council of Ministers this week point in a worrying direction: instead of an independent decision-making body which can act swiftly, the Member States are to retain the power of decision. The Financial Times has calculated that up to 9 bodies and 126 people would be involved in deliberations on a case. This is comparable to dealing with an emergency admission to hospital by first convening the hospital's Board of Directors instead of giving the patient immediate treatment! The criterion is clear: if a bank cannot be wound up within a weekend in order to prevent a run on the banks, the system is too complicated. After all, we are talking about a 'single' resolution mechanism, not a 'multiple' resolution mechanism. In other words, the Commission must play a central role here, rather than untransparent bodies with untransparent interests – otherwise it will ultimately be a case of 'Operation successful, patient dead'.

During the transitional stage, what we are heading towards instead of a single resolution fund is a fund with national money pots. That means that, at least for the next 10 years, the home countries will remain liable. Ultimately, the taxpayer will once again have to come to the rescue after all. That contradicts the fundamental idea of the Banking Union, which is that banks should come to the rescue of banks! Banks and credit institutions must answer for their own errors.

If the ECOFIN decisions become a reality, then the Banking Union will not only fail to have positive effects, it could even have negative ones:

- Additional costs to the Member States due to enforced restructuring and possible recapitalisations. This would add to the debt burden.
- There would be incentives for banks to reduce their recapitalisation requirements by reducing risks, that is, by calling in existing loans or extending fewer new loans. That would further aggravate the credit crunch – one of the greatest obstacles to economic recovery.
- The markets would lose confidence, because there would not be any solution of last resort provided by the ESM which could be activated in a crisis.
- The ECB's credibility would suffer – although it is the very institution that enjoys the most confidence on account of its rapid and effective crisis management! Without a robust resolution mechanism, the ECB might be reluctant to reveal banks' problems and it might be tempted to keep banks afloat by means of injections of liquidity.
- If the resolution mechanism, as proposed by ECOFIN, were made subject to national veto powers, that would further damage the transparency and legitimacy of the EU's action. The Community must not be pushed ever further in the direction of a conflict pitting big Member States against small, and strong against weak. A fair balance of interests among all of them must remain the EU's aim. One should also not forget that, the slower and less efficient a system is, the more expensive it will ultimately be for everybody.

If we were to implement the ECOFIN decisions on a banking union in this way, it would not only be a lost opportunity. It would be the biggest mistake yet in the resolution of the crisis. If the resolution mechanism for banks does not work properly, it could jeopardise financial stability. A Banking Union is something which must either be done right or not done at all.

The European Parliament will therefore not support the ECOFIN decisions in this form.

Coordination of economic policy

Ladies and gentlemen,

The crisis has brought it home to us that we need closer coordination of economic policy. But we still have a long way to go.

We must abandon the blame game. It is unacceptable for country-specific recommendations to be adopted here in the Council in the context of the Annual Growth Survey – only for polemics then to be levelled against the 'Diktat from Brussels' for domestic consumption. The European Semester is a good instrument for closer economic policy coordination. The European Parliament advocates a political commitment to economic policy cooperation, and at the same time deplores the lack of a social aspect to it.

The European Parliament makes full use of the powers vested in it in connection with the European Semester. During the parliamentary week we consult with national Parliaments, because we wish to increase the involvement of national Parliaments in the national phase. However, we also believe that transparency and democratic accountability at European level need to be further increased in order to foster greater acceptance and thus increase the success of the Semester.

Convergence partnerships

Ladies and gentlemen,

In the Fiscal Compact you have undertaken to ensure greater convergence of the economic policies of the Member States and to coordinate all major economic policy reforms in advance.

At the summit a year ago you stated that you wished to enter into binding agreements between Member States, the Council and the Commission in the context of the European Semester to improve the coordination of economic policy and to establish a solidarity mechanism which could provide financial support for Member States which encounter social difficulties in implementing reform programmes.

The next step is to work out the practical arrangements for this procedure.

The European Parliament has three particular concerns here.

Firstly, **democratic legitimacy**.

We would prefer to speak of convergence partnerships rather than contractual agreements. These convergence partnerships will only be democratically legitimate if the European Parliament and national Parliaments are fully involved as legislators and can exercise their scrutiny function.

Convergence partnerships must therefore be integrated with the European Semester, and the European Parliament must be involved in drawing up the criteria and guidelines for convergence partnerships as a co-legislator. We take the view that the convergence guidelines should be limited to a few main reform objectives and should take account of the social dimension in a balanced manner.

The national reform programmes drawn up on the basis of these convergence guidelines must be publicly debated and adopted by national Parliaments. Only in that way can we ensure continuing democratic accountability in this process. Only in that way will acceptance by national Parliaments be achieved, which is necessary for the effective implementation of the programmes.

Unless the convergence partnerships are completely democratically legitimised, or if people even get the impression that the measures in question have been dictated by 'Brussels', a further serious loss of confidence in the EU may ensue. In any case, we know from experience that there is a danger that governments may blame the EU for measures which they themselves have adopted.

Secondly, **solidarity**.

Members of the European Parliament are convinced that better coordination of economic policy must go hand in hand with a solidarity mechanism to provide a cushion against social hardship during the reform process. Such a solidarity mechanism must be part of the EU budget, but without prejudice to the upper limits of the MFF. In other words, it must be funded by new appropriations, which could come, for example, from the Member States or also from own resources such as the Financial Transaction Tax, and be assigned to a special heading in the EU budget. The European Parliament's budgetary powers must be fully respected here. We therefore insist on being involved in all discussions about the form which the solidarity mechanism should take.

Within the European Parliament we have debated intensively how this solidarity mechanism is to be financed. Doubts have arisen as to whether it really will be adequately and promptly financed. If only the convergence partnerships are ready to be launched, without the solidarity mechanism in parallel with them, this will sabotage the propagated 'carrot and stick' approach. At the moment the stick is already to hand – but the carrot has yet even to be dug from the ground. Convergence partnerships without a solidarity mechanism are something which the European Parliament will resist.

Thirdly, **the unity of the Union**.

The European Parliament recalls that all the efforts to strengthen economic and monetary union must not result in the EU being split. On the contrary, participation in closer coordination of economic policy must be open to all the Member States outside the Eurozone on a voluntary basis.

Because all these issues are still unresolved and remain controversial among you, we can understand why you have removed this topic from the conclusions and held it over until the June summit.

Migration

At the last summit, we debated the problems on Lampedusa intensively. Unfortunately, not much has yet happened since then. So far, all that we have seen has been recommendations by the Task Force Mediterranean. I would therefore appeal to you to be more ambitious and work towards solutions which are commensurate with the size of the problem.

I should just like to raise two points on which practical progress could be made:

Firstly, before the end of this parliamentary term we urgently need to complete negotiations on binding, high-quality rules for rescue missions coordinated by Frontex.

Secondly, Parliament welcomes the fact that the resettlement of people who require international protection is stressed. We now have greater financial incentives for this, and call upon all Member States to make use of them.

Ukraine

Ladies and gentlemen,

In recent years, the European Parliament has worked hard to contribute to dialogue and to bolster democracy in Ukraine. The Cox-Kwasniewski mission, which I personally initiated, has had a series of positive effects and still stands ready for action if it can be of any assistance. Our disappointment about the decision by the Government of Ukraine not to sign the Association Agreement in Vilnius is as great as yours. Nonetheless, we believe that it is better to keep the door open for negotiations with Ukraine. That should be done, at the very least, on account of the pro-democracy movements in the country, which we must not leave in the lurch.

European security and defence policy – pooling and sharing

Ladies and gentlemen,

The European Parliament welcomes the fact that you have devoted this summit to the Common Security and Defence Policy. In a rapidly changing world, in which new power centres and new types of risk are emerging, the European Union must shoulder greater responsibility for protecting people in Europe.

We face new kinds of danger.

Dangers which make themselves felt across borders.

Dangers which penetrate into the everyday lives of people.

Dangers which no State can cope with on its own any longer.

- New asymmetrical security threats, for example in the cyber field, international terrorism, organised crime or international piracy.
- Regional instabilities on our own doorstep, such as in the Middle East and North Africa.
- New kinds of risks which come about because of new patterns of interdependence, for instance in the fields of energy security, migration or climate change.

The tasks are increasing, yet expenditure on security and defence is falling. Since the end of the Cold War, the defence budgets of the EU Member States have been subject to constant cuts. In 2001, the EU Member States were still spending €251 billion on defence, whereas in 2012 the corresponding figure was €190 bn. That is still a lot of money. But despite these impressive investments, the results are not commensurate with them.

We are still militarily dependent on the USA.

In many cases we would be quite incapable of carrying out a military operation without the support of the USA.

Often we would not be equipped to tackle the increased challenges in conflict situations.

This situation is further aggravated by the fact that it remains to be established whether, now that the USA is increasingly seeing its role as being that of a Pacific power, it is progressively withdrawing from its commitment to protect Europe. At least, the USA calls in its US Defence Directive of 2012 for more commitment from us, stating that we should no longer be 'consumers' but 'producers' of security.

We Europeans have no choice but to take on greater responsibility for our own security.

And we shall have to do more using less resources.

That is something which we can only do together.

By means of enhanced cooperation, we can increase the efficiency and effectiveness of our defence and security policy. The present 'every man for himself' approach adds to costs and results in parallel structures and hence compatibility problems in joint deployments.

The European Parliament therefore supports a 'pooling and sharing' approach. That is what the future holds for defence policy: jointly spending less money in a better way. Sharing what we have and using it more efficiently.

At present in Europe what we have is 28 fragmented industries and markets. Three quarters of procurement projects are not awarded by means of invitations to tender open to businesses throughout Europe, because countries claim exemptions in the name of 'national security'.

In practice what this means is this:

We allow ourselves the luxury of maintaining 16 large shipyards which build warships – the USA has two.

We have 19 different types of armoured personnel carrier and 14 types of battle tank – the USA has one of each. And let us not forget that the USA spends three times as much on defence as the EU does!

One result of this fragmented internal market is that in the short term we forfeit the advantages of reduced costs achievable by pooling orders and by means of mass production. Another is that in the long term we incur high maintenance costs.

This has to change!

Ultimately it is the taxpayer who foots the bill for additional costs and parallel structures. A study performed by the European Parliament has shown that each year at least 26 billion euros could be saved by means of cooperation. Probably, indeed, the true figure is significantly higher. At a time of austerity, such waste is not acceptable!

With regard to troops and capabilities, too, pooling and sharing is in the interest of all of us. European forces are still organised on a national basis. Each country trains and maintains its personnel nationally. Doctrine, logistics and command structures therefore differ substantially. That leads to compatibility problems in joint deployments, costly overcapacity and multiplications. Our soldiers increasingly lack everything which makes armies modern, quick and mobile: tanker aircraft, transport, IT, reconnaissance, communications.

No European country can any longer field troops in numbers and with the capabilities and technical equipment required for present-day conflicts.

But together we can do it.

In multinational operations it is not necessary for each country to be able to do everything.

Each of them makes its own contribution.

If each country specialises in particular capabilities and particular equipment, they will be available for use on missions like modules.

That will save money and produce better results.

This is particularly true bearing in mind that the EU Member States still spend the bulk of their defence budgets on personnel.

That money is accordingly unavailable for material. That endangers soldiers undertaking risky missions, because a lack of equipment can cost lives.

That money is also unavailable for innovation, damaging our competitiveness, particularly in the case of dual use technology.

Allow me to mention a few projects which ought to be tackled under a pooling and sharing approach: transport helicopters, aerial refuelling, maritime surveillance and protection against chemical, biological and nuclear risks.

The European Defence Agency in particular could play an important role in improving coordination of capabilities to avoid duplication of effort and parallel programmes in the Member States, thus saving money for taxpayers. The lack of flexibility in EU decision-making processes

also remains a genuine handicap. We are still not sufficiently putting into practice the structured cooperation instruments provided for in the Lisbon Treaty (Article 46). The European Parliament supports the establishment of a Council of Defence Ministers.

Ladies and gentlemen,

In order to tackle the new types of challenge, it is necessary to strengthen the preventive arm of our security and defence policy in particular. Violent conflicts do not break out overnight: mostly, they are preceded by a gradual deterioration of the situation. As a 'soft power', the EU is in a good position to adopt a comprehensive approach to crisis prevention, rapid reaction to crises and support for stabilisation and democratisation, especially in our wider neighbourhood, combining diplomatic, economic and military instruments. But again and again we see Europe failing to achieve as much as it could. The number of CSDP missions and operations, their timeliness and the development of civil and military resources are simply inadequate in an increasingly insecure neighbourhood.

If we wish to change this, if we wish to defend our interests and values, if we wish to maintain the security of our citizens, then a majority of Members of the European Parliament consider that we need a headquarters for civil and military missions in Brussels and deployable troops.

Ladies and gentlemen,

I appreciate that it is not easy to explain to people back home why we need to cooperate more closely at European level in such a sensitive field as defence and security policy. Protecting its citizens has traditionally been a key task of the nation State and therefore also one of the foundations of its legitimacy. But we cannot close our eyes to reality: the world has changed and we are existentially connected to that world. Nowadays we can only defend our citizens jointly.

People know that. Three out of four people in Europe are in favour of a European defence policy.

This summit could be the starting point for a new European defence and security policy.

Let us work towards a new European security strategy.

A strategy which concentrates on key interests, key tasks and key capabilities of the EU.

A strategy which pools and shares resources. Cooperation is better than national rivalry.

Thank you.

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