

March 25, 2011

Brussels Forum Opening Dinner

Craig Kennedy: Thank you. It's now my pleasure to introduce the chair of The Congressional Delegation for the United States, Senator Jeanne Shaheen. She chairs the subcommittee on Europe and Senate Foreign Relations. She has been a participant in any number of our conferences. You saw her in the first panel today and doing an exceptional job.

We are very, very appreciative of the help that she gives in a very practical sense, of helping us put together the congressional delegation. Think about who should be here from the United States Congress and then actually making sure that they get here one way or another. So Senator Shaheen, if you could come up here and give the opening toast.

Sen. Jeanne Shaheen: Thank you very much, Craig. And thank you for your leadership of the German Marshall Fund. On Behalf of Senator Warner and members of the House of Representatives, who are also here, I'm

pleased to be able to give the toast tonight. In Congress, we're always happy to toast whenever possible.

And I want to begin by recognizing another wonderful Brussels Forum and the good work of the German Marshall Fund. I understand that the conference is so successful this year that they had to turn people away. And I think that speaks to the kind of enlightened, thoughtful discussion that goes on here.

I also want to recognize the transatlantic relationship, The United States, Europe and Canada. It's a relationship that sometimes we take for granted. And I think particularly, in the challenging times that we're facing, it's important to remember how long this friendship and this relationship has existed. And again, to thank advocates like the German Marshall Fund for helping to make it work.

On a personal note, I also want to recognize my former colleague in the Senate, Bob Bennett, who led the First Congressional Delegation to the Brussels

Forum. That was six years ago. It's been a wonderful six years and I hope you will all join me in toasting the six excellent years of the Brussels Forum. May there be another 60.

Craig Kennedy: Okay. Thank you, Senator Shaheen. As I've mentioned several times before, one of our long-term supporters for this event has been Daimler. They've been unstinting, both in financial help, but I think even more in the kind of guidance and advice that they've given on the structure of this meeting.

The fact that so much of the event this year is focused on economic issues really reflects much of their input. So to introduce our speaker tonight, I'd like to invite Mr. Wilfried Porth, a member of the Board of Management of Daimler and one of the participants in our last panel to come up here and introduce President Barroso.

Mr. Wilfried Porth: Thank you, Craig. And as I had my share already on the podium, you can be sure it will be very short. Presidents, Excellencies, Ambassadors,

distinguished guests, and because of our very special guest, boa noite aqui in Brussels.

As I look I look out into this room, I see this as a testimony of the great work done by Craig Kennedy and the team at the German Marshall Fund. Daimler has been a proud partner of the German Marshall Fund on the Brussels Forum since 2006. And now in the sixth year, as already mentioned, the Forum is an established and important component of the transatlantic dialogue.

But let me, tonight, look a little bit further down the history of Europe. 1956, for example, was an excellent year for Europe. Negotiations on the common market opened. Austria joined the Council of Europe. And on March 23, actually two days ago, somebody--no, in the beautiful European city of Lisbon, our future President or our today's President of the European Union, first saw the light of this world. And I would like to congratulate you again for your birthday two days ago. Congratulations. And I'm sure I speak on behalf of all of you. And we want to wish you a very

warm, many happy returns, or as you say in Portugal, muitos anos de vida.

What can you say about a stellar career with such a wide arch that travels from (sounds like) brother-tariot, Party Leader, Law Professor, Secretary of State of Portugal, Prime Minister and then President of the European Commission. I'd say it's been a strike of luck for Europe that Jose Manuel Barroso led the EU Commission as the President through a period of great change and great challenges. For example, the severe financial crisis.

Former German Chancellor, Helmut Schmidt, once said, "If you have a vision, you should go to a doctor." I prefer to say if you have visions, you should start working for European Commission because you need visions there and President Barroso has proven that a visionary man can do even in difficult times. And I'm sure we're all looking forward to hear directly from you about the future of Europe. So thank you very

much. And please welcome our European Commission President.

H.E. Jose Manuel Barroso: Thank you very much for your kind words of introduction. Ladies and gentlemen, good evening. Many thanks to the German Marshall Fund for inviting me once again to this yearly Brussels Forum.

In just a few years, it has become quite an event, attracting eminent people from all over the world. And I'd like, also, to say that it is always a great pleasure for me to come here. Especially, I have to say after tense and (inaudible) weeks on the busy European Council, yesterday and today, this is a relaxing moment and also a pleasure to come with what I believe are good news on Europe, especially, after the very difficult and challenging times we have been living.

But let me, before sharing with you some of my remarks, thank you very sincerely. Thank you for your commitment to the transatlantic relationship. I think we need it more than ever, a strong transatlantic

relationship. And it's the work of organization like yours that is so inspiring for leaders on both sides of the Atlantic.

We have been going through the worst crisis since the beginning of the European integration. A year ago, as you know, there was a lot of talk in Europe and abroad about the difficulties of the euro, about the marginalization of Europe, even the break-up of European Union and so on and so forth. This has not been the case. On the contrary, I would say, once again, the prophets of doom proved to be wrong.

As regard to economic policy, key decisions have now been taken at European Council, which was over by lunchtime today, decisions that are a real game changer. These decisions culminate a process that started more than two years ago, a process full of concrete actions to respond to the challenges with which Europe was faced.

The crisis has acted as a wake-up call for Europe and has indeed led to a new lease of life for European

integration. Action has been the key word in Europe since the crisis began. Allow me to recall some of the responses given. Let me go back to the fall of 2008, more precisely, to the past Lehman Brothers collapse. The first response given by Europe was to do the necessary to avoid a financial meltdown. Massive support was given to European banks in the form of guarantees or recapitalization. The total amount spread through 2009 was above 1000 billion euros. It does not compare badly with the 700 billion of the TARP.

Then, we turned to the real economy. By December 2008, Europe adopted its economic recovery program. This was a fiscal expansion program, amounting to some 6 percent of GDP, including the effects of the automatic stabilizers. As you are aware, in Europe, the government sector is on average much bigger than in the U.S. This means that automatically response of government expenditure and revenue is larger than in U.S.

As a consequence, the need for this discretionary fiscal expansion is indeed smaller. But European fiscal expansion was timely targeted and temporary. In fact, it covered the period 2009, 2010. Indeed, from 2011, the stance of fiscal policy was reversed. And not all countries responded in the same way because the fiscal space was not the same across the board. Also in this area, Europe does not compare badly with the fiscal stimulus adopted in United States under the American Recovery and Reinvestment Act. But the unfolding of the crisis revealed some weaknesses and raised new challenges also in Europe. In particular, as regards to euro area.

In the post Lehman world of global risk reassessment and financial leveraging, markets started to doubt that some Euro countries could honor their government debt. This has led to a systemic sovereign debt crisis in the euro area, to which a clear response was called forth. The response was indeed given. And let me spell out two dimensions of it, which are

directly linked to the decisions taken today by the European Council, economic governance and mechanisms for financial assistance to countries in distress.

On economic governance, the question was, how come that you did not prevent a sovereign debt crisis. The reasons, simplifying things a bit, were that our fiscal rules were not always respected. And that the coordination of economic policies was indeed insufficient. It became imperative to correct this. And here, the crisis helped. Member states finally realized that the degree of interdependence among them was such that the reinforced coordination of policies was needed. Action was taken. And a new system for economic governance in Europe is now being put in place.

Today's European council concluded the first phase of new governance system, a system in which countries share and exchange a huge set of information, a system in which countries discuss among themselves (inaudible) the measures they intend to take, a system in which European Council--as you know, this is the highest

political level in European Union--gives political guidance to member states policies and eventually makes to them concrete policy recommendations. Moreover, economic governance was widened, with adoption of what we have called Euro-plus pact.

Under this pact, countries committed to take action to foster competitiveness and convergence in the areas primarily under national responsibilities, such as wage development and pension reforms. The pact will be open to non-euro area countries. And in fact, six of them informed today's European Council they have decided to join the pact. So we have the 17 members of the euro area, plus, these six countries and, in fact, others signaled their willingness to join in a not distant future.

The new economic governance system should be completed before the summer when the legal text on the revamped fiscal rules will be adopted by the legislature's European Parliament. As regards to financial assistance, European Council today decided to

create a permanent crisis resolution mechanism, the ESM, European Stability Mechanism. With the creation of this ESM, the overall Euro architecture becomes richer and more powerful.

So today's European Council decision is indeed a milestone. The European Stability Mechanism is an arrival point, not a starting one. Indeed, the response, in terms of financial assistance, was initiated with Greece in April, May last year. In the absence of a mechanism and even the urgency of the situation, an ad hoc solution was found in the form of pooled bilateral loans from other European countries. But more important than the form is the amount, 110 billion euros, more than \$150 billion, of which 80 from European Union and 30 from the IMF.

The granting of the systems was naturally subject to the implementation by Greece of an adjustment program, with strict conditionality. But ad hoc solutions are not real solutions and it was necessary to demonstrate that enough financial means were indeed

available, in case of need. European Financial Stability Mechanism and European Financial Stability Facility were created in May, last year. Combined, they have a firepower of 500 billion euros.

These mechanisms were activated for Ireland upon its request in November, last year, to the tune of some 40 billion euros, to which (inaudible) topped 22.5 billion. But the FSF was, from inception, a facility of a temperate nature, coming to its term by 2013. A permanent mechanism was necessary. This was not foreseen (inaudible), which therefore, is being changed accordingly. And today, the European Council agreed on the terms for that permanent mechanism, the so-called European Stability Mechanism.

The European Stability Mechanism means we'll have an effective lending capacity of 500 billion euros and we will be ready to start operating by June, 2013. Ladies and gentlemen, I think it is fair to conclude that on the Euro front, we have proved wrong those who doubted our determination to do whatever it takes to

defend Euro. Decisions we took today in the European Council are the fruit of frank, but hard discussions. However, and sometimes coming from very different positions, we have been able to reach a consensus on the necessity to foster European construction.

Allow me to recall that European Union includes 27 sovereign member states. This implies that the decision-making process is not always so fast as in a single country. Take the case of bank repair. In the case of the U.S., the steering of the Financial Stability Plan launched in February, 2009, was in the hands, basically, of three persons, President Obama, Secretary Gardner, and Fed Chairman Bernanke. Simple, I will say, to agree on bank stress tests and necessary back stops.

In European Union, we have 27 heads of state or government, 27 ministers of finance, and it's true, one single central bank, as regards to Euro area, but also the other independent central banks. In spite of this, coordinated stress tests were carried out in Europe

last year and a new batch of tests will be done before the summer. And now, under the supervision of a new pan-European supervisory authority created now, the European banking authority and now it will be under stringent assumptions and with the necessary backstops in place.

It is, perhaps, more complicated to take decisions in Europe. But the truth is that Europe does take decisions. And I like to align this because I know that sometimes, outside of Europe, there is a lack of understanding the way European Union works. I want to reassure you that also in Europe sometimes we don't understand it very well. But at the end, it works. I can assure you. In fact, Europe has always been at its best when faced with a crisis.

Remember Jean Monnet, one of our founding fathers, who write in his memoir, "Europe will be forged in crisis and will be the sum of the solutions adopted for those crises." Once again, we have not failed that rule.

Let me come back to economic governance. Economic governance is a system of rules to achieve a goal. Financial assistance is a remedy. But in the end, what is the real goal," you might ask. The real goal is growth and employment. This is why we are also advancing on two other fronts, fiscal consolidation coupled with structure reforms. This is done against the backdrop that we want to preserve our social market economy model.

Fiscal tightening is not an end in itself. It is just the best way to avoid the jobless recovery and to enhance our market economy that has a strong social component. Without fiscal consolidation, there is no confidence. Without confidence, there are no investments. Without investments, no growth. And this is precisely (inaudible) dynamic we are putting in action, with a focus on long overdue, sometimes painful, reforms of our labor markets and pension systems and with priorities given to investments in the industries of tomorrow, notably through innovation,

research, education, energy efficiency and energy independence.

The growth we are aiming at is not any kind of growth. It is a sustainable, smart, inclusive growth. Europe has adopted a strategy towards this overarching goal, our Europe 2020 strategy.

As I mentioned above, we are advancing on the track of stronger economic governance, which takes our Europe 2020 as the *toile de fond*. This includes naturally developing and deepening the European single market.

Next month, we, the Commission, will come forward with our vision on the new single market act because the single market is not yesterday's business, but the springboard of tomorrow's Europe. By removing obstacles in our single market to mobility of people, goods, services and investments, we can increase competition, reap economies of scale, promote innovation and enterprise and so boost growth, too.

I also think about (inaudible) interest in an open trading regime because trade brings economic growth,

more jobs, more ideas and innovation and because also trade helps reduce poverty. That is why I have launched a renewed trade strategy. We notably want, over next few years, to complete a series of trade agreements (inaudible) levels and we want to deepen our trade and investment relations, first of all, of course, with our main partner United States of America. But also, we are developing our trade relations with China, Japan, Russia, and others. Of course, we will pay due attention to keep and foster a fair and rule-based international open trading regime.

Indeed, it has been quite a journey over this last year and I'm really pleased of today's result, this game changer I mentioned earlier. You have now clear priorities of economic policy included in a system that guarantees strong coordination. We'll also have a stronger system of surveyance (sic) and accountability to oversee whether member states respect their commitments and a financial backstop mechanism guarantee the stability of (inaudible).

We have also progressed a lot on the front of financial stabilization and bank repair, in fact, much more than many of our G-20 partners. And as president of the Commission, allow me (inaudible) with great satisfaction that the European Commission has been at the forefront of the European response to the crisis, and will be at the center of its implementation.

Ladies and gentlemen, I have taken a lot of your time and I know that your day is not yet over. But let me conclude with the words on what we have adopted today in the European Council on the south Mediterranean.

You have already had the opportunity (inaudible) so you are well aware of what we are doing in the south Mediterranean region. Let me tell you that Europe moved swiftly, resolutely and proactively to the huge and diverse challenges stemming from the so-called Arab spring. Of course, there is a special, more difficult case, the case of Libya. We are convinced that without European initiatives working, of course, with our

allies and partners (inaudible) could have become (inaudible).

So I think the European Union took the right decisions, not only supporting military action, but also we have acted decisively in the political diplomatic front, in humanitarian and civil protection emergency help, in a migratory and refugees assistance, and above all and in the long run, devising a wide support package to democratic transformations and economic reforms.

We are fully engaged in all these fronts. This, I will say, is in the genes of the European Union, support democratic transition. We have a lot of expertise in this area. We are indeed a successful case of transformation for democracy in the European continent. Our place has always been and will always be alongside those who are calling for political freedom, respect for human dignity and justice.

I don't believe in a culturalistic or particularistic approach to fundamental human rights.

They should be seen as universal because they are fundamental to any human being, no matter ethnicity, nationality, gender or belief. Supporting our Arab neighbors, as it was requested, is not only about solidarity, it is also about us in Europe and the world we want to live in. We have learned our domestic lessons and we have learned the lessons of today's increasing competitive and interconnected world.

I am fully aware that we still have a long way to go. Our efforts cannot falter. We are not yet (inaudible) in terms of the economic and financial crisis. We have to fully deliver.

But I want to conclude with my message of conviction, that deep changes are ongoing here in the European Union in the way we think and act together. And I believe that this crisis is making us a stronger and more credible international partner for the benefit of the European Union, but also for the benefit of our allies, partners, and friends. I thank you for your attention.

Craig Kennedy: Thank you so much, President Barroso. We really appreciated your very thoughtful comments.