

Speech of President of the European Parliament to the European Council of Heads of State and Government

15 October 2008 - Brussels

President of the European Council, Nicolas Sarkozy,
Heads of State and Government,
President of the Commission, José Manuel Durão Barroso,
High Representative for the Common Foreign and Security Policy, Javier Solana,
Ministers,
Ladies and gentlemen,

I. Crisis on the financial markets

A month ago the French Council Presidency convened a special summit of the European Council because the crisis in Georgia was threatening the stability of one of the pillars of the world order – international law.

Today a second pillar of the world order – global financial stability – is under exceptional strain. The international financial markets are faced with what is probably their greatest crisis since the Second World War.

Even though the full extent of the crisis could scarcely be foreseen, for some years now clear signs of serious shortcomings in the system had nevertheless been discernible, shortcomings that meant that sooner or later there would be serious problems.

With the globalisation of financial trading, the money and financial markets began to rely too heavily on a 'laissez-faire' approach and self regulation.

What all the events of the past few months have in common is significant errors in market assessment and oversight. The regulation and supervision of the financial markets have not kept pace with their rapid development and regrouping, and as a result the markets have shown themselves to be incapable of resisting financial crises.

The European Parliament has repeatedly pointed to shortcomings in the regulation and oversight of the financial markets in the European Union and also called on the European Commission on several occasions to propose measures to strengthen the European oversight system.

As early as 2002 the European Parliament pointed out the deficiencies of the regulatory framework for financial services and the related risks to financial stability, as well as the inappropriate, risk- and short-term-profit-oriented remuneration and the problems surrounding the conduct of hedge funds. And in 2004 we drew attention to the inadequacies – some of them very serious – in the work of the rating agencies. In the current legislative period, we have renewed and regularly taken up these themes and called for initiatives.

The Commission had committed itself, in the 2005 Framework Agreement on relations between the European Parliament and the Commission, to submitting legislative proposals in response to Parliament's demands, to be accountable, and to give a detailed answer in each

case.

Naturally, we are aware that a number of Member States were unwilling to act. But now is not the time for apportioning blame; it is a time for seeking common solutions. Our challenge today is to work together to build confidence. In this difficult situation we should not forget the successes we have achieved.

With the Euro as our single currency we are far better equipped than we were in the past, each of us with our national currency. The European Central Bank has also shown itself to be eminently capable of action in the past few weeks: it has intervened almost daily to bring liquidity to the market and in so doing has once again demonstrated that only coordinated action can create confidence.

The extent of this crisis reminds us afresh of how intertwined and mutually-dependent our economies are. From the knowledge of our own history and the great financial crises of the twentieth century we are only too well aware of the drastic effects of going it alone and paying too little attention to the cross-border effects of national decisions.

After the Second World War, precisely because of what we had learned from it, international financial organisations were established and the European Union was founded.

The lesson for us today must be this: isolated, uncoordinated national action cannot produce solutions. Only joint responsibility can do that. We need European solutions to the financial crisis in order for the European Union to be equipped for a future of global competition.

xxx A determined, coordinated European response xxx

That is why the European Parliament very much welcomes the action plan to ease the credit markets adopted at the extraordinary meeting of the Heads of State and Government of the Eurogroup and the United Kingdom last Sunday.

On behalf of the European Parliament, I should like to especially thank European Council President Nicolas Sarkozy for his determination and commitment in arriving at this package of urgent, mutually-agreed measures. I should also like to offer Jean Claude Trichet, the President of the European Central Bank, and Jean-Claude Juncker, the Chairman of the Eurogroup, my thanks and appreciation for their efforts to achieve coordinated action.

I would like to expressly give recognition to the important role played by the European Commission in this difficult time, in particular the great commitment of José Manuel Durao Barroso.

There was an urgent necessity to give the isolated efforts of individual Member States a common European framework of action.

Now it is the responsibility of you, the Heads of State and Government, to decide today upon a binding, coordinated way of proceeding for all 27 Member States and to put this into practice rapidly – in accordance with national needs – in all the Member States. On behalf of the European Parliament, I recommend the adoption of the proposals of the Eurogroup from Sunday in Paris. This will enable the European Institutions and all the Member States to meet

the enormous challenges together, in solidarity.

It was with great surprise that we noted that the European Parliament, unlike other Institutions, is not once referred to in the declaration adopted at the Eurozone countries' summit, even though many of the legislative measures needing rapid adoption require co-decision or assent on the part of the European Parliament.

These great challenges are also an opportunity for the European Union to emerge stronger from the crisis through common action. We must speak with one voice and act in solidarity.

xxx Short-term measures xxx

It is especially important in the short term that financial institutions which are crucial to the system in the European Union be saved from insolvency. This is essential for a functioning economy, for the activities of European businesses and for employment, as well as to protect individuals' savings.

People in the European Union expect reassurance from the European Institutions. We therefore welcome the decision of the ECOFIN Council to raise bank deposit guarantees for private individuals to at least €50 000.

What we have to do here is create a reliable system without further distortions of competition within the European Union, without any new threats to economic and financial circuits being posed by the flow of savings deposits from one Member State to another.

Let us not forget that this is not just a question of numbers, but of the future prospects and savings of our fellow citizens.

xxx Medium- and long-term measures xxx

In the medium term we, as joint legislators in the European Union, must achieve a new organisation of the financial markets in Europe and beyond.

In addition we must ask ourselves what model we are seeking for the financial markets in the European Union and worldwide. Does the idea of self-regulating markets retain any credibility today?

Freedom always goes hand in hand with order: the market principle must not be equated with the unbridled forces of unregulated markets. We need better rules and sustained oversight, a policy of order in the sense of a Social Market Economy! The Social Market Economy is a European economic and social model, as enshrined in law for the first time in the Lisbon Treaty.

I believe that we are in agreement here: the answer to averting crises more successfully in the future lies in greater transparency and disclosure and better risk management. But these are not enough.

We must carry out a comprehensive reform of the regulation and oversight of the European financial services system. We need an appropriate, uniform European framework in order to

make the financial institutions into responsible partners.

For, if taxpayers' money has to be massively used to rescue financial institutions with injections of capital, then this should be accompanied by clear demands regarding appropriate business management principles.

At the moment we have individual Commission proposals, but our aim must be a coherent, comprehensive European response to the financial crisis. The European Parliament is ready and determined to cooperate in this work.

The proposal to rework the Own Funds Directive is a first step, but in our view this is neither far-reaching nor wide-ranging enough.

The European Parliament believes that taking decisive action will restore confidence in the responsible Commissioner. The European Parliament has already submitted a comprehensive package of medium- and long-term measures.

These comprise:

- (1). regulation of all financial service providers, including hedge funds, with a view to achieving greater transparency and more responsible behaviour,
- (2). binding risk-dependent own capital rules for all financial entities,
- (3). codes of conduct and scrutiny for rating agencies, with greater disclosure of their evaluation criteria,
- (4). the realignment of regulation of executive remunerations, which should reflect profit and loss equally and should not be short-term risk oriented in their effects,
- (5). improved transparency and good management in the application of the balance sheet rules; this is very important for businesses.

In view of the cross-border character of banking and finance in the European Union, we should agree without further delay on a common, institutionalised approach to oversight of the financial institutions. We must above all ensure that the 44 largest finance groups and holdings, whose activities are important to the stability of the entire financial system, are subject to Europe-wide oversight.

It is a matter of great urgency that those who exercise financial oversight should work in accordance with common rules and practise effective networking of their activities. Our proposal would be to make a college of the relevant oversight authorities responsible for supervising the 44 institutions by the end of 2008.

At the same time the Level-3 committees of the Lamfalussy Process should be strengthened and mandated to act as the European supervisory system. It is in any case important that the European Central Bank really be incorporated into the future Europe wide oversight framework as well.

The European Parliament expects to be listened to more attentively and to be fully involved in the design of the new oversight structures. The European Parliament will continue to be cognisant of its responsibility in this undertaking. Today, within 24 hours, we have accepted the proposals of the Commission with regard to the fair values system.

xxx International solutions xxx

However, a comprehensive response to the crisis also calls for long-term worldwide solutions. As soon as it has set the reform of its own rules in train, the European Union should take the lead in pointing the way towards a more comprehensive review of the rules to be applied to the financial markets.

II. Climate change and energy

Dealing with the crisis in the financial markets is extremely important. But our planet too is moving in the direction of a catastrophic crisis resulting from human errors of commission and omission.

We must not repeat the mistakes that we made all over the world with respect to the financial markets – failing to take countermeasures early enough.

Even though we shall only be able to measure the success of our actions to combat climate change in the very long term, the time span left for us to act is nevertheless very short – 7 to 8 years at most the experts tell us – and in addition the price of inaction gets higher with every day that passes.

Prompt, decisive action to curb climate change and implementation of the energy package must not be viewed as just a short-term economic burden but, on the contrary, as a requirement of good long-term economic good sense.

Fighting climate change is also an economic opportunity and an invaluable tool for reducing our energy dependency on Russia and other third countries by diversifying and developing new technologies and for gaining competitiveness in new markets through leadership in technology.

And it is, when all is said and done, also a moral obligation. Can we allow our grandchildren to pay the high price of our failure to act?

We are sticking to our aim of achieving agreement on the energy package by the end of this year, if possible. The European Parliament's Environment Committee adopted extremely important reports on the reduction of CO₂ emissions by clear majorities in the past weeks – on the review of the Emissions Trading System, on carbon capture and storage, and on efforts to reduce greenhouse gas emissions.

I should like to make it quite clear that this is not yet the position of the European Parliament as a whole. All the Members of the European Parliament are entitled to participate in these important decisions.

What is needed is a balanced approach which reconciles the interests of the environment, climate protection and business. A common European position is important now with a view to reaching an international agreement that safeguards fair competition. If we should unfortunately fail to conclude such an international agreement, then the question of an economic burden on the European Union would arise again.

We very much hope that the Council will now submit proposals enabling an acceptable compromise to be achieved in the context of the trialogue.

It now depends on the Council whether there is enough flexibility to allow us to reach agreement at first reading by December.

III. Lisbon Treaty

Ladies and gentlemen, Heads of State and Government, you will be holding intensive, detailed discussions today on possible European solutions to the financial crisis, the challenge of climate change, practical implementation of the solidarity needed in the energy sector and the role of the European Union in Georgia.

Today also the European Pact on Asylum and Immigration is due to be discussed and adopted. On behalf of the European Parliament, I should like to thank the French Presidency and you, Mr President-in-Office of the European Council, for the successful work in this area.

All of these areas represent great challenges for the European Union. There is a clear cost due to the fact that the Lisbon Treaty has not yet come into force, and we feel its effects every day.

Tomorrow's challenges turn all too quickly into today's challenges – and still we lack the tools that would allow us to meet these challenges efficiently.

To date, twenty-four Member States have completed their parliamentary ratification of the Lisbon Treaty. I would like once more to remind all those countries that have signed the Treaty, but not yet fully ratified it, of their responsibility.

In Ireland the government is currently seeking a way forward that respects both the democratically arrived-at decision its citizens and those 24 Member States that have spoken in favour of the Lisbon Treaty in accordance with their constitutional arrangements.

An Taoiseach Brian Cowen will now be giving us his analysis of the issues raised by his fellow citizens in Ireland and reporting on developments in his country since the summit last June.

Taoiseach, you have declared your willingness to seek possible solutions within an appropriate period of time. Against this background the European Parliament welcomes the setting up of the new parliamentary committee on the future of Ireland in the European Union which will - under the chairmanship of Senator Paschal Donohue - be reporting by the end of November on the steps to be taken following the no-vote in the referendum.

On the basis of this report, we hope that you, Taoiseach Brian Cowen, will be able to submit proposals on the issues to be settled and possible solutions in time for the European Council in December at the latest.

On this basis the December European Council should lay down a procedure which will allow

the Lisbon Treaty to come into force in the near future. The European Parliament would welcome it if this could happen before the European Parliament elections in June 2009.

All the Member States and the European Institutions now have a great responsibility to work with Ireland to find a solution acceptable to all.

The great challenges we now face make the Lisbon Treaty, which will give us a Europe that is capable of action, democratic and close to its citizens, more necessary than ever.



Thank you very much for your attention.