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## Transcript

# Italy and the UK in an Evolving EU

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**Robin Niblett:**

Ladies and gentlemen, welcome to Chatham House. I'm Robin Niblett, director of the institute. It's my very great pleasure to welcome you all here today but especially to be able to welcome Dr Enrico Letta, the prime minister of Italy. Enrico, it's an absolute pleasure to have you back at Chatham House, but under these new auspices we're especially pleased.

Perhaps to state the obvious, this meeting is on the record. It is also being live streamed to our members, so welcome to those Chatham House members who are joining us from outside the building.

We will be hearing today from Dr Letta about Italy and the UK in an evolving EU. I'd like to say that it's a pleasure to hear from somebody with an extensive political career already, after just 15 years in politics. Enrico Letta started off as a minister for EU affairs in the government of Massimo D'Alema. He was minister of industry in the government of Giuliano Amato. He has been a member of the Italian parliament since 2001, and had a stint as a member of the European Parliament between 2004 and 2006. Undersecretary of state to the prime minister, Romano Prodi, and then a founding member and deputy secretary of the Democratic Party from 2009 until becoming prime minister three months or so ago, in April.

But he is not just somebody working on the political side. If I may say so, Dr Letta, you are also part of our world, as somebody who did his PhD in European Union studies but has been running the independent think tank Arel, looking into research and legislation. He's a vice-chairman of the Aspen Institute Italia, who we have collaborated with a lot here at Chatham House. He has written a number of books as well on Europe and the economy. From a Chatham House perspective, we are especially pleased that he has been part of a project we've been running for the last year on European economic governance, and was with us in December as a panellist and hosted a meeting of this group in Rome in March.

So we look forward very much to your remarks, Dr Letta. You are combining the future of Europe, the future of Italy and the future of Britain's relationship in Europe. That strikes me as a very rich menu. No, not too much. Never too much. Welcome, over to you.

**Enrico Letta:**

Thank you, Robin. I was here in Chatham House in December so I know, and I announced to you, that Chatham House brings luck. That is the first.

Today's subject is a very rich one, is a very wide one. I will try to be very focused on the main point: Italy and the UK's role in an evolving Europe.

On many occasions, Italy and the UK have engaged together to take Europe forward. We have a common commitment to deepen the Single Market. As a last example, you will remember the letter co-signed by Italy, the UK and another 10 countries in March 2012. We have also launched joint initiatives in many other areas, from development aid to the EU's role in the world to defence policy.

I believe that it is even more important today that Italy and the UK work together on the reforms that can make the European Union more competitive, more effective and more accountable. Prime Minister Cameron has acknowledged that we need to remodel Europe to make it fit for the challenges of globalization and to address the growing gap between the EU institutions and its citizens. These problems are acutely felt in the UK. The message I'm bringing to London with my visit is that this debate is not for the UK only but is also for Italy and for the whole union. Today the stakes are high for all of us. The coming months will be a decisive moment for Europe. We will have to take decisions that will determine the future of the European project and the shape of the European Union for the years to come.

I want to deal with four points. First, the change underway in the European Union and the outlook for the crisis. Second, what Italy has done so far and what the government intends to do in the coming months. Third, what reforms are needed for the European Union. Fourth point, what Italy and the UK can do together to shape a better Europe.

Let me start with the outlook for Europe. The financial crisis has set in motion a process of change within the European Union and the euro area. The drive towards a greater integration of the euro area is at the heart of this process of change. Change has been a necessary response to the scale of the challenge. The crisis has shaken our national economies. It has exposed the flaws of the architecture of the euro area. It has eroded the basis of the concept of the European Union.

Reforms were necessary at the national level to catch up for the time lost in the years following the introduction of the euro and to come to terms with the new reality of globalization and innovation. Reforms were needed at the EU level to fix the flaws in the architecture of the euro. Reforming the governance of the euro area has been the focus of much of the work done by the European Council in the past two years.

I believe we have made important progress. We have tightened the fiscal rules. We have a reinforced framework for governance of economic policies. We have the European Stability Mechanism in place and the ECB has introduced the Outright Monetary Transactions framework to stabilize sovereign debt markets. Very important steps have been taken towards a banking union, starting from a common supervisory mechanism.

These reforms and actions at the national level helped Europe come through the most acute moment of the crisis. The crisis has been painful but Europe will recover. We are still in a very fragile situation, of course, but many indicators signal that the outlook is improving. Growth will resume by the end of this year; 2014 will be an important year to consolidate recovery.

What is the lesson we can draw after six years of protracted crisis? In my view, the crisis has shown that individual member states cannot go it alone. No member state – I will say, not even Germany – has the economic and political strength to exit the crisis with its own forces. The global economy is highly interdependent. New geopolitical and economic powers are rising fast, and in this new environment some countries have a population and GDP which largely surpass those of the biggest EU member states. Today, size matters again. Member states need the collective strength of the European Union to have leverage; otherwise they will be without the power and wealth needed to matter in world politics. Either Europe is a global actor in economic terms and in foreign and defence policy, or each of the member states will struggle to maintain the role that it had had in the past century.

That's why I believe we need more Europe. This does not mean any kind of Europe. We need a different and better Europe. During the recession, the shortcomings of the current union have come to the fore. The coming months provide an opportunity to reform Europe, its governance and its policies. Italy and the UK will have a special responsibility in driving this change.

This leads me to the second point: what Italy has done to respond to the crisis and what I see as Italy's role in the future. Italy has been an active supporter of greater integration in the euro area. The scale and gravity of problems necessitated shared responses. We have to admit, frankly, that Italy's first contribution to a better governance of the euro area has been to sort out its domestic problems. The most immediate goal for Italian economic policy has been to put our public finances back on a sustainable path. The commitment to a reinforced European fiscal and macroeconomic framework has added credibility to our efforts at fiscal consolidation and structural reforms.

Last month the European Union has decided to abrogate the excessive deficit procedure for Italy, acknowledging that our public finances are now on a sound footing. This is a very important achievement for us. Italy is back in the league of virtuous nations. Our deficit is below three per cent and we are committed to respecting this target in the coming years. We want now progressively reduced public debt, based on cuts in public expenditure and progressive divestment of state-owned assets and privatization.

In parallel, Italy is implementing our agenda of structural reforms. We have adopted a decree with measures to improve the regulatory environment for business, speed up the administration of civil justice, enhance the attractiveness for foreign direct investment and promote infrastructure investment. One week ago, we set up the Transport Authority to oversee regulation and tariffs in the transport market. The Authority will play a crucial role in fostering the opening of the transport market in key sectors such as air transport and railways. In a decree adopted around the June European Council, we have introduced in Italy a package of measures to make the labour market more flexible and reoriented toward growth. In particular, we have introduced subsidies for hiring of young people and for converting temporary contracts into open-ended contracts. We are committed to continuing this agenda in the coming months.

Growth is the most important mission of my government. The reforms are starting to produce good results and we want to reap all the benefits. Growth is needed to reabsorb unemployment, which remains at unacceptably high levels in Italy. With these reforms, the Italian economy becomes more open, and hopefully more dynamic and innovative. This provides an opportunity for Italy and the UK economic systems to understand each other better and cooperate more. Having done much of this homework, Italy can now contribute more proactively to shape the EU actions and policies.

In the second half of 2014, Italy will hold the presidency of the European Union. This is a key political priority for my country and it will be a period of change for the union, with a new European Parliament and a new Commission. We want the future of Europe to be at the heart of our presidency. We want to lead the discussion on Europe in close partnership with the UK. This will be one of the subjects that I will discuss with Prime Minister Cameron tomorrow.

Here comes the third point: the state of the European Union. It is clear to me that to exit from the crisis, the European Union needs a change of gear. The status quo will not bring us anywhere. We need a different Europe. This

means that we should not only re-discuss the specific policies of the European Union but also change its politics. Let me start with the policies.

In my view, the focus of the European Union's policies must be squarely on growth. Focusing on growth means, to me, being pragmatic and striking priorities right. I think that we set a good example of this at the last European Council, which addressed two of the most pressing problems for Europe: first, the malfunctioning of the labour market, with the record high level of youth unemployment; and the malfunctioning of credit markets, where access to credit is difficult and lending rates varied considerably between different parts of the Single Market. I think that the outcome of the June European Council was a good one. We have to continue on that road in the coming months and make progress on two equally important issues: how to foster innovation and the digital economy, which we will discuss at the October European Council, and how to ensure the competitiveness of Europe's manufacturing industries.

Furthermore, euro area member states should take further steps towards greater integration within the euro area. The first area is, of course, banking union. Greater integration is necessary to avoid that financial markets remain fragmented along national borders and to reduce the cost of borrowing for the private sector. We have reached an important result on the way towards a full banking union, notably on supervision.

We need now to work on the second pillar, the resolution of the banking crisis. The proposal presented last Wednesday by Commissioner Michel Barnier, in my view, is a good basis. We need a strong, efficient resolution mechanism to ensure timely and objective actions to address the banking crisis. Furthermore, we need to enhance coordination of economic reforms to improve economic convergence. We have already in place a good mechanism for multilateral surveillance but we can make it sharper and more focused on the areas that really matter for the economic union. This has to go hand-in-hand with a discussion on how the union can give incentives to member states committed to structural reforms in a time of consolidation. This can in turn lead to some discussion on possible reforms of a fiscal capacity for the union. It is premature to enter into the debate at this stage, but I do not believe it is right to take the issue off the table completely.

Finally, we need to address the issue of democratic accountability. Democratic control has to happen at the level at which decisions are taken. The role of both European and national parliaments should be strengthened. We have a compass to guide us in this process of reform, which is the report of the four presidents and the work of President Van Rompuy on the future of

the EMU. The euro area is the epicentre of change. This change cannot be without impact on the rest of the European Union. Indeed, Italy has always advocated that any new arrangements needed to fix the euro area respect the integrity of the Single Market and protect the rights of the member states who are not in the euro area.

Looking forward, I do not think that an evolution that sets apart the euro area from the wider European Union will be a healthy development. The euro area and the Single Market are both parts of the economic and monetary union. The euro area can only prosper within a well-functioning EU, as much as the European Union needs a stable and solid euro area. We need thus an arrangement that can accommodate both the needs of countries that want to move towards greater political and economic integration and countries who are satisfied with cooperation around the Single Market.

This is where I come to my fourth and last point: what Italy and the UK can do together to direct change in the European Union. I will discuss tomorrow with Prime Minister Cameron his agenda for making the EU more competitive, more efficient and more democratic, and thus restore the people's consent for a UK strong role in the European Union. I will hear from him what he feels necessary to ensure that the UK is comfortable with the membership of the union. This is a debate that is for the UK institutions and for the UK people in the first place, I know. Yet I'm convinced that without the UK, the European Union will not be the same. It would be less open to the world, less liberal in its economic approach, less innovative. For this, we believe that the UK should remain a strong, active, committed member of the union, and we will try to work together to give stronger arguments to the UK to do so.

Italy can be an ally for the UK to reduce the irritants that make membership of the EU more controversial and, vice versa, to strengthen the aspects of the European Union which bring a value-added to the UK. We both need a Europe which is more concrete, less rhetorical, more suited to the current global economy. One of the main irritants is a bureaucratic and intrusive European Union regulation. We can cooperate together on better regulations, simplification and how to make the European Union common institutions leaner and more efficient, although I believe that strong central independent institutions are essential for the functioning of the European Union.

As for the points of strength, I think the Single Market remains the most important asset. With its 500 million consumers, it remains the main destination of goods and services and it is the best engine that we have to restore growth in Europe. Without the Single Market, the UK, as other

member states, would be less attractive for foreign investors, which once established in one member state can then move freely around the Single Market. The Single Market also provides the leverage to export goods and services to international markets.

Italy and the UK can work together to complete the Single Market, taking further steps in the area of services, of energy, telecommunications and digital economy. We can also fight together to make the Single Market more open externally. Trade is one of the main tools to restart growth. Italy and the UK could join forces to promote the rapid conclusion of an ambitious free trade agreement with the United States. The Transatlantic Trade and Investment Partnership has the potential to become the transatlantic common market, with all its economic and growth consequences. Italy and the UK economies would be among the main beneficiaries of such an expanded market.

We can also act together to give a stronger profile to European Union external relations – for instance, to stabilize the southern shore of the Mediterranean. We can also work together in the area of defence, where we can build on a solid industrial cooperation and where we have important interests in common. This will be the subject, for instance, of the December European Council.

In all these areas, the UK and Italy can be partners. If we show positive leadership, it will be easier to persuade other member states that Europe needs change. This means talking about the politics of the union. A frank debate on the legitimacy and accountability of the European Union is a healthy and necessary debate. We cannot close our eyes on the legitimacy crisis of the union and on the rise of Eurosceptic and anti-integrationist movements. Even in my country, which is traditionally supportive of European integration, large segments of public opinion have turned from indifference to hostility toward European integration. For many people, EU decision-making is inefficient and removed from their democratic control.

What is most worrying, the crisis has challenged the basis of the idea of European integration. We will only be able to advance an agenda of reforms if we have a convincing narrative to explain why we need Europe and why it serves the purposes of the present and future generations.

I am a committed pro-European. I have in mind the extraordinary image of Kohl and Mitterrand in Verdun: two world leaders standing hand in hand, remembering the victims of the First World War. The experience of two world wars is a foundational memory for the European integration, but today these



memories no longer provide a sufficient driving force for action. We need to find a forward-looking rationale. We need to build a narrative on what Europe means after 50 years of integration, on how acting together can help us achieve our goals in a changed global environment.

Next year, the elections for the European Parliament will provide a focal point for this debate. I want these political issues to be at the heart of the Italian presidency. There is nothing worse than letting people believe that European integration is something that proceeds by stealth, a journey driven by invisible and uncontrollable forces. Europe cannot be a lasting venture unless it is built on convinced, explicit commitment. We have in the coming months a chance to remodel Europe. Either we make a successful case for a different Europe or we will see the success of Eurosceptic forces and the block of the European decision-making process.

In conclusion, I believe that Europe is set to go through important changes in the future, whether we want it or not. It is in the interest of Europe and in the interest of our countries that the UK and Italy work together to drive forward this process of change. Thank you.