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It is an honour to be here in the European Parliament today. With your permission, I will come back after each European Council during the UK Presidency and report to you. In addition, I would be happy to consult the Parliament before each Council, so as to have the benefit of the views of the European Parliament before Council deliberations.

This is a timely address. Whatever else people disagree upon in Europe today, they at least agree on one point: Europe is in the midst of a profound debate about its future. I want to talk to you plainly today about this debate, the reasons for it and how to resolve it. In every crisis there is an opportunity. There is one here for Europe now, if we have the courage to take it.

The debate over Europe should not be conducted by trading insults or in terms of personality. It should be an open and frank exchange of ideas. And right at the outset I want to describe clearly how I define the debate and the disagreement underlying it.

The issue is not between a "free market" Europe and a social Europe, between those who want to retreat to a common market and those who believe in Europe as a political project.

This is not just a misrepresentation. It is to intimidate those who want change in Europe by representing the desire for change as betrayal of the European ideal, to try to shut off serious debate about Europe's future by claiming that the very insistence on debate is to embrace the anti-Europe.

It is a mindset I have fought against all my political life. Ideals survive through change. They die through inertia in the face of challenge.

I am a passionate pro-European. I always have been. My first vote was in 1975 in the British referendum on membership and I voted yes. In 1983, when I was the last candidate in the UK to be selected shortly before that election and when my party had a policy of withdrawing from Europe, I told the selection conference that I disagreed with the policy. Some thought I had lost the selection. Some perhaps wish I had. I then helped change our policy in the 1980's and was proud of that change.

Since being Prime Minister I signed the Social Chapter, helped, along with France, to create the modern European Defence Policy, have played my part in the Amsterdam, the Nice, then the Rome Treaties.

## CHECK AGAINST DELIVERY

- 2 -

This is a union of values, of solidarity between nations and people, of not just a common market in which we trade but a common political space in which we live as citizens.

It always will be.

I believe in Europe as a political project. I believe in Europe with a strong and caring social dimension. I would never accept a Europe that was simply an economic market.

To say that is the issue is to escape the real debate and hide in the comfort zone of the things we have always said to each other in times of difficulty.

There is not some division between the Europe necessary to succeed economically and social Europe. Political Europe and economic Europe do not live in separate rooms.

The purpose of social Europe and economic Europe should be to sustain each other.

The purpose of political Europe should be to promote the democratic and effective institutions to develop policy in these two spheres and across the board where we want and need to cooperate in our mutual interest.

But the purpose of political leadership is to get the policies right for today's world.

For 50 years Europe's leaders have done that. We talk of crisis. Let us first talk of achievement. When the war ended, Europe was in ruins. Today the EU stands as a monument to political achievement. Almost 50 years of peace, 50 years of prosperity, 50 years of progress. Think of it and be grateful.

The broad sweep of history is on the side of the EU. Countries round the world are coming together because in collective cooperation they increase individual strength. Until the second half of the 20<sup>th</sup> Century, for centuries European nations individually had dominated the world, colonised large parts of it, fought wars against each other for world supremacy.

Out of the carnage of the Second World War, political leaders had the vision to realise those days were gone. Today's world does not diminish that vision. It demonstrates its prescience. The USA is the world's only super power. But China and India in a few decades will be the world's largest economies, each of them with populations three times that of the whole of the EU. The idea of Europe, united

**CHECK AGAINST DELIVERY**

and working together, is essential for our nations to be strong enough to keep our place in this world.

Now, almost 50 years on, we have to renew. There is no shame in that. All institutions must do it. And we can. But only if we remarry the European ideals we believe in with the modern world we live in.

If Europe defaulted to Euro scepticism, or if European nations faced with this immense challenge, decide to huddle together, hoping we can avoid globalisation, shrink away from confronting the changes around us, take refuge in the present policies of Europe as if by constantly repeating them, we would by the very act of repetition make them more relevant, then we risk failure. Failure on a grand, strategic, scale. This is not a time to accuse those who want Europe to change of betraying Europe. It is a time to recognise that only by change will Europe recover its strength, its relevance, its idealism and therefore its support amongst the people.

And as ever the people are ahead of the politicians. We always think as a political class that people, unconcerned with the daily obsession of politics, may not understand it, may not see its subtleties and its complexities. But, ultimately, people always see politics more clearly than us. Precisely because they are not daily obsessed with it.

The issue is not about the idea of the European Union. It is about modernisation. It is about policy. It is not a debate about how to abandon Europe but how to make it do what it was set up to do: improve the lives of people. And right now, they aren't convinced. Consider this.

For four years Europe conducted a debate over our new Constitution, two years of it in the Convention. It was a detailed and careful piece of work setting out the new rules to govern a Europe of 25 and in time 27, 28 and more member states. It was endorsed by all Governments. It was supported by all leaders. It was then comprehensively rejected in referendums in two founding Member States, in the case of the Netherlands by over 60 per cent. The reality is that in most Member States it would be hard today to secure a 'yes' for it in a referendum.

There are two possible explanations. One is that people studied the Constitution and disagreed with its precise articles. I doubt that was the basis of the majority 'no'. This was not an issue of bad drafting or specific textual disagreement.

The other explanation is that the Constitution became merely the vehicle for the people to register a wider and deeper discontent with the state of affairs in Europe. I believe this to be the correct analysis.

## CHECK AGAINST DELIVERY

- 4 -

If so, it is not a crisis of political institutions, it is a crisis of political leadership. People in Europe are posing hard questions to us. They worry about globalisation, job security, about pensions and living standards. They see not just their economy but their society changing around them. Traditional communities are broken up, ethnic patterns change, family life is under strain as families struggle to balance work and home.

We are living through an era of profound upheaval and change. Look at our children and the technology they use and the jobs market they face. The world is unrecognisable from that we experienced as students 20, 30 years ago. When such change occurs, moderate people must give leadership. If they don't, the extremes gain traction on the political process. It happens within a nation. It is happening in Europe now.

Just reflect. The Laeken Declaration which launched the Constitution was designed "to bring Europe closer to the people". Did it? The Lisbon agenda was launched in the year 2000 with the ambition of making Europe "the most competitive place to do business in the world by 2010". We are half way through that period. Has it succeeded?

I have sat through Council Conclusions after Council Conclusions describing how we are "reconnecting Europe to the people". Are we?

It is time to give ourselves a reality check. To receive the wake-up call. The people are blowing the trumpets round the city walls. Are we listening? Have we the political will to go out and meet them so that they regard our leadership as part of the solution not the problem?

That is the context in which the Budget debate should be set. People say: we need the Budget to restore Europe's credibility. Of course we do. But it should be the right Budget. It shouldn't be abstracted from the debate about Europe's crisis. It should be part of the answer to it.

I want to say a word about last Friday's Summit. There have been suggestions that I was not willing to compromise on the UK rebate; that I only raised CAP reform at the last minute; that I expected to renegotiate the CAP on Friday night. In fact I am the only British leader that has ever said I would put the rebate on the table. I never said we should end the CAP now or renegotiate it overnight. Such a position would be absurd. Any change must take account of the legitimate needs of farming communities and happen over time. I have said simply two things: that we cannot agree a new financial perspective that does not at least set out a process that leads to a more rational Budget; and that this must allow such a Budget to shape the second half of that perspective up to 2013. Otherwise it will be 2014 before any fundamental change is agreed, let alone implemented. Again, in the meantime, of course Britain will pay its fair share of enlargement. I might point

CHECK AGAINST DELIVERY

out that on any basis we would remain the second highest net contributor to the EU, having in this perspective paid billions more than similar sized countries.

So, that is the context. What would a different policy agenda for Europe look like?

First, it would modernise our social model. Again some have suggested I want to abandon Europe's social model. But tell me: what type of social model is it that has 20m unemployed in Europe, productivity rates falling behind those of the USA; that is allowing more science graduates to be produced by India than by Europe; and that, on any relative index of a modern economy – skills, R&D, patents, IT, is going down not up. India will expand its biotechnology sector fivefold in the next five years. China has trebled its spending on R&D in the last five.

Of the top 20 universities in the world today, only two are now in Europe.

The purpose of our social model should be to enhance our ability to compete, to help our people cope with globalisation, to let them embrace its opportunities and avoid its dangers. Of course we need a social Europe. But it must be a social Europe that works.

And we've been told how to do it. The Kok report in 2004 shows the way. Investment in knowledge, in skills, in active labour market policies, in science parks and innovation, in higher education, in urban regeneration, in help for small businesses. This is modern social policy, not regulation and job protection that may save some jobs for a time at the expense of many jobs in the future.

And since this is a day for demolishing caricatures, let me demolish one other: the idea that Britain is in the grip of some extreme Anglo-Saxon market philosophy that tramples on the poor and disadvantaged. The present British Government has introduced the new deal for the unemployed, the largest jobs programme in Europe that has seen long-term youth unemployment virtually abolished. It has increased investment in our public services more than any other European country in the past five years. We needed to, it is true, but we did it. We have introduced Britain's first minimum wage. We have regenerated our cities. We have lifted almost one million children out of poverty and two million pensioners out of acute hardship and are embarked on the most radical expansion of childcare, maternity and paternity rights in our country's history. It is just that we have done it on the basis of and not at the expense of a strong economy.

Secondly, let the Budget reflect these realities. Again the Sapir report shows the way. Published by the European Commission in 2003, it sets out in clear detail what a modern European Budget would look like. Put it into practice. But a

modern Budget for Europe is not one that 10 years from now is still spending 40 per cent of its money on the CAP.

Thirdly, implement the Lisbon Agenda. On jobs, labour market participation, school leavers, lifelong learning, we are making progress that nowhere near matches the precise targets we set out at Lisbon. That Agenda told us what to do. Let us do it.

Fourth, and here I tread carefully, get a macroeconomic framework for Europe that is disciplined but also flexible. It is not for me to comment on the Eurozone. I just say this: if we agreed real progress on economic reform, if we demonstrated real seriousness on structural change, then people would perceive reform of macro policy as sensible and rational, not a product of fiscal laxity but of commonsense. And we need such reform urgently if Europe is to grow.

After the economic and social challenges, then let us confront another set of linked issues – crime, security and immigration.

Crime is now crossing borders more easily than ever before. Organised crime costs the UK at least £20bn annually.

Migration has doubled in the past 20 years. Much of the migration is healthy and welcome. But it must be managed. Illegal immigration is an issue for all our nations, and a human tragedy for many thousands of people. It is estimated that 70 per cent of illegal immigrants have their passage facilitated by organised crime groups. Then there is the repugnant practice of human trafficking whereby organised gangs move people from one region to another with the intention of exploiting them when they arrive. Between 600,000 and 800,000 people are trafficked globally each year. Every year over 100,000 women are victims of trafficking in the European Union.

Again, a relevant JHA agenda would focus on these issues: implementing the EU action plan on counter-terrorism which has huge potential to improve law enforcement as well as addressing the radicalisation and recruitment of terrorists; cross-border intelligence and policing on organised crime; developing proposals to hit the people and drug traffickers hard, in opening up their bank accounts, harassing their activities, arresting their leading members and bring them to justice; getting returns agreements for failed asylum seekers and illegal immigrants from neighbouring countries and others; developing biometric technology to make Europe's borders secure.

Then there is the whole area of CFSP. We should be agreeing practical measures to enhance European defence capability, be prepared to take on more missions of peacekeeping and enforcement, develop the capability, with NATO or where NATO does not want to be engaged outside it, to be able to intervene

quickly and effectively in support of conflict resolution. Look at the numbers in European armies today and our expenditure. Do they really answer the strategic needs of today?

Such a defence policy is a necessary part of an effective foreign policy. But even without it, we should be seeing how we can make Europe's influence count. When the European Union agreed recently a doubling of aid to Africa, it was an immediate boost not just for that troubled continent, but for European cooperation. We are world leaders in development and proud of it. We should be leading the way on promoting a new multi-lateral trade agreement which will increase trade for all, especially the poorest nations. We are leading the debate on climate change and developing pan-European policies to tackle it. Thanks to Xavier Solana, Europe has started to make its presence felt in the MEPP. But my point is very simple. A strong Europe would be an active player in foreign policy, a good partner of course to the US but also capable of demonstrating its own capacity to shape and move the world forward.

Such a Europe – its economy in the process of being modernised, its security enhanced by clear action within our borders and beyond – would be a confident Europe. It would be a Europe confident enough to see enlargement not as a threat, as if membership were a zero sum game in which old members lose as new members gain, but an extraordinary, historic opportunity to build a greater and more powerful union. Because be under no illusion: if we stop enlargement or shut out its natural consequences, it wouldn't, in the end, save one job, keep one firm in business, prevent one delocalisation. For a time it might but not for long. And in the meantime Europe will become more narrow, more introspective and those who garner support will be those no in the traditions of European idealism but in those of outdated nationalism and xenophobia. But I tell you in all frankness: it is a contradiction to be in favour of liberalising Europe's membership but against opening up its economy.

If we set out that clear direction; if we then combined it with the Commission – as this one under Jose Manuel Barroso's leadership is fully capable of doing – that is prepared to send back some of the unnecessary regulation, peel back some of the bureaucracy and become a champion of a global, outward-looking, competitive Europe, then it will not be hard to capture the imagination and support of the people of Europe.

In our Presidency, we will try to take forward the Budget deal; to resolve some of the hard dossiers, like the Services Directive and Working Time Directive; to carry out the Union's obligations to those like Turkey and Croatia that wait in hope of a future as part of Europe; and to conduct this debate about the future of Europe in an open, inclusive way, giving our own views strongly but fully respectful of the views of others.

Only one thing I ask: don't let us kid ourselves that this debate is unnecessary; that if only we assume 'business as usual', people will sooner or later relent and acquiesce in Europe s it is, not as they want it to be. In my time as Prime Minister, I have found that the hard part is not taking the decision, it is spotting when it has to be taken. It is understanding the difference between the challenges that have to be managed and those that have to be confronted and overcome. This is such a moment of decision for Europe.

The people of Europe are speaking to us. They are posing the questions. They are wanting our leadership. It is time we gave it to them.