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The Future of Europe

Dear President Tajani,
Dear President Juncker,
Dear Members of Parliament,
Ladies and Gentlemen!
Friends!

First of all, I must say that it is a great honour indeed for me to address you today on such a vast topic as “The Future of Europe”. Considering that I was a Member of the European Parliament for almost 10 years, it is wonderful to come back home, this time as Prime Minister of Latvia. It is good indeed to be among so many friends!

I come to discuss with you the Future of Europe at the end of this 5-year parliamentary term. Change is always a time for reflection. To understand my view of our way forward, I wish to first discuss how I see where we are now and how we got here.

First the context of my country: Latvia has a long history as part of the Northern European cultural area. The Baltics were the last Europeans to be introduced to Christianity, albeit originally by the sword. We have gone through the Renaissance, Reformation, and Enlightenment. At least historically, Latvia is predominantly Lutheran, with the South-East having a Catholic majority. We often view ourselves as pragmatic, patient, rational and law-abiding. Creativity and personal enterprise run deep in our culture.

My personal story gives a glimpse into recent European history. I am the son of wartime refugees. In October of 1944, near the end of WWII, as the Soviet army was once again advancing through Latvia, my parents (who were 8 and 14 years old at the

time) fled in small boats with their families and others across the Baltic Sea from Latvia to Sweden. Sweden took in about 5.000 wartime refugees from Latvia. The majority of Latvian refugees — almost 200.000 — fled to Germany at the end of the war. My parents thus grew up in Sweden, where they met and married. They emigrated further to the United States in 1958, where I was later born together with my two sisters. I first came to Latvia in 1984 while I was attending a Latvian high school in Germany, which was a holdout of the post-war refugee schools there. This was still the time of Soviet occupation.

In 1984, Latvia seemed like a different world from the West. The buildings in Riga were all grey. There were countless Soviet soldiers in the streets. Everything was monotone and in Russian. Lack of investment in infrastructure was evident. Few people showed emotion in public. It was a visibly occupied country. After finally regaining independence in 1991, things started to change rapidly. Democratic institutions were created from scratch. Private ownership of property was reintroduced. Entrepreneurship was allowed to flourish. My country set its sights upon becoming a member of both NATO and the European Union (EU), and achieved both of these goals in 2004. In a couple of weeks we will be celebrating 15 years since joining the EU. **We have not regretted a single day since joining.**

So what is the EU, and where are we going? Perhaps most importantly, the EU is a union of values: **freedom, democracy, and the rule of law**. Many people in Europe often forget that European history is mostly a history of war, where the strong prevailed and the weak suffered. Countries settled their differences through battle, not tiresome negotiations and votes, as we do today. In many countries around the world, people can only dream of democracy and the rule of law. The rule of strength is what many people experience. To speak one's mind is a virtue in the EU and in this parliament. To do so in many countries around the world will get you arrested and worse.

Latvians remember what it means to lack freedom. For more than 50 years, Latvians experienced what a lack of democracy means. Latvians know of life without the rule of law. We joined the EU because of these shared values. We are convinced that all people around the world are entitled to these values, but that not all have the privilege of sharing them. **Shared values are a cornerstone of the EU.**

The EU is not only about shared values. It is also about economic growth and development. The incredible economic growth that Europe has seen since the end of the Second World War has a lot to do with peace and democracy that spread throughout the continent, as well as the close economic cooperation that developed into the European Union. The cornerstone of our economic cooperation is the **Single Market**. By opening up our borders to one another, we have created a combined Single Market of over 500 million people. In sheer economic size, our combined economy is roughly the same as that of the United States.

But not all is well in our Union. There are those who would rather see the EU disappear than to prosper. We live in a time where **politicians with simplistic answers to difficult questions** are grabbing the attention of voters throughout Europe. These politicians are often referred to as “populists”. No matter what you call them, it is important for us to understand why people are turning to them. If people are unhappy, we should address the cause of their unhappiness, not fight the “populists”.

What has caused so many people to be disillusioned with politics? We need to go back a little in time. Ten years ago, the world woke up to hear that a bank in the US had collapsed. What followed was a chain reaction that led to first a Banking, and then an Economic crisis that was the largest since the Great Depression shortly before the Second World War. As Europe came out of these economic difficulties, we encountered yet another crisis — this time of Migration. This crisis came as the result of first peaceful, then violent change in the Middle East. On top of all of this, technological change has been occurring at a breath-taking rate, which is quickly

changing the world of work. Factories that 30 years ago employed tens of thousands of people are now more and more being operated by robots and machines. The educational level needed to keep up in the world of work is ever increasing.

We have thus recently gone through a (1) Banking crisis, an (2) Economic crisis, a (3) Migration crisis, and what I would now call a certain kind of (4) Political crisis. Of course, it seems that a majority of people in Europe have not developed extreme political views. However, the concerns of many are legitimate and we need to think carefully about the way forward.

It seems that many people are motivated at the voting booth based upon four basic concerns: **(1) concerns for their jobs, (2) concerns for their way of life (immigration), (3) concerns about the environment, and (4) concerns for their safety and security.** By addressing these concerns, I wish to address how I see the future of Europe.

(1) Concerns about jobs and the economy

If we want to ensure stable job growth, we need a sound basis for the economy to grow. Europe has a mechanism that has the ability to maximise job growth in all circumstances: **the Single Market.** The Single Market is that which gives any producer of goods or services a “home” market of over 500 million consumers. The Single Market is that which makes the EU a global player. Compared with the United States or China, each European country by itself is a small country. However, combined by the Single Market via the EU, we are a global player. We have the ability and the responsibility to help set the rules of global trade. We have the ability and the responsibility to stand up to other world players when they do not play by the rules.

The EU is facing a grand challenge from both a rising China, and a US that seems to partly be losing its own faith that it has a leading role to play in the world. Regarding

China, we face a trading partner that openly subsidises its huge enterprises and is aggressively moving into the European market, at the same time keeping its own market largely closed to fair competition from European companies. What is the proper response? Some say that we need to create “National Champions” in Europe by bending our own competition rules so that we can stand up to Chinese companies. I disagree. I believe that we need to improve our own market conditions so “National Champions” can grow of their own accord.

The answer to unfair competition is not protectionism. We should not close up our market and become more like the Chinese. Instead, we should use our combined political and economic clout to demand fair trade on our terms. If we truly want more global players to grow in Europe, we need to continue to **open up** the Single Market, especially in the digital field. It is no surprise that most of the world’s largest internet-based companies come from the US. They not only have a huge economy, but a “dollar zone” that is supported by a federal government and budget. They do not have trading hurdles between their States. In the EU, we still have a market that is too fragmented. We need to continue to tear down the barriers to the Single Market. This is what will create more jobs and more wealth in Europe. This will allay people’s concerns for their own well-being. This is what will make the EU stronger. This is the road to take.

One of the cornerstones of the Single Market is the **financial system** — our banks. We need a sound banking system in order for our economy to grow. Following the banking and financial crisis, one of our responses was to create a Banking Union. We rightly placed the largest EU banks directly under the supervision of the ECB. However, the world has continued to change. If 10 years ago the greatest threat to our banking system was liquidity, then today the threat is that of money laundering. As a co-rapporteur of the last two Anti-Money laundering (AML) directives, I learned a thing or two about the politics of AML supervision. It is based upon a sound risk-based approach to limit the possibility of dirty money entering the European banking system. Unfortunately, we have left all AML supervision at the Member State level, even for the largest

systemic banks. The result is a patchwork approach to AML supervision that criminals can take advantage of.

In Latvia, we have learned a thing or two about the risks of money laundering. As a border State with Russia, we have been an attractive entry point for money wishing to leave the Russian economy. We are currently doing a fundamental overhaul of our banking oversight system, which will result in one of the most robust AML systems anywhere in Europe. We see that as a result of our clear actions, non-resident banking activity has already practically ceased in Latvia. However, I am convinced that the illicit activity has not left Europe. It has simply left Latvia to look for another point of entry into the European system. Criminals work internationally. If we want to effectively counter money laundering in Europe, we need to centralize AML oversight just as we have centralized prudential oversight of our largest banks. Sound banks are the basis for sound economic growth.

(2) Concerns about the way of life — immigration

Let's face it: many people in Europe became very concerned about immigration following the crisis of a few years ago. What can we do to allay many peoples' concern that their way of life coming under threat? In truth, the notion of "way of life" has been changing in Europe throughout its history. The industrial revolution changed not only the nature of work, but practically wiped out the agriculturally based society, which for thousands of years had been the bedrock of European civilisation.

Over the past decades, practically all of our countries have faced large numbers of immigrants coming from other European countries, as well as from countries outside of Europe. After regaining independence in 1991, Latvia faced the challenge of absorbing more than 700.000 Russian-speaking migrants who arrived from all corners of the Soviet Union during the 50 years of Soviet occupation. That amounts to 1/3 of our total population, a challenge of integration on a very large scale indeed.

In most of Europe, the fear of immigration for many citizens is linked to the crisis that we faced a few years ago. The difficulty was perhaps not so much in the absolute number of arrivals or even their religion, but in the fact that we seemed to have no control over the process. At one point, borders were being temporarily closed or restricted within the European Union's Schengen zone. The way to respond to immigration is not to cut it off, but to gain control over it. If we start to close our internal borders for any reason, we begin to hamper the Single Market, which is crucial for our economic growth. To gain control over migration, the thought-out answer has been to strengthen our outer borders by strengthening FRONTEX.

In truth, the European Union is a very desirable destination for many people. We are a wealthy continent, with a strong judicial system where the rule of law is more powerful than any individual leader. This means that we will remain a destination of choice for many of our neighbours for years to come. Indeed, as authoritarianism becomes stronger in neighbouring countries, the wish for people to emigrate will increase. To gain control over immigration, we need to set up clear criteria for people to enter. We probably will need to increase our funding of refugee camps for people displaced by war. We certainly need to continue to support our neighbours' efforts to improve their economies and strengthen the rule of law. If our citizens understand that as a Union we are willing and able to control our outer borders, the fear of losing their "way of life" will decrease. Europe is an open society. However, I believe that we also have a responsibility to maintain and develop our individual national identities and languages. Controlled immigration and integration of arrivals is the way to remain open while allowing our individual national identities to flourish. Some parts of national identities such as the Notre Dame Cathedral in Paris have in fact become part of our shared European identity. Following the tragic fire there two days ago, this has become clearly evident.

(3) Concerns about the environment

It is clear that the amazing industrial development that has created a tremendous amount of wealth in the world has also taken a heavy toll on the environment. By tapping into coal, oil, and gas reserves kept deep below the earth for millions of years, we as a civilisation have been releasing an enormous amount of CO₂, which is now causing global warming. This is a direct threat to all of us as weather patterns become disrupted, and sea levels slowly rise threatening coastal communities around the world. We are right in deciding to limit our greenhouse gas emissions in order to slow down global warming. The question is: how to balance the energy transition to energy sources that do not emit CO₂?

The situation of the current energy mix in our Member States is quite different. In some countries, fossil fuels still play a very important role. It is one thing to wish that all energy is clean, but another thing to pay the costs for the transition. Consumers throughout Europe are always concerned about energy prices. Renewable energy is gradually becoming more price competitive compared to fossil fuels. However, we are not there yet. While it is important to set clear goals for reducing CO₂ emissions and increasing energy efficiency, it is equally important to make sure that our energy markets are open to competition. If we truly want to increase renewable energy in our system, we need to open up markets and deregulate prices. Consumer choice is what can best drive the energy transition. In a regulated market, there is no choice to be had. For example, if electricity costs the same regardless of when you consume it, what should motivate people to limit their demand during peak hours? By opening electricity markets to competition and market prices, we can greatly increase the uptake in renewable energy sources and increase energy efficiency without having to resort to market-distorting subsidies.

(4) Concerns for safety and security

I would not be much of a Latvian politician if I did not talk about safety and security. As a border State with Russia, we understand the threat to Europe coming from the East. The words “safety” and “security” carry different meaning for different parts of Europe. In the South, perhaps the greatest perceived threat to security is uncontrolled immigration. In the West, perhaps the greatest perceived threat is the possible outcome of a non-controlled Brexit process: both in terms of trade as well as peace in Northern Ireland. From the Latvian perspective, the greatest threat to European security is perhaps not a direct military threat, but the massive disinformation campaign coming from Russia.

With the development of the internet and smartphones, many of us thought that we are indeed coming into an age of almost limitless information. Unfortunately, social platforms have proven among other things to be useful ways to disseminate disinformation at amazing speed. As fewer and fewer people rely upon traditional media outlets to get news, the role and responsibility of social platforms is becoming ever more important. Russia has for a long time depended upon a doctrine of weakening its enemies in order to ensure its own security. The Kremlin lives in a world where everyone wants to attack them. They literally feel surrounded by enemies. NATO and the EU are among them. Anything that can be done to weaken NATO and the EU is sound policy for the Kremlin. We have seen for years a consistent policy of disinformation coming from Russia with the role of undermining European unity. Whether the topic is vaccination, immigration, Brexit, or something else, Russia is trying to divide our society and pit people against each other.

If we want to increase European security, we need to look at both military and information threats. On the military side, I believe that strengthening military cooperation among Member States is a good thing, as long as we do this with a view to strengthen NATO, not undermine it. My country spends 2% of its GDP on the military. I believe that we all should. Aggressive countries will always respect strength. We need to invest in order to remain strong. But we also need to work on

strengthening our information defence. I believe that we should consider legislation for the responsibility of social platforms regarding the dissemination of false and misleading information.

Finally, I have to say a few words about our multi-annual budget, the MFF. We are currently in the process of deciding how we will invest our Member States' contributions to ensure that the EU continues to grow economically. In this regard, it is very important to increase funding for Research & Development. It is important that this leads to excellence throughout Europe, not just in a few select capitals. It is the minds of bright Europeans everywhere who will contribute most to the future growth of high-value exports and well-paid jobs. We also need a clever cohesion policy that leads poorer regions to converge upwards. However, we need not forget Europe's farmers. It must be remembered that all farmers compete in the same Single Market. Unfortunately, the farmers in the three Baltic countries find themselves at a distinct disadvantage. The direct payments that they receive are still well below the European average, let alone the front-runners. We have a chance to right a historic wrong in this MFF. If farming is to be subsidised, it should be subsidised equally across the board to ensure fair competition.

Dear friends:

We are living in a European Union where differences among Member States are decided by lengthy discussions and sometimes painstaking votes, not brute military force. It is a Union that Member States have entered on their own free will and with the consent of their citizens. It is a Union that Member States may leave, although the Brexit process shows that we did not anticipate all of the real difficulties that this could entail. However painful Brexit may be, it is a testament to our unity and underlying shared values that all sides are peacefully speaking with each other, and that the remaining 27 Member States remain open and united.

The Future of Europe is what we will make of it. My view is that we need to strengthen the basics: (1) The Single Market, (2) our outer borders and internal integration, (3) a clever transition to clean energy, and (4) our common security. As ever, we live in a changing world. The so-called “populists” are trying to exploit the insecurity and unease that many voters are feeling. My view is that we should not fight the populists, but address the underlying causes of malcontent. We need to think about strengthening the economy and jobs, securing our way of life in a changing world, and guaranteeing our collective security both militarily as well as through the dissemination of information. Left alone, each of us represents a small country compared to the rest of the world. However, as a united European Union, we are a major force in the world. Let’s work to make our Union stronger!

Thank you very much for your attention!