On Friday 1st July, Britain acceded to the EU Presidency - the second time that this Government has taken on the Presidency. It is a rare opportunity that very few governments across Europe, led by the same Prime Minister, have ever had. This opportunity has come to us because of the government’s broad strength and appeal in this country. An appeal built on a platform of clear values that can speak to the majority of our people who want to see a fair society and a strong economy and who believe that these are not opposites – but outcomes that are inextricably linked together. Our ground-breaking third term is also a testament, fundamentally, to the first and last lesson in politics: the need to stay in touch with what the public think and feel.
And this is what I want to talk about today. Because these are now the inescapable questions facing the European Union. How can we use the unique opportunity of our Presidency to help the EU become the modern, outward looking alliance, equipped to meet the formidable challenges of globalisation, environmental protection and security and to do so in a way that keeps the Union in touch with its people. At the heart of these challenges lies the question of how the institutions of the European Union make laws, the types of laws they pass and the effectiveness with which those laws are implemented on civil society and the economy. Getting this right is critical if we are to regain the trust and confidence of Europe’s people.

We take on the EU Presidency at perhaps its most critical time since its formation nearly 50 years ago.

As Tony Blair has made clear, our fundamental challenge is how to make Europe work better. And to do so in a way that its people can relate to and where the institutions of Europe can be held to account. And that doesn’t mean endless rounds of protracted negotiations to refine procedures - even if they would bring marginal improvements. That’s precisely the sort of thing that puts people off. Of course the procedures we use to make laws have to be effective. And quite often we don’t get this right. I want to address this point in a minute. But it’s what these laws do and what impact they have that matters just as much. Here too we can do much better.
But what we need more than anything else is a change of culture within the Union. So that we focus not on competing visions for Europe but on what Europe can do to improve economic growth, to give us a cleaner environment, to create more jobs, to make us more secure. Where we can move beyond the endless circular argument that you have to be either in favour of the social model as it stands in its entirety or against it altogether. These are false choices that have bedevilled the debate about the future of the European Union.

This call for a new culture is not a new idea. Heads of Government recognised it’s importance at Lisbon in March 2000, when they saw that Europe needed to meet the competitiveness challenge posed by the surge in productivity and innovation in the United States. They recognised it again in March this year, when the mid-term review of the Lisbon strategy emphasised the additional and growing challenge from China, India and other countries in Asia. The three European institutions of Commission, Council and Parliament recognised the need for change when they reached an agreement on better regulation in December 2003 to allow for more pragmatic decisions on any future legislation and on simplifying the mass of existing legislation.

But let no one be under any doubt that the scale of the challenge that Europe faces in this emerging global economy is immense and the practical pace of our collective action to meet these challenge to date has just been too slow.
It is impossible to exaggerate the significance of the task in front of us. Let me quote you one fact from Lester Thurow’s book ‘Fortune Favours the Bold’ that I think perfectly illustrates the scale of the economic challenge we now face in Europe. In 1991 France’s per capita GDP was only US $1000 below that of the United States; Germany and Italy were $2000 down and the UK was $5,000 lower. Ten years later in 2001 the UK’s per capita GDP was $11,000 below that of the United States, Germany was $12,000 down, France was $13,000 lower and Italy faced a $16,000 gap. Western Europe GDP per capita – not taking into account the new accession counties – was lower in 2001 relative to that of the US than any time since the 1960’s.

And one other thing is certain too. The challenge to our national economies and the collective economy of Europe will become - with the growth of China and the continuing productivity growth of the US - even more intense in the decades to come.

For many people this depth of change and challenge provokes fear and uncertainty. For many Europeans the next decade looks to be filled with threats rather than opportunities. But we can turn challenges into opportunities if we look outwards to the realities of the global economy and modernise our internal institutions in ways that will equip Europe to meet that challenge and create confidence amongst the public.
Our aim, during our Presidency in the next six months will be to lead this challenge, to show that Europe can function in a mature and responsible way, to start delivering tangible results that show we are taking people’s concerns seriously. And we must start by making real progress in the way that we make laws and regulate in Europe.

We must seek to persuade member states and institutions that better regulation in Europe does not mean cutting health and safety in the workplace, nor does it mean dismantling social standards. It means finding more effective ways to deliver those standards so they do not place unnecessary burdens on business. So they don’t act as a drag anchor on innovation and productivity. The level of success we have over the next six months will be dependent on our ability to make that message clear.

Yet in order to make sure the European social model keeps up with the pace of economic change that is now necessary, the EU must embrace a new approach to law-making. Too often in the past, Brussels has given the impression of regulating first and asking about the impact later. More than 50% of significant new regulations that impact on business in the UK now emanate from the EU. We must move rapidly towards an approach that places competitiveness at the heart of all we do.
Our objective must therefore be to ensure EU better regulation contributes towards delivering a modern European Union which relentlessly focuses on building a dynamic and innovative economy equipped to meet the challenges of the 21st century. It must do this by:

- Only passing laws where the benefits of regulating clearly outweigh the costs that regulations impose;

- Ensuring that the regulations which are in place impose no unnecessary burdens on business by simplifying the existing EU legislation;

- And having the courage to scrap proposals that will ultimately drag Europe down rather than boost its competitiveness.

But Europe is not at year zero in its path to regulatory reform. The UK Presidency is not seeking to foist an alien, Euro-sceptic agenda on the EU against its will – this is a pro-European movement for change that will, I believe, command broad support amongst member states.
I believe there is an enormous fund of goodwill on which we can draw in this endeavour. Remember that it was a French Socialist Minister, Michel Sapin, during the French Presidency in 2000, who convened the group of national experts under the chairmanship of Monsieur Mandelkern that mapped out the core of the EU’s better regulation strategy.

At Member State level, all but a handful of the Member States now have regulatory reform strategies of their own, often introduced in the last couple of years, and beginning now to make a difference to the way they legislate.

And the new Commission, under the leadership of President Barroso has made it abundantly clear that the era of harmonisation for its own sake is over and that new regulatory projects are not going to be taken forward unless there is clear and evident justification for them. The Commission’s communication in March this year, “Better Regulation for Growth and Jobs in the European Union”, spells out a programme for action which, if carried out, will vastly improve European decision-making. And their new guidelines for impact assessment, published on 15 June, require all new proposals to undergo competitiveness-testing, to make sure they don’t handicap the European economy against global competition.

Our aim will be to make these aspirations for better law-making a reality.
There are already some encouraging signs of a change in the way the EU operates:

- The REACH proposals for chemical testing started out in the traditional way as proposals for unproven standards of health and environment protection regardless of cost and without a proper risk assessment. But the Commission’s own impact assessment and concern from the chemicals industry led the Commission to rework its proposals to reduce their cost by £6 billion, without materially diminishing the benefits. We think the proposals can be improved further and we hope to get political agreement on REACH under our Presidency.

- Last year, the Commission withdrew a hundred proposals that they had put forward but that had not yet been passed by the Council and Parliament. And the Commission has announced that it will conduct a similar exercise this year, reviewing over 200 proposals that did not have an impact assessment: we think, for example, that there is a good case for withdrawing proposals for harmonised procedures for nuclear safety or access to justice on environmental law where Member States have perfectly adequate procedures already in place.

So, there are grounds for optimism. But we need to make sure that this way of proceeding becomes normal rather than unusual.
Let me set out in some detail what our priorities on better regulation will be during our Presidency, and what results we'll be looking for. Because it is results now that count more than anything else.

We believe that a good and comprehensive system of impact assessment is essential to getting good and well-considered legislation. The Commission already has such a system in place and says it will use it for every proposal in its annual Work Programme. We intend to hold them to that. We'll want to see them using the new competitiveness-testing system they've developed and which came into effect on the day the UK assumed the Presidency. The Commission needs to start including estimates of the administrative costs of new measures. And we'd like to see the Commission provide the resources and the high-level internal scrutiny to make sure that their impact assessments are of a high quality and really influence the proposals they put forward.
We'll also make sure that the Commission impact assessments are given proper consideration by the Council, particularly in its working groups. If the impact assessments are good and clearly state the costs and benefits of every option, decisions will be made quickly and the legislation is likely to go through more smoothly; if the impact assessments are unclear, they will need to be reworked. And we intend to reinforce the process, pioneered under the Dutch Presidency, whereby the Council produces impact assessments of its own major amendments. This should help prevent the sort of late-night deals that have produced some of the EU’s most problematic legislation.

We will also be looking for progress on substantial measures to simplify existing laws. The Council made a start on this at the end of last year, when they proposed 15 priorities for simplification. The Commission has put three of those into this year’s work programme and has promised to respond on the others, and again, we intend to hold them to that. Gunter Verheugen, the Enterprise Commissioner, with whom I discussed the UK Presidency agenda in this area last week, has announced that the Commission will itself conduct a major simplification exercise this year and has asked Member States and stakeholders for their suggestions for what will be included. We have put forward our own British ideas and, as Presidency, we will work with the Commission to get a really worthwhile list of measures to be simplified, and have them endorsed by the Council. This is a first instalment of what needs to be a regular process of simplification and reform in the acquis.
And the third major area where we’ll be looking for results will be on consultation. Business tells us that consultation by the Commission has improved over the last two years but that there’s still a long way to go, and, as the Chancellor of the Exchequer has said, we think that there should be an independent, business-led advisory group – and the Commission has also said it wants more systematic advice from regulatory experts and practitioners. Our Better Regulation Task Force is currently producing a report on European consultation – after extensive discussion with the Commission and European parliamentarians and in some European countries, as well as in Britain – which will have recommendations for how consultation with stakeholders can be improved. We’ll be publishing their report at a conference on *Competitiveness and Consultation* for EU business and government leaders that I’ll be hosting in Edinburgh in September. Our aim then will be to see what European business itself thinks is the best way forward on consultation – we won’t be prescriptive on their behalf – with the aim of having reinforced methods for business consultation both on detailed proposals and on better regulation strategy by the end of our Presidency.
Business consultation is very important, because they are usually the first stakeholders on whom EU regulations impinge. And, in the past, it has been all too easy for legislators to load costs onto business in order to meet broader social goals. And costs for business means costs for consumers. There is no such thing as free regulation. So we need to see a change here too. Road testing the effects of regulation on European business must become second nature to the European Union. And if things do not work out as they were intended, then they have to be put right quickly. Here again, the UK will be working with the Commission and Member States to make progress in this area.

These are the main ways in which we want to see the EU acting more pragmatically, to show that it can work better and more efficiently. Having decisions made not in midnight deals but in the light of objective evidence and after consulting those who will be affected should itself provide some reassurance that the EU is trying to reform itself. But how will things be different on the ground in the UK?
Here in the UK the government has decided to accept the recommendations of the Better Regulation Task Force to measure and make targeted reductions in the administrative costs – the red tape costs – that regulations impose on business. The aim is not to reverse any policies or any protection they provide, but to implement them more efficiently, with less paperwork and better-targeted inspections. And the BRTF estimate that such measures could, realistically and over the medium term, save the economy the equivalent of 1% of its national income. If equivalent simplification measures were adopted across the EU, the annual savings to Europe would be about Euros 106 billion a year – which is roughly equivalent to the annual EU budget. That sort of gain would certainly put the recent arguments over the division of the budget into perspective.

So where regulations can be removed or improved the European Union needs to get on and make the necessary changes. But effective regulation at the European Union level can make a massive contribution to achieving our shared goals of improving competitiveness, jobs and growth.
The creation of the EU internal market has been a tremendous success, responsible for millions of jobs in the UK. All of this was made possible by European legislation tackling restrictive practices and closed markets. Today, as a result, over 3 million jobs in the UK are linked, directly and indirectly, to the export of goods and services to the European Union. Thanks to EU environmental legislation and the way it tackles environmental issues such as air pollution that cross national boundaries, we now have a much cleaner environment than thirty years ago.

We want to maintain and build on those successes. But we need to show that the EU can modernise itself, can adapt to the needs of its citizens, can take their views into account. That will be our ambition for the UK Presidency. And if we can show that Europe is working better, we will have laid the groundwork for future solutions to the political as well as economic and environmental challenges we face in Europe. There can’t be a higher prize than this. One that is certainly worth fighting for.

Thank you.