

This morning I want to talk about the future of Europe.

But first, let us remember the past.

Seventy years ago, Europe was being torn apart by its second catastrophic conflict in a generation. A war which saw the streets of European cities strewn with rubble. The skies of London lit by flames night after night. And millions dead across the world in the battle for peace and liberty.

As we remember their sacrifice, so we should also remember how the shift in Europe from war to sustained peace came about. It did not happen like a change in the weather. It happened because of determined work over generations. A commitment to friendship and a resolve never to re-visit that dark past – a commitment epitomised by the Elysee Treaty signed 50 years ago this week.

After the Berlin Wall came down I visited that city and I will never forget it.

The abandoned checkpoints. The sense of excitement about the future. The knowledge that a great continent was coming together. Healing those wounds of our history is the central story of the European Union.

What Churchill described as the twin marauders of war and tyranny have been almost entirely banished from our continent. Today, hundreds of millions dwell in freedom, from the Baltic to the Adriatic, from the Western Approaches to the Aegean.

And while we must never take this for granted, the first purpose of the European Union – to secure peace – has been achieved and we should pay tribute to all those in the EU, alongside NATO, who made that happen.

But today the main, over-riding purpose of the European Union is different: not to win peace, but to secure prosperity.

The challenges come not from within this continent but outside it. From the surging economies in the East and South. Of course a growing world economy benefits us all, but we should be in no doubt that a new global race of nations is underway today.

A race for the wealth and jobs of the future.

The map of global influence is changing before our eyes. And these changes are already being felt by the entrepreneur in the Netherlands, the worker in Germany, the family in Britain.
Deliver prosperity, retain support

So I want to speak to you today with urgency and frankness about the European Union and how it must change – both to deliver prosperity and to retain the support of its peoples.

But first, I want to set out the spirit in which I approach these issues.

I know that the United Kingdom is sometimes seen as an argumentative and rather strong-minded member of the family of European nations.

And it's true that our geography has shaped our psychology.

We have the character of an island nation – independent, forthright, passionate in defence of our sovereignty.

We can no more change this British sensibility than we can drain the English Channel.

And because of this sensibility, we come to the European Union with a frame of mind that is more practical than emotional.

For us, the European Union is a means to an end – prosperity, stability, the anchor of freedom and democracy both within Europe and beyond her shores – not an end in itself.

We insistently ask: How? Why? To what end?

But all this doesn't make us somehow un-European.

The fact is that ours is not just an island story – it is also a continental story.

For all our connections to the rest of the world – of which we are rightly proud – we have always been a European power – and we always will be.

From Caesar's legions to the Napoleonic Wars. From the Reformation, the Enlightenment and the Industrial Revolution to the defeat of Nazism. We have helped to write European history, and Europe has helped write ours.

Over the years, Britain has made her own, unique contribution to Europe. We have provided a haven to those fleeing tyranny and persecution. And in Europe's darkest hour, we helped keep the flame of liberty alight. Across the continent, in silent cemeteries, lie the hundreds of thousands of British servicemen who gave their lives for Europe's freedom.

In more recent decades, we have played our part in tearing down the Iron Curtain and championing the entry into the EU of those countries that lost so many years to Communism. And contained in this history is the crucial point about Britain, our national character, our attitude to Europe.

Britain is characterised not just by its independence but, above all, by its openness.

We have always been a country that reaches out. That turns its face to the world...

That leads the charge in the fight for global trade and against protectionism.

This is Britain today, as it's always been: Independent, yes – but open, too.

I never want us to pull up the drawbridge and retreat from the world.

I am not a British isolationist.

I don't just want a better deal for Britain. I want a better deal for Europe too.

So I speak as British Prime Minister with a positive vision for the future of the European Union. A future in which Britain wants, and should want, to play a committed and active part.

Some might then ask: why raise fundamental questions about the future of Europe when Europe is already in the midst of a deep crisis?

Why raise questions about Britain's role when support in Britain is already so thin.

There are always voices saying "don't ask the difficult questions."
Three major challenges

But it's essential for Europe – and for Britain – that we do because there are three major challenges confronting us today.

First, the problems in the Eurozone are driving fundamental change in Europe.

Second, there is a crisis of European competitiveness, as other nations across the world soar ahead. And third, there is a gap between the EU and its citizens which has grown dramatically in recent years. And which represents a lack of democratic accountability and consent that is – yes – felt particularly acutely in Britain.

If we don't address these challenges, the danger is that Europe will fail and the British people will drift towards the exit.

I do not want that to happen. I want the European Union to be a success. And I want a relationship between Britain and the EU that keeps us in it.

That is why I am here today: To acknowledge the nature of the challenges we face. To set out how I believe the European Union should respond to them. And to explain what I want to achieve for Britain and its place within the European Union.

Let me start with the nature of the challenges we face.

First, the Eurozone.

The future shape of Europe is being forged. There are some serious questions that will define the future of the European Union – and the future of every country within it.

The Union is changing to help fix the currency – and that has profound implications for all of us, whether we are in the single currency or not.

Britain is not in the single currency, and we're not going to be. But we all need the Eurozone to have the right governance and structures to secure a successful currency for the long term.

And those of us outside the Eurozone also need certain safeguards to ensure, for example, that our access to the Single Market is not in any way compromised.

And it's right we begin to address these issues now.

Second, while there are some countries within the EU which are doing pretty well. Taken as a whole, Europe's share of world output is projected to fall by almost a third in the next two decades. This is the competitiveness challenge – and much of our weakness in meeting it is self-inflicted.

Complex rules restricting our labour markets are not some naturally occurring phenomenon. Just as excessive regulation is not some external plague that's been visited on our businesses.

These problems have been around too long. And the progress in dealing with them, far too slow.

As Chancellor Merkel has said – if Europe today accounts for just over 7 per cent of the world's population, produces around 25 per cent of global GDP and has to finance 50 per cent of global social spending, then it's obvious that it will have to work very hard to maintain its prosperity and way of life.

Third, there is a growing frustration that the EU is seen as something that is done to people rather than acting on their behalf. And this is being intensified by the very solutions required to resolve the economic problems.

People are increasingly frustrated that decisions taken further and further away from them mean their living standards are slashed through enforced austerity or their taxes are used to bail out governments on the other side of the continent.

We are starting to see this in the demonstrations on the streets of Athens, Madrid and Rome. We are seeing it in the parliaments of Berlin, Helsinki and the Hague.

And yes, of course, we are seeing this frustration with the EU very dramatically in Britain.

Europe's leaders have a duty to hear these concerns. Indeed, we have a duty to act on them. And not just to fix the problems in the Eurozone.

For just as in any emergency you should plan for the aftermath as well as dealing with the present crisis so too in the midst of the present challenges we should plan for the future, and what the world will look like when the difficulties in the Eurozone have been overcome.

The biggest danger to the European Union comes not from those who advocate change, but from those who denounce new thinking as heresy. In its long history Europe has experience of heretics who turned out to have a point.

And my point is this. More of the same will not secure a long-term future for the Eurozone. More of the same will not see the European Union keeping pace with the new powerhouse economies. More of the same will not bring the European Union any closer to its citizens. More of the same will just produce more of the same - less competitiveness, less growth, fewer jobs.

And that will make our countries weaker not stronger.

That is why we need fundamental, far-reaching change.
21st century European Union

So let me set out my vision for a new European Union, fit for the 21st Century.

It is built on five principles.

The first: competitiveness. At the core of the European Union must be, as it is now, the single market. Britain is at the heart of that Single Market, and must remain so.

But when the Single Market remains incomplete in services, energy and digital - the very sectors that are the engines of a modern economy - it is only half the success it could be.

It is nonsense that people shopping online in some parts of Europe are unable to access the best deals because of where they live. I want completing the single market to be our driving mission.

I want us to be at the forefront of transformative trade deals with the US, Japan and India as part of the drive towards global free trade. And I want us to be pushing to exempt Europe's smallest entrepreneurial companies from more EU Directives.

These should be the tasks that get European officials up in the morning - and keep them working late into the night. And so we urgently need to address the sclerotic, ineffective decision making that is holding us back.

That means creating a leaner, less bureaucratic Union, relentlessly focused on helping its member countries to compete.

In a global race, can we really justify the huge number of expensive peripheral European institutions?

Can we justify a Commission that gets ever larger?

Can we carry on with an organisation that has a multi-billion pound budget but not enough focus on controlling spending and shutting down programmes that haven't worked?

And I would ask: when the competitiveness of the Single Market is so important, why is there an environment council, a transport council, an education council but not a single market council?

The second principle should be flexibility.

We need a structure that can accommodate the diversity of its members - North, South, East, West, large, small, old and new. Some of whom are contemplating much closer economic and political integration. And many others, including Britain, who would never embrace that goal.

I accept, of course, that for the single market to function we need a common set of rules and a way of enforcing them. But we also need to be able to respond quickly to the latest developments and trends.

Competitiveness demands flexibility, choice and openness - or Europe will fetch up in a no-man's land between the rising economies of Asia and market-driven North America.

The EU must be able to act with the speed and flexibility of a network, not the cumbersome rigidity of a bloc.

We must not be weighed down by an insistence on a one size fits all approach which implies that all countries want the same level of integration. The fact is that they don't and we shouldn't assert that they do.

Some will claim that this offends a central tenet of the EU's founding philosophy. I say it merely reflects the reality of the European Union today. 17 members are part of the Eurozone. 10 are not.

26 European countries are members of Schengen - including four outside the European Union - Switzerland, Norway, Liechtenstein and Iceland. 2 EU countries - Britain and Ireland - have retained their border controls.

Some members, like Britain and France, are ready, willing and able to take action in Libya or Mali. Others are uncomfortable with the use of military force.

Let's welcome that diversity, instead of trying to snuff it out.

Let's stop all this talk of two-speed Europe, of fast lanes and slow lanes, of countries missing trains and buses, and consign the whole weary caravan of metaphors to a permanent siding.

Instead, let's start from this proposition: we are a family of democratic nations, all members of one European Union, whose essential foundation is the single market rather than the single currency. Those of us outside the euro recognise that those in it are likely to need to make some big institutional changes.

By the same token, the members of the Eurozone should accept that we, and indeed all Member States, will have changes that we need to safeguard our interests and strengthen democratic legitimacy. And we should be able to make these changes too.

Some say this will unravel the principle of the EU - and that you can't pick and choose on the basis of what your nation needs.

But far from unravelling the EU, this will in fact bind its Members more closely because such flexible, willing cooperation is a much stronger glue than

compulsion from the centre.

Let me make a further heretical proposition.

The European Treaty commits the Member States to "lay the foundations of an ever closer union among the peoples of Europe".

This has been consistently interpreted as applying not to the peoples but rather to the states and institutions compounded by a European Court of Justice that has consistently supported greater centralisation.

We understand and respect the right of others to maintain their commitment to this goal. But for Britain – and perhaps for others – it is not the objective.

And we would be much more comfortable if the Treaty specifically said so freeing those who want to go further, faster, to do so, without being held back by the others.

So to those who say we have no vision for Europe.

I say we have.
Flexible union

We believe in a flexible union of free member states who share treaties and institutions and pursue together the ideal of co-operation. To represent and promote the values of European civilisation in the world. To advance our shared interests by using our collective power to open markets. And to build a strong economic base across the whole of Europe.

And we believe in our nations working together to protect the security and diversity of our energy supplies. To tackle climate change and global poverty. To work together against terrorism and organised crime. And to continue to welcome new countries into the EU.

This vision of flexibility and co-operation is not the same as those who want to build an ever closer political union – but it is just as valid.

My third principle is that power must be able to flow back to Member States, not just away from them. This was promised by European Leaders at Laeken a decade ago.

It was put in the Treaty. But the promise has never really been fulfilled. We need to implement this principle properly.

So let us use this moment, as the Dutch Prime Minister has recently suggested, to examine thoroughly what the EU as a whole should do and should stop doing.

In Britain we have already launched our balance of competences review – to give us an informed and objective analysis of where the EU helps and where it hampers.

Let us not be misled by the fallacy that a deep and workable single market requires everything to be harmonised, to hanker after some unattainable and infinitely level playing field.

Countries are different. They make different choices. We cannot harmonise everything. For example, it is neither right nor necessary to claim that the integrity of the single market, or full membership of the European Union requires the working hours of British hospital doctors to be set in Brussels irrespective of the views of British parliamentarians and practitioners.

In the same way we need to examine whether the balance is right in so many areas where the European Union has legislated including on the environment, social affairs and crime.

Nothing should be off the table.

My fourth principle is democratic accountability: we need to have a bigger and more significant role for national parliaments.

There is not, in my view, a single European demos.

It is national parliaments, which are, and will remain, the true source of real democratic legitimacy and accountability in the EU.

It is to the Bundestag that Angela Merkel has to answer. It is through the Greek Parliament that Antonis Samaras has to pass his Government's austerity measures.

It is to the British Parliament that I must account on the EU budget negotiations, or on the safeguarding of our place in the single market.

Those are the Parliaments which instil proper respect - even fear - into national leaders.

We need to recognise that in the way the EU does business.

My fifth principle is fairness: whatever new arrangements are enacted for the Eurozone, they must work fairly for those inside it and out.

That will be of particular importance to Britain. As I have said, we will not join the single currency. But there is no overwhelming economic reason why the single currency and the single market should share the same boundary, any more than the single market and Schengen.

Our participation in the single market, and our ability to help set its rules is the principal reason for our membership of the EU.

So it is a vital interest for us to protect the integrity and fairness of the single market for all its members.

And that is why Britain has been so concerned to promote and defend the single market as the Eurozone crisis rewrites the rules on fiscal coordination and banking union.

These five principles provide what, I believe, is the right approach for the European Union.

So now let me turn to what this means for Britain.

Today, public disillusionment with the EU is at an all time high. There are several reasons for this.

People feel that the EU is heading in a direction that they never signed up to. They resent the interference in our national life by what they see as unnecessary rules and regulation. And they wonder what the point of it all is.

Put simply, many ask "why can't we just have what we voted to join - a common market?"

They are angered by some legal judgements made in Europe that impact on life in Britain. Some of this antipathy about Europe in general really relates of course to the European Court of Human Rights, rather than the EU. And Britain is leading European efforts to address this.

There is, indeed, much more that needs to be done on this front. But people also feel that the EU is now heading for a level of political integration that is far outside Britain's comfort zone.

They see Treaty after Treaty changing the balance between Member States and the EU. And note they were never given a say.

They've had referendums promised – but not delivered. They see what has happened to the Euro. And they note that many of our political and business leaders urged Britain to join at the time.

And they haven't noticed many expressions of contrition.

And they look at the steps the Eurozone is taking and wonder what deeper integration for the Eurozone will mean for a country which is not going to join the Euro.

The result is that democratic consent for the EU in Britain is now wafer thin.

Some people say that to point this out is irresponsible, creates uncertainty for business and puts a question mark over Britain's place in the European Union.

But the question mark is already there and ignoring it won't make it go away.

In fact, quite the reverse. Those who refuse to contemplate consulting the British people, would in my view make more likely our eventual exit.

Simply asking the British people to carry on accepting a European settlement over which they have had little choice is a path to ensuring that when the question is finally put – and at some stage it will have to be – it is much more likely that the British people will reject the EU.

That is why I am in favour of a referendum. I believe in confronting this issue – shaping it, leading the debate. Not simply hoping a difficult situation will go away.

Some argue that the solution is therefore to hold a straight in-out referendum now.

I understand the impatience of wanting to make that choice immediately.

But I don't believe that to make a decision at this moment is the right way forward, either for Britain or for Europe as a whole.

A vote today between the status quo and leaving would be an entirely false choice.

Now – while the EU is in flux, and when we don't know what the future holds and what sort of EU will emerge from this crisis is not the right time to make such a momentous decision about the future of our country.

It is wrong to ask people whether to stay or go before we have had a chance to put the relationship right.

How can we sensibly answer the question 'in or out' without being able to answer the most basic question: 'what is it exactly that we are choosing to be in or out of?'

The European Union that emerges from the Eurozone crisis is going to be a very different body. It will be transformed perhaps beyond recognition by the measures needed to save the Eurozone.

We need to allow some time for that to happen – and help to shape the future of the European Union, so that when the choice comes it will be a real one.
Real choice

A real choice between leaving or being part of a new settlement in which Britain shapes and respects the rules of the single market but is protected by fair

safeguards, and free of the spurious regulation which damages Europe's competitiveness.

A choice between leaving or being part of a new settlement in which Britain is at the forefront of collective action on issues like foreign policy and trade and where we leave the door firmly open to new members.

A new settlement subject to the democratic legitimacy and accountability of national parliaments where Member States combine in flexible cooperation, respecting national differences not always trying to eliminate them and in which we have proved that some powers can in fact be returned to Member States.

In other words, a settlement which would be entirely in keeping with the mission for an updated European Union I have described today. More flexible, more adaptable, more open – fit for the challenges of the modern age.

And to those who say a new settlement can't be negotiated, I would say listen to the views of other parties in other European countries arguing for powers to flow back to European states.

And look too at what we have achieved already. Ending Britain's obligation to bail-out Eurozone members. Keeping Britain out of the fiscal compact. Launching a process to return some existing justice and home affairs powers. Securing protections on Banking Union. And reforming fisheries policy.

So we are starting to shape the reforms we need now. Some will not require Treaty change.

But I agree too with what President Barroso and others have said. At some stage in the next few years the EU will need to agree on Treaty change to make the changes needed for the long term future of the Euro and to entrench the diverse, competitive, democratically accountable Europe that we seek.

I believe the best way to do this will be in a new Treaty so I add my voice to those who are already calling for this.

My strong preference is to enact these changes for the entire EU, not just for Britain.

But if there is no appetite for a new Treaty for us all then of course Britain should be ready to address the changes we need in a negotiation with our European partners.

The next Conservative Manifesto in 2015 will ask for a mandate from the British people for a Conservative Government to negotiate a new settlement with our European partners in the next Parliament.

It will be a relationship with the Single Market at its heart.

And when we have negotiated that new settlement, we will give the British people a referendum with a very simple in or out choice. To stay in the EU on these new terms; or come out altogether.

It will be an in-out referendum.

Legislation will be drafted before the next election. And if a Conservative Government is elected we will introduce the enabling legislation immediately and pass it by the end of that year. And we will complete this negotiation and hold this referendum within the first half of the next parliament.

It is time for the British people to have their say. It is time to settle this European question in British politics.

I say to the British people: this will be your decision.

And when that choice comes, you will have an important choice to make about our country's destiny.

I understand the appeal of going it alone, of charting our own course. But it will be a decision we will have to take with cool heads. Proponents of both sides of the argument will need to avoid exaggerating their claims.

Of course Britain could make her own way in the world, outside the EU, if we chose to do so. So could any other Member State.

But the question we will have to ask ourselves is this: is that the very best future for our country?

We will have to weigh carefully where our true national interest lies.

Alone, we would be free to take our own decisions, just as we would be freed of our solemn obligation to defend our allies if we left NATO. But we don't leave NATO because it is in our national interest to stay and benefit from its collective defence guarantee.

We have more power and influence – whether implementing sanctions against Iran or Syria, or promoting democracy in Burma – if we can act together.

If we leave the EU, we cannot of course leave Europe. It will remain for many years our biggest market, and forever our geographical neighbourhood. We are tied by a complex web of legal commitments.

Hundreds of thousands of British people now take for granted their right to work, live or retire in any other EU country.

Even if we pulled out completely, decisions made in the EU would continue to have a profound effect on our country. But we would have lost all our remaining vetoes and our voice in those decisions.

We would need to weigh up very carefully the consequences of no longer being inside the EU and its single market, as a full member.

Continued access to the Single Market is vital for British businesses and British jobs.

Since 2004, Britain has been the destination for one in five of all inward investments into Europe.

And being part of the Single Market has been key to that success.

There will be plenty of time to test all the arguments thoroughly, in favour and against the arrangement we negotiate. But let me just deal with one point we hear a lot about.

There are some who suggest we could turn ourselves into Norway or Switzerland – with access to the single market but outside the EU. But would that really be in our best interests?

I admire those countries and they are friends of ours – but they are very different from us. Norway sits on the biggest energy reserves in Europe, and has a sovereign wealth fund of over 500 billion euros. And while Norway is part of the single market – and pays for the principle – it has no say at all in setting its rules: it just has to implement its directives.

The Swiss have to negotiate access to the Single Market sector by sector. Accepting EU rules – over which they have no say – or else not getting full access to the Single Market, including in key sectors like financial services.

The fact is that if you join an organisation like the European Union, there are rules.

You will not always get what you want. But that does not mean we should leave - not if the benefits of staying and working together are greater.

We would have to think carefully too about the impact on our influence at the top table of international affairs. There is no doubt that we are more powerful in Washington, in Beijing, in Delhi because we are a powerful player in the European Union.

That matters for British jobs and British security.

It matters to our ability to get things done in the world. It matters to the United States and other friends around the world, which is why many tell us very clearly that they want Britain to remain in the EU.

We should think very carefully before giving that position up.

If we left the European Union, it would be a one-way ticket, not a return.

So we will have time for a proper, reasoned debate.

At the end of that debate you, the British people, will decide.

And I say to our European partners, frustrated as some of them no doubt are by Britain's attitude: work with us on this.

Consider the extraordinary steps which the Eurozone members are taking to keep the Euro together, steps which a year ago would have seemed impossible.

It does not seem to me that the steps which would be needed to make Britain - and others - more comfortable in their relationship in the European Union are inherently so outlandish or unreasonable.

And just as I believe that Britain should want to remain in the EU so the EU should want us to stay.

For an EU without Britain, without one of Europe's strongest powers, a country which in many ways invented the single market, and which brings real heft to Europe's influence on the world stage which plays by the rules and which is a force for liberal economic reform would be a very different kind of European Union.

And it is hard to argue that the EU would not be greatly diminished by Britain's departure.

Let me finish today by saying this.

I have no illusions about the scale of the task ahead.

I know there will be those who say the vision I have outlined will be impossible to achieve. That there is no way our partners will co-operate. That the British people have set themselves on a path to inevitable exit. And that if we aren't comfortable being in the EU after 40 years, we never will be.

But I refuse to take such a defeatist attitude - either for Britain or for Europe.

Because with courage and conviction I believe we can deliver a more flexible, adaptable and open European Union in which the interests and ambitions of all its members can be met.

With courage and conviction I believe we can achieve a new settlement in which

Britain can be comfortable and all our countries can thrive.

And when the referendum comes let me say now that if we can negotiate such an arrangement, I will campaign for it with all my heart and soul.

Because I believe something very deeply. That Britain's national interest is best served in a flexible, adaptable and open European Union and that such a European Union is best with Britain in it.

Over the coming weeks, months and years, I will not rest until this debate is won. For the future of my country. For the success of the European Union. And for the prosperity of our peoples for generations to come.