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Transcript Q&A

Italy and the UK in an Evolving EU

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Robin Niblett:

Prime Minister, thank you very much for those remarks. Delivered thoughtfully, there were some quite punchy comments inside there which I think are worth noting and pulling out here and there. You talked about the need for a more competitive, effective and accountable EU. You talked about the fact that the euro crisis has exposed the fact that all countries in the EU are vulnerable, including Germany – one might include, ‘including Britain’ – and that size is going to matter in the new geopolitical world of the sort you described. You said that Italy is back in the ‘league of virtuous nations’, its primary structural surplus now, I suppose, away from deficit. But obviously you laid out the list of challenges that it still faces to try and get growth going, unemployment down, etc.

You talked quite a bit about democratic accountability, and I’d like to come back in a minute to one of the points about that, because that is a very strong point here in the UK. When you closed your remarks, you were very strong about it as well, that sense that Europe is being led by hidden forces. You noted at the end a big and strong list of topics that the UK and Italy could potentially work on together. Again, maybe we could come back to some of those topics in a minute.

But could I just take two questions up front? I will then open up to our audience here. The first is about Italy itself and the economic challenges it faces. My colleague Paola Subacchi and her colleague here, Davide Tentori, just put out a paper which is actually going up on our website today, about breaking the vicious circle and restoring economic growth to Italy. She makes a very interesting point that part of the backbone of Italy’s strength had been those small businesses, those small and – I always thought, small and medium-sized businesses. But the point she raises is that Italy has remarkable reliance on micro and small, or smaller micro-businesses – 66 per cent, I think, of the total compared to about 31 per cent in Germany, and quite a bit above the 50 per cent Euro average. Are you worried that this crisis has dealt a really important blow to the Italian economic model at some level, and that this model that was able to rely on these small businesses that were so resilient, that right now restructuring them is going to be a tough call? And what could you do about that part of the economy?

Enrico Letta:

In my view, the first point is how to allow these SMEs to be more internationally oriented, more global markets-oriented. That is, of course, not

easy, if you are too small. This is why we are trying to work for having to push them to growth, as I mentioned. Of course it's a fiscal issue first of all but it's not only a fiscal issue, it's also a labour market issue. It's one of the main points of discussion in my country. But the other main point is about the labour costs that are one of the highest in Europe. One of the missions, one of the main goals for me is to reduce the Italian labour cost – tax, wage.

We started reducing labour costs in jobs for youth. That was one of the main achievements in this first 70 days of my government. We raised just in five years – Italy had double the youth unemployment figures. That was a disaster for the country because that created the idea of no hope for the future. If you pass from 20 to 40 per cent youth unemployment, that creates a sort of lack of confidence in the country. So the main crucial point was, in my view, to give again confidence on this issue. This is why we approved this law on reducing the labour cost for youth employment. This is why our faith at the last European Council was to reach some important steps in a European plan against youth unemployment.

So in my view, this is one of the main issues. Of course we approved some laws on that but it will be our priority for the rest of the year.

Robin Niblett:

If I could take one other quick comment, on the issue you said here about needing to strengthen the European Parliament and national parliaments. I'm sure David Cameron, who has talked about more red lights and stronger yellow lights in terms of national parliaments being more involved in approving EU legislation, as a way of overcoming this accountability deficit – I don't think I've heard him talk about strengthening the European Parliament as well, at the same time. Now you have the advantage of having worked inside the European Parliament as well as outside it, in both a national parliament and European Parliament. What do you mean about strengthening the European Parliament? For many people, it's got pretty strong as it is, since the Lisbon Treaty. What do you mean by strengthening the European Parliament?

Enrico Letta:

For instance, I raise here a proposal. Strengthening the European Parliament means to have next year, for instance, the possibility to have a sort of direct election of the president of the Commission. Because if we convince all the

European leaders to say we will vote as president of the Commission the candidate raised by the party getting more votes in the European Parliament in the European elections, that will bring in my view a more democratic European Union. That will bring a more interesting electoral campaign, I would say. If not, it will be a very national electoral campaign. In the UK the problem will be: how much will be the score of Farage? In Italy it will be: how much will be this party or the other party? But if we are able to start with this idea, people voting for parties and people deciding who will be the next president of the Commission, in my view that will help the democratic approach. That will help the role of the European Parliament but in a correct way.

Robin Niblett:

Let me open it up now. I'm sure we'll have lots of questions.

Question 1:

My question is about all the other young Italian people like me. You have spoken about rising employment for young people in Italy, but I believe that since the crisis struck there has been a haemorrhage of talent and brains from Italy to other countries, both in Europe and outside. Is your government planning to do anything to try and attract all these people, all these young, talented people, back into Italy?

Enrico Letta:

I think it's the main problem for the country. We are in a situation in which Italy is leading a sort of exodus.

Robin Niblett:

And London is benefitting a bit from it. Our International Economics programme has quite a few.

Enrico Letta:

It's a huge problem for the country and we need to create a more attractive country, also for having back all this talent but also for attracting people from around the world. This is why we decided to prepare a project. The name of

the project is Destinazione Italia – I think it's very understandable. This project is a project for attracting investment and talents in the country. We will present the project in September and we will have this two-year project from now to the Milan Expo in 2015. That will be, in our view, two years' time in which we can propose, approve and present to the world, to the European Union, to the European Union countries of course, incentives, proposals, ideas to come to Italy, to have incentives – of course, not only fiscal but also incentives in the university system. We are trying with the new minister of universities, Mrs Carrozza, to organize and to have a part of this project exactly linked to our university system. That is today in Italy one of the problems of the country, because people are leaving the country for finding opportunities out of the Italian universities.

So I would say, yes, I know that this priority is maybe the most important one for us. This is why this idea of Destinazione Italia will be one of the main projects for the next two years.

Question 2:

Japan and Italy have a lot of parallels after the Second World War: defeat, quick recovery and growth, long stagnation and huge government debt. And now, an aging society and low fertility rates, and regulation... Now both countries are going a totally different way. Your country sticks to austerity and reform, and Japan now is going to Abenomics. It's actually printing money. How do you evaluate the future of both countries?

Robin Niblett:

Are you going to print more money? Mario Draghi will be listening to this answer, I think.

Enrico Letta:

The main difference is that Japan is not part of an Asian union. Italy is part of the European Union and we have a joint currency, a joint central bank. So we have to be inside this process. We have to share policies. But I invited Mr Abe, when I met him in Lough Erne, to come to Italy and to present Abenomics. So I will be very happy to have in autumn Mr Abe to discuss with him Abenomics, all the ideas he is putting. But I support Mr Abe because growth in Japan means growth in the world, and that will be very important for us too. So I hope that Mr Abe's success will also be our success.

Robin Niblett:

And pensions? He raised the issue of an aging society. Italy has traditionally been held up as one of the countries in Europe with the biggest risk in this space. You didn't mention it in your commentary here, but is that something you feel you've got under control, or the country has got under control – the costs there of an aging society?

Enrico Letta:

Yes, on that issue we are, I think, the country in Europe with the best situation. We already approved last year a very tough pension reform, pension reform with important figures for the future. So on that point Italy did its homework.

Question 3:

I think the speech that you've just delivered to us, in my mind and my memory, is the most cogent, blunt, coherent case – pro-reform, pro-European case – I've heard from any Continental head of government for as long as I can remember. But how do you translate that case into a plan? Where are your allies? Where is the organization amongst governments and heads of government in the European Council? Where will the strength come from in the Commission and the European Parliament to drive the sorts of changes that you raise today, in order to bring about the transformation which you – I think quite rightly – believe is important to see in the European Union?

Enrico Letta:

My first answer is about Italy and the UK. I'm sure that Italy and the UK can be allied on that, because my idea is that we need treaty changes for allowing the UK to remain on board with a different link with Brussels, and Italy and the rest of the euro area to change something and to have a more integrated euro area, because we are sharing the same currency. Sharing the same currency, as Angela Merkel said in the last European Council, in the discussion we had there – she said, and I completely agree of course: if we share the currency, we need to share also other policies. We can't share only the currency with all the other policies alone. It doesn't work, and it didn't work. So the main point is that we can have a common interest on that.

My answer to your question is also: because I'm convinced that in the European Union countries we are under-evaluating the risk of having in two or three years the UK out of Europe. In my view, it's a huge risk. We have to be very cautious in what we are leading and we have to prepare a discussion on trying to prevent this risk. The European Union, I said it very clearly and I'm very much convinced on that – a European Union without the UK on board is not the European Union. It's another thing, less innovative, less pro-free market, less liberalized, less able to play as a global player in the world. This is why I think, for instance, Italy and the UK can play a joint activity there, and I'm sure also the others. Because I think that what happened in Greece – I will be in Athens in the next 10 days – what happened in Greece is the demonstration that if we share the same currency, we have also to share the other policies. If not, the risk of national disaster brings European disaster, and we can't allow this kind of exit.

Question 4:

I'm going to ask the prime minister about the interior minister and deputy facing a no-confidence motion over his role in handing over the daughter and wife of a Kazakh dissident, and the leader of the junior party in his coalition facing a supreme court verdict at the end of July. Will this government continue if the deputy prime minister has to step down, and if Silvio Berlusconi is found guilty again?

Enrico Letta:

I have no doubt that the government will continue and we will overcome these obstacles.

Robin Niblett:

He has luck on his side, remember. He had luck to get here in the first place.

Question 5:

When I talk to these micro-companies in Italy about why they don't expand, they give me three answers. They say: above 15 employees and we get into all sorts of extra difficulties with hiring and firing, and it's just not worth it. Secondly, there's no such thing as equity finance in Italy, to all practical intents and purposes, and the banks won't lend us any money. So we can't

expand. Or if they do, it's at an exorbitant cost. The third thing they say is: we don't want to expand because if we deal with strangers and we have a commercial dispute, it won't get sorted out inside 10 years in the courts. We just settle for half the money and go away. So that's why we only deal with people we trust. When I talk to the investors, they say: look, if we invest north of the Apennines, they sort of understand about foreign investment. Go south of the Apennines and the Guardia di Finanza is on our backs, accusing us of being crooks. Again, they say too: we go to court and we're there for 10 years. What is your response to these two ends of the spectrum?

Enrico Letta:

I think you've raised a crucial point, the problem of the civil justice working in Italy. The point you raise is exactly the crucial one not only for Italian SMEs but also for foreign direct investment. They don't come to Italy also because they say civil justice is not working in Italy. They say to me: you have a sort of weak rule of law in your country. I think it's correct. It's a huge problem for us.

This is why one of the most important laws we approved in these 70 days is a big reform on civil justice. We approved this already, the law. It's very important because in Italy for 20 years we discussed on penal justice, because the discussion of – I don't want to continue on that point, because of – but the problem, the crucial point in Italy is civil justice. We approved with this law an important change, with the introduction of mandatory mediation, for instance. That is very important for our country and I'm very much confident of the results of this reform, because we hope to have a reduction of pending civil proceedings by 1 million cases. We have 4 million pending civil proceedings. You can understand how you're right, of course. So this mandatory mediation will change, in our aim of course, this situation. As you can see, it's one of my first priorities, because in this 70 days it was one of the first reforms we approved.

Of course it's not enough; we have to do more on that. For instance, for foreign direct investment, we decided to centralize in three courts – Milan, Rome and Naples – all the civil judgments involving foreign companies. That is important to create a more focused work for helping foreign direct investment coming to Italy. I know it's just a first step, but it's exactly because I completely agree with your point. It's a crucial point for the country. It is the point to demonstrate that we are living in a complete rule of law, with civil justice well functioning.

Robin Niblett:

Thank you. Just quickly, one of the points in Paola Subacchi's paper, which I think underscores this point – it noted here that the stock of foreign direct investment in Italy at the moment stands around 357 billion. Spain is double that, 666 billion, and the UK is double that at around 1.3 trillion. So it just gives you a sense of the opportunity, would be one way of looking at it, of course – would be a positive way of looking at it.

Question 6:

How effective and accountable is the continuation of the rotating six-monthly – what we say in English, Buggins' turn– presidency of Europe?

Robin Niblett:

Hold that thought, because as yours is coming up and you announced it, in about a year's time, you may want to make a comment on that.

Question 7:

You've spoken on many areas where you agree with Prime Minister Cameron, but I noticed you didn't speak about – what's your opinion on the idea of having powers go towards Europe but then coming back towards Europe? Would you be for this, would you be supporting him on this issue?

Robin Niblett:

Powers going back to the UK, you mean?

Question 7:

Both back to member states and to Europe.

Robin Niblett:

In both directions. Two Europe questions, so let's keep those together.

Enrico Letta:

Of course this is one of the key points of the discussion. For instance, I read a very interesting paper raised by the foreign minister of the Netherlands, Mr Timmermans. This paper was presented as a sort of Eurosceptic paper. I don't think so. I think it's a discussion on how to have a more efficient Europe. Of course it's not exactly what I think. I think that we need to have there the share of the powers in a different way. I think in the euro area, as I told you before, we need more integrated policies, economic policies. But I know there is a different situation between those who are in the euro area and those who are out of the euro area. This is why I think that this discussion about powers and the different balance of powers between national capitals, Brussels, the Commission, the Parliament, is a discussion we have to have. I think it's absolutely necessary.

I think the six-month presidency will help. Of course today we have a president, a European Council president, Mr Van Rompuy, who will be the leader. But with these kinds of rules and institutions, I will try of course to use this opportunity of the presidency to push and to have in these six months reforms at the European level on the institutional approach. But not only on that – I would like a European Union working, for instance, again for youth, working for having a more competitive Europe, on the digital agenda, on other main issues. So Italy will be very much involved in its six-month presidency.

Robin Niblett:

That's a good link to the first question: what's the value of the six-month presidency still? The reform of the Lisbon Treaty was meant to reduce their value and yet as you rightly pointed out, you've got some pretty strong plans for them. How do you answer that question? Do they continue to be an integral part? Are they part of the accountability at a national level? Are they counteracting a Commission that maybe has become more of an administrator than an executive branch?

Enrico Letta:

I don't want a Commission as an administrative branch, really. I think it could be a big mistake. I think we need to have – of course, the main discussion is how to deal with the 18 and how to deal with those who are out of the euro area. That is the crucial point. We have to deal with this problem. If we don't, if we are not able to have this discussion, it will be impossible to give solutions for both answers. Italy and the UK are exactly the demonstration

there. We have different questions – but we want to have answers, we can have answers, but the answer has to be different, of course, because the question is different. But we can have these different answers in the same framework. It's not necessary for the UK to go out, to exit. I think the answer for the UK will be worse and the European Union's future will be worse in that case. This is why I say we have to start with this discussion.

Question 8:

What has been worrying me about recent discussions is that they've – and I speak as one who has taught international and European economics at university for several decades, or did before I retired – what worries me is that the discussion tends to have become somewhat introspective, about Europe and the economy. What worries me is that we are not thinking enough about the place that a united Europe could play in a new world order. It seems to me this is crucial. If you were going to pick that up as your theme for next year, that would be excellent.

Question 9:

You said that trade is obviously one of the biggest ways to help improve the global economy. What do you foresee as the biggest barriers to the US–EU free trade agreement, and do you think they'll be easily overcome?

Question 10:

There was, as you know, a shocking speech made in Italy this week by Mr Calderoli, a senior politician and vice president of the Senate. He made a speech in which he likened a member of your cabinet to an ape. She's an Italian citizen of African origin. You said that consequences would follow from this. You've condemned it very strongly. What consequences can you ensure that would happen to Mr Calderoli?

Robin Niblett:

The last question is always the one. There's always one last question.

Enrico Letta:

You know, my first reaction to your question is I am very happy you raised this question, because in the room there are many Italian journalists and they can explain, I hope, to the Italian public opinion how bad it is for the image of Italy what Mr Calderoli did. [applause] Of course he is vice president of the Senate; in our system, the vice-president is impossible to – only in the case of resignation he can leave his post. So it's impossible to present a sort of non-confidence resolution or something like that. So it's only if Mr Calderoli will resign that we will solve the problem. But I think it's really a shame for Italy. It's a shame, because we are not like that. The presence of Minister Kyenge in my government is a demonstration that Italy as a country is a modern country, dealing with a big issue for the country, for the future of our country – that is, integration. So really I think you raise an important point.

TTIP – I think it will be a big mistake if we are not able to have a good and final agreement on TTIP in the next two years, I hope. My goodwill is to try to have the final agreement during the Italian semester. This is my big effort. We will try to have this agreement before the end of the Italian semester because we need to have this agreement. It will be very important. And of course, it is very important for many arguments and very many topics – there are many topics very important on that.

Robin Niblett:

Your biggest worry?

Enrico Letta:

Of course, it's the problem of the discussion about *l'exception culturelle*. I don't know how it is –

Robin Niblett:

No, that translates very well in London. There are many French here as well.

Enrico Letta:

It's a very important issue, of course – important also for the Italian cultural industries. So we have to have a good discussion on that. But we had a

discussion with Obama on this issue in Lough Erne, and Obama was very open with the idea to try – very cooperative. So I'm optimistic on that.

I think your point was very important. We have to understand – what I tried to say some minutes ago – size matters. This morning I had a meeting in Palazzo Chigi, in Rome, with the leader of a region of China. He was a regional leader meeting with a prime minister, so it was a sort of asymmetric meeting, but of course I was leader of a country of 60 million people and his region was double my country. So you're completely right. We need to be global players, and the only way is to be more united at the global level and to try to be cooperative. In the G8 in Lough Erne, we had, in my view, very important agreements on Syria, on Libya, working very well together – myself, Hollande, Cameron, Angela Merkel – on that issue. Then we have to continue on this cooperative approach, because only together we can play a role at the global level.

Robin Niblett:

Prime Minister, thank you very much. Thank you for answering all four of your themes in different points here in the Q&A. Thanks for giving us a robust, I think realistic, and as was said, a very blunt assessment about what Europe needs to undertake – especially your last comment. Thank you for being a partner – we look forward to every success in your prime ministership. Ladies and gentlemen, please, a very strong hand for Enrico Letta.