

**STATE OF THE UNION 2010**

**SCHUMAN REPORT  
ON EUROPE**

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# **STATE OF THE UNION 2010**

## **SCHUMAN REPORT ON EUROPE**

by the Robert Schuman Fondation  
for Springer Verlag

*Publication directed by  
Thierry Chopin and Michel Foucher*

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Translated by Rachel Ischoffen, Helen Levy and Vicki McNulty

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# **STATE OF THE UNION 2010**

## **Schuman Report on Europe**

Publication directed by Thierry CHOPIN and Michel FOUCHER

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## Preface

### Is Europe Emerging from the Crisis?

The European Union has finally managed to reform its institutions. Observers predict that there will be no further institutional steps for a long time to come. Since 1<sup>st</sup> December 2009, it has acquired new institutions that should allow it to improve its functioning, to be more present on the international stage and to make decisions more easily.

This process was a long one – over fifteen years – it was erratic, difficult and laborious, but it has once again been successful.

It has highlighted the expectations of Europeans, Europe's diversity with twenty-seven Member States, the weaknesses of this political entity of a unique genre that we have built on a continent that once was constantly war-torn.

The first appointments made – President of the Council and High Representative for Common Foreign and Security Policy –, as well as the numerous initiatives of Spain's rotating Presidency since January 2010, show that institutional practice will also be important to determine the impact of the Lisbon Treaty on the Union. A new start, in other terms a real European recovery is possible, but not certain.

Everyone must make the most of the new Treaty in order to face the challenges that the crisis has brought the European Union which project it further into the heart of the international arena.

The economic and financial crisis has made European unity and especially the Euro, its most federal achievement, legitimate. The latter has protected the European economy and the Europeans and it has even helped to avoid a worldwide financial crunch. Criticised for that which makes it solid – the independence of the European Central Bank, its exchange rate, its "management" – the Euro avoided the worst in the common market of 500 million Europeans, which represents the world's highest GDP, in other terms, the world's leading wealth creation zone.

The crisis highlighted the imperfections of a system in which the Member States refuse to devolve new powers to the European institutions. The financial crash was avoided thanks to the cooperation of Member States, in which European spirit showed real progress, but where these national States appeared as the guarantors of last resort and the only holders of the budgetary means for recovery as opposed to the European Institutions, which have very limited financial resources. Intergovernmental spirit, preferring cooperation to unification, found a certain momentum, weakening the European Commission and, more generally, the common institutions.

As a result, these institutions did not act with determination in response to the crisis whereas European integration played a truly protective role and brought back some of the

lustre to the European-style social market economy that the trend in the financial economy had tried to discredit. The famous automatic stabilisers, i.e. the solidarity mechanisms between regions, social categories, professions and States, revealed a fabric whose texture is a real European signature and which is widely shared within the Union.

It remains that the Union is facing a new order in a world undergoing sweeping changes. Its unfinished nature, especially at a political level, is a liability that must not be underestimated. The failure of the Copenhagen Conference showed that exemplarity does not suffice to convince the international community. Despite the climate emergency, despite a deep reaction in public opinion, the negotiations resulted in unimpressive haggling between continent-States such as the US, China and India. Due to its lack of unity, the EU found itself on the sidelines. Will it be able to draw lessons from this?

Increasingly called upon by the world, present as never before outside its borders, with over 70,000 men deployed in external theatres under the flags of 12 European military operations, the Union still suffers from the reticence of its members to take decisive steps that will allow it to acquire a credible common military tool, the only condition for a European foreign policy to be independent, strong and active.

And yet, there is urgency. Demographic, economic and geopolitical developments impose rapid European progress towards more unification to avoid the Chinese-American duo that is now taking shape.

The period we are entering is particularly crucial for the Union. In other terms it must question its identity in the world. Its limits and its model are still to be defined. It can draw the necessary conclusions from this and act accordingly, especially regarding its strength and its means. Only a strong Europe, which the French call “une Europe puissance” on the scale of continent-States, can ensure the survival of its model of society. We know that the Member States do not agree on launching this debate. The same goes for EU enlargement, which is now rejected by a majority of Europeans as shown in the polls. After all this is also the objective of a more “political” Europe, i.e. loyal to its Founding Fathers, Robert Schuman and Jean Monnet, which cannot be governed like another international organisation, a sort of “regional UN,” but rather like a power in the making, a political entity under construction, a “federation,” as it was announced on 9<sup>th</sup> May 1950. This requires reforms in EU functioning and policies, which should not just be applied in relation to internal objectives, but more and more to external requirements. The players of the great European game should draft new and stronger common policies, as in neighbourhood countries, and show a different practice of institutional life. The implementation of the new Lisbon Treaty will allow us to judge ongoing transformations, new needs and renewed practice.

Every year this book aims to offer its readers the elements to gain vital awareness which all of the authors, in his or her speciality, have succeeded in highlighting. Unique in its kind, this book provides the widest possible audience with unpublished statistics and maps as well as articles by eminent specialists, among the best in their field and front-line players on the national or European scene. All have accepted to devote their work to European unity, which is a special opportunity to remain influential in the new world.

Jean-Dominique GIULIANI

# 1

## Why a Reformed European Union?

### The Real post-Lisbon Challenges

Jean-Dominique GIULIANI

**T**he failure of the Copenhagen Conference surprised the European Union. It went there as the champion of the fight against global warming, armed with certainties after the approval of audacious regulations, supported by its public opinion, firmly believing that it could convince its main partners that it was in humanity's higher interest to change the model of growth.

It was a rude awakening: the European strategy failed. It suffered because of its lack of unity of command and we now know that the establishment of coordinated world environmental policy will only come about after difficult and long negotiations.

This meeting was a test for the Union and its image throughout the world: a test that it did not pass. On the international stage it is not enough to be exemplary in order to convince and gain satisfaction. The traditional means of persuasion have to be mastered. This is still mainly determined according to the principle of sovereignty, now carried forward by continent-States which are primarily concerned with protecting their own national interests; this principle is still set according to power struggles – here we mean power that can be defined as the ability to act quickly and effectively.

After more than ten years of work, can the European Union and its new institutions make up for their failings and achieve the status of superpower which its economic clout legitimately allows it to claim?

This will be the focus of the new European era that started after the Parliamentary elections of June 2009, the entry into force of the Lisbon Treaty on 1<sup>st</sup> December 2009 and the appointment of a new Commission in February 2010.

### The True Nature of the Lisbon Treaty

The trials and tribulations of the Union's institutional reform led to real confusion and relegated the true content of the Treaty that was finally adopted to the background.

This Treaty can pride itself on having taken up a number of the provisions proposed by the European Convention and formalised in the draft Constitution, which will represent

a real improvement in the functioning of the Union. The European Parliament will be the first to benefit by acquiring a quasi-finished status of a full capacity Parliament, with real budgetary and legislative powers. The new rules for defining the majority of the Council will also be fairer, taking better account of the demographic clout of its Member States and enabling easier decision-making. Several policies are Community-based, authorising for example EU institutions to take part in the development of a common energy policy, to build a common area of freedom, security and citizenship or to lead a more equally shared European space policy. A number of these institutions will now fall under majority decision-making and no longer be governed by the unanimous system, and its decision-making capacity should be thus increased.

But since the first draft Constitution, a lot of ambitions have also been kept in tow, firstly by the Member States during an intergovernmental conference, where they refused, for example, to include tax issues in the Community field, and then by “referendum circumstances”. The French and Dutch “no” votes won out over EU symbols such as the anthem, the flag and the currency. Preventive action by the British, along with the Polish muddle, deprived the Minister for Foreign Affairs of his name, but also of some powers, and prevented the unanimous adoption of a Charter of Fundamental Rights that is part of the Treaties but that cannot be claimed to be a European standard for modern rights. Finally, the Irish, with two referenda and dubious negotiations, succeeded in obtaining a Commission that continues to be made up of one representative from each Member State, thus establishing a practice that is contrary to the spirit of the Treaties, which has already much weakened the Community executive. In addition, the appointment of the new office-holders openly gave rise to national bargaining that had never reached such levels before.

Defence policy decisions will still require unanimity, as alas so will ones regarding common foreign policy, thus decreasing the chances of real progress in this area.

Finally the new Treaty will once again raise the number of exceptions to common rules (opting out), increase the heterogeneity of the European entity and give credence to the idea of an “à la carte” Europe, whereas States had in fact committed to choosing the same menu.

Like many European Treaties, that of Lisbon is ambivalent, being both Community-based and intergovernmental. Yet the Treaty takes stock of the state of the European Union rather than proposing exciting possibilities for future change. Its complexity distances public opinion a little more from the daily reality of how its institutions function.

As always, only political will expressed over the long term can transform the European Union. However, this seems to be lacking among the main players, while the crisis has highlighted the importance of the means that States wish to maintain, and the modest nature of the means of common institutions, powerless in times of difficulty.

The first appointments of the two important posts of stable President of the European Council and of High Representative for Common Foreign and Security Policy have led to disappointment. The motivations of national decision-makers convey their will to keep a tight rein on external affairs. Although credit should be given to the appointed figures, whose drab profiles may still hide qualities which could emerge later, we can but regret their absence of ambition. The Member States, in fact, are not ready to abandon new international powers to common institutions.

In early 2010, a Spanish rotating Presidency presented a work programme and ambitions for a six-month period, and chaired meetings between the Union and third party



countries, all under the pretext of transition, as though the Lisbon Treaty did not exist. On the contrary, this opportunity should have been seized to mark a breakaway from past practices and to support the newly appointed figures to project them onto the international stage.

The Union is indeed called on more than ever by the world and it requires more presence and initiative in response to an ever-changing global situation.

## **The Real Needs of the Union**

During this crisis period, the European Union has demonstrated its solidity, its resilience and the extent of the challenges it faces.

The Union is the world's leading wealth-creation zone with almost one quarter of the total worldwide GDP. It is the world's biggest market thanks to the average purchasing power of its 500 million consumers, it creates 40% of world business due to the dynamic nature of its internal trade and its position as the world's largest exporter; it is the world's largest external investor.

But it still appears as the simple pawn of other powers, due to its lack of unity of command, of a common voice and especially of the awareness of its own strength. This lack of awareness has until now prevented it from seriously defining its own interests, of comparing them with the other world powers and of adjusting its internal policies to external needs. And yet this exercise has become inevitable because of the multipolar competition that is now forming.

The Union must define its specific interests.

Guaranteeing its openness to the world is no longer sufficient to ensure its prosperity. The challenges being brought to the fore by new emerging continental powers compel it to think of itself as a power. There will be objections that the Member States do not all agree on the concept, and this is correct. Europe has already had an inclination for imperial dreams and it is right to no longer have any. Yet, should it abandon the goal of political unification that was, from the very beginning, the aim of the Founding Fathers?

The main mission of the European institutions is to embody the higher interests of the Union, i.e. to carry a vision of Europe, and inevitably today it is to plead in favour of its power. If these institutions do not do this with more courage, the only hope will rest in the hands of a possible group of pioneer States that we cannot currently see taking shape.

The Union's own interests are economic and strategic; the first ones being monetary, industrial and technological. The European Union should not resign itself to instability and the use of the monetary weapon by our major trade partners. It has the right to define its own industrial policies, which alone will allow it to preserve its know-how and to invent the jobs of tomorrow, to create and consolidate its European champions and to guarantee its position in the technological race.

From a more general, strategic point of view, its current strength allows it to have its own free will, to use its influence and its attractiveness to develop its own foreign policy autonomously. Its alliance with the United States in the field of democracy and of the rule of law is not an obstacle to the definition of its own interests, of specific positions on the international stage, of defence and of the promotion of its values that are as much a result of its history, its experience and its collective memory, as of the interests that it does not necessarily share with its allies.

## **Which Reforms for the Union?**

To achieve this, the EU must at least be credible. The creation of European defence is therefore a prerequisite for a real foreign policy. It is also the test of the willingness of Member States to accept the concept of a more powerful Europe, which also requires other revisions.

European defence shall not derive solely from the Lisbon Treaty provisions relative to permanent structured cooperation. Never before have the rules of enhanced cooperation been implemented and these, just like the previous ones, leave people unconvinced. By constantly seeing the creation of European defence through the sole prism of the internal market as regards arms, or NATO as regards European security, the common institutions have concealed real European needs in this matter. The European Union must spend more on defence to ensure peace and its own security. It should do it as a superpower in the making, with rules copied from those of States, i.e. a command unit, protection of its essential technologies, cooperation on the part of its manufacturers that is generated and supported by European funding, by stimulation and not by regulatory constraints.

The experience of the two directives relative to the arms market speaks volumes: their adoption was only welcomed by our external partners because they set the opening of the market whereas it is necessary to devise a European preference, as in the United States or in other comparable countries!

Other policies and above all practices that have been introduced within the Union warrant reform since they are not adapted to the new multipolar competition.

Concerning foreign policy, this should affirm its autonomy and specify its objectives. Thus, the prospect of the accession of some EU neighbours should not automatically serve as a foreign policy at our borders. Only a real neighbourhood policy that is much more ambitious and generous, formalised by economic and political partnership agreements, coupled with major funding, can help EU institutions to escape from the unstoppable mechanics of endless enlargement in which they have allowed themselves to be confined.

This implies the obvious revision of the enlargement policy, which is no longer supported by the majority of Europeans, as shown by opinion polls ordered by the Commission. The famous criteria and conditionality are no longer sufficient as technocratic practice has made these the very reason to push for the membership of certain States. In addition, they are not respected. We should reflect on the Serbian experience at this point. Simply on the grounds that Serbia is said to have a reliable biometric passport system, the Commission convinced the Council to offer the freedom of movement to citizens from a country that has opposed the Union as far as the International Court of Justice is concerned and refuses to turn the page on the independence of Kosovo, thus maintaining – alone in the region – dangerous uncertainty in the Balkans. Political dialogue at the highest level and political negotiation from power to power should become the rule. Political criteria concerning foreign and security policy should be introduced into membership negotiations and the States wishing to join the Union should be exemplary in their compliance, which is the case for very few of them.

Commercial and internal market policies should be adapted be made subordinate to external needs, or at least coordinated around the objective of being more influential in the world, of weighing the real economic weight of the Union. If Europeans really want to

matter, they should no longer be afraid of the principles of preference and reciprocity that are called for by citizens, made legitimate by the crisis and which sometimes will be justified in the future. They should just define and frame them so as not to violate their basic compliance with freedom of trade. In short, Europe should be open, but should not be given away!

Concerning competition policy, the creation of European champions should become a priority. It should be managed politically in the noblest sense of the word, i.e. in a proactive and positive way, not only for the consumer of today, but also for the citizens of tomorrow. Here again, there is no reason to be more rigorous than all our world partners in the implementation of the principles of freedom of trade, free movement and openness.

Exemplarity cannot replace reciprocity, for the Union is not an international organisation like any other. It is led far too much in a diplomatic way, while remaining a political project. This confusion gives rise to contradictions, difficulties, lack of understanding, even failure as with Turkey, who the Union wants in and with whom it is in the process of falling out.

The role of the European institutions, starting with the Commission, is not only to ensure application of the Treaties, which most certainly must be respected, but to embody the higher interest of the Union and therefore constantly to promote it through concrete, bold and high level proposals. In this way, the monopoly of the right of initiative is justified, as Member States will never do this spontaneously.

The European Project is not a project of regional cooperation; it remains a project of continental unification and has been political since the beginning. It is time to remind Member States of this more often, by making them systematically face up to their historic responsibilities!

The European Union is not only a concept or an idea, as is too often said within the European institutions. It is a reality, made up of democratic States and of ancient peoples among the richest, most efficient and most innovative on earth. It is now inevitable on the international stage, if it does in fact want to come to terms with itself as a superpower in the making. It is for this reason that it will not make short work of its reflection on its territory, its political limits, its borders, in other terms, its identity in the world.

The Union must therefore be led as such on a daily basis, rather than as an international organisation. It should borrow more from States than from the UN in the implementation of its policies, its budget and the management of its personnel. We can indeed wonder about the future common diplomatic service. Will it act wherever it is present as the supercilious representative of European interests, wielding its influence, negotiating *quid pro quo*, or will it just be the showcase of a staunch idealism that would be the result of the lowest common denominator of the Member States and limited to exercising largely insufficient “soft power?”

The European Union coped well during the crisis. It resisted because it is strong and rich, although diverse. Europeans benefited from the protection of the Euro and the internal market, from financial solidarity within the Union, from a comfort that few populations enjoyed. They can be proud of having anticipated inevitable globalisation as early as the 1950s. But they must know that this success is now threatened by cautious conservatism. If the Union does not quickly make strong moves to integrate its tools of international influence and to reinforce its presence on the world stage, it risks marginalisation and submission to the interests of the two 21<sup>st</sup> century superpowers, the US and China.

Its only chance is by fighting to guarantee and impose its model with the traditional arms of international policy and not just with a clear conscience. It is this acquisition of

power that it must now carry through. It is through its unity that it will guarantee the survival of its model, a model so modern and favourable for the individual that it is envied, copied and hoped for by many. It must now take charge of its power or forever renounce its legitimate ambitions. For this, the players must draw inspiration from the Founding Fathers of the European miracle. They did not cheat reality and interests; they took them as the basis of the building of the Community. They denied neither identities nor territories, neither history nor memory, but rather used them as an impetus and they were supported. They were not using diplomacy, but were being political in the highest sense of the word. And they were right. Their audacity and their example remain more topical than ever.

# What Ambitions for Europe? Towards European Defence?

Pierre LELLOUCHE

**A**s a new decade begins, Europe stands at a turning point in its history: after September 11, after Iraq and Afghanistan, the growing awareness of globalisation – through the shock of the 2008 financial crisis – has acted as a catalyst. This economic and financial crisis, unprecedented since that of 1929, has reminded European countries that none of them, not even the largest, can hope to deal with such turmoil alone. If they are not united, they could slowly perish from the singular problem of marginalisation by the enormous emerging geopolitical entities.

At the same time, we saw with the disillusion of the Copenhagen Climate Summit, the post-modern dream of a Europe whose moral example alone can convince the others of the need for virtuous behaviour did not stand up to the realities of power relations and of basic national interests. We must therefore now learn to see Europe as it exists in the “real world,” the world of international power relations, closer to Hobbes than to Kant.

## **“Does Europe intend to shape the 21<sup>st</sup> century or merely endure it?”**

The entry into force of the Lisbon Treaty on 1<sup>st</sup> December 2009 represents, in this context, a significant shift and also a cause for hope: with our new institutions we are entering a new phase in European history. After the reconciliation phase of the immediate post-war period, when half of Europe was constructed with half of Germany from 1945 to 1989, and after the peaceful reunification of the continent over the past 20 years, we are entering a third phase: a unity of European peoples that is essential to affirming our future in a globalised world.

Time is of the essence, however, because the other major players are trying to reshuffle the cards to their advantage. A “post-European” America is turning increasingly towards Asia, and some observers are already imagining a US-China “G-2” at the head of a new global order.

Hence the relevance of the question posed by then French President to our ambassadors at a meeting in Paris a few months ago: “Does Europe intend to shape the 21<sup>st</sup> century, or merely endure it?” Are we, the other Europeans, going to move almost without transition

from the American-Soviet condominium that dominated the second half of the 20<sup>th</sup> century, to a new bipolarity, this time American-Chinese, which would leave Europe on the sidelines? One certainty has become clear, again Nicolas Sarkozy has highlighted: when we emerge from the current crisis “the hierarchy of powers will not be what it was when we entered it”.

In the multipolar world that is emerging around us, a reunited Europe, with its 500 million men and women, its position as the world’s leading economy, its industry, its agriculture, its still preponderant position in international trade, its democratic values that are more important than ever to the world, this Europe, I am convinced, can assert itself as one of the three or four centres of power in the international system of tomorrow. This is a question of will. It is therefore up to us to take hold of the controls available to us.

These include the foreign and defence policy, occupying a key position. By making European defence one of the main focal points of my action, I am aware that I totally adhere to the ambitious and proactive vision of the French President. Of course I realise at the same time that there is still quite a way to go.

One example in which history holds the key: it was the very day when the Lisbon Treaty finally entered into force after a decade of deliberations that Barack Obama announced his new strategy in Afghanistan. On the one hand, Europe was establishing institutional mechanisms, men and women who should allow it to exist on the international stage, including in times of crisis, on the other, America was asking its European allies to share the common burden within NATO in the fight against al-Qaeda in Afghanistan.

The coincidence of these two events makes the war in this faraway country one of the major tests of the credibility of Europe and of its stated ambitions regarding defence. It makes us wonder about the progress made in this field, ten years after the Helsinki Headline Goals and on what is left to be accomplished so that the EU can finally be a fully fledged strategic player able to influence world affairs.

## **European Defence: Enhanced Progress with the Lisbon Treaty**

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There is no doubt that the Lisbon Treaty has given us a more political Europe, which now has the following new institutions:

- A President of the European Council, Herman Van Rompuy, appointed for two and a half years at the Extraordinary European Council meeting of 19<sup>th</sup> November 2009, by unanimous vote of the Heads of State and Government. He will ensure continuity in the European Council’s actions and will represent the EU on the international stage.

- A High Representative for Foreign Affairs and Security Policy and Vice-President of the Commission, Catherine Ashton, also appointed at the Extraordinary European Council meeting of 19<sup>th</sup> November 2009. She oversees the European External Action Service (EEAS) and is responsible for the Common Security and Defence Policy (CSDP).

- The European External Action Service (EEAS), which will be formally established by the end of April 2010, under the authority of the High Representative/Vice-President. The EEAS will be an important instrument of a political Europe that is more influential on the international stage, and capable of mobilizing efficiently and coherently all its instruments of external policy in order to achieve its objectives. The EEAS will oversee one of the largest diplomatic networks in the world and incorporate all the instruments of the earlier European Security and Defence Policy (European Union Military Staff, EU Joint Situation Centre, EU Crisis Management and Planning Directorate).

The High Representative/Vice-President in conjunction with the Spanish Presidency in the first half of 2010 has a solid base on which to build in the development of European defence. In the ten years of its existence, the European Security and Defence Policy (ESDP), established in Helsinki in 1999 (one year after the France-UK summit in Saint-Malo), has recorded a number of successes. I have often observed that European defence progresses more through conducting operations than through institutional improvements. In ten years, the ESDP has led 23 civilian and military operations in the Balkans, Africa, the Middle East, Asia and the Indian Ocean. These operations involved 67,000 civilian and military personnel.

The European Union is currently the only entity to have such a wide range of economic, diplomatic and military instruments at its disposal for crisis resolution. The example of Afghanistan shows us just how essential this combination of resources really is.

Europe can be proud of its crisis management operations. In Georgia in the summer of 2008, thanks to the commitment of the French President, Europe was able to launch a purely European peacekeeping operation very rapidly. The operation was successful in stabilizing the situation. In the Indian Ocean, Operation Atalanta, the EU's first counter-piracy naval operation, is an undeniable success. I was able to see this for myself when I visited the operation in mid-October 2009. Europe is now playing a major role in ensuring the freedom of the seas in this zone that is crucial for global trade and for our interests.

### **Limits to be Overcome, Shortcomings to be Remedied**

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This said, we must acknowledge how far we have to go. The shortcomings of European defence need to be examined frankly and boldly.

– The budgets are not commensurate with the task. The combined defence budgets of the 27 Member States of the EU, whose total GDP is greater than that of the United States, amounts to barely half of the Pentagon's budget. Within the EU, France, the United Kingdom and Germany account for two thirds of this combined European defence budget.

– The disparity is even greater with regard to our military capabilities, although Europe clearly does not have the global responsibilities the United States currently has. Nevertheless, the European Union as a whole can muster barely 10% of American military power projection capabilities in external theatres. In practice, the shortfalls of European armed forces make them dependent on the United States in such key areas as strategic transport, large-scale helicopter operations and Suppression of Enemy Air Defence (SEAD) operations. This situation has remained essentially unchanged over the past ten years, despite all the praiseworthy efforts of the European Defence Agency.

– European arms programmes are also woefully behind. The 27 Member States currently invest one third as much as the United States in equipment for their armed forces and one fifth as much in defence-related research. Moreover, they disperse their resources by simultaneously developing 3 fighter plane programmes, 6 submarine programmes and around 20 armoured combat vehicle programmes. The 1970s and 1980s saw the birth of programmes like the Transall, the Jaguar, the Hot and Milan missile programmes as well as the launching of projects like the A400M transport aircraft and the NH90 and Tiger helicopters. Today the lack of large-scale cooperation projects is striking. And yet these projects are essential to the construction and maintenance of an industrial and technological base for European defence.

– The results of EU-led operations remain limited. The reality is that most of the operations led by the European Union are relatively small and have a mainly civil dimension. The European Union has only conducted 6 military operations in around 10 years. Today, 6,500 men and women from the 27 Member States are participating in European operations, only half of them in military operations. This is less than France alone, which currently has 10,000 troops participating in a dozen external operations.

– Coordination between the European Union and NATO remains inadequate. The European Union and the Atlantic Alliance may be neighbours in Brussels but they do not work together enough. Some 21 of NATO's 28 members also belong to the European Union. And yet coordination in operations in which the two organizations are engaged side by side is still far from ideal, despite the possibilities opened up by the Berlin Plus agreement. In practice, the European Union has used NATO resources only twice, for Operation Concordia in the Former Yugoslav Republic of Macedonia and Operation Althea in Bosnia and Herzegovina. Here, too, the European Union lacks effective planning and crisis management capacities.

### **The conditions for reviving European Defence**

This said, the entry into force of the Treaty of Lisbon as the current international context provides a window of opportunity to revive European defence. This is possible if certain conditions are fulfilled.

The current reform of NATO and its Strategic Concept provides an opportunity for Europe to claim its rightful place within the Alliance. This is what the French President had in mind when he decided on France's full return to NATO. More France in NATO means more Europe in the Atlantic Alliance. France's return in 2009 clarified our relationship with our allies in America and Europe by removing certain ambiguities: now no one can accuse us of wanting to develop European defence against NATO. It is now essential to develop close relations between the European Union and NATO in order for the two organizations to work more effectively together in the future. Better coordination between the European Union and NATO is clearly the key to success in handling many international crises, including Afghanistan. Why not, therefore, go further in defining a special relationship between the two organizations, which have 21 members in common?

Beyond institutional questions, it is essential to increase the European dimension of defence in order to gradually remedy its shortcomings. This might require pooling certain types of equipment through the Permanent Structured Cooperation mechanism or bilateral agreements ('variable geometry' Europe). Most importantly, it is crucial to develop new joint industrial projects, whether between France and Germany or France and the UK, provided that they achieve large scale savings and do not increase costs.

In addition, the question arises of the content and the level of ambition of the Common Security and Defence Policy. Here I believe we must favour a pragmatic approach. We will only reconcile our citizens with the idea of Europe if we can show them the concrete benefits of implementing policies at a European level. In addition to stabilizing the Balkans and Afghanistan, which are our top priorities, we must develop new types of missions: against piracy (Operation Atalanta, which I have already mentioned), against drug trafficking (in the Gulf of Guinea, where it is essential to cut off financing to al-Qaeda), and against illegal immigration across Europe's borders, where we must increase European solidarity



by providing FRONTEX with more resources, especially now that the boundary between internal and external security is more tenuous than ever.

Finally, let us be clear about collective defence. It is a prospect included in the European treaties, but we must be careful not to move too hastily. Not only are neutral Member States reluctant, but some of our European allies are afraid that premature announcements on this issue could encourage American disengagement, which would not be in our interest. Promoting European defence, including its international crisis management capacities, is one thing. Going so far as to claim that Europe is now ready to defend itself alone is quite another. One can also doubt whether, faced with the re-emergence of new threats in the East or in the South, the Member States concerned are ready to satisfy themselves with European reassurances alone, without security guarantees from the United States. The history of the 20<sup>th</sup> century teaches us that it is preferable to keep the United States in the European security equation. This remains true today, except that American disengagement has, in practice, already begun – our Polish friends know what I am talking about – and that without rushing things, the European Union must also prepare itself to assume collectively its responsibilities and an increasing share of the burden.

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In practical terms, Europe's ability to matter politically on the international stage depends also, or even especially, on the revival of European defence. This is why I believe it is a crucial strategic component of the European project for the years ahead. It requires collective analysis by the 27 members, through the drafting of a White Paper on Common Security and Defence. It seems to me that the adoption of a shared geopolitical analysis of Europe's threats and interests, together with a detailed definition of a real European security strategy and a common level of ambition, will enable Europe to make important progress towards European defence.



# The European Union after the Lisbon Treaty: From Law to Practice?

Étienne de PONCINS<sup>1</sup>

On 1<sup>st</sup> December 2009, the Treaty of Lisbon entered into force. This date marks the culmination of almost twenty years of efforts, bickering, unsuccessful attempts, resounding referendum failures, constant revising and improving, and the clearing of obstacles both large and small, the last one created by the Europhobic Czech President, Vaclav Klaus. And yet this obstacle course, which often became an arduous process, perhaps made us lose sight of the reason behind all these efforts, which was above all the reform of European governance.

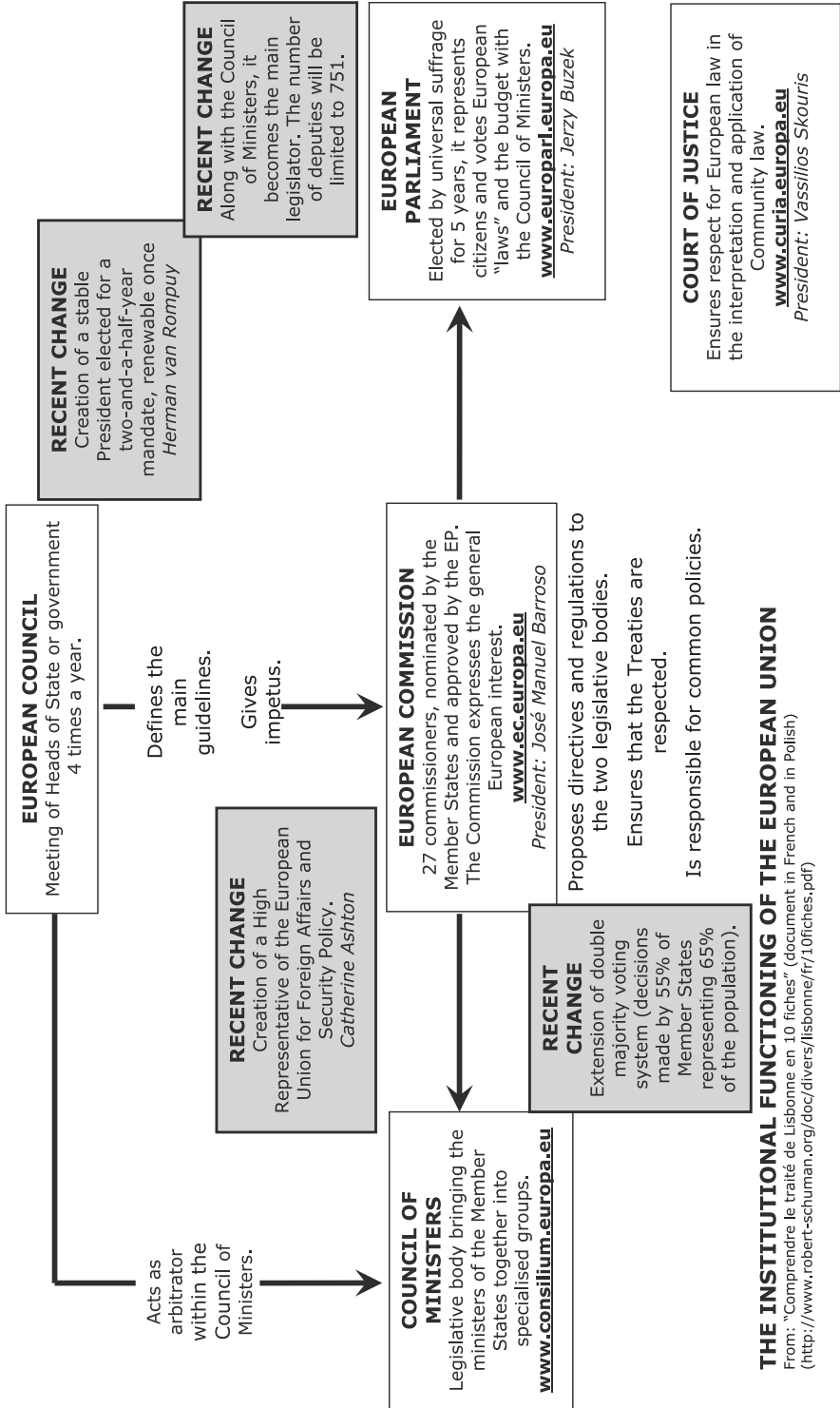
This difficulty in adopting and then in ratifying a legal text whose purpose is above all, or even simply to improve the institutional functioning of the European Union, should lead us wonder about the next step in the European process, particularly concerning its institutional functioning. Faced with the difficulty of adopting any new European Treaty, there are possible ways forward:

– The interruption of all reform with the risk of institutions gradually becoming obsolete, thus curbing the development of the European institutional framework for a long period of time. Even though historically the Union has always progressed in stages, modest and insufficient as they may have been, treaty after treaty, (the Single European Act of 1986, Maastricht, Amsterdam, Nice and now Lisbon), this prolonged suspension would mark a breakdown.

– The other possibility is that practice and custom would take over from the law of treaties to make the Union's institutions evolve. In this way, the European governance model would continue its slow and chaotic metamorphosis in order to adapt to the needs and aspirations of the Europeans themselves. The initial indications lead us to believe that this path could be promising.

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1. The author is speaking from his own personal point of view. His comments do not concern the institution for which he works.



## Lisbon, a Change of EU Governance for an Enlarged Europe

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If we place ourselves in a long-term perspective, we are struck by the continuing development of the European project, from both a geographic (the area in which the power of the Union is exercised) and a material point of view (the competences exercised, i.e. what EU countries do together). In 60 years, we have moved from an area made up of six countries that were culturally and geographically close, dealing with relatively peripheral matters such as customs duties, coal and steel, agriculture, to an entity made up of twenty-seven Member States, bringing together 500 million inhabitants, the largest economic world power jointly exercising a certain number of competences as diverse and fundamental as those of creating a unified internal market, possessing a single currency, the Euro, having an area of free movement, Schengen, and not forgetting the strong ambitions concerning Common Foreign and Security Policy on the international scene.

The governance of this *sui generis* entity had not fundamentally changed, however, since its beginnings. It was based on the triptych implemented by the Founding Fathers, Monnet and Schuman (to mention just the French ones) and consisted of:

- A European Commission, with the monopoly of the right of legislative initiative. It was made up of a small group of public figures working collegially in order to determine the European interest;
- Member States represented within the Union's Council of Ministers, successively ensuring the six-month Presidency of the Union and voting by qualified majority (bar exceptions) on the Commission's proposals, i.e. no State could oppose the decision;
- A European Assembly and then a European Parliament representing the European population and also voting on the Commission's legislative proposals.

Over the years, after several enlargements (6, 9, 10, 12, 15, 25 and now 27 Member States) and successive treaties, this institutional framework has only been marginally revised, the two main modifications being:

- The growing powers of the European Parliament, passing from a rump parliament, made up of appointed members, to a parliament elected by universal suffrage (1979) and with power equal to that of governments assembled within the Council (power of co-decision) for most domains within EU competence.
- The establishment of the European Council in 1974, initially in an informal manner and afterwards enshrined in the treaties. This periodic meeting of Heads of State and of Government oversees all European institutions and gives impetus to general policies.

The articulation of the “triangle” that is the European Commission, Council and Parliament gives a sense of a federal-type structure. The Commission therefore prefigures a European government. Legislative power is divided between two branches, both fully legitimate: the Council of Ministers on the one hand, representing the legitimacy of Member States, the European Parliament on the other, representing that of the people. Legislative power in the United States is divided between a Senate, where there is strict equality between federated states, and a Congress founded on the single criteria of population. The position of the European Council, however, at the top of this entity, marks the originality of the European project, driven and steered by the States. The model is indeed that of a federation of nation-States.

Following enlargements in particular to former communist countries in the East, this European governance appeared, however, to suffer from serious shortcomings and seemed incapable of responding to the needs of the efficient functioning of a political Union of 27 Member States. Thus, certain imbalances due either to the number of States (which almost doubled from 15 to 27 in 10 years), or to the differences in population between these States (difference from 1 to 205 between the 400,000 inhabitants of Malta and the 82 million inhabitants of Germany) deserved to be reduced by the end of the 1990s. With the growing number of members, certain provisions, such as the Rotating Presidency, was even bordering on the absurd: with 27 members, it recurred every 13 years, involving a human, financial and political effort that was over-proportioned for the Member State in charge.

### **A Reform that Mustered Up a lot of Energy: Are We Heading Towards a New Political System for the Union?**

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From the diagnosis established at the beginning of the 1990s, to the response that was finally given in 2009, almost 20 years would unfortunately pass. These negotiations, which touched on the very heart of the balance of powers and sovereignties, i.e. relations between highly populated and less populated States, founders and new arrivals, federalists and Eurosceptics, would turn out to be almost unsolvable. Added to this was the almost insurmountable constraint of obtaining unanimous ratification by the 27 members, with, in addition, in the case of an ambitious text, the danger of ratification by referendum. Experience shows in fact that this method of ratification, which is no less legitimate than that of going before the Parliament, opens the way to all sorts of manipulation and misappropriation (in this way, the same provision was presented in France as banning the use of abortion and in Ireland as imposing it).

In order to reform European governance, it is therefore necessary to overcome two tremendous obstacles: firstly, that of the unanimous agreement at 27 where each Member State strives to preserve its piece of power (voting rights, commissioner per Member State), then, that of the ratification by each State. Furthermore, the requirements to overcome one are often different from those for reaching the other (it is often necessary to use a certain “creative obscurity” to find agreement at 27 whereas ratification by referendum imposes a simple text that is easy to read).

The last stages are well known: the adoption in 2000 of a treaty signed in Nice, which was meant to “put the European house in order” and which was immediately considered as seriously inadequate; the opening in 2002 of ambitious negotiations within the framework of the European Convention, bringing together 105 high-level political figures and leading to a complete project bearing the name of European Constitution. Although the innovative procedure of the Convention finally led to the application of imaginative solutions (end of the Rotating Presidency, reduction of the size of the Commission, extension of the scope of decisions made by qualified majority, etc.), its public nature led it to make its institutional proposals – its reason for being – part of a package that is often symbolic in nature (use of the word “Constitution,” merger of existing treaties, preamble, articles of a general nature on Union objectives, etc.). This package, which was an accessory in relation to the essential, turned out to be an additional burden making the clearing of the second stage, that of ratification, impossible, *de facto*. Not only did France and then the Netherlands reject it by referendum, but both the United Kingdom and probably Poland were incapable

of having it accepted. The end of the deadlock logically consisted in back-peddalling, in abandoning the useless embellishments and the political declarations, to keep, without changing a single word, the core proposals of the Convention, those concerning European governance. This shedding meant that referenda were avoided in France and in the United Kingdom. The only one, held in Ireland, resulted in a first failure and it was necessary once again to make concessions (returning to the principle of one commissioner per country) to obtain a vote, this time largely positive, in October 2009. After some final trials and tribulations, the Lisbon Treaty came into force since 1<sup>st</sup> December 2009.

The main innovations brought to the new treaty concern:

- The election by the European Council of its President for a period of two and a half years, renewable once;
- The creation of a High Representative/Vice-President of the European Commission, a veritable Minister for Foreign Affairs of the Union, with both the political legitimacy and the means to carry out coordinated action through a European diplomatic service;
- Reinforced powers of the European Parliament which has become co-legislator for 95% of European legislation. Its control of the European budget has also become complete;
- Restoration of the balance of voting rights between Member States for the benefit of the most highly populated States and towards facilitating decision-making;
- Extension of the scope of decisions made by qualified majority by Member States. This particularly concerns the field of Justice and Home Affairs (JHA);
- Recognition of the role of national parliaments who ensure the respect of subsidiarity;
- The possibility for a Member State to leave the European Union.

### **After Lisbon? From Law to Practice...**

In this way, the features of the institutional functioning of an ideal Union is progressively being sketched, stroke by stroke. At the top of the structure is a European Council, consolidated as the ultimate decision-making and driving body, endowed with a stable President who personifies the face of the Union and becomes, *de facto*, its President. The Commission is logically bound to become the European Government in charge of day-to-day management and the implementation of strategic decisions made by the European leaders. It must be run by a strong President, like a Head of Government, elected on the basis of a specific platform and jointly responsible before the Member States and the European Parliament. The President of the Commission should be able to choose and dismiss his Commissioners freely. European legislation proposed on the basis of a clear platform should receive the prior approval of the two branches of the executive, the Parliament and the Council of Ministers.

If one considers that such a system should be the culmination of European institutional progression, the Lisbon Treaty does indeed mark a step in the right direction, but a step that is still insufficient. Just as in a dark room, from reform to reform the European institutional snapshot appears but its features remain unfinished and blurry. The ford has only been half crossed, therefore, the lack of transparency in the procedure to elect an EU President (elected by a restricted college of 27 Heads of State) burdens its legitimacy from the beginning. Elected “Soviet-style” by way of mutual agreements and behind closed doors, without having to define his main lines, his reputation and even more so his legitimacy will not be ensured from the start. The figure that is Mr. Van Rompuy has not created an all-powerful president

but rather a President who is both a symbol and a legal entity, closer to the German or Italian Presidents than the French one. The choice of Ms. Ashton as Minister for EU Foreign Affairs is part of the same approach consisting in favouring a modest and little-known profile.

In the same way, in order for the Commission to become progressively a European government in its full capacity, its composition should not be rigorously framed by the “one Commissioner per Member State” rule. Have we ever seen a head of government whose team members are imposed on him, or who is obliged to respect strict geographic origin, such as one minister per county or federated entity? In addition, this stringency leads to an imbalance linked to population differences between Member States (out of the 27 Commissioners, 6 come from States representing almost 70% of the European population, the other 21 representing only 30% of this total). It is therefore the very legitimacy of the Commission that is threatened by this imbalanced composition.

This difficulty in following through with the rationale that is taking shape comes mainly from the two obstacles already mentioned: the requirement of unanimity of the Member States in order to obtain a text and the need for its ratification by all. This double edge has been totally and utterly effective and has left a bitter taste. We can therefore state that the initial proposals submitted to the European Convention by its President, Valéry Giscard d’Estaing, followed the lines of more ambitious governance. These include the Congress of the Peoples, the annual meeting of representatives of national parliaments and the European Parliament (which could have become the body to elect the President of the Union) or a Commission reduced to 15 members chosen by its President based uniquely on their expertise and without the criteria of nationality.

What lessons are to be learned from these ten years of almost uninterrupted efforts?

Firstly, the pathway that was closed for new institutional reforms. The failures of the French and Dutch referenda led to the ruling out of any text of major scope to the greatest extent possible. But the difficulties encountered during the ratification of the Lisbon Treaty led to the ruling out of any idea even of a treaty exclusively or mainly dealing with EU governance and institutions for undoubtedly a long time to come. A cycle that opened with Maastricht closed with Lisbon. Heads of State and of Government who spent years leaning over the engine of the European car will certainly not open the bonnet for a long time to come. They want the vehicle to move forward again, even if it lacks power. Institutional fatigue is well and truly here and it will take years before it subsides. The only reforms conceivable could therefore be introduced in homeopathic doses in future accession treaties (Croatia, or even Iceland) or through sectoral treaties dealing uniquely with one subject, for example energy or immigration issues.

Developments will therefore be marginal and no major institutional step forward will be taken in the near future as the members of the Convention may have imagined. The Lisbon Treaty is expected to last with both its qualities and its inadequacies.

But just as water always seeks a way out, what law could not organise, practice could in fact do so. And the path is indeed that of institutional metamorphosis to be undertaken until completion.

Several signs indicate this. Although there is no obligation to do so, for the first time ever, at the behest of the Parliament and the European leaders, José Manuel Barroso who was seeking re-election was forced to present a political platform for the 2010-2014 Commission. Although he was the only declared candidate in 2009, it is probable that



the political bipolarisation of the Parliament between left and right wings will be more obvious at the time of the nomination of one of his successors. The European Socialist Party has already indicated that it would formally present a candidate for the next term of the Parliament and the Commission as did the European People's Party in 2009. Therefore for the European elections in 2014, two projects and two visions for Europe will be presented, imposing political coherence that only partially exists at present.

Legally, the President of the Commission only has a limited right to oversee the composition of his team (appointed by the Member States in common agreement with him). As it happens though, he is putting increasing pressure on the choices made by governments. This is the case for the respect of parity and in demand of competency. In order to assert his points of view, the President of the Commission has the advantage of allocating portfolios within the College. If he is not satisfied with the candidate proposed, he can sanction him with a non-strategic or non-existent portfolio. With a Commission that is expected to remain numerous, this lever will become increasingly important. Little by little, a real team could take shape, under the authority of its President, responsible to the European Parliament and the European leaders. The only drawback that cannot be overcome in the short term is that of the requirement of one Commissioner per Member State.

Finally, nothing prevents the election of the President of the European Council by his peers being preceded by public consultations or indicative votes within the different national parliaments or the European Parliament. If an election by universal suffrage seems desirable in the long term, several intermediary stages could be reached by practice alone provided that the political will is present. Of course nothing prevents European leaders from making the choice of a strong personality in the future (not necessarily a former Head of Government) capable of playing a full part on the European and international scene. This "European George Washington" could well be the proof that the treaties, even within the Lisbon framework, are not the be all and end all and that political will can make up for the shortcomings of the texts.

It is in this sense that the Lisbon Treaty has been compared to a toolbox. The legal landscape and the essential institutions such as the Commission, European Parliament, President of the European Council and Minister for EU Foreign Affairs, are now in place. It remains that the right people need to be found to give these institutions their full political stature and to allow them to follow through with the rationale underlying the creation of this legal framework. Everything therefore depends on the will of Heads of State or Government to accept in the future that such prominent figures fulfil their potential, including to the detriment of their own role on the international scene.

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The framework set by the Lisbon Treaty is the best possible one in relation to the constraints encountered during its adoption. The United Kingdom, which does not have a written constitution, is there to show the power of practice and custom. Until now, European governance has mainly been based on law. In this regard, Lisbon marks a significant step but can also be seen as a way forward that is legally unsurpassable. It could therefore be up to practice and unwritten rules to take over from law, as long as the need, i.e. the demand for Europe in a fast-changing world, and political will are present. It would be a strange paradox if the forthcoming stages towards the emergence of strengthened European governance were to borrow the traditional tool of British democracy, in other terms, that of custom.



# 20 Years after the Fall of the Berlin Wall: Freedom is the New Common Narrative of Europe

Thierry CHOPIN and Christian LEQUESNE

The current feeling of political crisis in the European Union is fuelled by a dual evolution that began in 1989. Following the collapse of the Soviet Union and the failure of the totalitarian venture, the prospect of accession for Central and Eastern European States to the European Union became an event of prime importance. This evolution very soon became double-edged, however, as the unification of the continent was immediately coupled with anxiety at the time of the break-up of former Yugoslavia. The “end of the story” was accompanied in parallel by a doubt with regard to the future, or, in any case, the feeling that events taking place were totally unique<sup>1</sup>. It is in this context that the idea of “crisis” developed. In her book *Between Past and Future*, Hannah Arendt defines the notion of “crisis” as an unprecedented situation, introducing a break from the past that would no longer provide the resources to think of the present and find one’s bearings in the future<sup>2</sup>.

If we apply the notion of “crisis” thus defined to the European Union, we can clearly see that the present situation in Europe no longer places the two political regimes of liberal democracy and communism in competition with each other. From this viewpoint, the alternatives that were base-building in the very process of European integration no longer seem relevant after the rallying of Central and Eastern European States to liberal democracy and to the market economy. This once again means that these elements no longer provide the justifications that are likely to convince of the validity of the Community venture and it is therefore necessary to find others, otherwise the meaning of the continental integration project will no longer be visible. In other terms, the current “self-justification” regime is neither capable of providing the grounds likely to create firm support for the European project, nor of drafting the prospects of its evolution in the future. More precisely, the current “crisis” first of all represents the weakening of the criteria and the reasons justifying the European project and refers to the end of the classic paradigm that for fifty years has

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1. We can recall the book by F. Fukuyama, *La fin de l'histoire et le dernier homme*, Paris, Flammarion, 1992.

2. H. Arendt, *Between Past and Future* (1954). It is also useful to read the article by C. Lefort, “L’imaginaire de la crise”, in *Commentaire*, no. 79, autumn 1997.

been the foundation of European integration. At the same time, the unique nature of the event paves the way for a change of “software” that is not only necessary but possible. It is therefore between a past that no longer provides the resources necessary to understand the current European situation and an undetermined future that the current feeling of “crisis” is situated<sup>3</sup>.

## **The Need for a New Common Narrative**

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For several years now, voices have been raised including among the most militant of Europhiles, saying that “the European project is undergoing the most serious crisis of its fifty years of history. The French and Dutch votes did not produce the crisis; they simply brought it to the surface and then aggravated it<sup>4</sup>.” Independently of institutional reform that ended with the entry into force of the Lisbon Treaty, there is a feeling, particularly in the old Member States, of a deep and multiform crisis of the Union, of which the institutional crisis is just a symptom. In this respect, the entry into force of the Lisbon Treaty is positive for the European Union. It has put an end to the deadlock generated by the French and then Dutch “no” votes in 2005, and finally by the Irish “no” vote in 2008. These votes not only blocked the ratification process of the constitutional project, but also affected the dynamism of European integration. Nevertheless, the settlement of this institutional crisis will not dispel the feeling that there is a sort of disarray affecting the Union, a feeling that is expressed at least in the founding countries that were used to thinking of the European Union as a Western Europe anchored in the Cold War. This disarray could be understood as the result of a lack of meaning: in other terms, providing the direction that should be a guideline for action is a basic political need that the enlarged Union is fulfilling with more difficulty.

For over half a century, European integration had a clear and rallying objective in the West: that of establishing peace based on the integration of markets, for want of a better alternative. In certain countries such as the United Kingdom or Denmark, economic integration was sometimes perceived as an objective in itself. Although the objective of peace must naturally be preserved and consolidated (it cannot simply be taken for granted as being obvious) it cannot, at the same time, continue to justify in itself this marvellous common venture. The same goes for the citizens of the States of Central and Eastern Europe, peace has become a hackneyed argument; it can no longer be used as a slogan for it is too similar to communist language that hammered out the message of peace between peoples.

From this point of view, one thing seems certain: it is not just by launching some new common policies (energy, fighting climate change, immigration, etc.) that we will once again give political meaning to European integration that really needs it however, in order to prosper. Despite their intrinsic quality, these projects alone cannot respond to the essential political question: what is Europe for? How far should it enlarge? What are its political, economic and international objectives?

In this context, it seems that the issue of political narrative on the European Union needs to be addressed prior to, or at the same time as any long-term revival of European integration. Ways to address the lack of reasons given for European integration need to be

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3. It is important to specify that such a feeling undoubtedly varies among the different Member States and the diversity of national public opinions, at least among the majority of States that form the historic core of European integration and countries recently emerged from communism.

4. Cf. L. Cohen-Tanugi, “The End of Europe?” in *Foreign Affairs*, Nov-Dec, no. 6, Vol. 84, 2005-2006.

found in order to address the political challenge generated by the Union's current problems regarding meaning and legitimacy. The issue of legitimacy of the Union is essential because the objectives that must from now on steer EU action have become difficult to interpret. It is for this reason that work to clarify the European project itself has become essential. It is also for this reason that it is necessary "to politicise" the European Union, in other terms, to produce a common vision and narrative of its future, in order to overcome the lack of meaning that is affecting it. A community of citizens does not only live on law, economics or regulation, it also and above all lives on the feeling of belonging. Politicising European democracy above all implies making the current European situation intelligible and providing citizens with the meaning of a political community<sup>5</sup>.

This work of politicising and of specifying is unavoidable in order to answer the crucial political question for Europeans: what is the European Union and of what use is it in the global world? As Michel Foucher wrote in relation to EU enlargement: "how can we find our bearings in the vast world if we do not know what place we are talking about, in which stable perimeter our common interests are situated? How can we politically appropriate the European adventure if the territorial foundation is continuously evasive for poor citizens commanded to accept the prospect of a political community whose horizons are continuously moving and never subjected to a democratic debate? How can we link the saga of European integration with set, dated and known landmarks to a state of territorial unawareness<sup>6</sup>?"

The European Union must convince its citizens of its usefulness and of its legitimacy in order to meet the challenges, particularly external ones, that it faces<sup>7</sup>. Without going into detail, we should mention some of the European policies most concerned by such challenges: the Common Trade Policy, especially as part of the WTO negotiations; social adjustment policies implemented to counteract the negative effects of the financial crisis; humanitarian aid and development assistance policies which already receive major joint funding; lastly, policies to protect the European and international environment, as part of energy and climate change policies. Beyond any particular one of these policies, in order to be sustainable, the revival of European integration needs to be part of a clear political horizon that will give it a new meaning and lead States so wishing to commit to new common initiatives. It is up to the European and national political leaders and, more, to all players so wishing, to take up such a challenge, whose difficulty and scope resembles that which the Founding Fathers had to overcome, and successfully at that, in the aftermath of the Second World War.

## **How can we write this New Narrative at 27?**

The apparent idealism of our reasoning is not naivety. We know that European integration is the result of compromise between national interests and different political visions of Europe. It is normal that subjects of disagreement exist, and even more so when it concerns expressing oneself on eminently structuring issues for the future of European integration

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5. It seems to us that the European Union can be examined based on the concept of "impolitic democracy" that we have borrowed from P. Rosanvallon. Cf. *La contre-démocratie. La politique à l'âge de la défiance*, Paris, Le Seuil, 2006.

6. Cf. M. Foucher, "Peut-on vivre sans frontières?" in N. Gnesotto and M. Rocard (dir.), *Notre Europe*, Paris, Robert Laffont, p. 161.

7. For recent analysis on this point, cf. M. Foucher, *L'Europe et l'avenir du monde*, Paris, Odile Jacob, 2009.

such as the limits of the Union or the attitude to adopt in the globalised world, especially after the financial crisis. How then can we write a new narrative<sup>8</sup>? Let us first underscore the fact that it does not so much concern deploring these differences, which, by definition are inherent in a venture that aims to construct a Union of *States*, but rather recognising and accepting them as inevitable realities and beginning discussion and public debate on these issues. Such an approach could break with the fantasy of unity and homogeneity while recognising the need to begin debate.

In this respect, politicising the Union implies that the means for this politicisation must be available. It is necessary to implement concrete means to make the democratic influence of everyone visible and to organise the conditions for debate on the collective aims of European integration. Democracy is nothing other than the definition of the collective aims of the same community that creates a “meaning for the future”.

If we take once again the example of enlargement, one cannot but notice that the issue of EU borders is the subject of disagreement between Europeans, between political powers (for example within the European Parliament) as it is within Member States and national public opinions. According to the Eurobarometer survey taken in autumn 2008 and published in July 2009, less than half of all Europeans (44% of those surveyed) are in favour of continued enlargement. Furthermore, major differences in perception can be noted according to the Member State, given that although support for a further enlargement is predominant in 17 of the 27 Member States (especially in the 12 new Member States), it is extremely low in the old EU countries (the idea of further enlargement appeals only to 25% of citizens in Luxembourg, 26% in Germany and 31% in France). In such a context, we can clearly see the need to organise the conditions for democratic debate on this issue which directly concerns the European project.

The main difficulty in creating a new horizon of meaning is the diversity of historic experiences that is more discernible in the Union at 27 than it was in the Union at 15. What mainly marks this difference is communism. Having lived for fifty years under the yoke of soviet-style communism does not create the same expectations of Europe as when you have had the chance to be fulfilled in the free world. For the former communist countries, European integration is first and foremost seen as a civilisation-related project before being an institutional venture. European integration, in the same way as NATO, is above all used to establish the values of the Western world that Central and Eastern Europe were deprived of with communism. In 1983, Milan Kundera spoke of his country, Czechoslovakia, as a “kidnapped West”. Here we can see differences between East and West burgeoning. For the new Member States, the notion of the West presupposes a weak demarcation between Europe and the United States. Secondly, a civilisation-related project implies that we can extend the borders of the Union without too much worry, once it provides democracy and security to the new members. We are far from the dream of the little Federal Union built around a Franco-German core, as was hoped for in France by numerous Europhiles from the West, French and German ones in particular<sup>9</sup>! Yet, enlargement of the Union did

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8. We refer to the article by K. Nicolaïdis and J. Pélabay, “Comment raconter l’Europe tout en prenant la diversité narrative au sérieux?” in *Raison publique*, no. 7, Paris, Presses universitaires de la Sorbonne, 2007, p. 63-83.

9. We have further developed this point elsewhere and we would like to refer you to C. Lequesne, *La France dans la nouvelle Europe. Assumer le changement d’échelle*, Paris, Presses de Sciences Po, 2008 and to T. Chopin, *France-Europe. Le bal des hypocrites*, Paris, Saint-Simon, 2008.

not make the British Europe triumph, if we allow ourselves to give a political meaning to East/West reunification. Here we are brought directly back to the issue of narrative. At the time of the 20<sup>th</sup> anniversary of political change in Europe, we must not forget too quickly what the reality of “Eastern Europe” was in 1988: the complete absence of freedom of opinion, the shortage economy and the ban on travel outside of the borders enclosed by barbed wire and walls. Twenty years later, the countries of Central and Eastern Europe have joined the European Union, not only formally but concretely. Despite the negative effects of the 2008 crisis, their economies have managed to provide well-being to their citizens, the public areas and institutions are democratic and the citizens can travel wherever they want (we only have to think of all the Central European students benefiting from the Erasmus programme).

### **Freedom, Europe must engrave your name...**

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East/West reunification was one of the European Union’s most wonderful accomplishments in its history: it federated Europe around the idea of freedom. This is the word that must give meaning to a new narrative. Instead of attributing the evils of European integration to enlargement (in the West), instead of being opposed to enlargement, it would have been more productive to focus on the positive aspects of enlargement and to make it a subject of collective satisfaction. Never in its history has Europe been so free, because never before has Europe been subjected so little to the rationale of power relations. Europe owes this situation mainly to European integration. Reflecting on a narrative that makes sense therefore requires on the one hand, an end to moaning in the old Member States about the so-called negative effects of enlargements<sup>10</sup>, and on the other hand, an end to the idea in the new Member States that only the United States can provide security to the continent (an idea that is still very widespread among the elite who made the democratic transitions, although this is changing with the next generation<sup>11</sup>).

It is necessary to rehabilitate the word “freedom” and political liberalism to place it at the heart of the new European narrative. Although liberalism seems to be easy to define, on first analysis, (precedence of rights and of individual freedoms, demand for limited State power, etc.), in reality, there are several versions of liberalism, and even several traditions with noticeable differences between them. Beyond the very fact, for example, that the term “liberal” means something different in the United States from what it means in Europe, there are at least two forms of liberalism: That of the “market” and that of the “checks and balances<sup>12</sup>”. With this in mind, this work of rehabilitation is also the best way to recall what has been the message of political liberalism since the 18<sup>th</sup> century, and to end the confusion with economic neoliberalism. The heritage of the Enlightenment has absolutely nothing to do with the economic tenets of Margaret Thatcher and Vaclav Klaus, that the economic crisis increasingly tends to de-legitimise (including in Central Europe). It is around the renewed message of freedom, overriding the West-European message of peace and that of

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10. As an illustration, see J.-L. Bourlanges, “L’Europe fait semblant” in *Le Monde*, 1<sup>st</sup> December 2007.

11. See C. Lequesne, “La génération de la dissidence, l’idée européenne et la divergence transatlantique,” *Esprit*, October 2009.

12. Cf. B. Manin, “Les deux libéralismes: marché ou contre-pouvoirs,” in *Intervention*, no. 9, May-July 1984.

economic neoliberalism, that we must today imagine the European Union narrative. The message is not condemned to remaining abstract, far from it. Numerous European policies can illustrate this in very different sectors that are not at all summed up in just the market: the freedom to vote in municipal and European elections, the freedom to cross the border without being checked, the freedom to work without prior declaration in any Member State, etc. The citizens of the 27 Member States are capable of understanding the meaning of the word “freedom” as it embodies a democratic value for them, and it is they who benefit from it in their daily lives. Mediation in national public areas remains to be organised. For this mediation to be reached, we must abandon the nostalgia of the pre-1989 European Community, which can no longer exist in the same way since the reunification of Europe. The Europhiles must come to terms, as it were, with the fact that the Berlin Wall fell for the good of their cause and that it did not sound its death knell.

We know that the words ‘liberal’ and ‘liberalism’ have become truly pejorative in certain Member States, and especially in France<sup>13</sup>. From this point of view, it is necessary to rehabilitate these ideas. At the same time, this venture implies that European liberalism takes account of a certain number of demands and aspirations expressed by the citizens and that are just as legitimate as that of freedom. This is the case of the feeling of belonging to a community that cannot be reduced to an area characterised by an indefinite territorial extension. In simple terms, a community needs an inside and an outside<sup>14</sup>. This is also the case of the concern for justice and solidarity that should respond to the risk of erosion and disintegration of cohesion within States as between States of the Union. This danger is all the greater in the current context of economic crisis<sup>15</sup>. Furthermore, it is also the case for the democratic need for citizenship based on the sense of public duty. With this in mind, a liberal doctrine of citizenship should highlight the benefits of political participation and civic control with regard to power<sup>16</sup>: the European citizen should not be reduced to the sole figures of producer and consumer. And, this is lastly the case of the attention that liberal European societies must pay to the need for EU cohesion in relation to external imbalances, as well as to the concern for defence that could start to erode in our pacifist societies.

As Pierre Hassner wrote as early as 1991: “We know, by the bitter experience of the 20<sup>th</sup> century, that there is no substitute for freedom and that no system, no alliance, or no State can close itself to the modern world without experiencing failure or collapse. But we also know that humanity does not live on freedom and universality alone, that the aspirations that led to nationalism and socialism, the search for community and identity and the search for equality and solidarity will always reappear, as they are already doing. It is insomuch as liberalism can incorporate them and reconcile them both with freedom of the individual and with the interdependence of the world that it will have a chance, after having won the Cold War, of not losing peace<sup>17</sup>.”

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13. Cf. T. Chopin, “La France, L’Europe et le libéralisme,” in *Commentaire*, no. 115, autumn 2006.

14. Cf. P. Hassner, “Ni sang ni sol? Crise de l’Europe et dialectique de la territorialité” (1996), text also features in *La terreur et l’empire*, Paris, Le Seuil, 2003.

15. On this point we can refer to D. Cohen, *La prospérité du vice. Introduction inquiète à l’économie*, Paris, Albin Michel, 2009, chap. IX, “La fin des solidarités”.

16. This demand can be found at the heart of political liberalism and the work of Benjamin Constant, for example, can convince us of this.

17. P. Hassner, «L’Europe et le spectre des nationalismes», *Esprit*, october 1991.



It is in this sense that the “crisis of legitimacy” that is affecting the European Union is posing a real challenge for European liberalism<sup>18</sup>. With Larry Siedentop we can maintain that the uncertainty of the really desirable configuration of Europe and the shape that it will take corresponds to the deep-lying uncertainty of current liberal political thinking<sup>19</sup>. The “crisis of legitimacy” of European integration responds to the “identity crisis of European liberalism<sup>20</sup>”. For all these reasons, reflection on what could be a new narrative on the reunified Europe implies a deep study of European liberal tradition, of its sources and its evolution, compared with a new step in the democratic history and experience of Europe.

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18. L. Siedentop, “A crisis of Legitimacy”, in *Prospect*, july 2005.

19. L. Siedentop, *Democracy in Europe*.

20. *Ibid.*



## 2

# After the Financial Crisis are we Heading Towards a Renewed European Economic Model?

## Reform of Financial Capitalism: What are the Opportunities for European Leadership?

Jean-Pierre JOUYET

**T**ransformation of the national and international regulatory framework is ongoing. Never before in the history of world finance had we seen regulation make such a strong comeback. This is the case in the United States, as it is in Europe. The Americans responded quickly and vigorously but today their slow and complex internal decision-making process is delaying progress. The vast reform project, adopted on 11<sup>th</sup> December 2009 by the US House of Representatives, must be brought closer to the one being worked on by the Senate. In the heart of the crisis the Europeans may have given the impression that they did not come to agreement quickly enough on all subjects (even if the European Union presented a united front on essential matters), but it is now making progress in defining the guiding principles of an ambitious agenda, adopted at the European Council meeting of June 2009, drawing on proposals by Jacques de Larosière.

At the dawn of thisaggiornamento of the European and global financial regulation, can and should the European Union affirm its leadership on these matters? And if so, under what conditions and to defend which regulation model?

### The EU Must Affirm its Leadership

It is imperative that the European Union affirm this leadership for two reasons.

The first is that effective international regulation is based on convergence and mutual recognition. Such an approach, however, features less in the US tradition than in the European one. The United States, following domestic imperatives that happen to be totally understandable (they want to supervise better), focus on the reinforcement of the powers of their supervisory authorities with regard to the supervision of foreign entities developing

an activity in the US or with American counterparts. This brings them to demand an increasing amount of reporting, communication of confidential data and the possibility of on-site inspection of the entities concerned, for all transborder relations or those considered as such.

As an example, concerning the credit derivatives market, the US, which is a step ahead of the European Union, is seeking to impose both its standards and its infrastructure. The Securities and Exchange Commission (SEC) is today demanding the right to obtain information directly and to make on-site inspections of the European clearing houses that would like to clear the operations of US establishments. The goods market offers another example. The Commodity Futures Trading Commission (CFTC), the US regulator with remit for these markets, demands that the major European players give information on the operations that would have a greater or lesser connection with the operations negotiated on the US markets.

The European Union, for its part, left matters for too long up to the good will of the Americans and to the *laissez-faire* of Member States. Within the framework of financial directives, relations with third countries are most often left to the discretion of Member States and their regulatory authorities, which ends up preventing coordinated and coherent dialogue. As, in addition, national authorities are sensitive to the competitiveness of their financial market, some of them come to conditions, which are at times excessive, to encourage the development of transatlantic activities.

If convergence takes place in one direction only, by alignment with the US standard, what then of European independence and the assertion of the European standard? For these European standards must be defended at international level. The European Union has technical standards and a European industry and it should therefore learn to negotiate on these issues, on the basis of reciprocity. That is why we must develop more balanced relations between the European Union and third countries (not just the US) to ensure a process of mutual recognition of the reciprocal quality of our regulations and of our supervisory models. These negotiations must be led at European level. This is the only way that we will preserve a coherent internal market that is competitive at international level.

The second reason is that what works in the US may not work in the European Union. Hence the importance of negotiations on the level of recapitalisation of banks and financial institutions and of debate on the leverage ratio that the Americans would like to impose. This purely quantitative ratio relates a bank's assets to its capital and does not take the quality of these assets into account. As it happens, a bank focusing on traditional credit activities does not take the same risks as an investment bank and does not remunerate its capital at the same level. The need for equity must therefore correspond to the risks incurred and take account of the economic models of those involved. In reality, behind this American proposal, it is the European universal bank model that is at issue, and with it, the principle of financing European companies through bank intermediation. Everyone knows that European companies, compared to US companies, are financed more by bank loans than by markets (two-thirds of the European economy is financed by credit, two-thirds of the US economy is financed by the markets). The leverage ratio would therefore be much more disadvantageous for economies that are mainly financed by banks, such as the European economies.

## **Under What Conditions can the European Union Affirm its Leadership?**

If there is therefore no doubt that the European Union must assume its responsibilities in this reform of global capitalism, under what conditions can it affirm its leadership?

It must organise itself so that its partners can face counterparts who speak with a single voice and with indisputable authority. The construction of a new European regulation architecture at macro and micro-prudential levels, which responds first of all to a need that was clearly identified during the crisis, for better supervision of systemic risks, thus equips the European Union in this necessary dialogue with non-EU G20 countries.

The official creation of a European Systemic Risk Council, similar to the US Financial Services Systematic Risk Oversight Council, will allow us to detect risks better, to make information circulate more freely and to coordinate better our regulation policies.

At micro-prudential level, the European Union is creating three agencies, one for banks, one for insurance companies and the third one for financial markets, in order to bring European regulation and supervision up to the level of integration of the single market. Concerning markets, the European Securities and Markets Authority (ESMA), which will replace the Committee of European Securities Regulators (CESR, the informal committee of European regulators that had neither the means nor the authority to smooth out difficulties between Member States), should be able to supervise pan-European entities by nature (such as rating agencies), efficiently coordinate the supervision and treatment of systemic market risks, harmonise rules applying to players, structures and practices whenever necessary and lastly, ensure a homogenous level of protection for consumers of financial products and services. To this end, it is foreseen that ESMA will set the common rule, be able to take technical measures of a binding nature as well as coordination measures imposed in an emergency and act as a mediator in case of difficulties between Member States.

The ECOFIN Council meeting of 2<sup>nd</sup> December 2009, which validated the creation of these agencies, granted them globally satisfactory operating rules. But the European Parliament, which has taken over, could still make improvements, particularly to increase the responsiveness of ESMA and establish better its independence which ensures its efficiency and its credit in the eyes of the industry.

Insofar as positive discussion is taking place between these macro and micro-prudential levels of supervision, thanks to good information exchange in both directions, as hoped for by Tommaso Padoa Schioppa, we will have on one hand an authority with a global and instantaneous vision of the risks incurred by the fifteen or twenty major European financial institutions, and, on the other, more homogenous regulation of the financial markets. Our non-EU partners will no longer take advantage of regulatory incoherencies from one country to another as well as our absence of unity, by choosing the lowest regulatory level.

## **Which Priorities for Which Leadership?**

The European Union now has the means for its ambitions. But what should its priorities be in the field of regulation, in the Union itself and in relation to its partners, in order to establish its leadership? I will distinguish two.

Firstly, it must steadily pursue the implementation of G20 recommendations, so that, insofar as is possible, its ideas continue to inspire the global harmonised regulation framework towards which we wish to head.

Hence the importance of debate on credit derivatives, where we have fallen behind in relation to the Americans. In this context, the ambitious communication of the European Commission issued on 21<sup>st</sup> October 2009 is particularly welcome. It makes it a necessity to standardise credit derivatives, to record them in a central database and to clear them. The new Commission could tackle this question without delay (France had been asking the Commission to examine the regulation of OTC markets for five years). In this way we will have discussion with our non-EU partners on a much more balanced basis, by basing ourselves on the European *acquis*. It will also be necessary to determine these regulatory reforms at industrial level and to accelerate the project to create a clearing house in the Euro zone, because the European Central Bank (ECB) is the lender of last resort. This project has an obvious strategic dimension to affirm European independence.

Hence also the importance of negotiation during work in progress on the draft directive on hedge funds (AIFM Directive). Here, once again, we will only be credible if we can claim a European standard as an argument, especially if we want it to serve as a possible model that is likely to inspire other geographic entities.

And finally, hence the importance of negotiations (which are getting bogged down) on accounting standards. One of the major issues on this point is the reinforcement of EU presence within the International Accounting Standards Board (IASB), in charge of drafting international accounting standards, for the method that it has followed up to now and its delays are placing Europe in a difficult situation. Behind the apparently technical issues of this debate, it is the competitiveness of European banks and insurance companies that could pay for this procrastination.

Second priority, the European Union must question itself on the reasons for which potential investors have not yet come back to long-term saving, the only way of reviving the economic machine, of financing our pensions and of adapting our production system to limit greenhouse gas emissions. We can only do this if they have confidence and we must progressively rebuild this confidence, but how?

It seems to me that the regulator should show savers that he is extremely vigilant regarding the way in which financial products are distributed. The Commission could draw inspiration from the most conclusive national experiences in order to boost harmonisation of protection for European savers, who, when they invest their money, are entitled to expect protection similar to that which they receive on buying a toy or some medicine, which is not the case today. Let us hope that the American project to create a consumer protection agency in charge of regulating financial products considered as too risky, will spur on the Commission.

Above all, investors long to see the financial markets once again fulfil their purpose, that of financing the economy. Good financial regulation should efficiently contribute to financing the real economy and channel and optimise saving. For this to happen, European markets must once again become the meeting point between the issuer and the investor, which means that we must fight against the increasing fragmentation of stock markets that are ever more opaque and do not allow comparison in satisfactory conditions between supply and demand. We know that the Markets in Financial Instruments Directive (MiFiD) has contributed to this growing fragmentation of transaction flows through the appearance

of competitive negotiation platforms from the order books of historical markets. A review of this MiFiD in 2010 should be the opportunity to review the organisation of our markets and their transparency thoroughly. Our work will interest our non-EU partners who, for different reasons, are facing the same difficulties.

This reflection should result in the awareness of the impact of new technologies on the operation of markets. There is real disproportion between the means invested in this race for new technologies and the gains in terms of market efficiency (not to mention gains for the real economy). In addition, a regulator who is not up to speed with these technologies cannot efficiently supervise the integrity of markets, at the risk of altering investors' confidence.

We also need to think about new markets. In the future we will have CO<sub>2</sub> markets, energy derivatives markets and food markets that are more globalized than they are today. These are markets that will have to be either created *ex nihilo* – without leaving their monopoly to a continent or a country – or better organised if they already exist, to avoid speculation or tax fraud. The European Union, here again, must play its part, especially to organise the carbon market given the leadership we have gained in climate negotiations and in the construction of an operational emissions quotas market.

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We can see that the European Union has a card to play to establish its regulation model and to continue to guide the work of the G20, as it has done until now. It will be all the more credible if it has convinced all the Member States of their individual interest of a financial market is to accept more binding rules, provided that they are the same for everyone. It will thus show the rest of the world that it has not chosen security to the detriment of competitiveness but rather both, as they go hand in hand. Without naivety it can plead even more forcefully before the G20 for convergence of the standard – beginning with remunerations – the only way to end regulatory dumping that has cost us so much in the past.





# What Economic Policy for the Euro Area after the Financial Crisis? The Path Towards a New Franco-German Compromise

Daniela SCHWARZER

The financial and economic crisis has posed the most serious challenge to the European Monetary Union (EMU) since it was created over eleven years ago. Throughout the crisis, the Euro Area has proven a safe haven for its participating countries as it sheltered them from currency turbulences and severe speculation. It constitutes a core of stability in the single market. The attractiveness of the euro has consequently risen in the eyes of those member states which are not (yet) part of it, notably in Central and Eastern Europe, and which were on average more strongly hit by the crisis than the EMU members. But at the start of 2010, important challenges for the Euro Area persist.

Firstly, economic recovery cannot be assumed to be guaranteed. Exit strategies need to be carefully coordinated: Interest rate increases, budgetary adjustment, a withdrawal of government guarantees for the financial sector and a reduction of state interventionism have to be orchestrated in such a way that they do not cause domestic demand slumps and weigh on corporate activities through higher interest rates. In particular Germany and France as the largest Euro Area economies should ensure a confidential exchange with the ECB, fellow member states, the European Commission and the EU-Presidency.

Economic recovery could furthermore be hampered by an insufficient allocation of funds to companies if a spill-back of corporate insolvencies into the banking sector put new strains on Europe's banks and further increased prudence in the financial system. This could cause short-term re-financing problems which could provoke insolvencies. Companies could also reduce R&D investment which would negatively impact the competitiveness of the EU.

Secondly, the economic divergence in the EMU has been aggravated as the crisis has hit less competitive economies harder than the strong performers. This nurtures economic and political tensions<sup>1</sup> and the political and economic setting for the ECB to act in becomes

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1. See for instance: Sebastian Dullien/Daniela Schwarzer: "A Question of Survival? Curbing regional divergences in the Eurozone", in: *Review of Economic Conditions in Italy*, no. 1/2006.

more complex. Policy divergence with regard to external competitiveness is also manifest between Germany and France (see below).

Thirdly, the deterioration of fiscal positions threatens the sustainability of public finances in a large number of member states. It also risks undermining the framework of fiscal surveillance as some governments did not commit themselves to correct these developments once the exceptional circumstances of the crisis have ceased to exist, and the functioning of surveillance depends on Ecofin's implementation of it. In particular a clear commitment of the largest EMU members Germany and France, but also Italy and Spain, will be decisive to the survival of the Pact and the perspective for sound public finances in this crucial phase.

Furthermore, the Euro Area may face its first case of a sovereign default. As there are neither a precedence nor clear rules in EU law of how to cope with such a situation,<sup>2</sup> political leadership of the larger member states in coordination with the ECB would be needed in order to define rescue measures, help reinstall market confidence and maintain the credibility of the Euro.

### **Strategic Decisions with a Long-Term Impact**

The year 2010 could turn out to be crucial for the EU's future economic governance set-up. Firstly, *fiscal and economic policy co-ordination* may be strengthened. The crisis has revealed the inability to prevent developments that undermine macro-economic stability and to stop national policies which are in contradiction to the legal obligation to treat economic policy as a "matter of common interest" in the EU (article 121 TFEU).

Past experience<sup>3</sup> has shown how difficult it is to make Member States change policies. For some years, the European Commission and the Member States have become less motivated to push for national policy change. But the case of Greece illustrates how crucial an effective monitoring of national policies is and some governments, in particular the German one, see a need to improve surveillance. As a transfer of sovereignty in the field of economic or fiscal policy to the EU-level is unlikely, improvements can only be achieved by implementing economic policy coordination more rigorously. This requires governments to accept being criticized by their peers, which is particularly salient for Germany and France, a pro-active European Commission, a strong Euro Group chair and an impactful Ecofin Presidency.

In order to counterbalance strong national views on European problems, the trans-European element in the economic policy debate should be strengthened. The European Parliament should be involved as much as possible and despite its limited competencies in this field. The monetary dialogue of the EP Committee for Monetary and Financial Affairs

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2. The No-Bail-out-Clause in Article 125 TFEU excludes an obligation for the EMU members to bail-out another member state, but this does not mean that there will be no financial assistance in the case of a solvency crisis. The instruments currently applied to the cases of Hungary, Rumania and Latvia are not eligible as the Balance of Payment Loans according to Art. 143 TFEU can only be granted to non-EMU-member states.

3. For instance with the recommendations to Ireland under the framework of the Broad Economic Policy Guidelines (BEPG) in 2001 which caused a huge national uproar as Ireland was asked to pursue more restrictive fiscal policies for macro-economic reasons – in times when it actually ran a budgetary surplus.

with the ECB President should be maintained, the informal exchange with the Euro Group President should be strengthened. The new EP Committee dealing with the Economic and Financial crisis should be fostered and dialogue between MEPs and national Parliamentarians could be strengthened in order to intensify the European economic policy debate.

The debate on the future of policy coordination should also focus on contents: surveillance may have to be expanded to include further variables to grasp economic divergence resulting from discrepancies in the development of competitiveness better. The inclusion of private debt, external balances and other indicators of the relative competitive position of a Member State could lead to a more encompassing framework of macro-economic surveillance. As it will be difficult to find a Member State consensus on this matter, a Franco-German dialogue could prove useful in preparation of European debates.

Secondly, negotiations on the new *strategy for growth and competitiveness tagged “EU 2020”* and on *the future EU budget* could prepare important reforms – if the governments agree to revise policies which are no longer suitable for to the inner-European and the global situation. The EU’s new growth strategy has to ensure a return to sustainable growth and employment, a decisive improvement of the EU’s competitiveness, the guarantee of the long-term sustainability of public finances and social systems and more convergence within the Euro Area. These aspects should be discussed together with the future of the EU budget. As negotiations will be difficult and risk to lead to only a minimal consensus, Germany and France, possibly with a small group of other Member States including the UK, should pre-agree a set of possible reforms, before submitting them to the other for further debate.

Thirdly, *EU financial market supervision* needs to be improved in order to reinstall confidence, enable better crisis prevention and management and to improve financial market integration. The current legislative procedure was launched with a Council decision of December 2<sup>nd</sup> 2009 that has watered down the European Commission’s initial proposal. Conflict between the European Parliament and the Council in the co-decision procedure is possible and there may hence be a need on the side of the member governments to revise their position. German and French politicians potentially have a mediating role to play here, both in the Council and in the European Parliament.<sup>4</sup>

## **The Political Landscape in the EMU in the Current Crisis**

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The way the EMU manages its adaptation to the economic and financial shock in the next two years will decide over its medium-term performance in a world economy characterised by shifting power relationships as emerging markets such as China recover from the crisis at a quicker pace than Europe or the US. The EU’s adjustment to the crisis will have to be managed in a complex political context.

The *governments’* willingness to accept structural reforms, budgetary adaptations and cooperation within the EU is rather low. Moreover, most governments have shown little

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4. In the Council, Germany and Spain backed the British position which was reluctant to accept a strong European Financial Supervision. If the Council decision of Dec 2<sup>nd</sup> has to be revised, Germany and France could attempt to find a joint position and, based on this, forge an overall compromise in the Ecofin. In the Parliament, all four “Rapporteurs” in the ECON-Committee are either French or German, and could attempt to influence the national debate on EU Financial Supervision. For an analysis of the Parliament’s role, see: Daniela Schwarzer: Financial Market Supervision: Now comes the European Parliament’s hour, December 3<sup>rd</sup>, 2009, Eurozonewatch, <http://www.euro-area.org/blog/?p=238>

interest for joint EU approaches to crisis management. Meanwhile, measures to complete the single market (e.g. in the financial and services sector) are less likely to be taken, there is rather the risk of rising state interventionism and protectionism undermining previous achievements. Domestic developments such as rising unemployment (in the cases of some Member States rates of up to 15 to 20%, 10 % on average for the EU, are expected for 2010) could make certain governments less cooperative and more protectionist as the political and social effects of the financial and economic instabilities develop.

The *European Commission* has lost authority due to its problems in leading the crisis management, not being able to convince the Member States of more coordinated action. Furthermore, some commentators held it responsible for insufficiencies in financial market surveillance, in particular due to its focus on deregulation in the last five years. It is a major challenge for the new Commission to re-establish its authority in particular in applying fiscal and economic policy surveillance and in order to help shape their further development, on the future European growth strategy and on the EU budget.

The *European Central Bank*, on the contrary, has strengthened its position and credibility due to its swift reaction to the crisis. But it will have to prove its standing in managing the exit strategy: both the Euro and the ECB would lose credibility if the problematic effects of badly co-ordinated exit strategies were blamed on the ECB.

The acting *Trio-Presidency* (Spain, Belgium, Hungary) is unlikely to assume effective leadership on EMU issues. Out of the three, only Spain and Belgium are members of the European Monetary Union. Spain is in a difficult situation both with regard to its economic outlook, its public finances and soaring unemployment rates. Belgium on the other hand, does not have a particularly strong political role in the EMU.

In this overall political context, other large EMU member states, in particular *Germany and France*, have the responsibility and the opportunity to bring forward the debate in the Euro Group, the Ecofin and the European Council on the most pressing and the strategic issues listed above. The European Council will be a particularly important forum for Germany and France as its role is likely to be strengthened: Its first permanent President will make the leadership and steering role of the European Council more efficient and may speed up its ability to act. In his first major move, Herman van Rompuy summoned an informal European Council for February 11<sup>th</sup>, 2010 to discuss economic issues ahead of the regular Spring Council. The Heads of State and Government hence became more involved in European economic governance debates. A second Euro Area summit,<sup>5</sup> as the one of October 2008 held under the French EU Presidency is yet not on the horizon. But this option should be considered for instance as a part of the Spring Summit, as the Euro Area does have specific coordination needs which have to be dealt with.

## **The Political Impact and Economic Weight of Germany and France**

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In this political landscape, there is ample scope for a joint leadership by France and Germany in the shaping of policy responses and in the strategic debate on the future of the governance structures of the European Monetary Union. Germany's and France's traditional divergence over economic policy issues has in the past allowed for fruitful compromise and played a shaping role in the Maastricht negotiations. Since then, either France or Germany

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5. The Heads of State and Government of the EMU together with the British Prime Minister.

initiated decisions on EMU governance and the traditional Franco-German cleavage over economic and fiscal policy issues as well as institutional questions shaped the outcome<sup>6</sup> and it seems unlikely that important reforms can be triggered without Germany and France.

A Franco-German compromise over the direction and depth of the adjustment of its governance mechanisms seems crucial, given the opposed views that persist in many ways on “the right” economic and fiscal policy, the need and nature of policy co-ordination and supervision or the importance of politics in governing the Euro Area internally and externally. As the two shapers of the economic set-up of the EMU and their political levy as the two largest Member States of the Union, Germany and France together can exert a strong influence on these matters. Their approach of course has to be open to impulses from the other Member States. But the expectancy of many smaller Member States is indeed that the two large ones should overcome their differences to get going.

The political influence of Germany and France is backed by their joint economic weight in the Euro Area. Both countries represent nearly half of the currency union’s GDP (Germany contributes 27% to the EMU’s GDP, France 20%).<sup>7</sup> From an economic point of view, coherent, sustainable and transparent approaches to fiscal and economic policies in both countries would mean that half of the Euro Area’s economy is steered reliably. If both countries head for sustainable recovery, benefitting from each other due to the close economic ties, this can have important economic effects on the Euro Area and the EU as a whole.

### **Problems to Overcome: the Costs of Disagreeing**

The obstacles that have to be overcome by Germany and France should not be underestimated. For instance, French and German positions on the EMU’s institutional architecture have to be examined carefully. France traditionally argues for a stronger “gouvernance économique” which Germany interprets as a political counter-weight to the ECB which it refuses as much as any attempt to weaken politically the exchange rate of the Euro. The French quest has hence been countered by categorical refusal from the German side, while France has not even spelled out what this would mean. On the German side, doubts exist with regard to the question in how far France is ready to respect for example the EU’s fiscal rules. Meanwhile, under the impression of the problems with Greece, the German position tends to shift towards a more decided application of economic and fiscal policy coordination mechanisms in order to be able to survey and influence national policies more strongly.

Furthermore, both countries have distinct growth models, the French one being centered on domestic demand, the German one focusing predominantly on export competitiveness.<sup>8</sup> From a French point of view, economic policy in Germany since the start of EMU has been non-cooperative, even aggressive<sup>9</sup> as it has concentrated on a reduction of unit labour

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6. For instance when establishing the Euro Group and developing it over the years, in the establishment and shaping of the Stability and Growth Pact, the introduction of additional co-ordination mechanisms, and the first Euro Area summit on French initiative in 2008.

7. The German share in the EU’s GDP is 19%, France’s share amounts to 14%. All GDP data has been taken from: International Monetary Fund, *World Economic Outlook Database*, October 2009.

8. See the contribution by Jean-Francois Jamet in this volume.

9. For an excellent summary and evaluation of this argument see Patrick Artus: «La politique économique de l’Allemagne est-elle un problème pour les autres pays européens?», *Natixis Flash*, 8<sup>th</sup> December 2009, no. 538.

costs, fiscal competition (in particular corporate taxation), too little engagement against the strong euro and too little budgetary stimulus during the recent recessions. From the German point of view, France has not done enough to improve its competitive position, neither in terms of wage restraint, not in terms of research and development expenditure. In turn, French (and other Europeans commentators) point out that Germany's economic policy strategy can only work because the other EU or EMU member states are not following it. If they did, they would collectively face a slump in domestic demand and no Member State would reap a medium-term benefit.<sup>10</sup>

If Germany and France do not pursue more coherent policy approaches in the future, there could be long-term consequences for the Euro Area. Interest rates will almost certainly be higher than they would be otherwise. France could use tax cuts to strengthen the economy's supply side, which in the worst case could fuel a race of competitive real devaluations. Furthermore, the risk of sovereign default within the Euro Area could rise.<sup>11</sup> These developments would come at a high cost for those Member States with severe fiscal problems.

But even if this negative scenario does not materialize, a lack of Franco-German coordination is likely to inhibit growth. An incoherent economic policy mix could for example prevent counter-cyclical policies from working the way they should.<sup>12</sup> Given that the German and the French economy together make up nearly half of EMU's GDP, more coherence would hence be beneficial to the currency union as a whole.

The management of the crisis will shape the future of economic governance in the EU decisively, in particular because policy issues and questions of coordination, hence the governance architecture of the EMU, are closely interlinked. Germany and France, as two countries who face this situation against the backdrop of different growth models and in some ways diverging policy preferences, have a specific role to play. If they assume this role in recognition of the close interdependencies which exist in the EMU and which the current crisis has underlined, they can importantly contribute to improving EMU governance for the future. It is positive that public disputes over EMU issues between Paris and Berlin have ceased. The recent intensification of bilateral exchange on EU and EMU economic governance is definitely a step in the right direction. This dialogue should be intensified and extended from the Finance Ministries to the Chancellery and the Elysée – with the double objective of improving ongoing co-ordination, for example by systematically preparing Eurogroup meetings together, and discussing the long-term reform issues listed above.

In addition, a new Franco-German Council of Economic and Political Advisors could inform debates on the top governmental level and strengthen working relationships between both administrations. Researchers and policy advisors should meet regularly for working sessions, based on reports commissioned to the Council by the two governments or initiated by members of the Council. Its mission should be to contribute to joint views of economic and financial developments in the EU and the EMU and to evaluate national policies with regard to their impact on the other country's economy and the whole Euro Area.

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10. *Ibid.*, p. 4.

11. See the analysis by Wolfgang Münchau: Divided we fall, *Financial Times*, October 6, 2009. <http://www.eurointelligence.com/article.581+M5fde5956294.0.html#>

12. Philippe Aghion/Elie Cohen/Jean Pisani-Ferry: "Politique économique et croissance en Europe"; Documentation française, 2006, available online: <http://www.cae.gouv.fr/IMG/pdf/059.pdf>.

Both the intensified governmental dialogue in a European perspective and the new Council should seek to ensure a more developed understanding of the other country's situation as well as a common view on shared problems, and it should seek to limit divergence in national policy responses. This is a prerequisite for Germany and France to assume their responsibilities: to shape future governance of the Euro Area and to bring a strong European perspective into the evolving global governance in the field of economics and finance.





# What Economic Policy for the Euro Area after the Financial Crisis? The Path Towards a New Franco-German Compromise

Jean-François JAMET<sup>1</sup>

The economic and financial crisis has shown the utility of the Euro and of coordination tools existing between the Member States of the Economic and Monetary Union, but it has also underlined the limits of an economic governance that is still suffering from diverging national economic policies<sup>2</sup>. At a time when Europe is only very slowly overcoming the crisis, the issue for the Euro Area is to define a coherent post-crisis economic strategy and to find the political means necessary to reach this objective. This particularly concerns defining the methods to return to balanced public finances and the means to increase potential growth in the years to come.

In this context, Franco-German relations are essential for several reasons. Firstly, France and Germany, which are the two largest economies in the Euro Area, have traditionally had a determining role in the political initiatives that led to the deepening of European economic integration. But beyond the observation of the leverage effect of Franco-German initiatives, the ability of France and Germany to agree on a common policy during crisis resolution is decisive due to the growing divergence of the respective economic strategies that characterised the decade preceding the crisis<sup>3</sup>. This divergence prevented the Euro Area from acquiring a coherent policy mix and thus cost it additional growth<sup>4</sup>.

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1. The views expressed are those of the author and not necessarily those of the institutions to which he is affiliated.

2. On this point, see J.-F. Jamet and F. Lirzin, *L'Europe à l'épreuve de la récession*, *Questions d'Europe* – Policy papers of the Robert Schuman Foundation, no. 130, 2<sup>nd</sup> March 2009.

3. See J.-F. Jamet, *Les économies française et allemande: un destin lié, des stratégies à rapprocher*, *Questions d'Europe* – Policy papers of the Robert Schuman Foundation, no. 149, 16<sup>th</sup> November 2009.

4. On this point it is useful to refer to P. Aghion, E. Cohen and J. Pisani-Ferry, *Politique économique et croissance en Europe*, *Rapport du Conseil d'analyse économique*, La Documentation française, 2006. The authors show in particular that macro-economic policies are less counter-cyclical in Europe than in the United States and that this affects European growth.

The necessary definition of a Franco-German economic strategy would benefit the entire Euro Area. Franco-German initiatives, however, will only reach their full potential if they are accepted and shared by the European partners of the two countries. For France and Germany this means aligning their viewpoints and building common initiatives while ensuring that their vision can be shared by their partners.

In the text that follows we will try to explore the path towards a new Franco-German compromise. In the same way that a compromise was necessary between the two countries to create the Euro, a new political agreement is necessary today to give overall coherence to the economic policy of the Euro Area in the post-crisis period. What content and what format should be given to this agreement?

## **Post-Crisis Issues in the Euro Area**

Although the worst seems to have been avoided, i.e. the scenario of prolonged depression, similar to that of the 1930s, there are numerous post-crisis issues for Euro Area Member States: facing up to rapidly growing unemployment, returning to balanced public finances, finding the path to growth that is high enough to reach these first two objectives more easily, managing risks weighing down on economic balances that are both international (i.e. the evolution of exchange rates) and internal (i.e. ageing and the restructuring of industry), and finally, adapting to the scarcity of natural resources on a worldwide scale.

The task is not an easy one. The unemployment rate has continued to rise in the Euro Area since the beginning of the crisis: it should reach 10.5% in 2010 (as opposed to 7.5% in 2007) and even 19.4% in Spain and 13.5% in Ireland. The state of public finances in the Euro Area has also considerably deteriorated due to recovery plans but also to the increase in social expenditure and the decrease in tax revenue that mechanically stemmed from the crisis. According to the European Commission's forecasts, the public debt of Member States will represent 88.5% of GDP in the Euro Area in 2011 (as opposed to 66% in 2007). Here again, certain countries will see their public debt skyrocket: it has quadrupled in Ireland, for example, where it increased from 25.1% of GDP in 2007 to 87.3% of GDP in 2011; worse again, it should reach 134% of GDP in Greece in 2011. This situation obviously raises the issue of the future of the Stability and Growth Pact. It also raises the issue of the appropriateness of maintaining the same criteria as in the past for the admission of new States to the Euro Area.

Facing up to social and budgetary difficulties is not easy in the context of relatively low growth expected over the coming years: potential growth should be around 1% between 2010 and 2015 as opposed to 2.5% in the United States. In addition to the demographic factor (growth of the active population is slowing down tremendously), this is explained by the lack of innovation and investment in Europe, which results in productivity gains that are too limited, particularly in the services sector<sup>5</sup>. Pressure on the prices of commodities in a world facing a shortage of natural resources will, in addition, add to this already bleak picture.

Paradoxically, despite this modest upturn, there is a risk of international tensions in relation to several issues, notably exchange rates which are seen as a strategic variable by

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5. On this point see P. Artus, "Pourquoi la croissance potentielle est-elle aussi faible dans la zone euro?", *Flash Économie – Natexis*, no. 394, 4<sup>th</sup> September 2009.

many countries, in particular China and the United States<sup>6</sup>. The depreciation of the euro, caused by slower recovery in the Euro Area and by the fears generated by sovereign debt, is for now the greatest support to European growth after stimuli packages. In that context, the exchange rate policies of the EU's main trading partners will be key. China is for now maintaining a close to stable peg to the dollar and certain countries such as Switzerland and Japan have already mentioned the possibility of implementing a depreciation policy for their currency. The consequences of this latent trade war could well be negative for world trade including European exports.

Last but not least, the search for a common strategy in Europe is made more difficult by certain differences that emerged before the crisis. France and Germany thus went in opposite directions despite the interdependence of their economies: French growth was supported by household consumption (even though contribution to growth of the balance of trade has been negative since 2002) whereas German growth was a result of the growing role of its external trade (growth of the German economy has not been linked to consumption since the beginning of the years 2000 and has adopted the fluctuations of the balance of trade). It is however difficult to say whether one of these models was more effective than the other as both countries experienced relatively modest and similar average annual growth between 2000 and 2008 (1.5% in Germany, 1.9% in France). On the other hand, it is clear that Germany was hit hard by the decrease in international trade linked to the crisis: its GDP dropped by 5% in 2009, as opposed to a 2.2% decrease in France.

The divergence in growth engines on both sides of the Rhine is for the most part the result of diverging economic policy choices: support for demand in France and reduction of labour costs in Germany. These two strategies are incoherent, however, for the Franco-German entity. The slowdown in German consumption penalised French exports, whereas the steady consumption rate in France stimulated German exports. Between 1998 and 2008, French imports of German products increased by 51% whereas French exports towards Germany only increased by 22%. The good performance of German external trade was also largely due to the improvement of its balance of trade with France, where the industry share of GDP dropped significantly (from 17.1% in 1996 to 14.1% in 2005) contrary to what happened in Germany. The divergence between the French and German economic strategies also considerably changed the structure of the economies of the two countries, creating different political incentives. Whereas the share of exports in GDP remained relatively stable in France between 1997 and 2008 (approximately 26%), it skyrocketed in Germany, where it increased from 27.5% to 47.2%.

This vicious circle of Franco-German differences seems to have continued at the beginning of the crisis: the problems were numerous (with regard to support for the car industry, on the initial size and timing of the recovery plans, on the transparency to be given to the financial health of banks, on the energy policy with the “divorce” between Siemens and Areva). Luckily this was interrupted by the need for economic and political pragmatism in addressing the crisis, which led to an agreement on recovery policies as well as the definition of a shared Franco-German agenda in the field of financial regulation within the framework of the G20 and the European Union. However,

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6. It is noteworthy that this inflation, which will be stimulated by restored confidence of economic players, even though the amount of currency in circulation increased considerably during the crisis (due to monetary and budgetary recovery policies), could take several forms: an increase in consumer prices, but also and perhaps mainly, an increase in the price of assets and commodities.

divergences reappeared during the “Greek” crisis, with Germany being more reluctant to a bail-out.

The course of the crisis highlighted a well-known fact: France and Germany have difficulties in agreeing in the field of economics because of a different heritage and economic structures that have tended to differ recently. But when they do agree, the leverage effect is considerable, as was shown by the very history of European integration and that of the Economic and Monetary Union. How then can we use this leverage effect to define a joint post-crisis policy?

## **The Need for a New Franco-German Compromise**

Observers of Franco-German relations have recently and with reason insisted on German “emancipation”<sup>7</sup> but we should not see in this the impossibility of bringing the views of both countries closer together. It is true that Germany means to promote its well-understood interests in the European concert, which is legitimate. Moreover, France is not acting differently. On several occasions in the past, there have been diverging views between France and Germany, especially in the economic field. And yet compromise was found, for example when the EEC was created with the simultaneous creation of the Common Agricultural Policy, or when the Euro was created with the independence of the European Central Bank and the priority given to the goal of inflation. Both countries managed to overcome their differences on aspects that in the end appear as being relatively minor with regard to what the integration of the two countries could bring. In addition, the financial crisis has brought the Franco-German tandem back to the forefront of the European scene. During the crisis, the French President and the German Chancellor discovered the possibility of sharing European leadership once they spoke with a single voice, as was the case in the field of financial regulation. On the contrary, they could see during the “Greek” crisis how damaging and costly their disagreement and their failure to act could be.

First of all, on the method, much progress is necessary. This should ensure that the conditions for real Franco-German coordination are present at the highest level. The first goal is to create continuous high-level dialogue between the two executives. On this point, the Élysée Treaty laid the essential foundations, with the role played by the Franco-German Economic and Financial Council, the Franco-German Council of Ministers as well as the Secretaries-General for Franco-German Cooperation. It is nevertheless necessary to ensure that the respective decisions systematically receive prior consultation in order to avoid a situation where both countries openly oppose each other concerning an initiative of the other (as was the case, for example, with the Union for the Mediterranean, or – more recently – on the regulation of short selling). The creation of a joint Ministry has been envisaged. More precisely, we could see the creation of a Minister of State position for Franco-German relations which, in the French case, would be attached to a Ministry in charge of European Affairs, or even directly to the Prime Minister. In France, this Minister of State position would be held by a German figure, chosen in agreement with the German Chancellor. A similar structure would be created in Germany. The Ministers of State appointed in this

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7. See for example C. Chatignoux, “Merkel-Sarkozy, quel projet?”, *Les Échos*, 9<sup>th</sup> November 2009.

way would consequently benefit from the possibility of attending the Councils of Ministers and of ensuring the daily work of informing and coordinating between the two governments. They would also have the role of organising joint initiatives and monitoring their implementation. To accompany this work, it would be a good idea to bring together the economic and social expertise of both countries, for example by creating a Franco-German economic and social council where economists and social partners from both countries could exchange their viewpoints and draw up joint proposals.

The second objective is to play in a realistic manner on the well-understood interests of both countries and to take account of their respective economic cultures. Although it is useless for the French to argue on the possibility of using inflation during the post-crisis stage in order to limit the share of public debt in GDP, given the ECB mandate and the risk of receiving no response from the German side, it is more interesting to discuss the advantages of the appointment of a German figure as the head of the ECB in 2011, for example as part of the reinforcement of the role of Eurogroup and its dialogue with the ECB.

As regards the content, Franco-German compromise should be ambitious and set a road-map for the years to come. The state of progress of these objectives should then be examined and be the subject of joint communication at each Franco-German Council of Ministers. The agreement would be based on the following elements:

– A commitment by France with regard to returning to a balanced budget. In order to ensure the credibility of this commitment, France could adopt constitutional rules comparable to those recently adopted in Germany, which prohibit public deficit from exceeding 0.35% of GDP, excluding economic trends, from 2016 for central government and from 2020 for the Lander<sup>8</sup>. In addition, France and Germany should discuss the best way to return to a balance knowing that a combination of a decrease in expenditure and an increase in levies will be necessary. In particular, the coordination of timing in the adoption of necessary tax measures would be welcome.

– The joint and systematic preparation of Euro Group meetings with a view to bringing the guiding principles of the economic policy and the political communication of both countries closer together, especially concerning the articulation of budgetary and monetary policies or even the exchange-rate policy. This will avoid diverging macro-economic strategies and the creation of European imbalances similar to those observed at worldwide level. In the long term, this alignment should target the implementation of a joint external economic representation at the IMF, the World Bank or even the G20, which could then be extended to the entire Euro Area;

– A Franco-German proposal with a view to reforming governance of the Euro Area. This proposal could be based on the following foundations: supervision of private debt; internalisation of the budget rule in the legislation of Member States (through the adoption of a binding directive concerning deficits in periods at the height of the economic cycle and the rules of good governance as regards budget preparation)<sup>9</sup>; the adoption of common positions on international economic imbalances, which are then jointly defended at international level and discussed with the ECB in order to draw conclusions and act accordingly, if need be, with regard to monetary policy;

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8. A similar rule applicable to the French case was proposed by J. Delpla: “Une règle budgétaire comme condition du grand emprunt”, *Les Échos*, 29<sup>th</sup> October 2009.

9. See the article by S. Collignon in this book.

– The definition of a joint programme for structural reforms. France and Germany should give themselves seven main objectives: increasing the amount of investment in the economy (by increasing in particular the amount of investment expenditure in public expenditure so as to increase, for example, the finance available to higher level education and research), improving the employability of the labour force (by improving, for example, the efficiency of in-service training and back-to-work assistance, but also by encouraging the employment of women, young people and seniors), preserving the viability of health-care and pension systems, improving the regulatory and competitive environment of companies (for example in the area of access to finance), bringing French and German tax systems closer together (for example the rate of VAT and corporation tax), adopting joint investment and energy supply objectives and finally, defining shared industrial priorities (for example in the financing of environmental innovation). These priorities should then become joint projects, drawing especially on the proposals of the aforementioned Franco-German Economic and Social Council.

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The Euro Area should be equipped with a crisis resolution strategy, given the importance of the challenges that it will have to face, and for this it needs a Franco-German agreement. It is not a question of creating an executive board of the two main economies of the Euro Area, but rather of limiting the extremely negative impact of the divergent views and policies between both countries that in the past played a driving role to the benefit of all their partners. In order to have real scope, a Franco-German agreement must be both ambitious and realistic. This first of all implies the strengthening of institutions that coordinate economic policies between both countries, in order to find the path to essential convergence. Then, this cooperation must be given very solid content, through joint initiatives both internally and for the Euro Area in its entirety. The conditions for a revival of European economic integration would then be met.

# Are We Heading Towards a European Tax? Europe in Search of a Real Budget

Alain LAMASSOURE

The issue of a European tax remains an unspoken element of debate within the European Union. During the last European election campaign, no major political party took the risk of launching this idea, which had nevertheless been mentioned earlier as being democratically obvious: there is no political power without budgetary means, and no contribution without representation. The candidate Nicolas Sarkozy, a great taboo breaker, finally gave up on the idea of attacking this particular issue, after having mentioned the idea of a tax allocated to the European Union during his pre-presidential campaign. With the Lisbon Treaty and after the economic crisis, the issue will be raised in a much more intense way.

## Are We Heading Towards a European Tax?

In budgetary matters, the Lisbon Treaty ended a political anomaly, that of the difference between “compulsory expenditure” and “non-compulsory expenditure”. This difference, which was invented on France’s initiative to justify the fact that governments alone determined the necessary amount of agricultural expenditure, had become undefendable. From now on, the Parliament and the Council will have the same power over all European funds. After a single reading in each of the two institutions, they must find an agreement within a Conciliation Committee. This agreement will undergo an overall vote by each of the parties: at this last stage, it is the Parliament’s position that shall prevail from now on. If the agreement is rejected by the Parliament, it will be annulled and the procedure will start again from scratch. If it is accepted by the Parliament, it will be validated. If the Council then refuses it, the Parliament would even have the right to make its original amendments prevail, on the unique condition of obtaining a two-thirds majority on these amendments.

However, the other budgetary anomaly of the EU remains whole: contrary to the letter and the spirit of the treaties, Community expenditure is no longer financed by its own resources allocated to the EU, but mainly (almost 90%) by contributions from national budgets. It is as though the EU were financed not by its 500 million citizens, but by 27 taxpayers – the 27 budget ministers. Before the financial crisis, they did not want to pay

for the Union and since the crisis they no longer can: how can a country like France that gets into debt in order to finance half of its own annual expenditure, significantly increase its contribution to the joint budget?

The result is paradoxical: the more the EU's powers increase, the more its budget decreases, at least in relation to EU GDP. Joint expenditure, which represented 1.18% of GDP ten years ago, has dropped to 1%, even though a quarter of a century ago, Margaret Thatcher, who was not an out-and-out federalist, had admitted that the Community budget could increase up to 1.24%! Although monetary, political and legal Europe has made spectacular progress, budgetary Europe has continued slowly to decline.

The European Parliament was the first to become concerned about this. From as early as 2005, its Committee on Budgets commissioned the author of this text to contact the Finance Committees of national parliaments in order to seek a consensus to overhaul budgetary Europe. The resolution adopted by the Parliament in Strasbourg in March 2007 noted that on the eve of the financial crisis, a certain consensus existed, at least among the parliamentarians of the Euro Area States:

- Agreement on the diagnosis and on a first phase of reform leading at least to making national contributions proportional to the real wealth of Member States, whereas after the United Kingdom, half a dozen of our partners managed to benefit from privileges that are as complex as they are illegitimate.

- Refusal to create a new tax: no national parliament is ready to accept the principle of a “European tax”.

- Need to respect the “principle of consistency”: the transfer of powers involved in the transfer of expenditure and therefore of resources, should not lead to an increase in total public burdens. The European Union is being built on the basis of fixed costs and a constant tax burden, all things being equal.

- Maintaining the tax sovereignty of national parliaments. The Union should be considered as a territorial community. The “tax sovereign” can give it the total or partial tax income that he creates, by strictly stipulating this power as is the case in France, for example, of the power of towns and cities in relation to the residents' tax.

- An interest in studying the technicalities of three possible solutions among the existing national taxes: VAT, corporation tax and environment-related taxes.

## **What are the Possible Solutions?**

VAT seems to be the simplest solution from a technical viewpoint, and undoubtedly from a political one. It would suffice to say, for example, that the basic French rate is moving from 19.6% to 17.6%, by giving the Union (Council and Parliament) the right to remove up to 2 points from VAT. In return, the contribution of the French national budget to the Community budget would be abolished. A variant could involve only taking into consideration the VAT which burdens intra-Community trade, as this corresponds to the real added value of the Common Market.

The most popular solution among citizens would undoubtedly be to allocate part of the income received from the taxation of profits to the Community budget. This solution implies a political condition that creates both an interest and a difficulty; it would only be possible once the prerequisites of harmonisation of tax bases and the definition of taxable profit, are carried out. The preliminary technical work has been carried out by the European



Commission after ten years of hard work. It is now up to the politicians to take the floor. Countries in favour of “tax competition” cannot seriously oppose a reform that would make this competition fair and transparent, which is hardly the case today.

A third solution stems from the burgeoning of “green” taxation. From the eco-tax on heavy goods vehicles to the diverse variants of carbon taxes, environmental protection is the only issue for which European public opinion accepts tax innovations. The auctioning of greenhouse gas allowances alone among the most polluting industries should yield between €30 and €60 billion from 2013 onwards. It would be all the more legitimate to allocate part of it to the European budget, as, in this instance, the law being applied is a European directive, the market of these allowances is European, and it is indeed the European Union that negotiates on the subject in the name of the Member States in all the international forums.

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But, one may ask, does the context of crisis lend itself to the development of the European budget? Yes, in fact it does. By ruining national finances, the crisis will force an agonising overhaul. In Copenhagen, European leaders realised that by not managing to gather a Lilliputian joint budget, they were obliged to pass the hat around among themselves in order to find €2.4 billion (with great difficulty) in order to help developing countries fight climate change. When, instead of allocating the 3% of GDP decided on ten years ago in Lisbon to scientific research, the European countries cannot exceed 1.7%, they have even less of a right to continue to waste most of it in the 27 competing programmes. The same goes for the defence policy, or that of development assistance.

So much so that in this period of crisis resolution, the European Union, endowed with its new institutions and its new powers, has a two-fold duty: that of increasing its budget by finding its own resources – and there, the ball is in the court of President Barroso and of his new Commission, whose proposals are expected in the spring, and that of also coordinating national budget policies. Not only policies concerning the financing of balances (that is what the Stability and Growth Pact provides), but the very content of expenditure. For a long time to come the joint European objectives will be mainly financed by national budgets, whose total amount is forty times that of the Community budget. This will be the distinguished task of President van Rompuy, the man with the conductor’s baton, charged by the Treaty to make the European concert play in harmony.



# Does Europe have an External Economic Strategy?

Stefan COLLIGNON

The European Union is the second largest economy in the world, but does it have a global economic strategy? 10 years after the creation of the euro, there is little evidence for it. Policy makers are more concerned with protecting narrow domestic advantages than with improving opportunities for the European economy as a whole. The Lisbon Treaty offers now a new perspective. It explicitly calls for policies that “encourage the integration of all countries into the world economy” (art. 21). It will be the task of the new President of the European Council and the High Representative for Foreign Affairs in the European Commission to translate this objective into a coherent strategy that takes into account the euro as the second world reserve currency. This chapter looks at the most urgent issue: how to restructure the world economy after the financial crisis and remove the huge global imbalances. This is an important task, because macroeconomic imbalances were a major cause for the financial crisis. Exchange rate policies for the euro will have to play a major part in such a strategy and this is an eminently political project. I will first discuss the lessons to be learned from the crisis, and then draw conclusions for an international strategy.

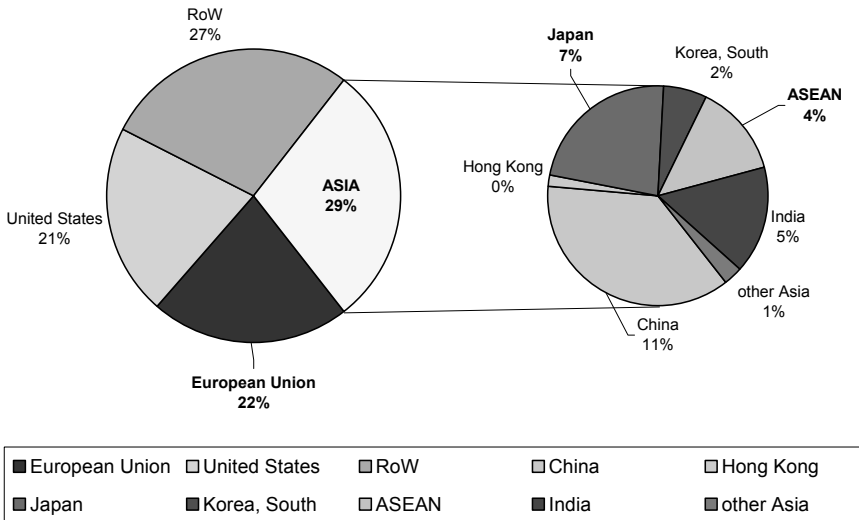
## The Transformation of the Global Economy after the Financial Crisis

In November 2009, President Obama went to China and asked for a revaluation of the Chinese currency, the Renminbi. President Hu Jintao refused. Two weeks later, the European trio Barroso, Juncker, Trichet went to Beijing with the same request and got the same response. A common view is that China manipulates its currency to gain unfair trade advantages. However, the world benefits from Chinese rapid growth and an appreciating currency could undermine such growth. China is therefore right to resist demands for a stronger currency and Europe is wrong to copy American demands. Europe needs its own economic foreign strategy. Such strategy must address the lessons learned from the financial crisis.

China is of crucial importance for the European economy. With a global market share of 11.4%, China is the world's third largest economy, after the United States (21%) and the European Union (22%). Japan is fourth with 7% of world GDP. See Figure 1. After the

crash of 2008/9, the world is now returning to positive growth, most rapidly in Asia, but trailing behind in Europe. The IMF expects the Chinese economy to grow by 9% in 2010, but the Euro Area only by 0.3 %, less than the US (3.1%), Japan (1.7), and the UK (0.9)<sup>1</sup>. The additional economic wealth generated by China in 2010 year is equivalent to nearly 5% of the EU's total GDP.

**Figure 1**  
**Regional Shares in World GDP (ppp 2007)**



Source: CIA Factbook, 2009

But clearly, the US economy also matters. After all, that is where the financial crisis started. A popular view is that the financial bubble was caused by greedy bankers, and the best remedy against future crises is to take bankers' bonuses away. Hence, better financial regulation should prevent future crises. But financial bubbles only develop when speculators get finance. A number of observers have argued that the American central bank had adopted an overly accommodative policy stance and maintained it for too long<sup>2</sup>. Although it is true that insufficient financial regulation allowed banks worldwide to buy high risk and under-performing (subprime) American assets, so that the global financial system was affected, the ultimate cause of the crisis is found in the interaction between under-regulated financial systems, excessive liquidity creation and global imbalances. The recent asset market bubble was financed by the Federal Reserve System and huge capital inflows from Asia to America. Preventing future crises requires more restrictive monetary policies and dealing with global imbalances, without neglecting the framework for financial supervision.

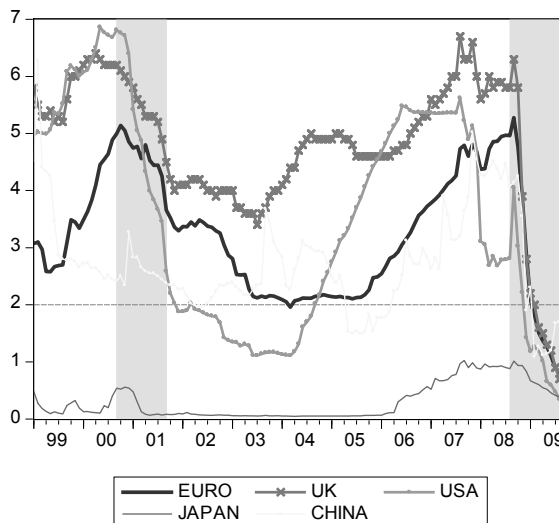
1. "World Economic Outlook", IMF, Washington DC, October 2009.

2. Maurice Obstfeld and Kenneth Rogoff, "Global Imbalances and the Financial Crisis: Products of Common Causes", November 2009, <http://elsa.berkeley.edu/~obstfeld/santabarbara.pdf>; see also John B. Taylor, *Getting Off Track*, Stanford, Hoover Institution Press, 2009.

### *The Roots of the Financial Crisis*

Financial crises occur when credit bubbles burst. One bubble often generates the next. The roots of the recent financial and economic crash go back the previous so-called dot.com crash in 2000 that destroyed asset values of 7 trillion US dollars, and to the Asian crisis of 1997/8. In 2000, the Federal Reserve System sought to prevent the stock market crash that originated in the ITC sector from spilling over into the real economy, and it responded by cutting interest rates and providing liquidity to the markets. A year later, the 9-11 attack on the World Trade Centre shook America's confidence and, again, the Federal Reserve System cut interest rates. See Figure 2. For the next three years, real short-terms interest rates were negative in the United States. This highly accommodating monetary policy fueled a new credit bubble and appreciated asset values for stocks, real estate and commodities. Given that lending rates were extremely low, banks sought to increase their return on capital by leveraging their operations, and the abundant liquidity was absorbed by asset price inflation. When the FED started to raise interest rates in the middle of the decade, initial rate hikes had no effect on the financial exuberance until they reached the level of 7%. Such "irrational exuberance" is frequently observed during financial bubbles. But the subsequent crash is usually quick and dramatic. Asset price increases slowed down and then turned negative, thereby weakening banks' balance sheets, ultimately leading to the collapse of major banks like Lehman Brothers. The lesson from this development is that one must not keep interest rates too low for too long, otherwise one bubble generates the next.

**Figure 2**  
**Short term nominal interest rates**

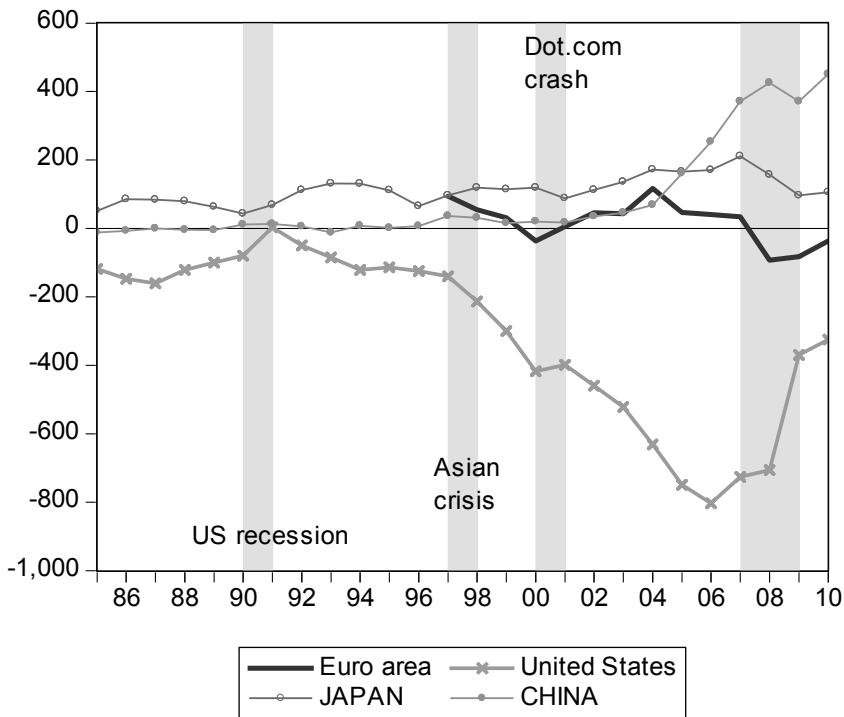


Source: Bloomberg

Financial market exuberance in the United States attracted capital from across the world. Especially many Asian countries had learned from the Asian crisis in 1997 that they needed to accumulate foreign exchange reserves as a buffer against future monetary instability.

As a consequence savings in Asian emerging economies increased. Asian central banks kept their foreign exchange reserves in profitable US government bonds and contributed to the world-wide asset price adjustment. European commercial banks bought American assets of sub prime quality to get a share in the booming American market. The large capital inflows seemed to indicate that the world experienced a “global savings glut”<sup>3</sup>, which kept long term interest rates down and fuelled capital gains allowing American households to reduce their savings. As a consequence the US current account deficit started to widen significantly. See Figure 3.<sup>4</sup>

**Figure 3**  
**Current Account Balances in bn USD**

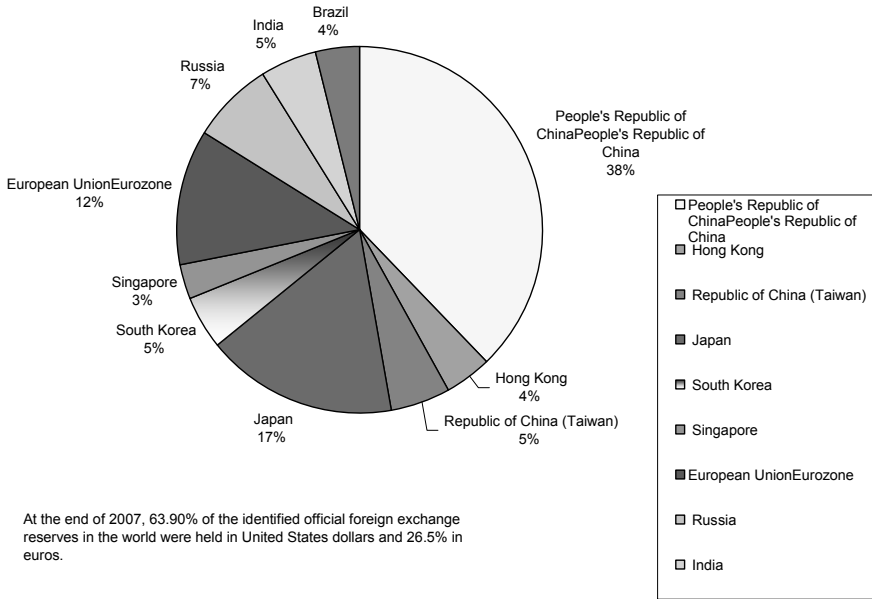


Americans got used to living above their means, Asian and European exporters benefited from American demand. The boom crashed in 2008. But in the meantime, China and some other emerging economies accumulated huge current account surpluses and foreign exchange reserves, while the external position of the Euro area remained close to balance. Figure 4 shows the distribution of reserves among the major reserve holders in the world. Asian monetary authorities hold more than 2/3 of the world’s major foreign exchange reserves.

3. Ben S. Bernanke, “Remarks by Governor Ben S. Bernanke: The Global Saving Glut and the U.S. Current Account Deficit”, The Sandridge Lecture, Virginia Association of Economists, Richmond, VA, 10 March 2005, URL: <http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm>

4. The grey shaded areas indicate recessions or financial market crashes.

**Figure 4**  
**Foreign Exchange Reserves 2009**



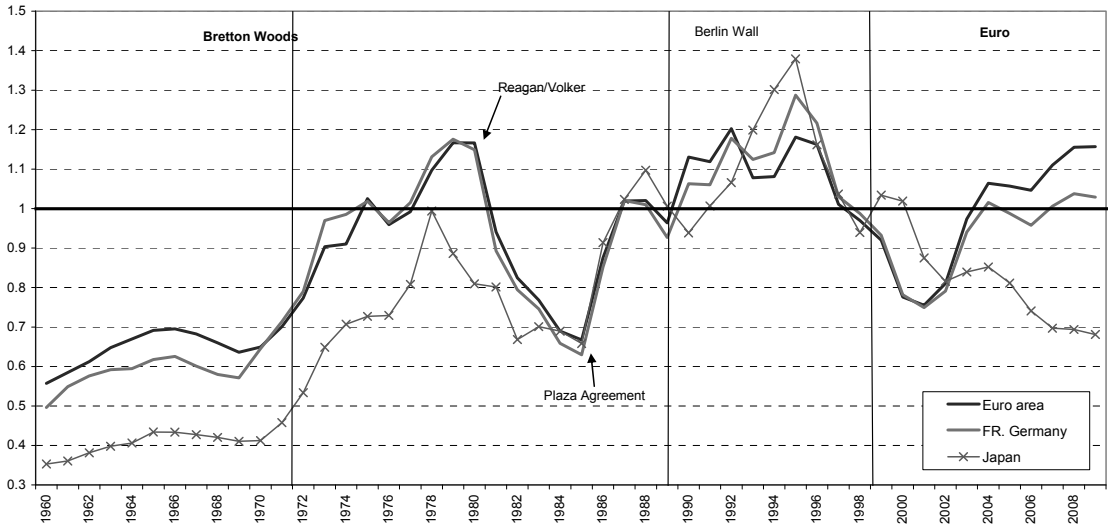
Source: [http://en.wikipedia.org/wiki/Foreign\\_exchange\\_reserves](http://en.wikipedia.org/wiki/Foreign_exchange_reserves); accessed 10.12.1009

### *Asia's Successful Development Strategy*

The global imbalance between Asia and America was the unintended result of strategically pegging Asian currencies to the dollar. The only relevant non-attached currency in Asia is the Japanese Yen. The fixed exchange rate policy has laid the foundation for Asia's rapid development and its integration into the world economy. Especially China's development strategy is built on the combination of stable and competitive exchange rates with long term wage stability. Labour market conditions determine the long run feasibility of the exchange rate regime, but without the latter, rapid economic growth would not take off. Hence, the important lesson learned from the Asian crisis was that the stability of their development strategy depended on sufficient foreign exchange reserves.

Europe and Japan are familiar with this model of development; they have gone through a similar experience in the 1950's and 1960's. As Figure 5 shows, under the fixed exchange rate regime of Bretton Woods, unit labour costs in Japan and Europe remained stable at 40 to 70 percent of the American level. The strategy produced economic miracles. After Bretton Woods collapsed, exchange rates became flexible, European unit labour costs rose 20 percent above the US-level and the miracle disappeared. In subsequent years, nominal exchange rate movements caused big swings in competitiveness levels, but economic conditions in the United States were hardly improved by such flexibility.

**Figure 5**  
**Relative Unit Labour Cost**



Recent developments in East Asia follow a similar logic. Pegging local currencies to a leading world currency like the dollar at highly competitive exchange rates encourages rapid development, because exports into large world markets are cheap and imports are expensive. The export orientation generates economies of scale. Furthermore, domestic wages are low relative to international standards and profits are high. These high profits generated high national savings. By contrast, instable and volatile exchange rates create uncertainty, and this deters investment and lowers savings. Pegging their exchange rates to a major international currency can therefore reduce uncertainty and will affect foreign investment. However, a competitive and undervalued exchange rate is only a necessary, not a sufficient condition for rapid economic development. The profitable environment must be sustained. Exchange rate stability needs to be complemented by stable wages, for otherwise the currency would appreciate in real terms and destroy the competitive advantage. Such a constellation will stimulate domestic investment, high employment, and learning by doing of the domestic labour force. Thus, successful development requires exchange rate stability *and* wage moderation.

The Chinese economy effectively operates under conditions of perfectly elastic or “unlimited” supply of labour. The model was described by Arthur Lewis in his Nobel Prize winning essay more than half a century ago<sup>5</sup>. Roughly 200 millions workers have migrated from the rural countryside into the industrialised urban regions along China’s southern coasts<sup>6</sup>, where they produce cheap consumer’s goods for the world market.<sup>7</sup> This has stabilized

5. W. A. Lewis, “Economic Development with Unlimited Supplies of Labor,” *Manchester School of Economic and Social Studies*, vol. 22, 1954, pp. 139-91.

6. Cai Fang, 农村剩余劳动力减少带来的机遇和挑战 (Decreasing Supply of Rural Surplus Labour, Opportunities and Challenges), *Chinese Economists 50 Forum* 中国经济50人论坛, 4.2006.

7. For example China supplies about 1/5 of the world textile consumption; by 2025 the market share is expected to increase to 1/2.



wages, not only in China, but world-wide. The enormous supply of excess labour in China has therefore contributed to the “great moderation” in wage and price inflation over the last decade.

### *Regional Asian Integration*

There is, however, an additional reason for Asian countries to peg their currency to the US dollar: it supports regional trade and investment within the Asian region. Europeans had a similar experience under the Bretton Woods System: their fixed exchange rates to the US dollar supported the integration of the European market. East Asia has benefited from local currency pegs to the US dollar, because they have created a zone of monetary stability, which has encouraged regional cross-border investment and trade. Inter-Asian trade flows are now exceeding the importance of traditional markets in the United States and Europe. Half of ASEAN exports go to and nearly 70 % of ASEAN imports come from ASEAN+4 countries<sup>8</sup> (see Table 1). Japan is the single most important trade partner in the region. It is also the major source of FDI. The Japanese Prime Minister Hatoyama has therefore rightly prioritized regional integration and monetary cooperation as a cornerstone of his government’s new foreign strategy.

Asia as a region is also a major export market for the United States, who send 20.7% of their exports there, and for Europe which directs 15% of the exports outside the European Union into the region. Asia is nearly three times more important than Europe as a foreign supplier to the US market, and twice as important as the United States for Europe.

**Table 1**  
**Import and export shares for Asian countries (2006)**

Exporter	EXPORT DESTINATION									
	China	Japan	Korea	India	ASEAN	ASEAN+4	USA	EU12	RoW	World
China		9.5	4.6	1.5	7.4	22.9	21.0	14.2	41.8	100.0
Japan	14.3		7.8	0.7	11.8	34.6	22.8	10.8	31.9	100.0
Korea	21.3	8.2		1.7	9.9	41.0	13.3	10.3	35.3	100.0
India	6.6	2.3	2.0		10.0	20.8	15.0	15.3	48.9	100.0
ASEAN	8.7	10.9	3.7	2.5	24.8	50.6	13.9	12.1	23.3	100.0
USA	5.3	5.8	3.1	1.0	5.5	20.7		15.0	64.2	100.0
EU12	1.9	1.3	0.7	0.7	1.5	6.1	8.1	59.1	26.7	100.0
EU12 external	4.7	3.3	1.7	1.8	3.6	15.0	19.8		65.2	

8. Established in 1967, ASEAN now encompasses 10 South-East Asian countries: Brunei, Burma/Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Only the original 6 founding members, abbreviated as ASEAN-6, (Thailand, Singapore, Indonesia, Malaysia, the Philippines and Brunei) can be considered as emerging market economies in the proper sense. See also European Commission, *Quarterly Report on the Euro Area*, Vol. 8.2, Dec. 2009, [http://ec.europa.eu/economy\\_finance/publications/publication\\_summary16509\\_en.htm](http://ec.europa.eu/economy_finance/publications/publication_summary16509_en.htm)

**IMPORT**

Import source	China	Japan	Korea	India	ASEAN	ASEAN+4	USA	EU12
China		20.5	15.7	9.4	11.3	56.9	15.9	5.7
Japan	14.6		16.8	2.5	12.3	46.2	7.9	2.4
Korea	11.3	4.7		2.6	5.0	23.6	2.5	1.2
India	1.3	0.7	1.2		1.6	4.8	1.2	0.7
ASEAN	11.3	13.8	9.6	9.7	24.9	69.4	6.0	2.4
ASEAN+4	38.6	39.7	43.3	24.2	55.1		33.6	12.4
USA	7.5	12.0	10.9	6.3	10.5	47.2		5.8
EU12	9.6	7.8	8.0	11.8	9.8	47.1	13.2	53.9
RoW	44.3	40.5	37.8	57.6	24.6		53.2	27.9
World	100.0	100.0	100.0	100.0	100.0		100.0	100.0

Source: United Nations Statistics Division – Comtrade dataset

The emergence of East Asia, and of China in particular, as the dominant growth pole in the world is transforming the global economy. We can no longer conceive Asia's relations with Europe or the USA as purely bilateral. Policies pursued by China, America, or Japan affect Europe. Europe's choice is between passively receiving these policy externalities and pushing for international macroeconomic cooperation.

## **Opportunities for Global Economic Cooperation**

Global economic policy coordination must remove the global imbalances, which have contributed to the financial crisis, but it would be counterproductive if this process would push all the adjustment costs to Europe. Global policy cooperation requires therefore a specific strategy for Euro-Asian exchange rate management and an institutional framework to administer it.

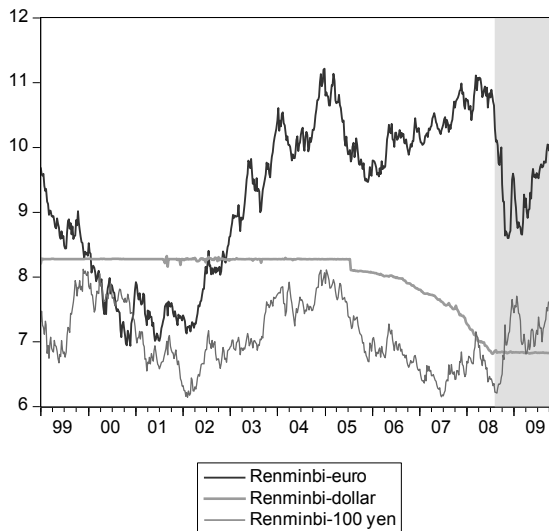
### *Adjustment Policies*

The fixed exchange rate strategy has reduced risks and uncertainty for foreign trade and investment, and it has allowed Asia to become the growth centre of the world economy. But in terms of per capita income China is still only at the 118 position out of 232 countries. It therefore has the justified aim to secure the economic catch-up process.

America has been Asia's privileged partner. It has imported Asian goods and capital and served as the reference for Asian market orientation. By contrast, the Euro Area has remained a bystander because Europe's economic relations with East Asia are handicapped by the volatile exchange rate of the euro relative to Asian currencies. See Figure 6. The Renminbi was fixed to the dollar between 1999 and 2005; it was then allowed to gradually appreciate against the dollar and the yen, while it simultaneously weakened against the euro.

But when the financial crisis occurred and the US dollar suddenly appreciated significantly against the euro, Chinese authorities again pegged to the dollar. Since then, the dollar has weakened against the euro and the yen, taking the Renminbi down as well. While this depreciation has improved China's competitiveness relative to Europe and Japan, exchange rate uncertainty narrows the scope for trade and investment opportunities. Euro-Renminbi volatility has been seven times higher over the last decade than for the dollar-Renminbi rate.<sup>9</sup> It can be shown that this higher volatility has negative effects on Foreign Direct Investment and trade.<sup>10</sup>

**Figure 6**  
**Exchange Rates Renminbi to Euro, Dollar and Yen**



Source: Bloomberg

However, the peg of Asian currencies to the dollar prevents the rapid adjustment of the unsustainable American current account deficit. As the trade deficit with Asia cannot be corrected by relative price adjustments, American consumption, and therefore world demand, needs to be reduced. This slows down economic growth world-wide, while a high growth rate would be necessary in order to reduce unemployment after the financial crisis. Alternatively, the relative price adjustment would concentrate on currency areas with flexible exchange rates to the dollar, most importantly the euro and the yen. But this means that the required appreciation of the euro would be significantly higher than if dollar exchange rates would generally be more flexible. In other words, without the Asian currency pegs,

9. Volatility is here measured as the standard deviation of the weekly exchange rate variation over the period 1/1/1999 to 12/11/2009.

10. In Collignon, 2008, I have shown that the relation between Chinese FDI and the Japanese yen, which fluctuates between euro and USD, is statistically indeterminate. But volatility in the RMB-USD, RMB-Yen and the Yen-USD exchange rates lower foreign direct investment in China. See also Agnès Bénassy-Quéré, Lionel Fontagné, and Amina Lahrière-Révil, "Exchange-Rate Strategies in the Competition for Attracting Foreign Direct Investment", *Journal of the Japanese and International Economies* 15, 2001, p.178-198.

the nominal and real effective exchange rates for the United States would be more flexible and would support the adjustment process. Obstfeld and Rogoff<sup>11</sup> estimated that if US, Asian and European imbalances were all to go to zero, the Euro would have to rise by 28.6% against the dollar in real terms, and depreciate by 6.7% against Asian currencies. However, if Asian currencies were to remain unilaterally pegged to the dollar, the burden of adjustment would fall largely on Europe: the elimination of the US current account deficit would then be associated with a real appreciation of the Euro of roughly 60%. Since Asian currencies would be depreciating, Asian surpluses would rise under this scenario, while Europe would experience an exploding current account deficit.<sup>12</sup> This can hardly be the solution to the world's economic disequilibria.

Policy makers are therefore asking China to give up its currency peg and to allow the appreciation of the Chinese currency. Europeans have joined Americans in pressuring China. But while American requests for a revalued Renminbi, and therefore a devalued US dollar, are part of a coherent strategy to reduce the US current account deficit, it makes no sense for Europeans to echo such demands. The motive for complaints about China's exchange rate regime is in most cases nothing else but a latent form of protectionism: policy makers and firms complain about supposedly unfair competition and seek to keep cheap imports out of the European market, although importing cheap consumer goods would benefit Europeans and exporters would benefit from demand in a rapidly growing Asian region. Unless Europeans (and Americans) understand that Chinese authorities have good reasons for keeping their exchange rates fixed and deal with it intelligently, the dialogue with China will go nowhere. Asia is potentially the most important growth market for the European Union. It therefore serves Europe's interest to contribute to sustained and rapid economic growth in China.

### *Can Europe Delink from the World Economy?*

The danger of an *excessive* euro appreciation is nevertheless real. Not because cheap imports would swamp European markets, but because an excessively strong euro would damage the competitiveness of European firms. One may argue that the external competitiveness matters less since the creation of the euro, given that the degree of openness of the Euro Area to the rest of the world is only 12.5 percent. Hence nearly 88 percent of the Euro Area's economic activity is dependent on domestic demand. If Euroland is losing competitiveness in foreign markets, it could compensate this by higher demand at home. But where would this demand come from? Fiscal policy is already severely constrained by the high debt levels in member states. Increasing wages would quickly translate into higher inflation because productivity is slowing down. Monetary policy is already accommodative and we have learned from the financial crisis that interest rates must not remain low for too long. Thus, there is little the Euro Area could do to actively stimulate domestic demand and lift the growth potential of Euroland.

In this context, an excessively strong euro would be damaging, because it deprives large globally operating firms, mainly in Europe's North, from reaping the benefits of economies

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11. Maurice Obstfeld and Kenneth Rogoff, "Global Current Account Imbalances and Exchange Rate Adjustments" *Brookings Papers on Economic Activity* 1, 2005, p.67-146.

12. Kevin O'Rourke, *The world rebalances at Europe's expense*, 2009, [www.eurointelligence.eu](http://www.eurointelligence.eu)

of scale at the global level. For many firms, the European market alone is not of sufficient size to guarantee efficient production technologies. Losing price competitiveness would imply scaling down production and increasing the weight of fixed costs, while other companies in America and Asia will capture European market shares. This process damages not only exports, but domestic developments as well, because it lowers European productivity and thereby reduces the scope for wage increases, government spending and economic growth. Hence, an excessive euro appreciation would reduce the scope for domestic growth dynamics. The euro Area cannot cut itself from the world market. It needs to remain an active player in global markets and formulate a strategy that simultaneously allows rising the Euro Area's growth potential and integrating emerging economies into the global economy by providing a stable macroeconomic framework. This is, of course, precisely what the Lisbon Treaty has told policy makers to do.

### *Global Macroeconomic Policy Coordination*

An external economic strategy for Europe requires macroeconomic policy concertation not only with America, but increasingly also with Asian authorities. The two key players are China and Japan. While China is a major market for exports from and imports to Europe, Japan is the most important provider of foreign direct investment to China. The European Union is now a more important supplier for China than the United States, despite the appreciating Euro. With greater exchange rate stability, Euroland could significantly extend its trade potential. It is therefore in the European interest to contribute more actively to rebalancing of the world economy by creating more stability in the exchange rate relation between Europe and Asia.

European complaints about the undervaluation of the Chinese currency are short sighted. China needs to continue its successful development by undervaluing its currency; all industrialised countries would benefit from the resultant growth effects. The problem with today's global environment is the privileged relation between Asia and the USA. There is no reason, why China and other Asian economies focus their exchange rate strategy exclusively on the dollar, when Europe is at least as important a market. If the US economy needs more exchange rate flexibility for its current account adjustment, the appropriate response would be to stabilise exchange rates between Asia and Europe. Such a strategy should focus on reducing exchange rate volatility, in order to lower uncertainty and improve investment, rather than on the undervaluation, which fuels China's engine of growth.

Here is how it could be done. First, China and other East Asian countries agree to peg their currency to a basket of currencies, which contains the Euro and the Japanese yen and to a much lesser degree the US dollar. Initially the dollar weight may even be zero. Second, the Euro Area and Japan agree to minimize exchange rate volatility between their currencies by setting a band for euro-yen fluctuations. Japan must be part of this package, given its weight in regional trade and the volume of foreign direct investment from Japan to China and the rest of East Asia.

In this way China and emerging Asia could continue their strategy of competitive development, while the effects of rapid Asian growth and regional integration would spill over into major industrialised countries. European consumers would benefit from cheap imports and domestic demand would be stimulated by their improved purchasing power. Furthermore, the stability of exchange rates within the euro-yen basket and those countries who peg to the basket would support further regional integration in East Asia. Finally,

as Asian authorities will continue to accumulate foreign exchange reserves, they would have to reinvest them in Europe and Japan.<sup>13</sup> These capital flows would stimulate European financial markets, which is particularly important in the present post-crisis environment.

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Removing global imbalances requires new ways of managing the world economy. Instead of weakening China, Europe has an interest of becoming an active partner for Asia. At the same time Europe should share the burden of global adjustment with the USA and Japan by accepting to run a moderate current account deficit in exchange for capital inflows from countries who peg their currency to the euro-yen basket.

The political forum for setting up global monetary cooperation is the G20, although the experience from many international bodies indicates that this forum is too large for making bold policy decisions. A coherent global economic strategy must therefore be designed in smaller working groups, which bring together European, American, Japanese and Chinese authorities. European policy makers should use their privileged forum in the ASEM dialogue for discussing policy issues with Asia.<sup>14</sup> The subsequent implementation and surveillance of such agreement should be delegated to the IMF.

However, the efficiency of European policy issues is seriously handicapped by the inefficient governance of economic policies within Europe. According to the Lisbon Treaty, the European Central Bank has authority for monetary policy, but exchange rate regimes are set by the Ecofin Council. Given the privileged role of the euro in such policy strategy, the ultimate decision of how to “integrate all economies into the world economy” should be worked out by the Euro group.

Finding a solution to the global imbalances remains the most important challenge for Europe’s future.

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13. See M. Obstfeld and K. Rogoff, “Global Imbalances and the Financial Crisis: Products of Common Causes”, November 2009, <http://elsa.berkeley.edu/~obstfeld/santabarbara.pdf>. The authors argue that pegging and the currency composition of reserve holdings are not necessarily related. However, imagine a speculative attack against a country that has pegged against the euro, but keeps foreign exchange reserves in dollars. If the dollar is weak at that moment, the mobilization of reserves would be more costly. Prudent reserve management therefore requires keeping reserves in the pegged currency.

14. ASEM stands for regular Asia-Europe Meeting of 27 EU and 13 Asian countries and provides the forum for high level policy dialogue.

# What European Model to Preserve the Planet?

Chantal JOUANNO

**T**he planet is facing a serious environmental crisis.

To address it, humanity must solve three challenges that bring into play the satisfaction of its needs, or even its very existence.

Firstly, climate change: if appropriate policies are not quickly implemented at international level, greenhouse gas emissions could increase by at least 60% by 2020 in relation to their 1990 level. In order to ensure that the threshold of a 2°C increase in global average temperature, which IPCC scientists consider dangerous, is not exceeded, global emissions should be reduced by at least 50% by 2050 in relation to 1990.

Secondly, preservation of biodiversity: for 4 billion years, biodiversity and the services that it has rendered have participated in the conditions of life on earth. The perpetuation and the adaptation of living things and biodiversity are closely linked in a fragile balance. Human activity, however, through its impact on the great water cycle and the biology of the soil, through excessive abstraction and the modification of biotopes, is impoverishing biodiversity at an unprecedented rate. We are currently witnessing the veritable erosion of biodiversity, 100 to 1,000 times faster than what it should be.

Thirdly, the depletion of a number of natural resources: just as it is not possible to continue extracting oil and gas at the current rate until the end of the century, the limits of our planet will impose better management of the use of areas and competition between food and non-food agricultural production, access to drinking water and the availability of certain mineral raw materials.

But this is not the time for dividing these issues; they must be resolved in the same way, i.e. through commitment. In short, it is time to eliminate the divisions. Ecological crises do not know any borders; the whole issue is to overcome the selfish interests of States. The European Union has done this, and that is why, today, it is at the forefront with the “the fight for the environment”.

This requires the emergence of collective responsibility and the definition of a new growth model.

## **Collective Responsibility**

In the area of fighting climate change, the European Union is a driving force: in addition to the fact that it is on its way to achieving its Kyoto Protocol objective, it is unilaterally committed, with the climate and energy package adopted in December 2008 under the French Presidency, to reducing its overall emissions by 20% in relation to 1990 levels by 2020. It has also set the objective of increasing the share of renewable energies in energy consumption to 20% by 2020 and of reducing its overall energy consumption by 20%. The European Union brings this commitment to international negotiations. The Copenhagen Accord, even though it is not ideal, constitutes progress ahead of the Bonn and Mexico meetings in 2010. We will vigorously continue our action in favour of a binding agreement, commensurate with the climate emergency.

REACH, the EU's flagship legislation in the chemical products sector, became operational with the entry into service of the European Chemicals Agency (ECHA) in 2008. It has implemented a unique integrated system for the registration, evaluation and authorisation of chemical substances in order to improve the protection of human health and the environment, while maintaining competitiveness and reinforcing the European chemical industry's innovative spirit.

In the area of transport, the European Union is committed to increasing the share of renewable energy sources in fuel consumption to 10% by 2020 (agrofuels, renewable electricity and hydrogen, in particular). This objective is coupled with binding sustainable development criteria for agrofuels. The European Union has also adopted ambitious regulation to limit greenhouse gas emissions from cars sold on its territory, and it is continuing the internalisation of external costs due to transport, particularly for heavy goods vehicles.

Although the situation is less satisfactory with regard to maintaining biodiversity and management of natural resources, considerable progress has already been made concerning the state and the use of water and air, thanks to the European environment policy. Since the early 1960s, a very abundant corpus of Community standards and regulations concerning all air and water emissions, as well as waste, has been drafted. Not only do the Europeans owe them the tangible improvement of the quality of environments benefiting from these standards, but they have also allowed our industries to develop in a more virtuous and sustainable market. The ambitions of this longstanding standards policy have now been reinforced and modernised by results-based objectives, especially those of "good environmental status". Member States therefore have until 2015 to reach "good status" for all their continental and coastal bodies of water, and until 2020 to reach "good status" for all their marine environments, an objective that is particularly ambitious. In addition, in 2008 the European Union adopted the Raw Materials Initiative which proposes an integrated strategy to take up the various challenges linked to accessing raw materials, including secondary raw materials that can be obtained in the EU thanks to increased and better quality recycling.

The Common Agricultural Policy (CAP) is also working to achieve such objectives. It allowed post-war Europe to reach and then to surpass its food self-sufficiency concerning basic products. Since 1992, it has been accentuated by reforms increasing its consideration of environmental issues. During the last stage, known as the "health check," the imbalance between the means provided for income support and the finance of agro-environmental measures has been corrected in favour of the latter.



The exportation of these standards and objectives, guarantors of socially-responsible sustainable development, is deservedly a strong focal point of cooperation and pre-accession programmes supported by the EU. It is only by making them widespread that we will avoid relocations that threaten our economic markets, resources and the natural environments of developing countries and the health of their populations.

The preservation and the stability of the planet are not limited to environmental issues; social inequalities, whether they are inside or outside the European Union in a globalised world, are as much a challenge for the future of our societies. The environment, the economy and social aspects are closely intertwined and cannot be considered independently if we are seeking long-lasting improvements. It is the consideration of these three dimensions that makes up the principle of sustainable development, which the European Union, in the terms of the Treaty, has made its long-term general objective.

Concerning internal social cohesion, The European Union has some undeniable advantages: its “social market economy” gives it a certain international recognition for the balance and effectiveness of its policies, for example in the area of health or in the recent handling of the economic crisis. The limits and fragility of the most liberal models, which have been clearly highlighted, lead us today to rethink relations between competitiveness and regulation.

Outside the Union, the fight against hunger and poverty dominates the agenda. These inequalities continue, or could even increase more under the effects of climate change: in 2020, between 75 and 250 million Africans risk being exposed to a heightened water shortage, farming output could be reduced by as much as 50% and it is established that the increase in sea level will especially effect developing countries due to the geographical distribution of their populations. The European Union is the most committed international player in the peaceful and multilateral resolution of global problems. It uses its “soft power” and from a financial point of view it is the main global contributor to official development assistance. In the general interest, the European Union is willing to support developing countries in their effort to implement techniques that will allow them to preserve natural resources and promote restrained growth better.

However, limiting the advantage of the European model uniquely to collective responsibility would be demonstrating limited analysis; it is an advantage for building a new growth model.

## **A New Growth Model that is ‘Green’ through its Investments and Restrained through its Emissions**

Sustainable development implies a change in production methods and consumption patterns. “Green growth” can be defined as very efficient from the point of view of the use of energy and raw materials, a restrained economy in which products and services correspond to individuals’ real needs. The dissociation of productivity and consumption of natural resources constitutes an industrial but also an agricultural challenge. The innovation that this calls on should pool technological innovations in laboratories and in the field as well as social innovations: other ways of working together or of establishing trade relations, for example.

The European Sustainable Production and Consumption Action Plan and the Sustainable Industrial Policy Action Plan, adopted in December 2008, will help to improve the

environmental performance of products, to stimulate the demand for goods and more sustainable production techniques and to encourage innovation. The Action Plans were accompanied by proposals which aimed to overhaul the eco-design and energy labelling directives and to revise the eco-label and Eco-Management and Audit Scheme (EMAS) regulations. To implement its new growth model, the European Union is focusing on economic incentives such as indirect taxation and uses market forces such as tradable emission allowances.

Building the basis of this clean and restrained economy implies in particular that we converge and increase our research and innovation efforts in order to help European companies to develop their assets on developing markets. The objective is to facilitate their conversion to new technologies and to new services. This will only be possible through a proactive training policy and through the mobilisation of all levers, financial and normative alike.



Once again, it has been shown that the European Union works, whatever the chorus of mourners might say. Because the Union is a certain idea of multi-faceted excellence: economic, financial industrial, agricultural and cultural.

This certain idea of excellence is also ecological, shaped by this European Union that has always known how to preserve its children's future. France can be proud of being among its founding members, and the European Union has rewarded it well. For almost sixty years, it has accompanied us in the successive evolutions imposed by a constantly changing world. European policies have allowed France to grow.

That is why I wish, today, that environmental policy would permeate all EU policies even more. It should be the lifeblood of all public policies: accompanying while preserving, maintaining while anticipating, helping while benefiting.

The European Union was born of coal and steel. It grew up in oil. It is reaching maturity and today, it is making the choice of renewable energies.

# Europe and Green Growth: the Key to Recovery?

Tomi HUHTANEN

The global economy is recovering slowly from the crisis that recently hit it. Market confidence is only gradually improving and concerns that the crisis could continue are still widespread. The budgets of the EU Member States are still heavily in deficit. Throughout the course of 2010 the majority of European countries will have to struggle to improve their public finances, which in some cases have never been worse. As a result, the shared elements of the European economy have become suspect. The EU Member States are having great difficulties keeping to their mutually agreed principles of economic cooperation, and even the common European currency is being questioned. The political leadership in every country of the EU is under pressure to present a credible roadmap on how best to emerge from the crisis, as well as how best to avoid stagnation and ever-increasing public debt. In other words, there is a desperate need for new ideas on how to generate new growth.

It is understandable, therefore, that politicians from the Left to the Right of the political spectrum have chosen to incorporate the term 'green growth' into their vocabulary when presenting their emergency plans to kick-start the economy. According to the optimists, the decisive action of politicians and the application of targeted public financial assistance, in cooperation with big business and enterprise, could give rise to a dazzling new economic era, one that is both environmentally sustainable and economically dynamic.

It is clear that all politicians, irrespective of their political affiliation, hope that this optimistic picture will become a reality as soon as possible, taking into account the difficult circumstances. But, as the failure of the United Nations Climate Congress in Copenhagen demonstrated, sometimes goodwill and unshakable hope are simply not enough. The question remains: is green growth just a buzz word, or can this new, more environmental approach play a key role in getting European economies back on the growth track?

## Going Green – Challenge, Opportunity or In-Between?

The term 'green', and what 'green' will mean for future development, has not yet been fully defined in the current economic context. Indeed, there are two main schools of thought regarding the role that green growth and the environment should play in economic recovery, and these two schools have divergent opinions. The first claims that our

very culture of consumption has been exposed as unsustainable and we should therefore abandon our market system based on capitalism in favour of the planet and environmental concerns.

The second school believes that the immediate goal of exiting from the crisis must take priority over other longer-term aims, and that sustainable green policies should be put on hold until the global economy is stable enough to allow the necessary sacrifices to be made. Often those who see economic development and environmental considerations as opposite concerns tend also to claim that the impact of climate change is not as serious as usually claimed.

However, there is also a third group, the optimistic group. This group claims that environmental considerations and economic stability are not diametrically opposed, but rather complement one another. Consequently, the ending of the current global economic employment crisis and the creation of long-term sustainable jobs are not mutually exclusive goals. They can be achieved with a robust, legally engaging, broad global agreement, ensuring that an ambitious reduction of greenhouse gas emissions is tied with solid industrial policies<sup>1</sup>.

## Investing in Green

The notion of a green economy and green growth has naturally been closely linked to the debate on climate change. While environmental concerns have been a feature of political debate for decades, Europeans have been forerunners in the development of environmental technologies and, to some extent, in their use and promotion. The political initiatives have been numerous, with the most ambitious at the EU level being the Lisbon Strategy, which placed special emphasis on the environmental sustainability of the economy.

The economic and financial crisis and the election of the new US President have accelerated both investments and interest in a green economy. The economic crisis gave a major boost to using public financial stimulus to support the green transformation of the economy. Indeed, at the height of the economic crisis the public promises of politicians regarding the size of the stimulus packets grew at an almost daily rate, and environmentally friendly investments got their fair share of stimulus. Politically, the recent election and policies of President Obama and his concept of a Green New Deal, irrespective of how vague it was, changed the perspective in the US. For Europeans, President Obama's Green New Deal meant that they could no longer afford the illusion that they were the only ones with a public or governments interested in green technology, especially in its business and economic implications.

When faced with the economic crisis, Europeans did act, at least in terms of investing in green initiatives. An especially large number of EU-funded stimulus initiatives have been environmental – more than half of them in fact. However, an analysis of economic recovery measures in more than 30 countries shows that the US and China are putting more money into stimulating green growth than any other country. Currently the US and China are well ahead of Europe, in terms both of the size and the green dimension of their stimulus measures (see Table 1).

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1. J. Raina, and M. Warda, "Cutting emissions transforming jobs, Getting the World to work", *Green Growth for jobs and social justice*, Global Unions, December 2009. Available at [http://www.global-unions.org/IMG/pdf/GreenGrowth\\_Web.pdf](http://www.global-unions.org/IMG/pdf/GreenGrowth_Web.pdf) assessed 28 January 2010.

**Table 1**  
**Green dimensions of European stimulus funds**

	Green funds		Renewable energy	CCS and other low-carbon technologies	Building energy efficiency	Low-carbon vehicles	Rail	Grid	Water and waste management
	\$ Billion	%							
<b>UE</b>	<b>38.8*</b>	<b>58.7</b>	<b>0.65</b>	<b>12.49</b>	<b>2.85</b>	<b>1.94</b>	<b>–</b>	<b>4.85</b>	<b>–</b>
Germany	104.8	13.2	–	–	10.39	0.69	2.75	–	–
France	33.7	7.1	0.87	–	0.83	–	1.31	4.13	–
Italy	103.5	1.3	–	–	–	–	1.32	–	–
Spain	14.2	0.8	–	–	–	–	–	–	0.83
UK	30.4	2.1	–	–	0.29	1.38	0.41	–	0.03
Other EU states	308.7	6.2	1.9	–	0.4	3.9	–	–	–
<b>Total UE</b>	<b>634.1</b>	<b>54.1</b>	<b>3.42</b>	<b>12.49</b>	<b>14.76</b>	<b>7.9</b>	<b>5.8</b>	<b>9.0</b>	<b>0.9</b>
China	586.1	221.3	–	–	–	1.5	98.65	70.0	51.15
<b>Total Asia Pacific</b>	<b>1,153</b>	<b>266.9</b>	<b>1.8</b>	<b>–</b>	<b>21.1</b>	<b>3.3</b>	<b>105.7</b>	<b>70.0</b>	<b>65.0</b>
US EESA	185.0**	18.2	10.25	2.60	3.34	0.76	0.33	0.92	–
US ARRP	787.0	94.1	22.53	3.95	27.40	4.00	9.59	11.00	15.58
<b>Total Americas</b>	<b>1,007.8</b>	<b>114.9</b>	<b>32.8</b>	<b>7.6</b>	<b>31.0</b>	<b>4.8</b>	<b>10.3</b>	<b>12.7</b>	<b>15.7</b>
<b>World</b>	<b>2,796.0</b>	<b>436</b>	<b>38.0</b>	<b>20.1</b>	<b>66.8</b>	<b>15.9</b>	<b>121.8</b>	<b>91.7</b>	<b>81.6</b>

Sums may not add up due to rounding

\* Only €30 billion from direct EU contributions considered for calculation as the rest (€170 billion) is contributed by Member States

\*\* \$700 billion under TARP not considered in the calculation as the fund is mainly for bank bailouts not for fiscal stimulus

EESA = Emergency Economic Stabilisation Act

ARRP = American Recovery and Reinvestment Plan

Source: Robbins, Clover and Singh (2009)<sup>2\*</sup>

2. N. Robbins, R. Clover and C. Singh, "A climate for recovery: the color of stimulus goes green", HSBC Global Research, 2009. Available at [http://globalboard.ashboard.org/wp-content/uploads/2009/HSBC\\_Green\\_New\\_Deal.pdf](http://globalboard.ashboard.org/wp-content/uploads/2009/HSBC_Green_New_Deal.pdf), accessed 28 January 2010.

In Europe, most of the focus has been on the energy efficiency of buildings, but the US is still the only country to have developed measures to boost the renewable sector. While almost 64% of the EU's economic recovery plan is green, the proportion is just below 10% when combined with Member State funds<sup>3</sup>. In other words, therefore, even if EU stimulus measures have promoted green growth, in their respective recovery plans the Member States have followed more traditional infrastructure and regional considerations.

## **Does the Green Economy have Real Growth Potential?**

Many recent studies attempting to demonstrate the importance of the green economy tend to focus on public investments and the number of jobs involved in the green sectors of the economy. However, this does not necessarily tell us much about its real growth potential or how many new jobs can be created. It is clear that a huge public investment in green projects has created jobs and stimulated the economy, but the main question remains how permanent this impact is, how sustainable these jobs are economically and to what extent the involvement of private investment is being encouraged.

It is clear that building a green economy requires high-level political commitment, leadership and the coordination of policies. While business has a key role to play in this area, governments need to provide the necessary framework to support research, development and the successful commercialisation of promising technologies, and to foster both the technological and non-technological innovations that can lead to green growth in the economy as a whole. Nevertheless, public intervention and green stimulus packages run a certain risk, especially if the main aim is not to stimulate and support the creation of a vital new economic sector capable of attracting both money and entrepreneurs. If such growth is not the main aim, and the policymakers' intention is to use green projects as a tool to enhance environmental objectives using economically unsustainable employment projects, neither the environment nor the building of a green economy will benefit in the end.

For Europe, the key to promoting a green economy is the involvement of private enterprises and the business sector. Two-thirds of new jobs in Europe are created by small and medium size enterprises<sup>4</sup>. The recent public stimulus has created huge opportunities for companies working in the green sector. However, the crucial question is how viable these sectors can be without the necessary levels of public involvement.

Private involvement is also necessary for encouraging innovation. The main means of turning invention into innovation and viable businesses is the involvement of private companies and entrepreneurs. In this respect, the US market is far more dynamic than the European market. If we want to maintain European welfare levels, we need to focus on turning environmentally sustainable measures into measures that are also economically sustainable. In order for this to happen, private initiative, entrepreneurship and the positive force of the market economy are crucial. But how dynamic and economically sustainable is the green economy?

There are already some positive indications from the US in this respect: the number of jobs in the clean energy sector nationally grew at a rate of 9.1%, while the number of

3. N. Robbins, R. Clover and C. Singh, *op. cit.*

4. "SME performance review", European Communities (EC), DG Enterprise and Industry, 2009. Available at [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm#h2-additional-studies](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm#h2-additional-studies), accessed 1 February 2010.

traditional jobs grew by only 3.7% between 1998 and 2007. The green energy sector is expected to expand significantly, driven by increasing consumer demand, venture capital injections and federal and state policy reforms. Venture capital investments increased 48% in 2007, amounting to 15% of all venture capital investments<sup>5</sup>. Clean technology has also attracted increasing levels of venture capital. In 2009 investment decreased substantially, but it did well in comparison with other sectors. Furthermore, the number of contracts has increased (see Table 2). As the example of the US shows, therefore, green growth can be economically sustainable. It is not just artificial hype being funded by taxpayers' money.

**Table 2**  
**US Clean-Tech Venture Funding**

Clean-tech venture capital investment dropped last year, but the volume of contracts remained strong (North America, Europe, Israel, China and India combined)

	Investment (in \$billions)	Deals
2002	0.9	164
2003	1.3	301
2004	1.3	333
2005	2.0	381
2006	4.5	409
2007	6.1	488
2008	8.5	567
2009*	5.6	557

Source: Cleantech Group

In Europe, there are some positive examples too. Germany, for one, has for a long time been focusing on building a green economy. The German environmental industry is expanding fast according to the German Federal Ministry of the Environment<sup>6</sup>. From 2005 to 2007, the green industry did grow almost by a third and during the pre-economic crisis period the labour force did increase at a rate of 15% yearly<sup>7</sup>. German Green technology companies are simply booming (see Table 3). Similar success stories can be found in other parts of Europe. The Danish wind energy industry, for example, employs 28,400 people and contributes an annual €5.7 billion to the economy. Vestas, a Danish flagship company in the wind energy industry, has just raised \$1 billion, and is currently investing globally<sup>8</sup>.

5. "The Clean Energy Economy: repowering jobs, businesses and investments across America", The Pew Charitable Trusts, 2009 Available at [http://www.pewcenteronthestates.org/uploadedFiles/Clean\\_Economy\\_Report\\_Web.pdf](http://www.pewcenteronthestates.org/uploadedFiles/Clean_Economy_Report_Web.pdf), accessed 28 January 2010.

6. "Umweltwirtschaftsbericht 2009", Bundesministerium für Umwelt Naturschutz und Reaktorsicherheit (BMU), 2009. Available at [http://www.bmu.de/files/pdfs/allgemein/application/pdf/umweltwirtschaftsbericht\\_2009\\_kurz.pdf](http://www.bmu.de/files/pdfs/allgemein/application/pdf/umweltwirtschaftsbericht_2009_kurz.pdf), accessed 29 January 2010.

7. *Ibid.*

8. "The Green Growth Race". *OECD Observer*, n°273, June 2009. Available at [http://www.oecdobserver.org/news/fullstory.php/aid/2928/The\\_green\\_growth\\_race.html](http://www.oecdobserver.org/news/fullstory.php/aid/2928/The_green_growth_race.html), accessed 28 January 2010.

**Table 3**  
**Annual growth rates of selected eco-efficient technologies**  
**in Germany, 2005–2007**

Technology	Annual growth rate
Photovoltaic (PV)	50%
Heat pumps	44% (2005/6)
Biogas power	37%
Biodiesel	21.6% (2005/6)
Wind energy	19%
Passive houses	19%
Biofood	15 – 16%

*Source: Jänicke and Zieschank (2008)<sup>9</sup>*

## **The Green Brick Road to Recovery**

Will green growth help to pull Europe out of the crisis in the short term? Alone, surely not. The development of new environmental technologies and businesses, and the introduction of energy-saving techniques, will not cause an immediate boost to productivity levels. Nor will increasing production inputs be a rapid process, despite large investments. Moreover, the size of the green economy is not currently large enough to impact the global economy as a whole. The causes of the worldwide economic crisis were the rapid decline in global demand and a lack of confidence in basic economic structures and the global financial system. Only a sudden strong increase in demand could now pull the global economic system swiftly out of the crisis. Since the crisis was not regional and impacted the majority of global economies simultaneously, no region has been in a position to pull others out of difficulty. For this reason, the recovery will take time and a green economy alone will not be capable of changing this in a significant way.

Will the green economy enhance European and global growth and job creation in the long term? Most likely, yes. As the economy becomes greener, companies are being forced to renew themselves and invest in green initiatives – something which will help boost the economy, increase productivity and speed up the process of emerging from economic stagnation in general. The experience of both the US and Europe is confirming this. Green growth is also good news for job creation. Investment in clean energy is estimated to create twice as many jobs as traditional fossil fuel-based energy<sup>10</sup>. However, it is not realistic to

9. M. Jänicke, and R. Zieschank, "Structure and function of the environmental industry: the hidden contribution to sustainable growth in Europe", *Csge research paper*, Anglo-German Foundation, 2008. Available at [http://www.agf.org.uk/cms/upload/pdfs/WP/200809\\_WPcsge\\_e\\_invisible\\_industry.pdf](http://www.agf.org.uk/cms/upload/pdfs/WP/200809_WPcsge_e_invisible_industry.pdf), accessed 29 January 2010.

10. R. Pollin, H. Garrett-Peltier, J. Heintz and H. Scharber, "The green recovery: a program to create good jobs and start building a low-carbon economy", Center for American Progress, September 2008. Available at [http://www.americanprogress.org/issues/2008/09/pdf/green\\_recovery.pdf](http://www.americanprogress.org/issues/2008/09/pdf/green_recovery.pdf), accessed 29 January 2010.



assert that green growth alone is capable of becoming the driving force of a post-crisis economy, or of setting the world and Europe back on the track of economic growth.

The good news is that the green revolution in the global economy has already started, and this process is now as full of opportunities for the future as it is of challenges. The European and global economies are already experiencing the effects of this transformation in the economic system. Consumers are opting for greener choices, and the business sector is beginning to take this into account. The strength of the market economy is its ability to adjust to new conditions. It is possible for the global economy to adapt to the new pro-environmental mood in the same way that it has adapted to previous external shocks throughout modern history. Some industries will decline and new ones will undoubtedly emerge. Companies will be presented with new opportunities and Europe will benefit from these opportunities – but only if its infrastructure and businesses have made the proper investments and carried out the necessary measures.

The failure of the Copenhagen Climate Congress was unfortunate, and not only on a political level. Encouraging the private sector and private companies to invest in a green economy requires fostering international cooperation and creating the right political framework, bearing in mind that investors need a transparent, stable and long-term policy horizon. In order for this to happen, competition authorities in particular must make sure that they place sufficient emphasis on innovation in their analysis of the economic situation. The failure of Copenhagen also means that decisions on long-term policies have yet to be made, and many important private investments have been postponed.

It is clear that the perceived advantage that Europe had in environmental technologies and green business has become more of a fleeting impression than an actual reality. Europe is already investing substantially less than its global competitors. Compared to Europe, the US, for example, has been far more successful at attracting venture capital<sup>11</sup>. Public funding from the Member States is particularly lacking when compared on a global level. Examples such as Korea's Green New Deal show that other parts of the world are moving forward at a fast pace, both in action and in political commitment.

As the German example shows us, the launching and development of green economy largely relies on having a well-built developed state which is able to establish and put into effect ambitious but realistic environmental framework and set of norms. Luckily, this is a common European characteristic. Green industry depends on common goals and long term political commitment. In Germany, a wide political consensus facilitated the establishment of the essential connections between business, industry, science and state for green innovation, which led to several examples of successful programmes and projects for environmental technology<sup>12</sup>.

For its long-term growth and competitiveness, it is necessary for Europe to take into account the new environmental paradigm and the changing economic conditions. However, Europe should not forget that its future global economic success depends largely on overcoming structural challenges – challenges with which we are all familiar by now, and which had been identified long before the current crisis.

Europe is ageing faster than other continents and this will have a huge impact on the public finances of the EU Member States. Some countries have already managed to reform

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11. N., Robbins, R. Clover and C. Singh, *op. cit.*

12. M., Jänicke, and R. Zieschank, *op. cit.*

their social and pension systems but, in most cases, not thoroughly enough. This means that, in the decades to come, many European countries will be forced to take stark decisions to balance their public finances when it is already too late. Europe's primary source of economic dynamism is its entrepreneurial sector, which, however, is not currently as dynamic as it could be. Apart from focusing on making Europe's economy greener, it is also crucial to continue to concentrate on instituting reforms, fostering competitiveness and enforcing the single market.

Finally, it is justified to say that investment in green technologies and a green economy is not a matter of choice but of necessity. The well-known but controversial Stern report highlighted how investing in sustainable and energy efficient technologies today could lead to savings in the future, as many of the eventual costs of climate change could be avoided in this way<sup>13</sup>. Estimating the costs of climate change is a highly divisive issue. However, the scientific community is becoming increasingly united in the opinion that climate change will have a huge economic cost – a cost which can be met only by employing economic strategies that are very different from the ones which are in force today.

Going green is economically wise, taking into account future perspectives and the evidently increasing price of energy. However, the political reality is that, apart from environmental factors, European citizens are concerned with healthcare, pensions, jobs, education and welfare in general – and these concerns are the driving forces of political decision making and priority setting. The ideal situation for our societies, for our environment and for our future, therefore, is to find solutions which are both economically and environmentally sustainable.

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13. N., Stern, "The Stern review report on the economics of climate change", London, Cabinet Office - HM Treasury, 30 October 2006. Available at [http://www.hm-treasury.gov.uk/sternreview\\_index.htm](http://www.hm-treasury.gov.uk/sternreview_index.htm), accessed 28 January 2010.

# 3

## The European Union, Europe and its Neighbours

### National History and Memory Change of Scale

Georges MINK

In recent few years a resurgence of political confrontation has been observed in Europe around the interpretation of past conflicts. A “memory adjustment” between the “new” and the “old” Europe would appear necessary after the 2004 and 2007 enlargements to Central and Eastern European countries. Numerous mechanisms have been set up to encourage a reconciliation process within the context of post-armed conflict situations (former Yugoslavia), post-authoritarian regimes (Central and Eastern Europe) or even bilateral conflictual heritages (Germany/Czech Republic, Poland/Russia, etc.). The means by which to address these “wounds of the past” are many and varied: bilateral commissions of historians, specific museum programmes, etc., are methods that aim for pacification of conflictual heritages and thereby of political and social relations in Europe.

Within this context, the inflation of works on memory and history imposes first and foremost a certain degree of conceptual precision: exactly what are we talking about? And what are the challenges underlying relations between national histories and memories? Finally, and in conclusion, we will reflect briefly on a phenomenon that is increasingly present, that of national State management of the past and of its perverse effects.

#### **History and Memory: a few terminology definitions**

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Although it is necessary to distinguish the concepts of history and memory as used in social sciences, we must avoid falling into the usual trap of an opposition between history and memory. Ever since Pierre Nora’s “*Lieux de Mémoire*”, historians have treated memory as seriously as history, within the positivist meaning of the word, some of them even believing that collective memory is part of history. In a recent book in which 25 French historians looked at (French – *author’s note*) Wars of memory, it was recalled that in 1987 Pierre Vidal Naquet invited his colleagues to “reflect on memory, to benefit from the transformations it brings to a representation of the past”. The editors of this book were surprised “how can one still have any doubt as to the fact that history influences memory

and *vice versa*?"<sup>1</sup> Today all this is clear. Historians who produce accounts that obey certain pre-established rules, which are generally shared by their colleagues, know that memory conceived as a set of representations of what might have happened is not without effect on academic accounts of what happened. Let us take the case of Poland. The renewal of research into participation by a certain number of Poles in the extermination of the Jews in 1941 may not have become so important if Jan Tomasz Gross had not exhumed witness memories of 1945-1946, given at the trial of the torturers of Jedwabne, producing a shock that went well beyond the Polish intelligentsia. And above all, which triggered a wave of research into the pogroms when the Soviets withdrew from eastern Poland.

A telescoping was then observed between a glorious national history and the effect of the memory accounts of a few survivors, amplified by a book criticised for the liberties taken by its author with academic rules. The same goes for Ukraine and Russia: new research into the Holocaust has been stimulated by the rediscovery of the roles of the "bystander" witnesses, present either passively or actively whilst mass crimes were committed, through the multiplication of memory accounts of the Holocaust by bullets, provoked by Father Desbois. But are these "bystander" testimonies history or the representation of what happened? Between Russia and Poland it was firstly claims made by memories (Katyn, Ribbentrop – Molotov Pact) without any scientific status, that resulted in the "Commission on difficult questions" (*Komisja do spraw trudnych*) the near relation to the German-Polish, German-French, German-Israeli and Polish-Ukrainian commissions. All of which are made up of specialists who endeavour to place historical accounts side by side in accordance with academic rules and standards.

The relationship between national history and memory can in fact lead to confusion: what are we interested in here? Is it (national) history as reflected in the memory (or memories in the plural)? One must not forget that when speaking of memory its many manifestations must be distinguished: individual memory, social group memory, collective memory within the meaning of a group's social link, local memory or central (national) memory.

There is every kind of memory: the memory of the vanquished and the victors, joyful, festive memories, painful memories, the memory of the dominators and the dominated.

One should add that memory accounts are different within the same population according to whether they are the object of transmission through social channels such as the media or school and have become institutionalised, or whether they remain in the private sphere with content that is often opposed to the social framework imposed from on high. These *top down and bottom up movements*, in interaction in democratic systems, are not found in authoritarian political systems. In Soviet type systems, where a "parallel economy" flourished, the Hungarian sociologist, Elemer Hankiss has spoken of a "parallel society", a kind of island of free civil society within the authoritarian Soviet environment. It is no exaggeration to say that there was also a sort of "parallel memory" containing historical representations that were forbidden by the authorities. In this regard the so-called "white pages" of Sovietised national history were invented. Filling in the white pages (i.e. those that were censored by the authorities), was the objective of an initiative by Polish intellectuals which created a flying University to teach "real history". But there were no white pages in the memory or in individual memories. The communist authorities could not control memory.

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1. P. Blanchard et I. Veyrat-Masson, *Les guerres de mémoire*, La Découverte, Paris, 2008, p. 16.

The same is true in terms of the question of multiple memories of the Second World War. An example has recently come to light in Poland. Does the kaszub minority ethnic from the north of Poland, the home region of the current Polish Prime Minister Donald Tusk, have the same memory of the Wehrmacht as the patriotic Polish intelligentsia which was sorely tried by the Nazi occupation? Remember that men from this ethnic group were forcibly enrolled and sometimes entered without pay, as a group of non-Slav origin. The instrumentalisation of this difference by one of the most widely known figures in the Kaczynski brothers' PiS (Law and Justice) party, Jacek Kurski, during the 2005 presidential election campaign in Poland, will be remembered because it was not the memory of violence committed by the Germans against the rebellious Kaszuby that was highlighted in the selected version of national history, but rather the heroics of the Polish resistance that live on in the memory.

The title of this text may suggest another perspective, that is memory in the way it alters the course of work on national history, made up of emergencies and social demand. The victims of communism, groups with a certain memory, would like to find in the archives of the national memory institutes established in all post-communist countries, proven historical facts, such as the names of agents and collaborators. They ask historians to do this work. And to take just one example from another dictatorship, Spanish Republicans would like to materialise and officialise by means of tangible proof, the memories repressed into the private sphere by the agreements of the Moncloa Pact, expressed by the idea of "amnesia and amnesty". Here the official national history, incomplete because it has been imposed by the victor, is added to and completed by bearers of a memory that has been forced to remain clandestine. This memory, like all the other academic accounts, can be used in various ways. Increasingly, users of both history and memory are institutional State players. Again increasingly, the challenges raised by memory are exported into the international arena in order to maximise internal benefits. States' foreign policy can evolve, in interaction with other States or with transnational institutions, towards a confrontation of memory or in the direction of a reconciliation process. We will return to this aspect later.

## National History as a Challenge to Memory

Two functions are clear in the relationship between certain memories and national history. These are the search for identity references and historical legitimisation phenomena. A national State, like any other united social group, will tend to claim a distinct shared past, going back as far as possible. Memory is then used as a reservoir to back up the work done by historians. The history of ancient writings in the Czech language, some of which were invented, illustrates the process in caricature, a process that was efficient in the past in mobilising the Czechs against the Austro-Hungarian Empire. The past makes the present sacred for a group or nation, as Barbara Szacka would say.<sup>2</sup> Terenc Ranger and Eric Hobsbawm demonstrated the identificatory and legitimising functions of "the invention of tradition", particularly for nation-States in the 19<sup>th</sup> century.<sup>3</sup> Places of memory, for example, within the meaning of fixing of memories of the past, as Pierre Nora in particular understands it, can consolidate national history.

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2. Szacka, *Czas przeszły, pamięć, mit*, Warszawa, 2006, p. 48.

3. T. Ranger et E. Hobsbawm, *The Invention of Tradition*, Cambridge, Cambridge University Press, 1983.

A French person out for a Sunday stroll in Compiègne forest will think about the railway carriage where two armistices were signed, thereby remaking the identity link between memory and history, between glory and humiliation, in 1918 and in 1940.

It was indeed back in the nineteen seventies that the questionings and uncertainties of the French people began, which suggested to Pierre Nora the concept of “places of memory”, along with the idea of analysing and listing them. Post-1968 concerns would be addressed, the first oil crisis, the international situation with the spiralling of the situation in Vietnam and the intervention of Warsaw Pact troops in Prague, the generational changeover after the “Glorious Thirty”. Some historians, political scientists and sociologists believe that a historicising wave of a scale never seen before submerged the old Western societies, and then neighbour to neighbour, affecting the countries of Central and Eastern Europe slightly later. Some circumstances accelerate recourse to history or/and its representations in the memory in inter- or intra-State or inter-ethnic games. One of these circumstances, which demands that we change the analysis paradigm for the memory questions that have dominated for two decades, is the crumbling of ideological-military frontiers between 1989 and 1991, at the same time as symbolic virtual frontiers, due to media globalisation. We can no longer be content to study the relationship between memory and history within the national framework alone. The trans-nationalisation of historicising games is being observed due to the multiplication of international arenas in which supranational public standards and policies circulate freely. They interact with what is happening within a strictly national framework. It is quite normal to question the memory “contamination” aspect of various States seeking the routes for reconciliation represented by Truth and Reconciliation commissions, or bilateral historian commissions. It is striking to observe that these reconciliation mechanisms are based as much on players and their memory (victims and torturers alike) as on the sources and works of historians. Thus the national history of apartheid was extensively modified by the oral history obtained during confrontations between torturers and victims, set up by the Truth and Reconciliation commission. But information can also be borrowed in order to meet objectives of antagonism and confrontation. The Institutes of National Memory are interactive not only in terms of their function as guardian of the archives, but also in terms of stigmatisation used as ammunition against political adversaries. Some criminal States also have to take account of the right to memory interference and examination used for legal purposes by the international tribunals dedicated to universal rights. They anticipate the legal enquiries to be made by these tribunals by removing all trace of their crimes.

The effect of all these mechanisms is to produce either legitimacy or delegitimisation, in other words, to say what is “good” or “bad” for a nation within the international context.

Both the break up of the Soviet block and the wait for integration into the European Union, have also aroused new memory challenges. The “return” to Europe has often been presented as reparation after abandonment, symbolised somewhat unjustly by the Yalta Conference (this is an illustration of memory stereotypes), by the western powers, and as an opportunity for reminding them of their historical responsibility. But this new aspect of normative European policy, which sets out conditions for accession or even belonging, according to a certain number of criteria, has opened up more widely the route for a range of claims made by numerous stakeholders. These stakeholders are reactivating painful periods of the past, within the context of national confrontations certainly, but also at the initiative of groups with resentful memories, intervening in international arenas in order to put pressures on States. This normative conditionality thus stimulated the movements

of populations evicted between 1945-1948 in the name of respect for the rights of minority groups. One thinks here of the populations evicted from the Sudetes, from the East of Poland or from Upper Silesia.

It is certain that 1989 caused a destabilisation of memory reference points and, in many ways, of collective identities. This is probably one of the explanations of the fall back onto a heroic national history, with exacerbated nationalistic overtones. One thinks, for example of references to a legendary memory of pre-Christianity Hungary, of the “Garden of Hungary” used by the Hungarian far right politician Istvan Czurka who, not without a certain degree of success, and in view of the prospect of Hungary’s membership of the European Union, allowed himself a rereading of his country’s history. He thus hoped to revive in the memories of his fellow citizens, a claim for the identity of Great Hungary, despoiled by the Trianon Treaty. Other far right leaders from the region attempted to perform the same recycling operation with the ancient symbols of a mythical national history, hoping to reconnect with a memory that idealised and embellished the past, before the advent of communism. The far right in Eastern Europe, and particularly the Hungarians, have therefore made a great play of the myth of being the final frontier against unbelievers and do not therefore have any lessons on Europeanness to learn from the European Union. This position has increased Euroscepticism amongst that fraction of the population that is receptive to this kind of rhetoric. But let us not forget that the German far left also played on memory, Ostalgia, to improve history’s account of GDR.

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To conclude we will add a few thoughts on the relationship between the State, memory and history. In France we tend to think that controversies regarding growing recourse to legal intervention in terms of painful pasts and the monopolisation by legislative and executive authorities of conflicts of memory in order to regulate their use by law, is a purely French problem. Maybe this is because it is only in France that historians have got themselves so massively organised into associations to defend their freedom to carry out the job of historian or to watch over political usages of history and memory. In reality this is a worldwide phenomenon, omnipresent in the lives of different societies. Everywhere governments are giving in to the temptation of “using the dead to govern the living”. The Polish authorities have even invented the concept of “historical policies” in order to justify State interventionism in interpreting historical facts. Like other governments, they are exporting their version of national history to international arenas in order to win a double trophy: looking like a patriot internally and consolidating the country’s geopolitical status abroad. Recently this game has resulted in dangerous controversies regarding the interpretation of responsibilities in the triggering of the Second World War which, between Poles and Russians, does not augur well. All of this certainly calls into question the autonomy of historical science: judges, policemen, parliamentarians, journalists and diplomats see themselves as history experts. On the other hand, in some countries the historians themselves are cutting off the branch they are sitting on, by exceeding their prerogatives. They are using their scientific legitimacy for political ends only. This is the case with several historians in post-communist countries, who are organising leaks from police archive files in order to compromise their political adversaries in the name of a supposed transitional justice. It is probably not possible to go back and put a stop to this trend of the historicisation of politics.

On the other hand it is necessary to put people on guard against abuse in the political use of history. Those in power do not necessarily obey academic rules, but rather the criterion of political profitability. The more the historical reference pays politically, the more often it is used by politicians. Within this context memory laws, made in the name of the protection of the historical “truth” or in repair of past injustices, end up being counter-productive: they threaten the freedom of historians but, above all, they become a political weapon in the name of a certain monopoly of interpretation. They create still more problems, opening up a wide road for the instrumentalisation of historical facts and their representations in the memory, which they cannot resolve. Yet the question still remains: what can be done to prevent negationism or the purging of a criminal past, two phenomena that demand a form of regulation whilst, at the same time, avoid having the dead govern the living?



# What Status for Ukraine?

Philippe de SUREMAIN

Located as it is, at the heart of our continent, Ukraine is one of the keystones to the European equilibrium that has yet to be found. The surreptitious emergence of this “*unexpected Nation*”<sup>1</sup> is a phenomenon the measure of which was taken late and which represents a major geo-strategic challenge. Ukraine poses a question. For itself, first and foremost, for Russia, which is mourning it with difficulty, and for the European Union which it hopes to join, not to mention the United States where it forms one of the many components in their global policy. A land of meetings and cooperation, or rivalry and confrontation, the development of this vast crossroads of a country is a concern to all Europeans and is, to a certain extent, part of their joint responsibility. It would be risky to leave this country to itself, in a security vacuum that would be heavy with uncertainty: room must be made for it on the European stage, which poses the question of its status.

## Ukraine: a Challenge to itself

Ukraine has chosen Europe which, along with unquestionable benefits in the long term, demands a considerable effort from the whole country. It must complete its constitution as a nation State, control its diversity, which is both its weakness and its wealth, and affirm its identity based on a heterogeneous, discontinuous historical and cultural heritage which means that it is strongly rooted at regional level. Building a State on the ruins of the soviet system is a project of unprecedented scale, undertaken laboriously but without any major obstacles to date, something that was far from certain at the outset. This transition is the result of an empirical compromise between the most enlightened former soviet elite, anti-communist dissidents, patriots and liberals who are hostile to imperial centralism. This has enabled the gestation of a civil society and middle class as yet barely structured but whose dynamism was demonstrated by the Orange Revolution.

Ukraine is defined by pluralism, probably by default, but which is very real and by stated democracy as yet incomplete. Since no political, economic or regional force has succeeded

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1. A. Wilson, *The Ukrainians: Unexpected Nation*, 2<sup>nd</sup> ed., 2002.

in imposing itself, individual conflicts and rivalries in terms of economic and financial interests are maintaining political agitation of a Byzantinism that is difficult to understand but which excludes, for better or for worse, any kind of authoritarian vertical power structure. With a Parliament made up of ever-changing coalitions acting as its sound box due to the lack of any clear programmes or unchallenged leaders; echoed by the relatively independent media, of a variety of persuasions. This is the main achievement of the Orange Revolution, public opinion that is disappointed, for sure, but which is aware and vigilant. A fact that one is forced to take into account in a country where citizens are proud of their voting papers. But, on the other hand, paralysis suffered by the authorities and delays in implementing reforms risk leading to such confusion that one might despair of democracy. One could put up with the “*malgoverno*” observed here, as elsewhere in Central Europe for as long as growth, which started very low, for sure, was accelerating as it had been doing for almost ten years. However the crisis that hit suddenly at the end of 2008 brought the Ukrainians back to reality on the eve of the presidential elections in January-February 2010; it is significant that it was impossible to predict the result of these elections in advance. There was in reality a triple crisis. An economic crisis precipitated by the international financial storm but whose causes were first and foremost endogenous. The speculative bubble in which Ukraine had taken flight was threatened. Above all, an institutional and therefore structural crisis that had been simmering from the very outset: conflicts between individuals and rivalries in terms of interests cannot be managed due to a lack of any rules to the game, that is to say a Constitution that defines competencies clearly, a credible judicial system and, finally, reforms to establish a state of law and an efficient, fair market economy. Finally there was the energy crisis which, due to its recurrence, adds to the vulnerability of a country in mutation, dependent on the transit of hydrocarbons from Russia to Western Europe and which has not been able to establish its autonomy on its own gas and nuclear resources. Ukraine cannot face up to this situation, for which it is not solely responsible, alone, and a destabilisation of that country is in no-one’s interest.

### Ukraine, a Challenge for Russia (and conversely)

These two countries do not have the same memories of their long history and, above all, have undergone diverging developments each felt to be incompatible with the other.

A strong relationship can result from a friendly divorce, although it remains suspicious and obsessive on both sides, and clear affinities only serve to accentuate its complexity: subjective reasons are no less problematic than objective causes which, for their part, are clearly identified.

The difficulty is existential on both sides. Russia, in spite of its strong identity, is finding difficulty in defining, outlining its territory, seeing itself as a nation. The influence of its language and culture and the orthodox heritage are not sufficient to translate the “Russian idea” into concrete political reality, particularly since a multi-secular imperial tradition still weighs heavily along with nostalgia for the superpower it was only yesterday. “Without Ukraine, Russia could not be an empire” said Brzezinski and Moscow is pained to see Kiev “the mother of all Russian cities” as the capital of a foreign State, still perceived as “Little Russia”. But the misunderstanding comes above all from the difference between the regimes which are being established in Moscow and Kiev. Between “liberal democracy” and “sovereign democracy” two choices of society in competition with one another?

When Putin came to power, supported by the spectacular increase in hydrocarbons, the deal changed. Russia was back, making its closest neighbours the priority of its foreign policy, starting with Ukraine. Although Yeltsin, dealing with internal difficulties, could cope with Ukraine's independence, after having provoked Russia's own independence, Putin sought to comfort its markets, which he absolutely did not wish to share with the European Union and still less with NATO. Rather than seeing in the USSR's implosion the elimination by the Russians themselves of a defective totalitarian regime, he has reproached the West of claiming the merit in order to marginalise and humiliate Russia. The Orange Revolution was seen as a strategic defeat, a real September 11<sup>th</sup> and the Kremlin finds it difficult to admit that it could have been the result of a spontaneous popular movement. With a vision of Europe inherited from the 19<sup>th</sup> century, a loser's game, he believes that he must put a stop to any enlargement of NATO, seen as threatening, and slow down that of the European Union, whose influence he fears: in this respect Ukraine is a crucial stake.

The paradox is that objective causes of friction with Ukraine have thus far been the best managed: the dissociation of the two main components of the Empire was a hazardous process but one which has been hitherto undertaken without any serious problems. The sharing of the Black Sea fleet, the concession through to 2017 of the Sebastopol naval base, not to mention the status, in principle not challenged, of the Crimea, all constitute a knot that is indeed difficult to untie. From an industrial and agricultural point of view, former complementarities are giving way to competition between the two neighbours who find it difficult to deal with one another on an equal basis. For Russia, Ukraine is increasingly a necessary intermediary, although seen as a hindrance, for the transit, vital for Russia, of hydrocarbons to the West, as well as for sea, road and rail transport. The scale of the economic and political stakes involved creates a situation of extreme complexity which it is difficult to see the two protagonists, no matter how close they are to one another, face up to, without re-establishing a minimum of trust. This will be difficult to achieve in strict one-to-one conditions. We are all more or less stakeholders here.

## **Ukraine challenges Europe**

There is no question that Ukraine belongs to Europe, but the Ukrainians see Europe as the European Union and if there is one objective on which they all agree, this is it. The polls are clear and, over and above all their differences, all the political leaders since President Kuchma have at least referred to it. It is the democratic model demanded and the Ukrainians state that they share the values of the EU and hope to join what they perceive as being a zone of prosperity, freedom and justice. But this does not mean that there is no feeling of frustration at seeing itself less well considered than the new members and the candidates from the Balkans. In fact the European Union, although it is far from having brought about such determined assistance as that given to Poland, has been much more present than one might think. Its influence is exercised by osmosis through a common border, a strong Ukrainian diaspora and aid programmes set up have also proved highly efficient. The neighbourhood policy was accepted from the outset as a stop-gap, and the Eastern Partnership, which has been very poorly financed, is seen at best as a mark of attention. More concretely, successive action plans and the forthcoming conclusion of an association agreement are stages in enabling Ukraine to become "euro-compatible". This accompaniment, which some would prefer to see more insistent in demanding reforms, is

perceived as necessary, but not sufficient: the prospect of membership is nothing less than assured. Ukrainians are experiencing this between-time with difficulty.

For most people NATO is not a solution for the waiting time, a swap for, or a short-cut to Europe. The political elite have seen it either as a necessary step or a means by which to put pressure on a weakened Russia. However in today's world no-one is using it as a campaigning argument, with the exception of President Yushchenko. Realism prevails: after the Russian intervention in Georgia, the Ukrainians acknowledge that getting too obviously close to the Alliance, wrongly perceived as a relic from Cold War days, would not necessarily reinforce their security. In spite of the scale of aid given (Ukraine was the third biggest recipient of American assistance), the United States have not benefited from the same aura as elsewhere in Central Europe. And Obama's policy of engagement with Russia demands a certain degree of circumspection. So it is indeed to the European Union that people are looking, but with a degree of apprehension in terms of its intentions.

For the European Union, which is only just getting its breath back, Ukraine constitutes a major problem. It cannot merely be a simple partner, as privileged as it might be. Its desire for accession is unquestionably legitimate, but in view of its weight and geo-strategic importance, as well as the covetousness it arouses, what answer can be given? Ukraine puts to the European Union the question of its limits, its institutions, its very future, and the EU has no clear vision of these. This expectation is risky: weariness threatens in Ukraine itself where people are counting on the European democratic model to open up and modernise the country and ensure its place on the continent and in the world. "*Ukrainian fatigue*" is perceptible amongst Europeans, nonplussed by the political confusion that reigns in Kiev. And Russia, more or less reassured by Ukrainian procrastination, is playing for time. Leaving the European Union best placed to start discussions.

## What Status for Ukraine?

"Ukraine is the last unresolved question remaining after the Cold War" according to Olexandr Chalyi, former First Deputy Minister of Foreign Affairs. Its fate cannot be left on hold indefinitely without affecting European equilibrium. This double neighbourhood puts Ukraine under pressure. The security vacuum is a source of instability. Ukraine needs a real strategy, as Michel Foucher quite rightly observes, a specific policy that is not limited, on the part of Europeans, to an exclusive choice of either Moscow or Kiev, which would be in the interests of neither one nor the other, nor to any artificial confusion of the two cases. A process must be engaged that aims at a Greater Europe – a common house or confederation, the idea is not new – that would enable our continent to ensure its influence and scope in a changing world. European concert is not merely a trial of strength inherited from the treaties of Westphalia or Yalta, it calls for a wider vision that excludes any withdrawal attitude or *laissez faire*. It is within this framework that Ukraine will regain its position as a place of confluence and will see both its own and our security assured, within the wider meaning of the term.

This poses the problem of its status and its guarantees. Membership of NATO is all the more distant, without being excluded, because the Alliance is wondering about its own future and the United States no longer see the urgency. The European Union is undergoing transformation and although most is expected from it, it must itself recover. With their realism the Ukrainians surely understand that the building is not yet completed

and their integration, when the time comes, must reinforce its coherence – that is their responsibility.

Conversely, Russia would like to see Ukraine join it in the regional organisations it dominates, but the model put forward, based on its own values and methods, does not appear to be of very attractive efficiency.

Under these circumstances, Ukrainian experts have launched the idea of a status of neutrality, similar to that recognised for Austria, which would be based on the Budapest memorandum. This memorandum, in exchange for renunciation by Ukraine, of nuclear weapons, guaranteed its independence and territorial integrity: it just needs to be reactivated when the agreement expires. Others believe the latter to be obsolete and are concerned about Russia seizing the opportunity to impose its own conditions or, on the contrary, playing for time, depending on internal weakening of Ukraine and the uncertainties that weigh on the evolution of the European Union. Neutrality is, at best, a waiting solution and is therefore judged in general in Kiev to be barely credible, particularly since there are also questions hanging over the future of Russia itself.

The initiative put forward by Medvedev for a re-negotiation of European security structures is worthy of attention. One can see what lies behind it but why not take him at his word? The precedent of the Helsinki conference is instructive in this respect: the result was not the one expected by Moscow. The result, fiercely negotiated, was finally beneficial to all parties. The Russians are now themselves seeking to restore their status as a world power and want to shore up their position in Europe, but at the risk of a revisionist policy (which some in Moscow itself judge risky). Involving Russia in duly prepared negotiations would enable it to find for itself its place in this Greater Europe, of which it is a necessary component. Ukraine itself would be satisfied by it.

The European Union is best placed for relaunching the initiative and clarifying it, because it does not constitute a threat to anyone, except through the influence diffused throughout the continent of the values it claims but whose universality is not, by definition, specific to it.

Europe has overcome much more serious disputes than the Ukrainian question and, by contributing to its solution, the European Union, for which the Orange Revolution was a sign of hope, would achieve its vocation.

Things cannot be left as they are, but they cannot be rushed either. The parties involved are not really yet ready for negotiations whose terms have not been defined and for which the final compromise has not been marked out. The European Union, which must take the initiative is not yet in a position to speak with a single voice: the new institutions that are being set up will doubtless contribute to this. Russia has stated its ambitions but without specifying them in any way. The interested party herself, Ukraine, is divided between its western tropism and its membership of the East, which must be reconciled although its leaders do not yet know how this can be achieved. This uncertainty in terms of respective objectives has benefits as well as disadvantages, as long as we do not have to deal with an emergency situation. Whether or not we are heading for a Helsinki type conference, it is essential that considerations are made of a few strong ideas, on the nature of the balance to be sought between interests that are clearly, to some extent, converging. The fate of Ukraine can act as the theme and opportunity for this.

Alongside efforts being made by chancelleries in this respect, dialogue can be commenced at another level, to enable experts, without committing their States, to assess, without any polemic, the possibilities of a viable solution. Whatever the result, it will act as a reference

for negotiators, when the time comes. These unofficial contacts, subject to being discreet, can be used to clear the ground and give an indication of the outcome, which will be original but not necessarily spectacular, that can be envisaged. Political leaders will find there an argument to push things forward once misunderstandings have been dealt with, which are often more perverse than actual reasons for disagreement. In this undertaking, the cultural aspect of which is a determining factor, Europe can find a new lease of life, Russia, where there is no lack of good minds can make a contribution and Ukraine can affirm itself through more elaborate proposals than those which its leaders have put forward so far. To be credible, the status of Ukraine, whose kaleidoscope is a summary of Europe, must be the fulfilment of a process in harmony with current developments on our continent. Ukraine must be considered as the cornerstone of a new European order. Doubtless vision is required here: Europe is a self-achieving utopia. But it is also being built in an empirical manner, day after day, by force of circumstances: we must not be faint-hearted in facilitating free circulation of people, as is the case already for goods and, above all the circulation of ideas. We will merely be upholding the principle of reality.

# The Balkans: an Up-date

Ivan VEJVODA

“Enlightenment is man’s release from his self-incurred tutelage. Tutelage is man’s inability to make use of his understanding without direction from another. Self-incurred is this tutelage when its cause lies not in lack of reason but in lack of resolution and courage to use it without direction from another. **Sapere aude!** Have courage to use your own reason! that is the motto of enlightenment”.

Emmanuel Kant, *What is Enlightenment? 1784*

**T**he Western Balkans are moving towards the European Union, as confirmed yet again in this year of 2009. The European Union enlargement process to include this region is inevitable.

If one looks at the map, it is clear that the Western Balkans have become the inner courtyard of the European Union and NATO. Prior to Slovenia and Hungary joining the European Union in 2004 followed by Romania and Bulgaria in 2007, as well as Greece in 1981, the other countries in former Yugoslavia and Albania were surrounded by the euro-Atlantic dimension. These countries represent a space in Europe known as “unfinished business”, from the post-1989 period.

In this year of the twentieth anniversary of the fall of the Berlin Wall, it is time to remember too that a war broke out at the beginning of the nineties. Just when communism fell, a time that was to mark the “return to Europe” of countries that had remained behind the Iron Curtain in 1945, the country that was between the two, Yugoslavia, and which was supposed to be the first to be knocking at the door for membership of the European Union, collapsed into violence and disintegration. Whereas after the Second World War people in Yugoslavia had been brought up and educated so as to avoid any repetition of the tragedy of European history up until 1945, they fell headlong into it.

Without dwelling on this tragic history, it must be underlined that the European Union at the time was not in any position to meet this sudden and unexpected foreign policy and security challenge. And so, instead of Yugoslavia showing the way forward to other countries, it became the problem of “unfinished business” itself.

## **The Balkans under Protection: a Metaphor**

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Historically the Balkans have always been under someone's protection, most often an imperial power. Without going too far back and to mention only the past two centuries, geopolitical protection has always been imposed by external imperial forces. The Balkans have been a territory where European empires have all too often clashed, whether this be the Ottoman Empire, or that of the Hapsburgs or even the post-Versailles world order or post-Yalta and Potsdam in the Cold War – there has always been a security system in the region. 1989 was the year in which protection was suddenly removed and with it the existing framework. Amongst other things, all the communist "federations" disintegrated: the Soviet Union, Czechoslovakia and Yugoslavia. The latter was however unable to find a way to achieve a "velvet" divorce.

For the first time in their history, the Balkans countries are hoping to come, of their own free will, under a protection that they themselves will have chosen. For the first time they have the possibility of being part of a project for peace, of a democratic project which, for over fifty years, has made Europe what it is today: the European Union.

It should also be pointed out that, for these countries, membership of NATO is an important aspect in their search for a haven of peace and protection that will ensure them peace and security. Whatever the questions that may be arising these days over the future and relevance of NATO, and debate is fierce over these questions, for these countries, as for other countries in the post-communist area, NATO represents an international security institution parallel to and contemporary with the European Union, which offers additional crucial assurance. This dynamic in terms of NATO membership must be looked at in the light of developments post-1945.

## **The Magnetism of the European Union: a Realistic Promise of Happiness**

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Countries in former Yugoslavia and Albania, which belong to Europe's geographical core, are on the road to membership of the European Union. The year 2009 ended with a relaunch of the European integration process. The Lisbon Treaty coming into force has given a new boost to the work and to the dynamic of European Union membership. After deeper examination of the European Union, we are now returning, amongst other things, to the dynamic of enlargement.

The attractiveness of the European Union is still present and strong, a fact that can be explained by one simple reason. The post-Second World War European peace plan, political in essence and underneath, economic, continues to be implemented in the Balkans. This peace plan will remain as unfinished business in this region for as long as the countries have not joined the Union.

The magnetism of the Union works because the citizens of these Balkan countries share the idea that belonging to the European Union will offer them more hope, safety and prosperity than if they remain outside its doors. In all the countries wishing to join the Union, the majority of public opinion is favourable to entering the Union (the only current exception being Croatia, which is the country closest to membership – a phenomenon observed in other similar cases). Knowledge of the complex workings of the European Union is clearly not the bread and butter of Balkan citizens.



Thanks to the opening up of Yugoslav borders in the mid sixties and to the departure of many citizens as “Gastarbeiter” (literally “invited workers”), knowledge of Europe is both concrete and tangible. The comings and goings of these people and of members of their families coming from former Yugoslavia to live in European Union countries in the sixties, seventies and eighties, have resulted in knowledge of the way of life and rule of law that exists in Europe. They know what the Union is and what it offers in terms of realistic “promises of happiness”. There is no illusion or naivety there, people are well aware of the imperfections and constraints imposed by globalisation.

## **The Accession Dynamic**

In 2009, the year when Iceland created a surprise by demonstrating its will to join the European Union and when Turkey continued its slow progress on the road to accession due to opposition from certain countries, it was the dynamic of accession of the Balkan countries that appeared to be well on its way.

Croatia, the region’s precursor, has resolved its border dispute with Slovenia to complete the chapters required for accession to the Union. The Croatian government hopes to join in 2012. It should also be underlined that Croatia became a full member of NATO in April 2009, at the Strasbourg-Kehl summit.

Macedonia received good news from the European Union Council in October 2009: five years after obtaining candidate status in 2004, it can now begin accession negotiations. Unfortunately, this will not be possible as long as its dispute with Greece regarding its name has not been resolved. This problem also prevented Macedonia from becoming a full member of NATO in April 2009, delaying the existence, for this country, of a new kind of security protection, of its own free choice. This dispute, about which the elite of the two countries are well aware, has consequences for the region overall and is delaying not only the accession process but also the process of reconciliation and therefore of stabilisation.

Montenegro, which submitted its membership application in December 2008 under the Czech presidency, is making progress, having submitted its responses to the questionnaire to the European Commission. Montenegro also received an invitation from NATO to commit to implementing a Membership Action Plan in December 2009.

Albania submitted its membership application to the European Union in December 2008 in Paris, under the French presidency, and has received from the Commission the list of questions that it must answer before moving on to the next stage. Albania has been a member of NATO since April 2009.

Having made its application to the European Union in Stockholm on 22<sup>nd</sup> December 2009 under the Swedish presidency, Serbia has confirmed its European choice and again stressed the irreversible nature of its dynamic for joining the Union. The choice made by the Serbian electorate in September 2000, defended before parliament in Belgrade on 5<sup>th</sup> October 2000, that is to say the choice of a future without the Milosevic regime, has since been reconfirmed at each successive presidential and legislative election. It was the decision made by the Council of Ministers in December 2009, to unblock the interim agreement which was part of the Stabilisation and Association Pact, which enabled this advance to be made. Since January 2009, Serbia had applied this interim agreement unilaterally, thereby demonstrating its determination to move ahead with its relations with the European Union.

Serbia must, within the shortest possible period of time, fulfil its obligations towards the International Criminal Tribunal for former-Yugoslavia (TPIY). The arrest of Ratko Mladic and Goran Hadzic is essential. In his last report to the United Nations, the TPIY prosecutor, Serge Brammertz, underlined the fact that Serbia was doing everything possible to arrest these two fugitives, thus demonstrating Belgrade's strong political will to carry out this task. Over the past two years, questioning has arisen on several occasions concerning the direction taken by Serbia, particularly in view of its relations with Russia and the visit made by President Medvedev to Belgrade in October. Serbia also created a certain misunderstanding by speaking of the "four pillars" (European Union, United States, Russia and China) of its foreign policy. With the repeated declarations made by the authorities in Belgrade since autumn 2009, that the strategic priority was, is and will remain, membership of the European Union, these misunderstandings have now dissipated with the submission of its membership application.

Clearly Russia, as main gas supplier, plays a dominant role across the whole region and, in the agreement made between the Italian company ENI and the Russian firm Gazprom for the building of the Southstream gas pipeline, in which numerous countries are involved, the Balkan countries can merely pick up the "crumbs" from beneath the top table. In fact, these "crumbs" are crucial for regularity of energy supply. Slovenia has just joined the agreement and Croatia has expressed its desire to do the same.

Bosnia Herzegovina is the last of the countries in the region not to have submitted its application but, in June 2008, it signed a Stabilisation and Association Agreement with the European Union. This country is now faced with the following alternative: either it follows the other countries and commits to the reforms that will enable it to make progress, whilst maintaining the structure of the two equal partner entities that was entrusted to it in the Dayton and Paris agreements in 1995, or it risks remaining blocked in last place in the race, something that could have destabilising consequences for the country. The European Union, represented by the Swedish presidency and the Foreign Minister, Carl Bildt, the United States represented by deputy Secretary of State, James Steinberg and the European Commission represented by the enlargement commissioner, Olli Rehn, began the Butmir process (the name is taken from the place where negotiations were held, close to Sarajevo), to attempt to accelerate the search for a compromise enabling Bosnia-Herzegovina not to be distanced by other countries. Nothing has been achieved as yet, although there are certain signs amongst stakeholders of an awareness that a compromise must be found.

The tripartite presidency of Bosnia-Herzegovina has also recently requested the NATO General Secretary to be allowed to join a Membership Action Plan. This is worth mentioning because all members of the political elite share this view.

Kosovo, which declared its independence in February 2008, has been recognised by 64 countries. Serbia continues to maintain the position of the principle of integrity and sovereignty of its territory, which is confirmed by UN Security Council resolution 1244. Serbia stated, right from the outset that, however difficult the challenge to be met, it will use only legal, diplomatic and institutional instruments to defend its position.

Five EU countries have not recognised Kosovo, including Spain, which has held the revolving European Union presidency since 1<sup>st</sup> January 2010. Also, of the countries from former-Yugoslavia, only Bosnia-Herzegovina has not recognised Kosovo. In its annual report on enlargement, the European Union refers to Kosovo under the heading "Kosovo (within the framework of UN Security Council resolution 1244/99)", in a separate chapter.

The International Court of Justice in the Hague will issue its opinion on Kosovo's declaration of independence in 2010, stating whether this declaration is in agreement with international law or not. This will be a defining moment for continuation of the stabilisation process in the Balkans.

## **Visa-free Travel and Regional Cooperation**

The European Union Council of Ministers' decision made in November 2009 to abolish visas for Macedonia, Montenegro and Serbia should not be under-estimated. It is seen as the most tangible message yet by citizens of these countries. This message says: the door is open to you. This leaves Bosnia-Herzegovina, Albania and the people of Kosovo, which will have to meet the conditions that had to be fulfilled rapidly by the three countries which benefit since 19<sup>th</sup> December 2009 from freedom to travel.

Regional cooperation consists of a testing, by all countries, of their deep European democratic convictions. Indeed, the extent of this cooperation is often invisible. It is vast and concerns every sector of the economy, trade, infrastructure, energy and culture – of course there is still a lot to be done. Yet the tensions affecting bilateral political relations mask the degree and intensity of contacts that exist between the countries. This is harmful because these tensions form the region's image in international public opinion. And a change of image for the region is crucial in order to strengthen the arguments of those in favour of working towards membership of the European Union.

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The road to membership is long and difficult but both countries and societies are aware of this. Challenges and disputes will require political leadership and "sweat and tears". Two fundamental facts, on the other hand, do allow for a certain degree of optimism with regard to the Balkans. Every country in the Balkans and their governments have clearly opted for membership of the European Union and NATO (except Serbia which is a member of the "Partner for Peace" NATO programme). All countries have also underlined their desire to resolve all existing disputes by legal, peaceful means. This is a demonstration of the courage required and "leaving tutelage" for "enlightenment", European democratic values.

Some Member States and some citizens of the European Union have doubts about any enlargement to include the Balkans. "Enlargement fatigue" will exist in some regions, but the process will continue because the promise made by the European Council in Thessalonica in June 2003 exists and is reconfirmed. Without the Balkans the European peace project will never be completed.



# The European Union and its Neighbours: What Status, what Offer?

Michel FOUCHER and Maxime LEFEBVRE<sup>1</sup>

The nineties opened up the perspective of European Union enlargement eastwards and caused it to specify the geographical architecture of the continent, distinguishing countries “in” from those called to join the European Union, and those which, whilst remaining outside, are attached to the European Union by special proximity links. But, for those countries in this latter category, can the “neighbourhood policy” offer a credible, lasting alternative to a membership perspective?

## **European Union layering / Countries in the Enlargement / Neighbouring Countries**

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Ten countries in Central and Eastern Europe, along with Malta and Cyprus, were admitted on the basis of the “Copenhagen criteria” defined in 1993: political criteria (democracy, human rights, rule of law, respect for minorities), economic criteria (ability to face up to the pressure of competition and the market) and, finally, ability to integrate community *aquis* including the aim of a single currency. On this basis, these countries were prepared for the enlargement by “European agreements”. Right from the European Council meeting held in Luxembourg (1997), they were all integrated into a “European conference” confirming the global nature of the enlargement process. Membership negotiations were completed in the Athens Treaty (2003), which came into force on 1<sup>st</sup> May 2004. Only membership of Romania and Bulgaria was delayed until 1<sup>st</sup> January 2007. The European Union thus increased from 15 to 27 Member States (after increasing from 12 to 15 in 1995, when Austria, Finland and Sweden joined, the membership of which did not pose any particular difficulty).

Four new Member States – Slovakia and Slovenia, along with Malta and Cyprus – are even already part of the single currency, which now includes 16 Member States. And the new Member States (except Cyprus, Romania and Bulgaria) are now members of the Schengen zone, which enables populations to move without any checks through borders and across

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1. The author is expressing his own opinions here, these opinions do not commit the Institution for which he works.

a total of 25 countries (the United Kingdom and Ireland are not part of this zone, unlike Norway, Iceland and Switzerland).

Very strong links also exist with the four countries in the European Free Trade Association (EFTA, founded in 1960). It can be said that all these countries could join the Union without difficulty, should they so wish. Actually, on two occasions Norway almost became a member (1972 and 1994), but the Norwegian people opposed membership both times. Iceland is currently asking itself the question, after having been seriously wounded by the financial crisis of 2008. Norway, Iceland and Liechtenstein are strongly integrated into the European economy through the European Economic Area (EEA, created in 1992), which provides for application of community *aquis* under the control of a specific Court of Justice. In 1992 Switzerland decided to remain out of the EEA, but it is linked to the European Union by a free trade agreement and by other sectoral cooperation agreements (including membership of the Schengen area).

The European Union has also decided to promise enlargement to a certain number of countries. These are on the one hand, Turkey. The association agreement of 1963 already provided for Turkey's membership of the Community, but the European Union did not yet exist at the time. Turkey has been a candidate since 1987. After excluding Turkey from the "European Conference" in Luxembourg (1997), the European Council finally (unanimously) accepted Turkey's candidacy in 1999, which marked a decisive turning point.

Membership negotiations opened in 2005, even though they are ring-fenced: the enlargement process is said to be an "open" process (therefore not automatically leading to membership), and unanimous decisions are required to open and close each of the 35 chapters included in the accession treaty (for the time being, only 12 chapters have been opened). The more reserved stance taken by France (since Nicolas Sarkozy came to power) and by Germany (since Mrs Merkel arrived as Chancellor) have in this respect led to a slowing down in Turkey's accession process.

In addition to Turkey, the European Union also promised membership to the Balkan countries (in Euro-speak a "European perspective") at the Euro-Balkan summit held in Zagreb in 2000. All these countries (7, including Kosovo which has however not been recognised by all Member States of the Union), are linked, or are set to be linked, to the European Union, by "stabilisation and association agreements, which should prepare them for membership. Accession negotiations were started with Croatia in 2005, and may be completed in the near future. Macedonia's candidacy was accepted in 2005, although the opening of membership negotiations has been delayed due to bilateral problems with Greece (regarding the name of Macedonia, in particular).

Once the enlargement process is completed the European Union should include therefore 34 Member States with the Balkans, or even 35 with Turkey and even 39 if EFTA countries also end up joining the Union. What would happen after that? The Council of Europe, as the oldest European organisation, has 47 Member States, including Russia and Turkey. On his arrival in power in 2007, President Sarkozy stated that he wished to see a clear answer given to the question of European Union borders. A mandate was given to a group of statesmen, under the aegis of Felipe Gonzalez, to reflect on Europe's future. This group should report on its work in 2010. But the border question was not explicitly included in the group's mandate and it will be difficult to bring any kind of univocal, definitive response. Although the majority of Member States is not currently willing to start a new enlargement process, another group of Member States (the United Kingdom, Sweden, new Member States from

the East) would like to open up European perspectives to countries in the East, particularly Ukraine and Moldova, in order to motivate them further on the path to modernisation and to consolidate their independence from Russia.

In 2003, the European Union's relationship with its neighbours to the East and South was placed within the framework of "European neighbourhood policy". Initially the idea was to fix, according to the reflections of certain German *think tanks* (the *Bertelsmann Stiftung*) during the nineties, the relationship with "neighbours of neighbours", that is to say those who were going to become the "new neighbours" in the East, mainly Ukraine, Moldova, Belarus and even Russia. The European Commission launched the concept of "neighbourhood policy" to cover both these neighbours to the East and those to the South (concerned by the "Barcelona Process", launched in 1995). This was a matter of offering them, to use the expression coined by Romano Prodi, President of the European Commission at the time, "everything except the institutions", and thus to close (at least provisionally) the borders of the European Union, with "neighbours" being treated differently from countries involved in the enlargement process (Turkey and the Western Balkans), and thus to consolidate the limit between "in" and "out", whilst creating around an enlarged European Union "a ring of peace, stability and prosperity".

The European neighbourhood policy covers ten countries in the South Mediterranean, as well as six countries in Eastern Europe (Moldova, Ukraine, Belarus and three countries in the South Caucasus – Armenia, Azerbaijan and Georgia – added in 2005). Russia, which wanted to be treated as a privileged partner (a "strategic partner"), refused to be integrated into the neighbourhood policy. Central Asian countries, which were part of the former USSR are not involved either.

The neighbourhood policy is based on a twofold principle which is not without contradictions: a single framework with a differentiated approach.

The single framework consists of extending community policies, wherever possible, to neighbouring States, promoting their democratic and economic modernisation without having them enter the European Union's institutional framework. A "European neighbourhood and partnership instrument", (12 billion euros over the period 2007-2013) is used to support these countries in their various reform efforts and to respect, more or less, the geographic balance between the former MEDA and TACIS programmes (two thirds of funds for the Mediterranean and one third for the East). The single framework of the neighbourhood policy was reinforced under the German presidency of the European Union (2007) with the extension of technical assistance and administrative twinning programmes (TAIEX/TWINNING) to neighbouring countries, the participation of these countries in community programmes and agencies, the creation of a governance facility (to reward countries most motivated in terms of reforms), an investment facility for the neighbours (to mobilise more financing) and the possible alignment of these countries on common foreign policy and security positions (CFSP).

At the same time the approach is different country by country and region by region. "Action plans" have been concluded between the European Union and each of the countries in the European Neighbourhood Policy (ENP), with the exception of Algeria, Belarus, Libya and Syria, which have remained apart for political reasons. These action plans, signed on a contractual basis, although not legally binding are real catalogues of reforms to be achieved. Agreements in terms of visa facilitation have also been signed with Moldova and Ukraine (and with Russia). An association agreement, including a "deep and comprehensive" free trade zone (that is to say covering all products and including real regulatory convergence) is

currently being negotiated with Ukraine. “Advanced status” is set to be granted to Morocco, with “special status” being given to Israel.

A regional approach has been developed both in the East and in the South. For south Mediterranean countries (as well as for Albania and Mauritania), all three sides of the “Barcelona Process” have already been in existence since 1995 (political and security, economy, culture). This changed scope in 2008 with the Union for the Mediterranean project (UfM), launched by Nicolas Sarkozy, which at the outset was planned to cover only countries on the Mediterranean coast and which has finally extended to the whole of the European Union and neighbouring countries, including Turkey and neighbouring countries in the Balkans (43 countries in all). Compared to the Barcelona Process, the UfM is characterised by greater equilibrium between the two shores of the Mediterranean (North and South co-presidency, an autonomous secretariat in Barcelona and the accent that is put on actual projects: fight against pollution, transport, energy...). However, like its predecessor it stumbles against the deadlock in the Israeli-Palestinian conflict and the difficulties existing between Arab countries (particularly Morocco and Algeria). Development of inter-regional trade is also proving laborious (Agadir agreement between Morocco, Tunisia, Egypt and Jordan, which came into force in 2007).

In the East “Black Sea Synergy” was launched in 2007 to associate the European Union, neighbouring countries in the East, Russia and Turkey. This highly (maybe excessively) flexible framework should encourage concrete projects (tourism, environment, transports).

In order to create an “eastern dimension” to the neighbourhood policy, to match in the East the UfM programme, countries in the “Visegrad Group” (Poland, Czech Republic, Slovakia and Hungary) along with Sweden, encouraged the launch under the Czech Presidency (2009) of the “Eastern Partnership” aimed at the six eastern European neighbours. The Eastern Partnership does not improve in any substantial way the European Union’s bilateral offer within the context of the neighbourhood policy, except by generalising what was granted to Ukraine (negotiation of association agreements including, if possible, a “deep” free trade area and a “long term” perspective of suppressing visas). On the other hand, it creates a multilateral framework with four cooperation “platforms” (political and democratic stability, economic integration, energy security, contacts between people) and “flagship projects” financed by some additional financial resources (border management, support for small and medium businesses, energy, response to natural disasters). Overall, the Eastern Partnership should prepare for enlargement and bring together countries from the east of the European Union; this tends to worry Russia, which, moreover, has criticised the initiative. In this respect, Moldova’s participation in the 1999 stability pact for South-East Europe (now the Regional Cooperation Council) and in the Central and South-Eastern European free trade zone (set up in 1992) is significant, as is the entrance of Ukraine and Moldova to the Energy Community (which provides for convergence of Balkan countries with the European Union in terms of energy standards and regional cooperation).

The European Neighbourhood Policy has had unquestionably positive effects, acknowledged by most partner countries. It has deepened, professionalized and improved the European Union’s relations with countries in the region on the basis of action plans or association agreements (signed or being negotiated). It has created an environment that is favourable to reform, arising from European “soft power”. Its end ambition, that is the organisation around the European Union of an immense integrated space for freedom of movement, one which is both stable and prosperous, remains nevertheless a long way off. Economic development is coming up against endemic difficulties (corruption, insufficiencies



in the rule of law or social difficulties) making the project for a grand “neighbourhood economic community” extremely hypothetical, particularly since the European Union’s economic relations with its “neighbours” remain extremely asymmetrical. Democratisation is facing resistance in both Arab countries and in the East. Free movement of people is still a distant objective, due to fears within the European Union regarding the risk of migration. Finally, conflict resolution (Israeli-Palestinian conflict and the Western Sahara in the South, frozen conflicts maintained by Russia in Moldova and in the Caucasus) has not made much progress. An irresistible divide is forming, nevertheless, between East and South. Neighbours in the East, particularly Moldova and Ukraine, are tending to reject the word “neighbourhood” and hope to see their European specificity recognised which should, in their opinion, result in a real EU membership perspective.

### **Towards a New Neighbourhood Policy**

The European Union is the main factor in reorganisation of the continent of Europe; it already includes 57% of Member States of the Council of Europe and 62.5% of the population after a series of seven territorial extensions. The challenge now is to imagine the type of interaction that it is desirable to build up between institutionalised Europe and the continent, its margins and approaches, without restricting considerations to the Russian factor alone. Seen from the outside, the European Union can act as a unifying factor. “Being out and wanting to be in” is a majority objective, except in Russia. However, the same unity of viewpoints is not seen inside the current European Union in terms of the type of policies to be built up with regard to “border” States. This is even a driving force for division between States (depending on their geo-history and their geo-politics), between political parties and even within the Union’s own institutions. The external borders of the European Union can be classified into three major categories: those marked by clarity and stability (Russia, southern shore of the Mediterranean), those that are liable to move due to current negotiations or candidacies (Turkey, Western Balkans) and finally those that are disputed (Eastern Europe and Southern Caucasus).

#### **Economic differentials (difference in GDP in PPP per capita (2008))**

##### **East**

Finland / Russia: 2.4 to 1  
 Poland / Ukraine: 2.3 to 1  
 Lithuania / Belarus: 1.6 to 1  
 Romania / Moldova: 4.4 to 1  
 (NB: Germany / Poland: 2.2 to 1)

##### **South East**

Bulgaria / Turkey: 0.85 to 1  
 Slovenia / Croatia: 1.7 to 1  
 Hungary / Serbia: 1.8 to 1  
 Greece / Albania: 3.8 to 1

##### **South**

Spain / Morocco: 7.6 to 1  
 France / Algeria: 4.3 to 1  
 Italy / Tunisia: 4.2 to 1

The data above indicates that gaps expressed in terms of gross national product are not really very large except between Southern Europe and North African countries, as well as with the Western Balkans (Albania, Kosovo and Bosnia-Herzegovina) and with Moldova. In spite of differences in economic structures (role of States, material bases of the economy, place of foreign direct investment [FDI]) and the effectiveness of the rule of law (nature of relations between politics and the economy, role of monopolies), gaps are less than those caused by the policies of the European Union itself. Or, to refer to the distinction negotiated in September 2008 between Ukraine and the French presidency of the European Union Council, there is a huge difference between a European “country” and a European “State”, the latter supported by article 49 of the treaty in submission of its candidacy.

Yet, in current concepts and practices in terms of neighbourhood policies, differences in financial resources made available to a State vary considerably depending on whether the State concerned is a Member State, a State on the road to accession or a neighbouring State. The 12 new Member States (population of 100 million) benefit from the manna of common policies, particularly from structural funds that are destined for them as a priority (150 billion euros<sup>2</sup> for these 12 countries over the period 2007-2013). By comparison, the instrument for pre-accession, covering the 8 enlargement countries (population of 100 million) amounts to only 12 billion euros for the same period. And the neighbourhood instrument, which assists the 16 neighbouring countries (population of 200 million the South and 75 million in the East, not including Russia) also amounts to 12 billion for the same period.

This means that the net contribution by the European Union in 2008 amounted to 4.3 billion euros for Poland and 1.5 billion euros for Romania<sup>3</sup>. By comparison, amounts paid with regard to the European Neighbourhood and Partnership Instrument in 2008 were 5 million € for Belarus, 122 for Ukraine and 45 for Moldova<sup>4</sup>. Differentials are therefore 33 to 1 between Romania and Moldova (true, its population is five times smaller). In the case of the Western Balkans amounts allocated to the pre-accession instrument were 190 million for Serbia, i.e. another 1 to 8 differential with Romania (true, its population is three times smaller). Between Turkey (539 million euros) on the one hand, and Ukraine (122 million) or Egypt (140 million) on the other, the aid ratio is 4 to 1 (whereas the Turkish population is equivalent to the Egyptian population and only one and a half times as big as the Ukrainian population). The differential is slightly smaller (1 to 3) between Morocco (163 million) and Turkey (whose population is twice as big as Morocco's).

These differences are logical and comply with treaties and policies agreed by Member States and Neighbourhood States. They have the disadvantage of justifying permanent pressure on continuation of European Union enlargement according to the traditional modalities even though, in several cases, neighbouring countries are not prepared for it. It would therefore be more judicious to increase the resources allocated to the neighbourhood policy, not necessarily as a substitute to a membership perspective (which could one day attain unanimity amongst Member States) but as an intermediary stage which has now become essential. The allocation of financial means over the forthcoming financial years (2014-2020) could be reviewed such that neighbouring countries would come closer to

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2. At 2004 prices, which were used for the negotiation of financial perspectiveperspectives 2007-2013.

3. “EU budget 2008. Financial Report”, [http://ec.europa.eu/budget/library/publications/fin\\_reports/fin\\_report\\_08\\_fr.pdf](http://ec.europa.eu/budget/library/publications/fin_reports/fin_report_08_fr.pdf)

4. Internal Commission figures, but including only bilateral grants (excluding regional grants).

the aid level granted to countries in the enlargement, from which they are not excessively distant, even if this means cutting slightly into the structural funds for regional policy (doubling of the neighbourhood instrument would reduce by 5% the amount allocated to structural funds). This would also mean agreeing as to the distribution of resources between Eastern and Southern countries, with some in the European Union not failing to plead for frankly more favourable treatment of the East. Inclusion of the neighbourhood policy into the field of competencies of the new enlargement commissioner, Stefan Füle, the successor to Olli Rehn, is worth pointing out in this regard. This new configuration is doubtless a response to a concern on the part of the Commission which wants to avoid seeing the financial resources of the neighbourhood instrument coming under the authority of the High Representative of the Union for Foreign Affairs and Security Policy, Mrs Catherine Ashton. Whatever the final perimeter of the European external action service, a more ambitious neighbourhood strategy should be implemented, commensurate with the geopolitical challenges inherent to Eastern European and Mediterranean countries, in the interests of both the European Union and of the countries concerned, first and foremost, Ukraine and Moldova. The guiding principle would be to use a rigorous assessment of the terms under which community funds have been absorbed by Member States which joined in 2004-2007 and to learn lessons, as much for States committed to the enlargement process as for those benefiting from the neighbourhood policy. In both situations there is already a great need for resources in order to facilitate up-grading, catching up and reconnecting as well as political and institutional reforms. Whether or not there is a European perspective in the medium term, improvement of government methods and the implementation of rules of law, reforms and the setting up of new equipment are imperatives in themselves, worth doing in their own right.

Finally, in the case of the Western Balkans, where relations with the European Union are carried out on an individual basis, any clear-sighted observer must recognise that the viability of each of the States and entities that comprise this space can only be achieved at regional level. Sectoral cooperation is being built up in the fields of energy and transport, opening up the way to an overall approach, as was outlined at the Thessalonica European Council meeting (2003). One of the merits of the Eastern Partnership is to encourage States that are a party to it to discuss amongst themselves, as was the case with the Visegrad format approach for Central European countries prior to their accession. In the Western Balkans due to the twenty-five major disputes outstanding, each State retains the ability to block the process of the other, as illustrated by the Slovenian-Croatian dispute. The map of the Balkans contained in this book points out the most important of these: war crimes and criminals, recourse to the International Court of Justice, refugees and displaced persons, border matters, the sharing of Yugoslavian assets, economic, customs, diplomatic and religious matters. These bilateral questions are actually subjects that have a European impact which the European Union should address. Whilst seeking the integration of these States and entities (protectorates) into the Union, the European Union has no regional integration strategy for this area, whose fragmentation encourages internal quarrelling.

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The first train from Belgrade to Sarajevo ran again on 13<sup>th</sup> December 2009, after the service had been halted for almost two tragic decades. There is still a lot of work to be done to heal the wounds of Yalta and to fill in the trenches, whether actual or mental,

that surround the European Union. The new Commission should show proof of greater commitment both in South East Europe and in Eastern Europe, commensurate with the human and geopolitical challenges facing these two European regions, without neglecting the construction of a greater Euro-Mediterranean space.

## 4

# The European Union and the World at Large

## Which European Policy should be adopted with the other powers?

Eneko LANDABURU

The Lisbon Treaty has only been in force for three months but a great many changes have already occurred. In line with her mandate and her role as High Representative and Vice-President of the Commission, Lady Ashton immediately launched the new European External Action Service (EEAS).

This was necessary given the pace with which the international agenda is developing: the fight against climate change, the war in Afghanistan and the consequences this implies for Pakistan, the peace process in the Near East, work towards non-proliferation in Iran and North Korea, the re-initiation of the disarmament policy, to which are added regional challenges in neighbouring European countries, around the Mediterranean, in the Middle East and in Central Asia. Although these concerns are urgent, we should not forget either the humanitarian crises – whether they are in Chechnya, Darfur, Congo, Myanmar or Haiti – nor the long and mid-term challenges – whether these include the fight against terrorism, world economic governance or the achievement of the most elementary aspirations of our three billion fellow human beings, which comprise the Millennium Development Goals.

Given these challenges which policy should the European Union implement with regard to the other powers? The issue is a pertinent one although the European Union comprises a unique supranational entity, a champion of multilateralism. This is a question also addressed to us by our international partners. It also matches what the European citizens want, that is, to know whether the European Union can assume its responsibilities in today's world. But doubt continues to run through public opinion: in spite of its prosperity will the European Union still be amongst the most important powers in a few decades time?

### **External Policy and Common Defence – a Mitigated Image**

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Any analysis of this kind must be based on an assessment of the external and common defence policy. On the appointment of Javier Solana as the first High Representative in

October 1999, the aim was to establish a coherent European policy in this area. Just one decade later the aim of this policy has not yet been totally understood by the public.

The ESDP's goal (European Security and Defence Policy) was not to follow the example set by the others nor was it to aspire to a role similar to that held by the traditional powers. It was rather more about establishing the specific nature of the European project in the provision of real solutions to the most pressing international issues.

From this point of view the European Union has played an extremely useful role, notably in the completion of around 20 missions and the deployment of around 100,000 soldiers, legal instructors and policemen, specialists from the customs services, the police and territorial management as well as electoral observers. The European Union has also built up a reputation in terms of civilian crisis management. Often it has been necessary to improvise en route. I can still remember when the civilian observation mission was deployed to Aceh, a joint effort with ASEAN, which led to the transformation of mediation by President Martti Ahtisaari into real pacification in the field. I can also remember our coordination work with the United Nations in the face of the tsunami in the Pacific in 2004.

When it speaks with one voice the impact the European Union has is undeniable. The Georgian conflict is an example of this. During the summer of 2008 the rapid deployment of our 300 observers together with strong diplomatic backup proved decisive in the re-establishment of a certain amount of order, even though the previous status quo still has to be recovered. Kosovo is also an illustration of European contribution to the civilian management of international crises: 1,800 European policemen, judges and customs officers are working alongside the Kosovars to establish the foundations of a new state and simultaneously they are assisting the Serb minority to maintain its rights and its way of life.

In no way does this mean that we cannot do better, notably with regard to multilateral cooperation. Paradoxically the European institutions and the Member States are poorly represented in this.

Over-represented in some institutions and under-represented in others this damages their credibility in both instances. For example during the G20 summit in Pittsburgh in September 2009 the European Union was represented by the Member States who were officially part of a group (Germany, UK, France and Italy), but the Commission was also there, together with Sweden (as president of the Council), Spain and the Netherlands to which we have to add the leaders of the World Trade Organisation, the International Monetary Fund and the Financial Stability Council, all three EU citizens. In all there were eleven European personalities in attendance, opposite two from the USA and only one from China.

On the other hand at the G20 ministerial meeting in which most of the real issues were debated the Commission was not represented at all.

But in terms of diplomacy rigid stances prevail. The Cypriot problem and Greek-Turkish antagonism provide another example. For decades this issue has obstructed relations between the Union and NATO. I might also quote the more recent case of the obstruction in negotiations towards an agreement between the European Union and Russia on the part of some Member States which I remember in particular since I was leading the negotiations.

To understand the problem it has to be seen in real terms. If we take for example the situation in the Middle East, 2009 started with bloody conflict in Gaza. The European Union was on the spot rapidly but unfortunately with two delegations: one led by the Czech presidency under the guidance of Czech Foreign Minister, Karl Fürst Schwarzenberg, the other French led by President Sarkozy. It would have been preferable to clarify who was representing the Union beforehand.

This also applies to the multilateral sphere in which a lack of coordination can lead to the cancellation of European influence. Recently the Goldstein Report, which confirmed that there had been human rights infringements both by the Israelis and by Hamas during the Gaza conflict, was the subject of a vote at the Human Rights Council in Geneva. In spite of the presence of several Member States on the Council no significant European stance emerged. Amongst the European delegations some voted against the motion put forward, others abstained. France and the UK notably chose to walk out of the room but not without giving spontaneous press conferences outside exhorting both sides involved in the conflict to take the report's content seriously.

Just as serious a challenge for the new External Service lies in the rigidity of operational procedures. The budgetary procedure illustrates the issue.

Of the 49.5 billion euro that the European Union decided to devote to external action in 2007-2013 only 2% were set aside for Afghanistan and 1% for Pakistan. The amounts have gradually been increased since then. But this programming still reflects priorities as they were several years ago when the budget was first decided upon. But these are not the same today. They seem extremely difficult to correct now since it would require agreement on the part of all of the Member States together with a significant review of the budgetary procedures in application at present.

However like the USA who appointed a special envoy for Afghanistan and Pakistan (Richard Holbrooke), more than a dozen governments from the European Union have appointed their own special envoys – in addition to the special envoy deployed by the High Representative.

## The European Union – a Unique Power?

For the other powers who are our strategic partners the problem with the European Union is not that it has too much “defence” but that it does not have enough. So, what about European military power? The ESDP led to the creation of a series of structures which will fit nicely into the External Service. But although the USA spends around 4% of its GDP on defence the European countries of NATO only spend 1.8% on average (2007). The picture is even more eloquent if we look at it in detail. Whilst the USA spent 1.9 times more than the European Union on defence the gap grows to 2.5 times more in capital spending, 3 times more with regard to spending on equipment and 6 times more in R&D in defence (2007).<sup>1</sup>

Having said this, the European Union should not hide its light under a bushel. It has developed a strategic culture in civilian-military prevention which unlike strategies that mainly focus on military intervention, it fosters multilateralism, diplomatic solutions to settle conflicts and alternative non-military tools for crisis management. The European Union and the Member States are the leading donors to the UN's peacekeeping budget, the first donor of international aid and they provide ten times more staff than the USA in UN operations.

Do our partners really appreciate what Europe contributes? We might doubt this, which simply highlights the need for the European Union to articulate its own policy with regard to the partner powers more coherently.

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1. N. Martin-Lalande, *L'Europe de la défense en 2007*, Centre des Etudes Transatlantiques (Transatlantic Studies Centre).

How else can we hope to attract greater attention on the part of the Obama administration, whose initial interest in the Union soon melted away? This could be one way of interpreting the obvious lack of enthusiasm during preparations for the most recent EU/USA Summit in Washington and the way that Washington rejected the European approach to the Copenhagen Conference on Climate Change in December 2009.

And so it is up to the European Union to restate its case with regard to boosting Euro-American relations. We are not short of arguments especially since the Atlantic Alliance is reformulating its mission and providing itself with a new mandate. We should also consider the economic stakes. The admirable successes achieved by new economic powers should not blind us to the fact that transatlantic relations are by far the most effective in the world's economy. If we add trade, transatlantic investments and the turnover of affiliated companies, the volume of the transatlantic market is estimated at around three billion euro thereby guaranteeing jobs for between twelve to fourteen million people either side of the Atlantic. This is the economic motor behind globalisation.

Russia and China offer us further case studies of our external relations with other powers. Russia, a neighbour, which has been linked to Europe due to a long history, provides around 40% of the gas imported into the EU and is the third export market for the European Union after China and the USA. But it is also a potential source of considerable challenge for the Union. In exceptional circumstances the Member States know how to stand united against Russia as they did during the Georgian conflict and when Russia cut off the gas in Ukraine – and as a result in a good part of the Union – in January 2009. However on a daily basis, unity is lacking amongst Europeans. Hence after a dispute between Poland and Russia with regard to negotiations over the export of Polish pork to the latter, Warsaw vetoed the launch of negotiations on the renewal of the framework partnership agreement between the Union and Russia. More recently Lithuania also tried to intervene and this again delayed the start of negotiations. We just have to hope that action like this will not disturb President Medvedev with regard to a new security structure in Europe.

But we should remain pragmatic. To give meaning to the energy negotiations with Russia the European Union first has to fulfil its duty and establish an integrated energy market within the Union including the necessary infrastructure comprising oil pipelines and electricity networks. In this way it would become a partner to be taken a lot more seriously.

To a certain extent, of the major powers, it is China which would right now be most prepared to acknowledge the unique contribution made by the Union in terms of international cooperation. For several decades Chinese diplomacy has pleaded in favour of an open, multipolar world – a position we might have to remind it of if ever the nascent “G2” were tempted to settle its own problems at the expense of the international community in the wider sense of the term. China is an inevitable partner when it comes to policy on global warming, the upkeep of macro-economic balance, the opening of the world's trade and investment system as well as the reform of world governance. China also has considerable, if not decisive influence, over a great number of specific diplomatic issues such as North Korea, Iran, Myanmar, the new strategic alignment ongoing in Central Asia, but also in countries as far away as Sudan and even East or West Africa.

And yet, Europeans are quick to launch themselves into a competition against each other to progress their own interests in Beijing. A futile quest? I can still remember the repercussions of the meeting between Angela Merkel and the Dalai Lama in 2007 when Beijing reacted against some German companies whose place was quickly taken up by British and



French companies. One year on President Sarkozy irritated Beijing for the same reason and the same story was repeated with a simple exchange of players and nationalities.

China simply uses the division that exists between Europeans. Who would do anything different in its place? It is up to us to show that we can organise ourselves and defend our joint interests and that also applies to the world's economic governance and the progressive reduction of the imbalance in trade and the world's financial system. In no way does this policy exclude the use of candour in terms of Human Rights.

## **The European Union – an Attractive Model**

Above all this reminds us that European external action relies on an advantage which the traditional international players envy: the attractiveness of the European model. We are envied because of our supranational cooperation model, our freedom and our market economy. In many respects Brussels has become the world capital in terms of the protection of the environment, social security, consumer protection, industrial and technological standards.

This attractiveness gives value to the most effective policies of our external relations: the neighbourhood and enlargement policy. Agreement is not unanimous on this within the Union but the success achieved is remarkable. However we should not be complacent. Our attractiveness is not a guarantee for the future. On the contrary as the Union is increasingly involved in sectors such as border control, the redefinition of the right to asylum, the fight against illegal immigration and the regulation of visas it runs the risk of losing its power of attraction. Already in Ukraine, Belarus, and Moldova and in the Balkans all of those who live on the “wrong” side of the border defined by the Schengen Area are complaining that it has become much more difficult to travel in the EU Member States than before.

The most serious challenge lies in the Mediterranean-North Africa where demographic pressure is considerable. In less than a generation the population will grow by 150 million inhabitants whilst on the European side of the Mediterranean the population will grow old and decline. It will be necessary to set in motion a whole range of political tools within the Union to come up with adequate response to this issue – which, in addition to its legal, political, social and economic aspects is of an eminently humanitarian nature and we should not forget this.

Can we conclude anything from this brief overview? The first thing which is immediately obvious is that it will only be when we speak with one voice that we shall be heard in Washington, Moscow, Beijing, Brasilia and Cairo. To engage the attention of our partners better the Union should invest more in its internal cohesion. The Member States need to be convinced that coming together on a common position does not mean the abdication of their sovereignty from a diplomatic point of view -but that it is the contrary; it is the condition sine qua non for re-establishing the European Union's influence in the world. It is only on the basis of a consensus within our own group of countries that we shall be able to deploy external action tools and instruments of any consequence far and wide.

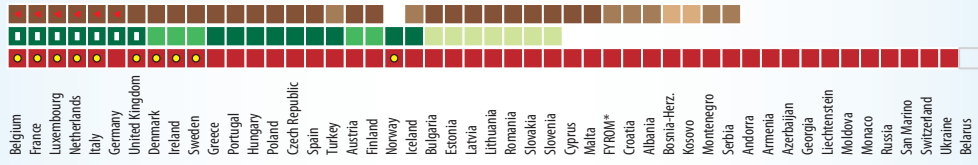
My second remark bears on innovation in international relations. Today external action starts close to home and that includes security issues. It is within our own neighbourhood that the European Union's influence is the greatest. It is also amongst its neighbours that the Union has the greatest power of conviction.

My third observation focuses on all of the challenges that I have just spoken of. They all call for strategies of sharing and cooperation. By combining the roles of High Representative

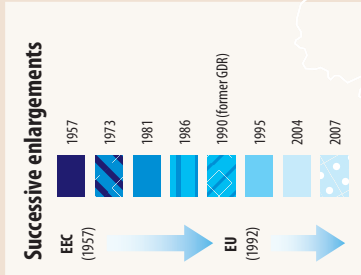
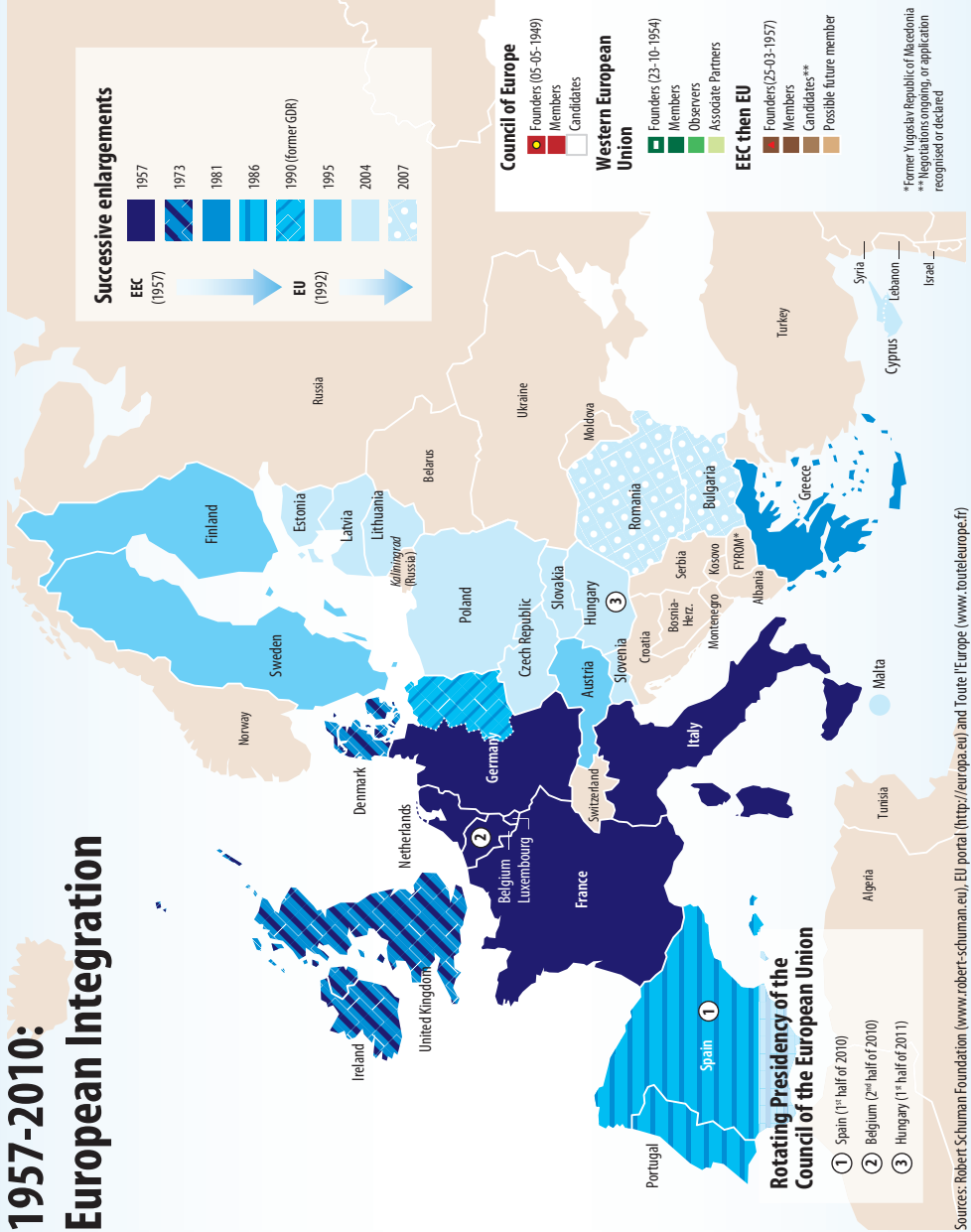
and Vice President of the Commission and by establishing the European External Action Service the Lisbon Treaty provides us with better tools to accomplish these tasks.

In conclusion ideas count too; we shall find it easier to find the right policy with regard to other powers if we take the advice often repeated by Jacques Delors: for the European project to be a success we need to continue generating a vision. This is the priority task of the High Representative/Vice-President of the Commission. The new external service must become a laboratory of ideas and a source of political proposals that offers Member States goals and strategies in terms of the Union's external policy and in particular with regard to the world's major powers, both present and emerging.

# 1957-2010: European Integration



Belgium  
France  
Luxembourg  
Netherlands  
Italy  
Germany  
United Kingdom  
Denmark  
Ireland  
Sweden  
Greece  
Portugal  
Hungary  
Poland  
Czech Republic  
Spain  
Turkey  
Austria  
Finland  
Norway  
Iceland  
Bulgaria  
Estonia  
Latvia  
Lithuania  
Romania  
Slovakia  
Slovenia  
Cyprus  
Malta  
FYROM\*  
Croatia  
Albania  
Bosnia-Herz.  
Kosovo  
Montenegro  
Serbia  
Andorra  
Armenia  
Azerbaijan  
Georgia  
Liechtenstein  
Moldova  
Monaco  
Russia  
San Marino  
Switzerland  
Ukraine  
Belarus




- Council of Europe**
  - Founders (05-05-1949)
  - Members
  - Candidates
- Western European Union**
  - Founders (23-10-1954)
  - Members
  - Observers
  - Associate Partners
- EEC then EU**
  - Founders (25-03-1957)
  - Members
  - Candidates\*\*
  - Possible future member

- Rotating Presidency of the European Union**
- ① Spain (1<sup>st</sup> half of 2010)
  - ② Belgium (2<sup>nd</sup> half of 2010)
  - ③ Hungary (1<sup>st</sup> half of 2011)


Sources: Robert Schuman Foundation ([www.robert-schuman.eu](http://www.robert-schuman.eu)), EU portal (<http://europa.eu>) and Toute l'Europe ([www.toutleurope.fr](http://www.toutleurope.fr))

# Territories of Europe

 Council of Europe Member States

## EU on 1st July 2010:

 EU Member States

 Candidate Countries: negotiations have only begun with Croatia (35 chapters opened out of 35, of which 20 definitively closed) and Turkey (13 chapters opened out of 35; 8 frozen)

 States that the EU has recognised as "possible" future members

 Euro Area Member States

 Schengen area Member States

The zones (Portugal) which are not visible on this map, are part of the Schengen Area.

## European Neighbourhood Policy:

 Agreements signed

 No agreement signed

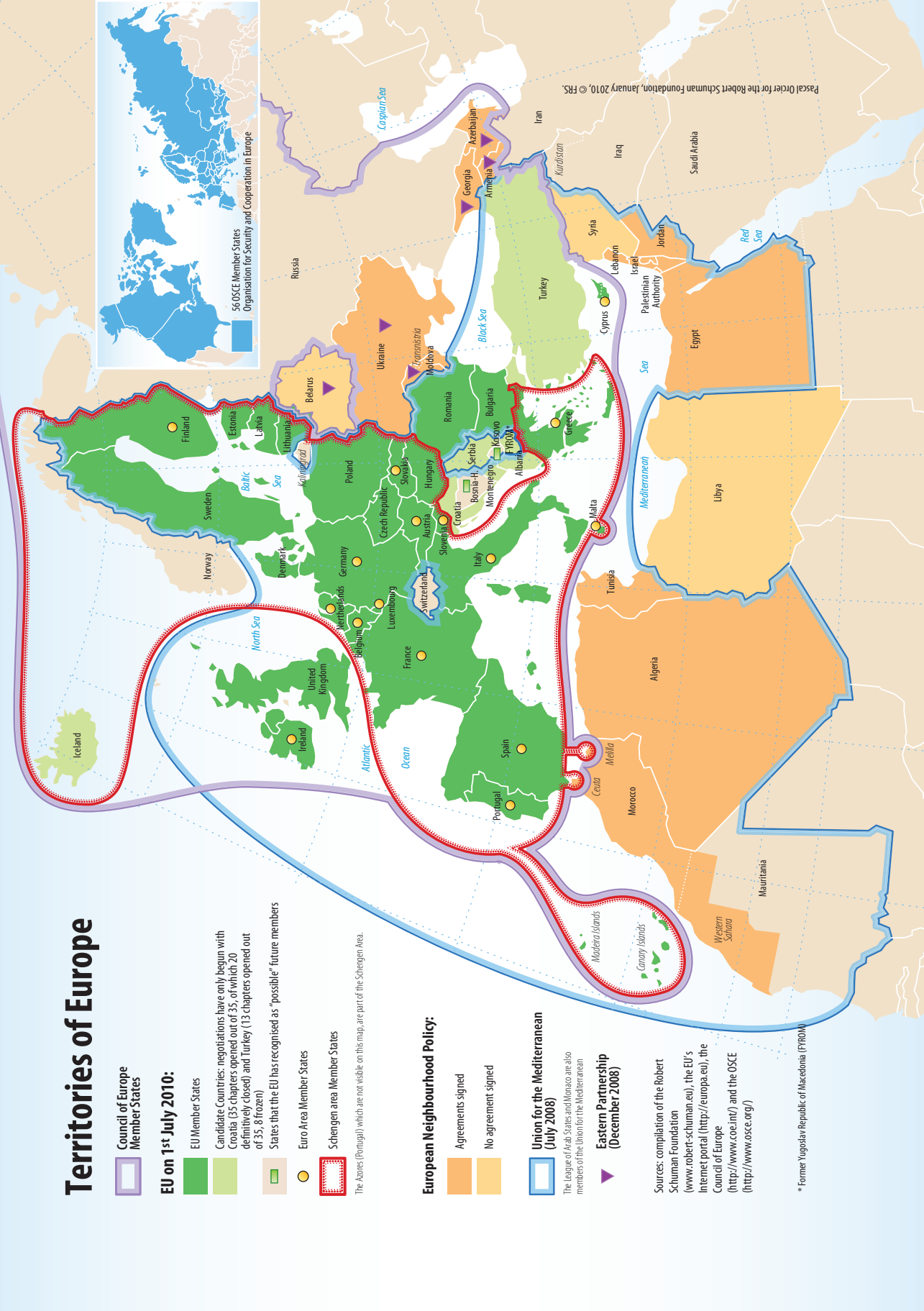
 Union for the Mediterranean (July 2008)

The League of Arab States and Monaco are also members of the Union for the Mediterranean

 Eastern Partnership (December 2008)

Sources: compilation of the Robert Schuman Foundation ([www.robert-schuman.eu](http://www.robert-schuman.eu)), the EU's Internet portal (<http://europa.eu>), the Council of Europe (<http://www.coe.int/>) and the OSCE (<http://www.osce.org/>)

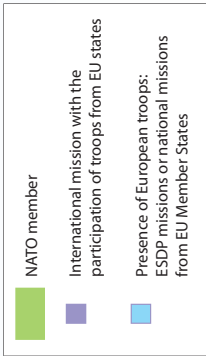
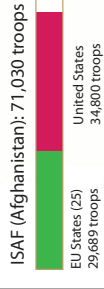
\* Former Yugoslav Republic of Macedonia (FYROM)



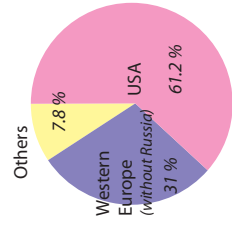
# Towards European Defence

Situation as of 1st-December 2009

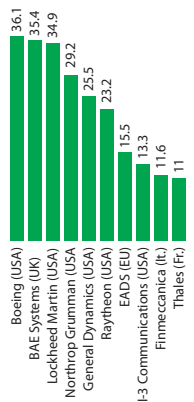
Haiti



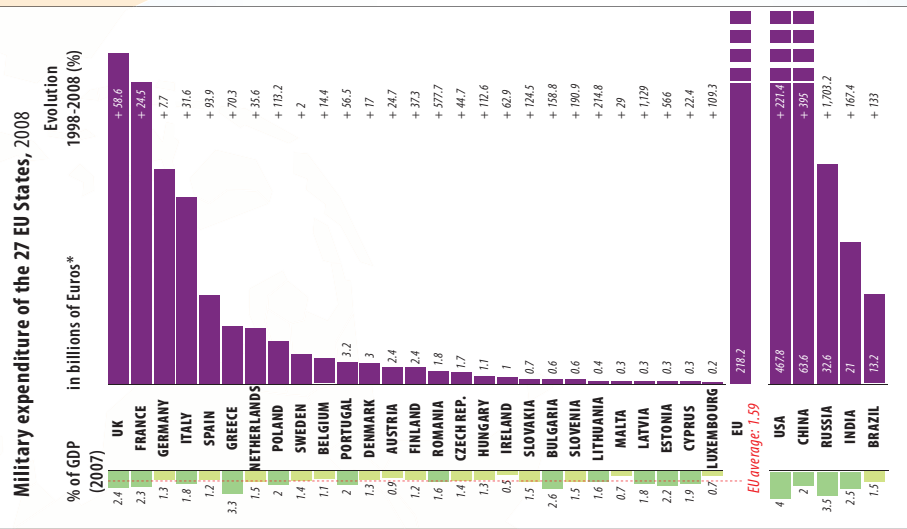
Amount of global arms exports in 2007: €291.5 billion



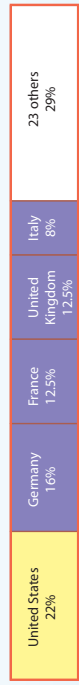
Sales of the ten largest weapons manufacturers (billions of Euros, 2007\*\*)



\* author's calculations for non-Euro Area Member States, based on data in dollars at constant prices for the year 2008 (€1 = \$1.15) adopted by SIPRI.  
 \*\* after conversion based on data in dollars at constant prices for the year 2007 (€1 = \$1.19)  
 Sources: Council of the European Union ([www.consilium.europa.eu](http://www.consilium.europa.eu)), UN ([www.un.org](http://www.un.org)), NATO ([www.nato.int](http://www.nato.int)), SIPRI ([www.sipri.org](http://www.sipri.org)).

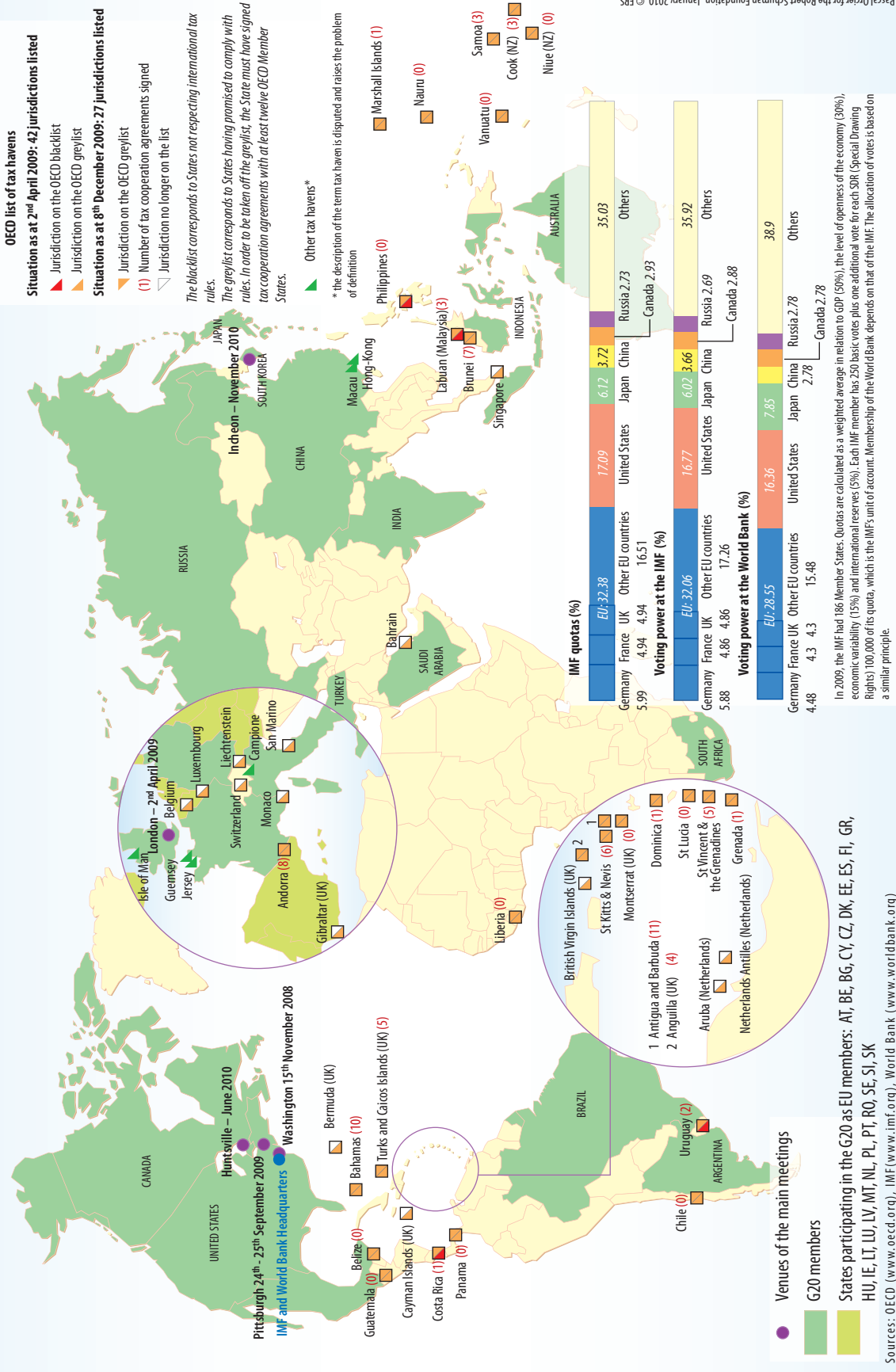


Breakdown of NATO budget in 2009 (€2 billion)





# Reform of Financial Capitalism



# France - Germany, 2008

## Trade

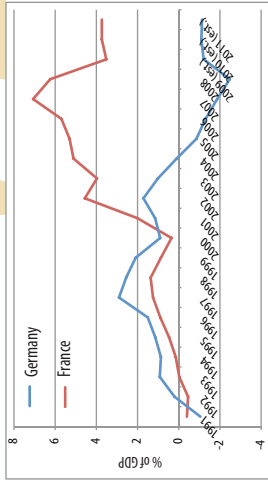
Proportion within intra-Community trade



Germany's position in French trade



### Evolution of the Balance of Trade



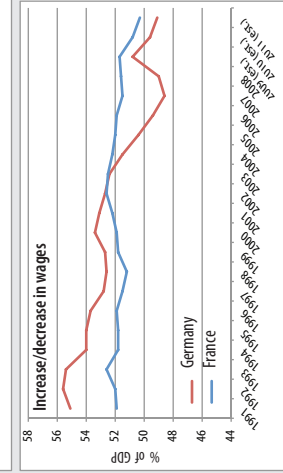
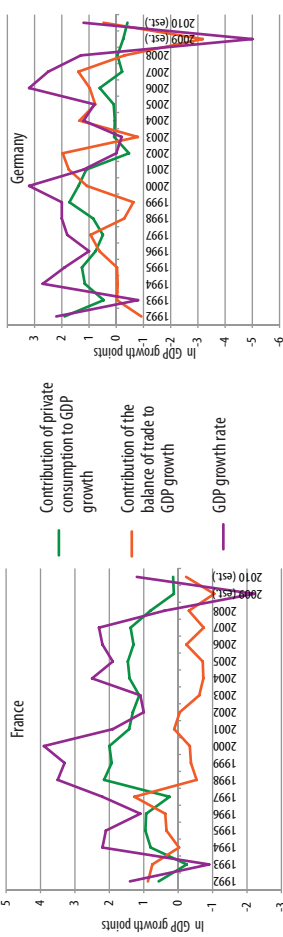
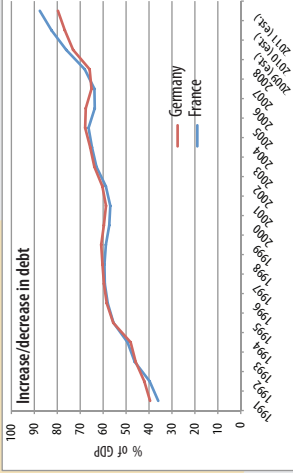
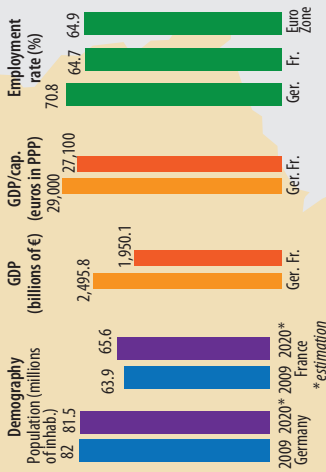
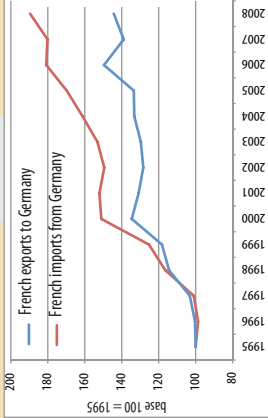
Proportion within extra-Community trade



France's position in German trade



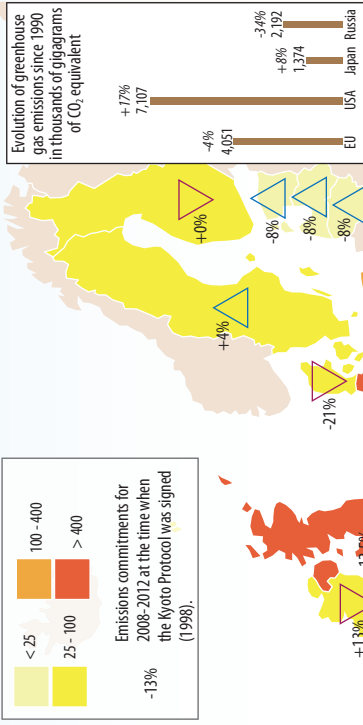
### Evolution of the Franco-German Balance of Trade



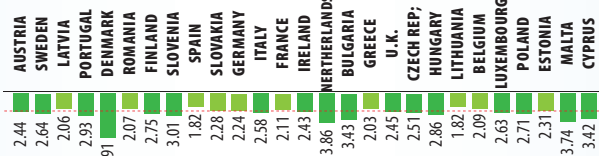


# The European Union and the environment

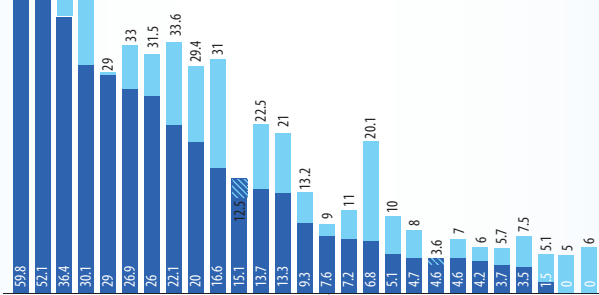
**Greenhouse gas emissions** (in millions of metric tons of CO<sub>2</sub> equivalent, 2007)



**Income from environmental levies and taxes** (% of GDP in 2007)



**Proportion of sustainable energies in net electricity consumption (2007)**



**Objective for 2010**



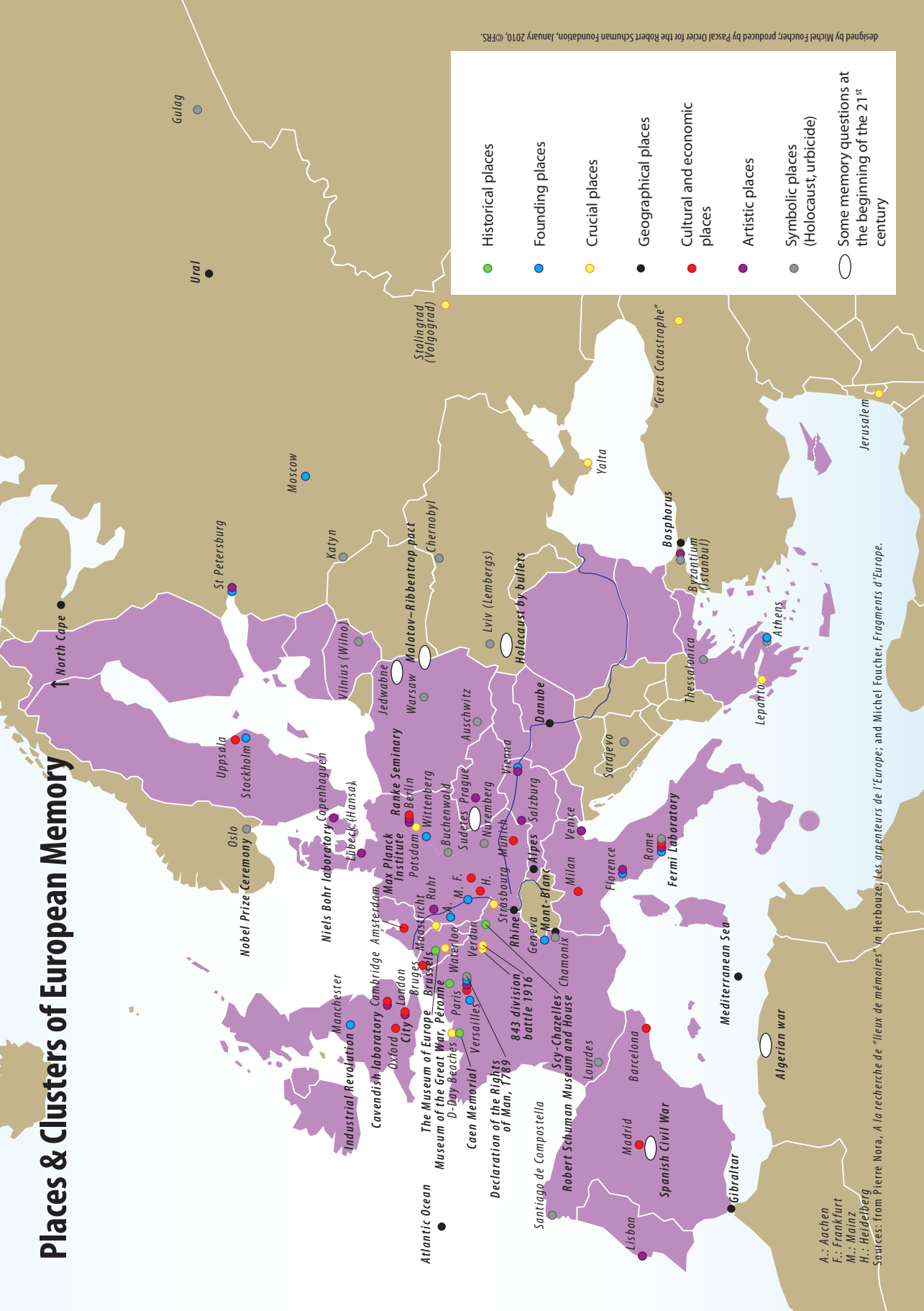
**Results in relation to commitments (emissions in 1990)\*:**

- △ Above commitments (< 10%)
- ▽ Below commitments (< 10%)
- △ Well above commitments (> 10%)
- ▽ Well below commitments (> 10%)

\* does not apply to Malta and Cyprus

Sources: European Environment Agency ([www.eea.europa.eu/fr](http://www.eea.europa.eu/fr)), Eurostat (<http://epp.eurostat.ec.europa.eu>).

# Places & Clusters of European Memory

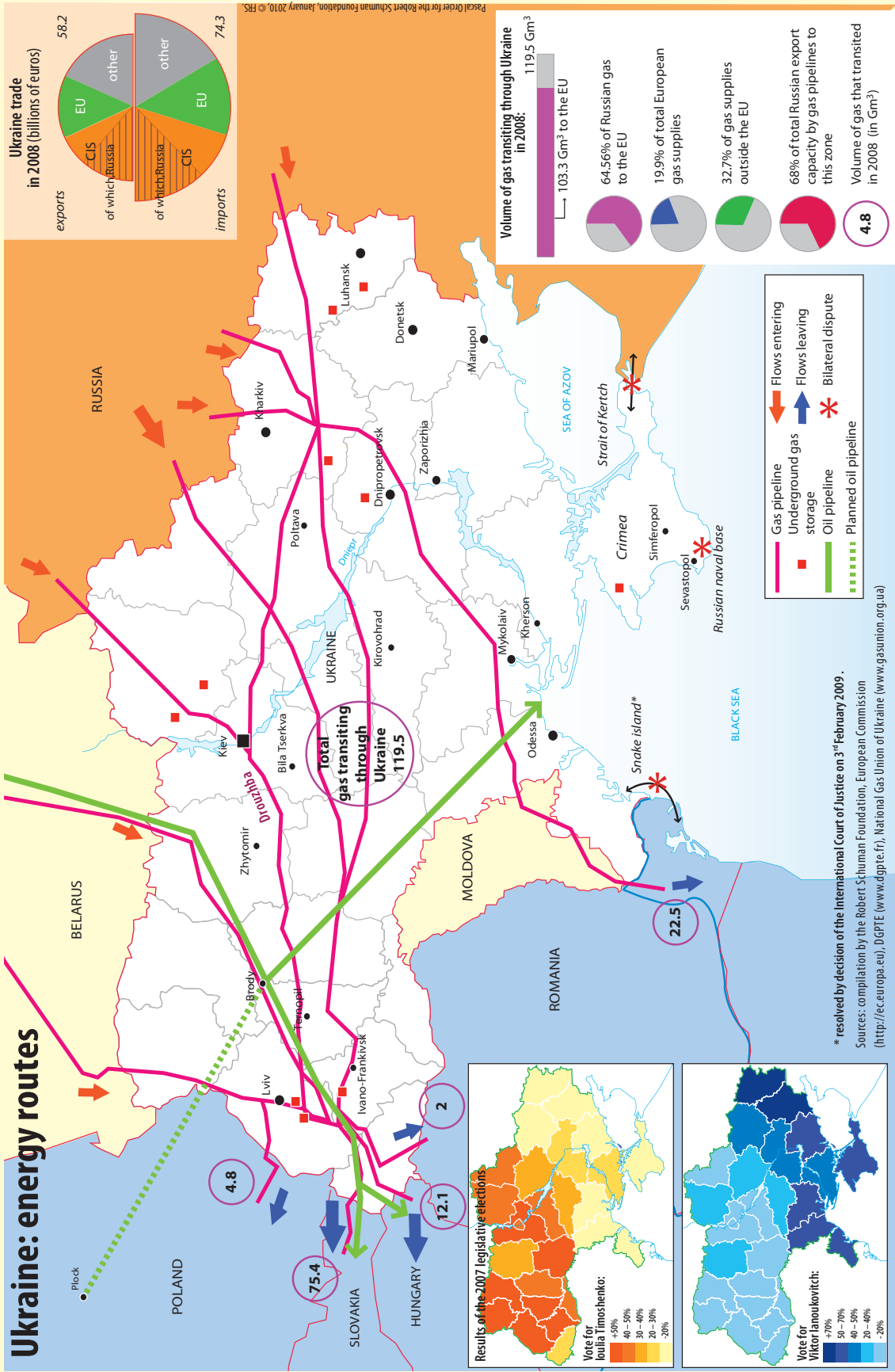


designed by Michel Foucher, produced by Pascal Order for the Robert Schuman Foundation, January 2010. ©RFS.

- Historical places
- Founding places
- Crucial places
- Geographical places
- Cultural and economic places
- Artistic places
- Symbolic places (Holocaust, uricide)
- Some memory questions at the beginning of the 21<sup>st</sup> century

A.: Aachen  
 F.: Frankfurt  
 M.: Mainz  
 H.: Heidelberg  
 Sources: from Pierre Nora, *A la recherche de "lieux de mémoires"* in Herbouze, *Les arpenteurs de l'Europe*; and Michel Foucher, *Fragments d'Europe*.

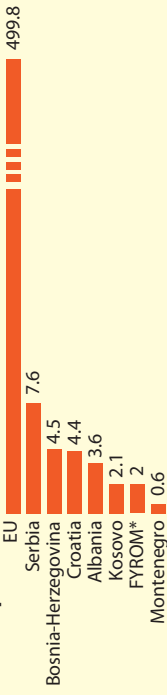
# Ukraine: energy routes



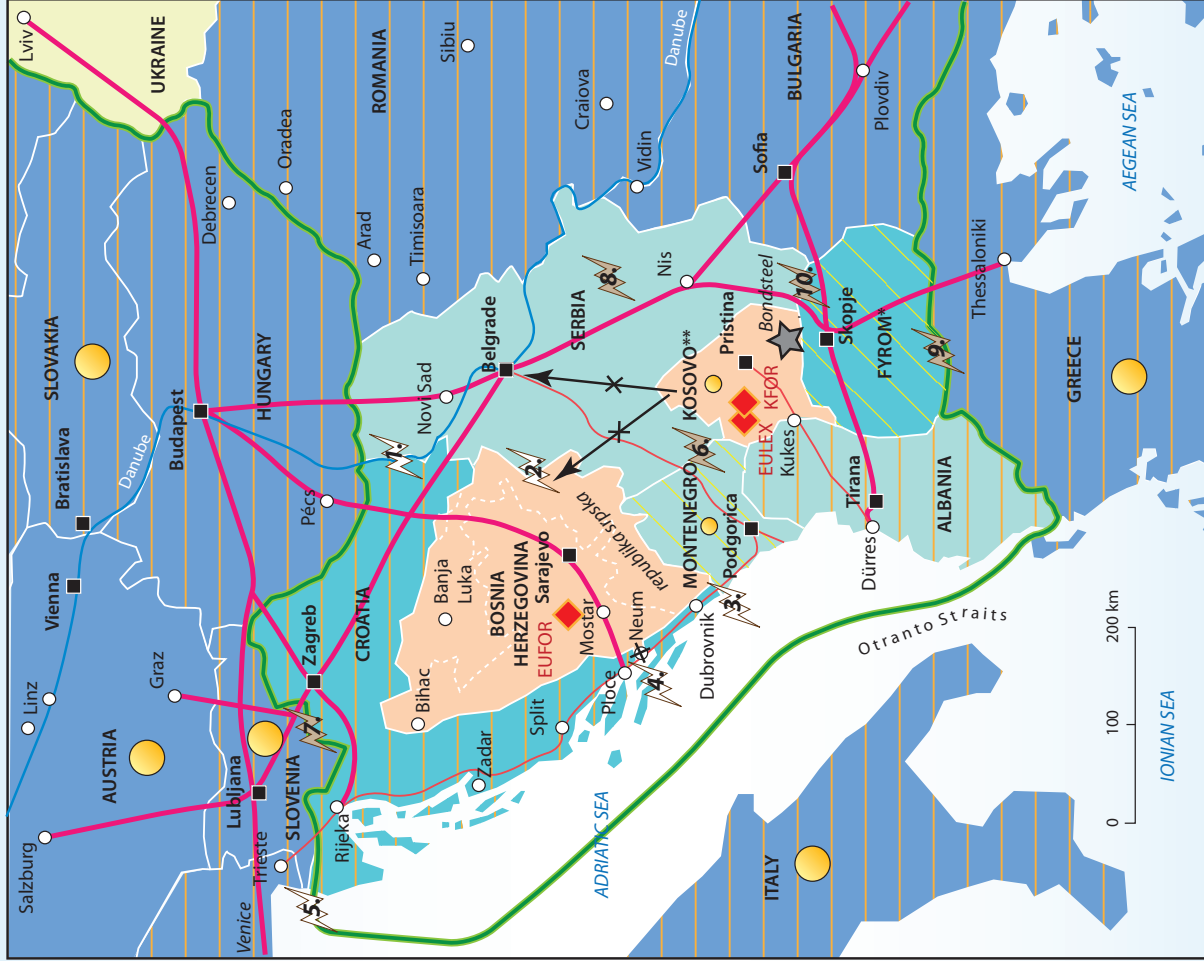
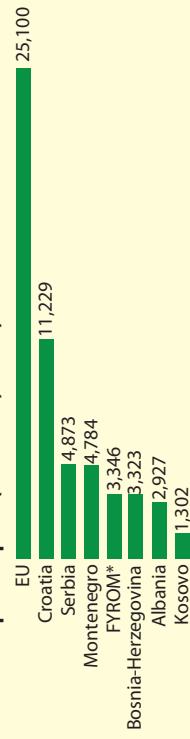
Pascal Order for the Robert Schuman Foundation, January 2010. © RFS

# The European Union and the Balkans

Population (in millions, 2009):



GDP per capita (in euros, 2008):



- EU members
- Recognized candidates
- States that submitted their membership applications in 2008-2009
- Potential candidates
- Schengen border in 2010
- Member of the euro area
- Other States using the euro
- Member of NATO
- NATO candidate
- American base
- EU / NATO mission
- Pan-European corridors
- Other major routes












- Transit blocked
- Border disputes
- 1. Danube islands.
- 2. No border agreement between Bosnia-Herzegovina and Serbia.
- 3. Prevlaka peninsula.
- 4. Veliki Skoj and Mali Skoj Islands.
- 5. Gulf of Piran.

- Other bilateral disputes
- 6. Property of the Montenegrin Church.
- 7. Financial dispute regarding the Krsko nuclear power station.
- 8. Position of 300,000 Serbian refugees from Bosnia-Herzegovina, Croatia and Kosovo.
- 9. Quarrel over Macedonia's name.
- 10. Property of the Serbian Church in Macedonia.

\* Former Yugoslav Republic of Macedonia.  
 \*\* Kosovo has been recognised by 64 States, including 22 of the 27 EU States, the United States, Croatia, Montenegro, Albania and FYR Macedonia, but not by either Serbia or Russia

Sources: M. Fouchier, compiled by the Robert Schuman Foundation.

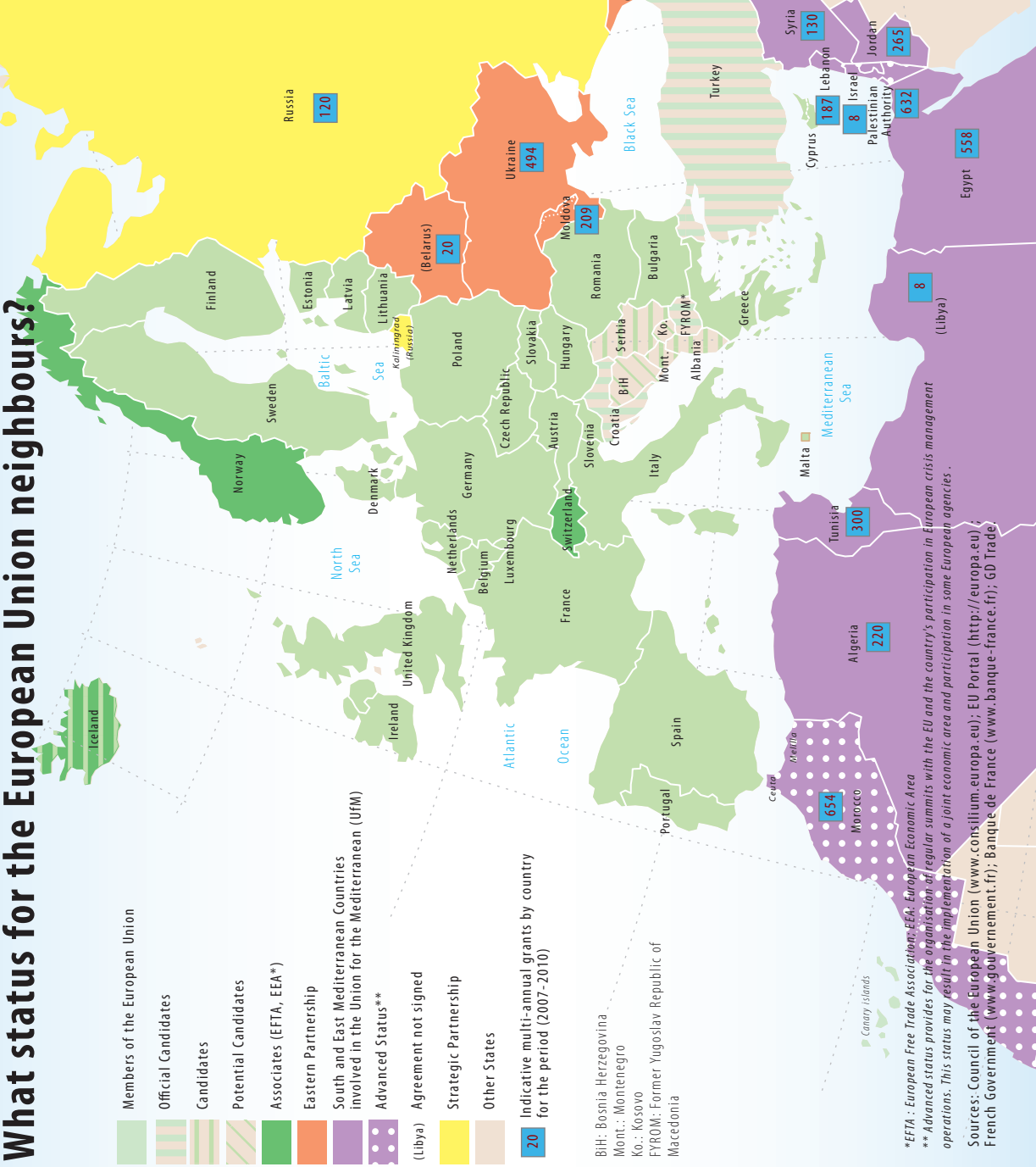
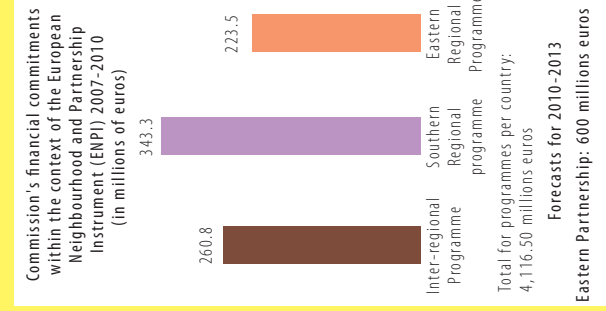
# What status for the European Union neighbours?

-  Members of the European Union
-  Official Candidates
-  Candidates
-  Potential Candidates
-  Associates (EFTA, EEA\*)
-  Eastern Partnership
-  South and East Mediterranean Countries involved in the Union for the Mediterranean (UfM)
-  Advanced Status\*\*
-  (Libya) Agreement not signed
-  Strategic Partnership
-  Other States

**20** Indicative multi-annual grants by country for the period (2007-2010)

BiH: Bosnia Herzegovina  
 Mont.: Montenegro  
 Ko.: Kosovo  
 FYROM: Former Yugoslav Republic of Macedonia

\*EFTA: European Free Trade Association; EEA: European Economic Area  
 \*\* Advanced status provides for the organisation of regular summits with the EU and the country's participation in European crisis management operations. This status may result in the implementation of a joint economic area and participation in some European agencies.  
 Sources: Council of the European Union ([www.consilium.europa.eu](http://www.consilium.europa.eu)); EU Portal (<http://europa.eu>); French Government ([www.gouvernement.fr](http://www.gouvernement.fr)); Banque de France ([www.banque-france.fr](http://www.banque-france.fr)); GD Trade



# World security: European Union intervention and participation

See also "Security Strategy" map.

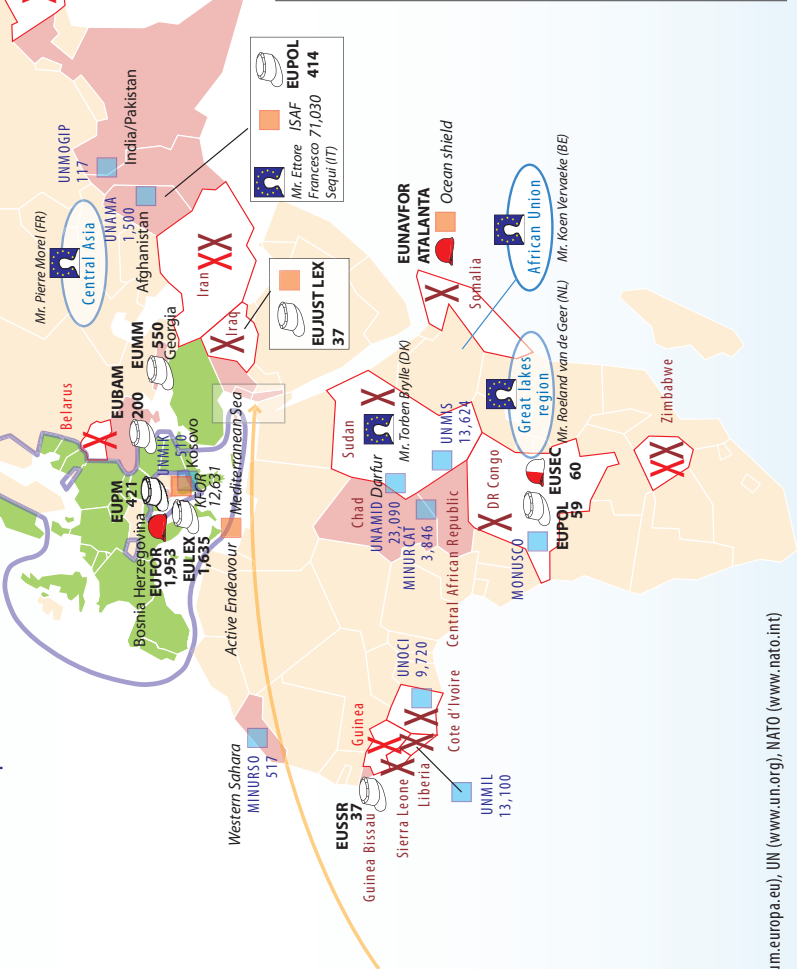
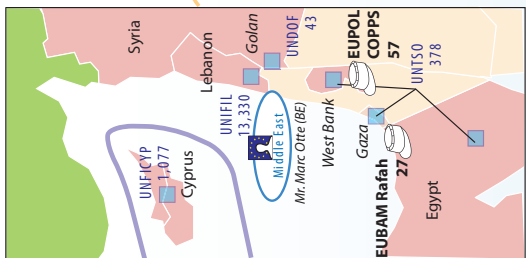
## European Union

Haiti  
MINUSTAH  
10,984

Timor-Leste  
UNMIT  
3,031

North Korea

Myanmar (Burma)



NATO Member States

**External operations since 2003**  
(see ESDP – NATO – UN table opposite)

- within the context of the ESDP (European Security and Defence Policy)

■ military  
■ civilian  
■ combined  
 Numbers involved are given under the name of the mission  
■ Special EU representative

- With NATO

- With the UN



■ States under UN sanctions  
(embargo on weapons, travel bans, assets freeze)

■ States under EU sanctions




# Security Strategy

see also the map  
"security strategy in the world".

-  Members of the European Union
-  Candidates and Associates
-  European Neighbourhood Policy
-  Strategic Partnership
-  Other States
-  Special Representative of the European Union
-  NATO members 2010

-  State under EU sanctions
-  European missions and contributions as part of the UN and NATO

## ESDP Missions:

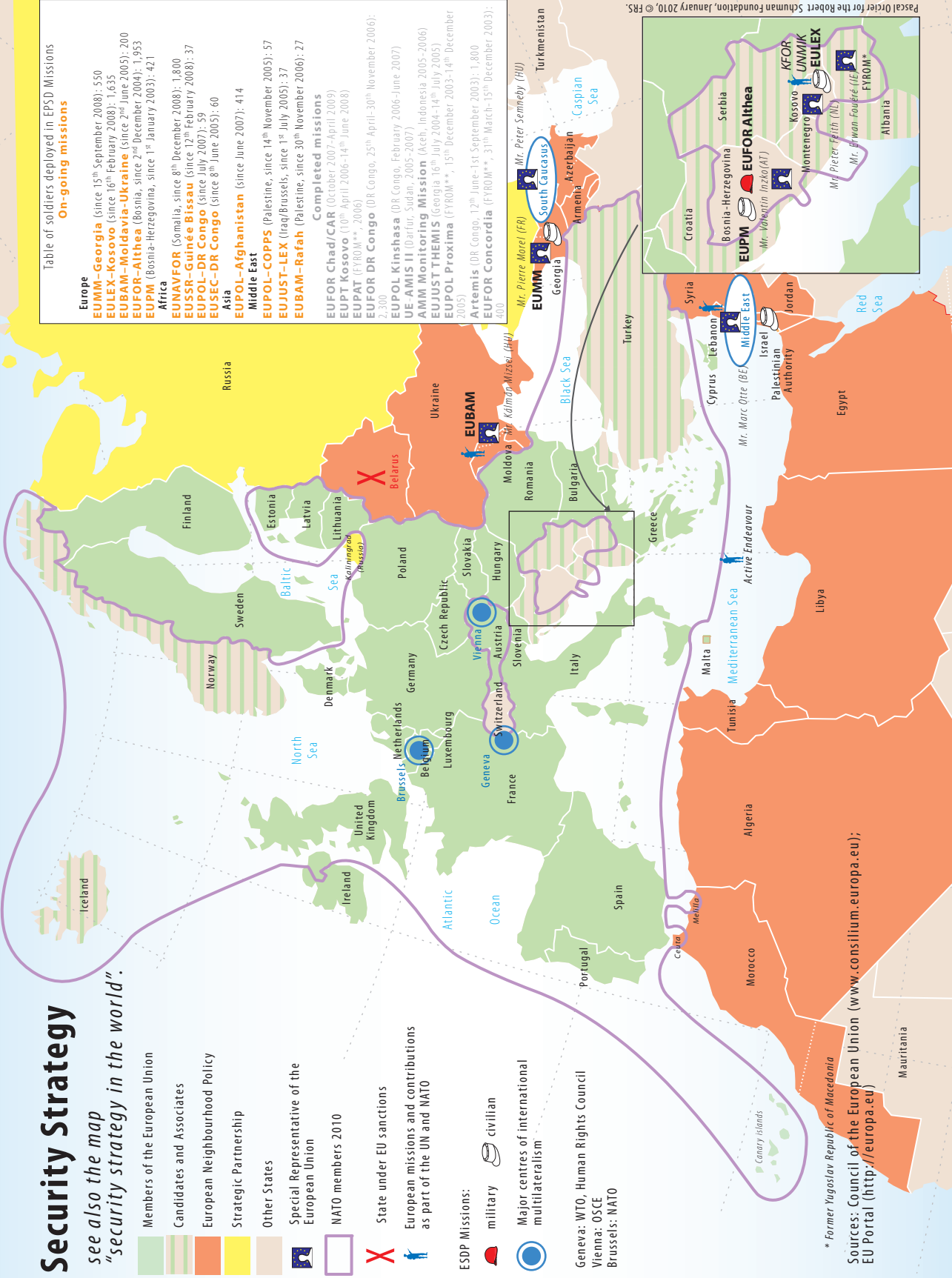
-  military
-  civilian
-  Major centres of international multilateralism

Geneva: WTO, Human Rights Council  
Vienna: OSCE  
Brussels: NATO

\* Former Yugoslav Republic of Macedonia  
Sources: Council of the European Union ([www.consilium.europa.eu](http://www.consilium.europa.eu));  
EU Portal (<http://europa.eu>)

Table of soldiers deployed in EPSD Missions  
**On-going missions**

<b>Europe</b>	<b>EUMM-Georgia</b> (since 15 <sup>th</sup> September 2008): 550
	<b>EULEX-Kosovo</b> (since 16 <sup>th</sup> February 2008): 1,635
	<b>EUBAM-Moldavia-Ukraine</b> (since 2 <sup>nd</sup> June 2005): 200
	<b>EUFOR-Althea</b> (Bosnia, since 2 <sup>nd</sup> December 2004): 1,953
	<b>EUPM</b> (Bosnia-Herzegovina, since 1 <sup>st</sup> January 2003): 421
<b>Africa</b>	<b>EUNAVFOR</b> (Somalia, since 8 <sup>th</sup> December 2008): 1,800
	<b>EUSR-Guinée Bissau</b> (since 13 <sup>th</sup> February 2008): 37
	<b>EUPOL-DR Congo</b> (since July 2007): 59
	<b>EUSEC-DR Congo</b> (since 8 <sup>th</sup> June 2003): 60
<b>Asia</b>	<b>EUPOL-Afghanistan</b> (since June 2007): 414
<b>Middle East</b>	<b>EUPOL-COPPS</b> (Palestine, since 14 <sup>th</sup> November 2005): 57
	<b>EUJUST-LEX</b> (Iraq/Brussels, since 1 <sup>st</sup> July 2005): 37
	<b>EUBAM-Rafah</b> (Palestine, since 30 <sup>th</sup> November 2006): 27
<b>Completed missions</b>	
	<b>EUFOR Chad/CAR</b> (October 2007-April 2009)
	<b>EUPOL Kosovo</b> (10 <sup>th</sup> April 2006-14 <sup>th</sup> June 2008)
	<b>EUPAT</b> (FYROM**, 2006)
	<b>EUFOR DR Congo</b> (DR Congo, 25 <sup>th</sup> April-30 <sup>th</sup> November 2006): 2,300
	<b>EUPOL Kinshasa</b> (DR Congo, February 2006-June 2007)
	<b>UE-AMIS II</b> (Darfur, Sudan, 2005-2007)
	<b>AMM Monitoring Mission</b> (Aceh, Indonesia 2005-2006)
	<b>EUJUST THEMIS</b> (Georgia 16 <sup>th</sup> July 2004-14 <sup>th</sup> July 2005)
	<b>EUPOL Proxima</b> (FYROM**, 15 <sup>th</sup> December 2003-14 <sup>th</sup> December 2005)
	<b>Artemis</b> (DR Congo, 12 <sup>th</sup> June-1st September 2003): 1,800
	<b>EUFOR Concordia</b> (FYROM**, 31 <sup>st</sup> March-15 <sup>th</sup> December 2003): 400

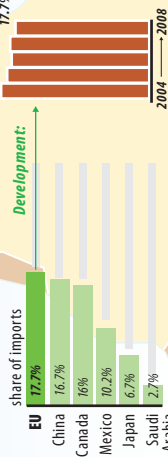


# The USA and the European Union: economy and demography

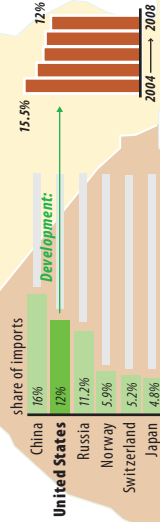
see also the map "The USA and the European Union: policy and strategy"

## Trade in merchandise, main partners, 2008

### United States



### European Union



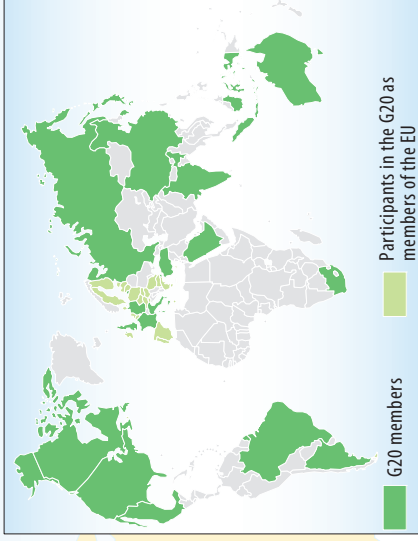
imports by the EU from the USA (2008)  
**186.4** billions of euros

exports from the EU to the USA (2008)  
**249.5** billions of euros

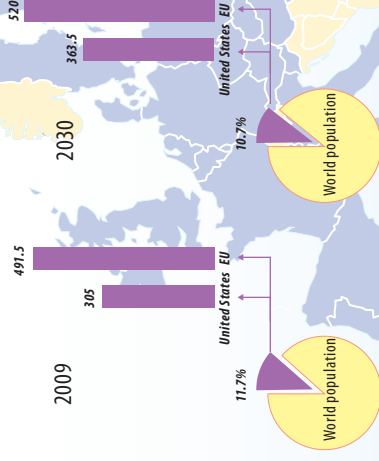
## GDP, in billions of euros, 2008



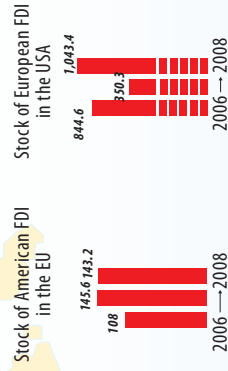
Sources: compiled by the Robert Schuman Foundation (<http://www.robert.schuman.eu/>); Eurostat; IMF (<http://www.imf.org>); DG Trade at the European Commission ([http://www.trade.ec.europa.eu/doclib/docs/september/tradoc\\_113465.pdf](http://www.trade.ec.europa.eu/doclib/docs/september/tradoc_113465.pdf)); UNDP



## Demography (millions of inhabitants)



## Foreign Direct Investments (billions of euros)

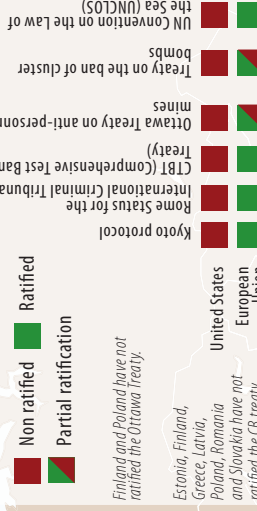




# The USA and The European Union: policy and strategy

see also the map "The USA and the European Union: economy and demography" for questions regarding other areas of external action see also the map "Security Strategy in the World"

## Signature of the main multilateral agreements: (status on 1st December 2009)



## Multilateral interventions 2009

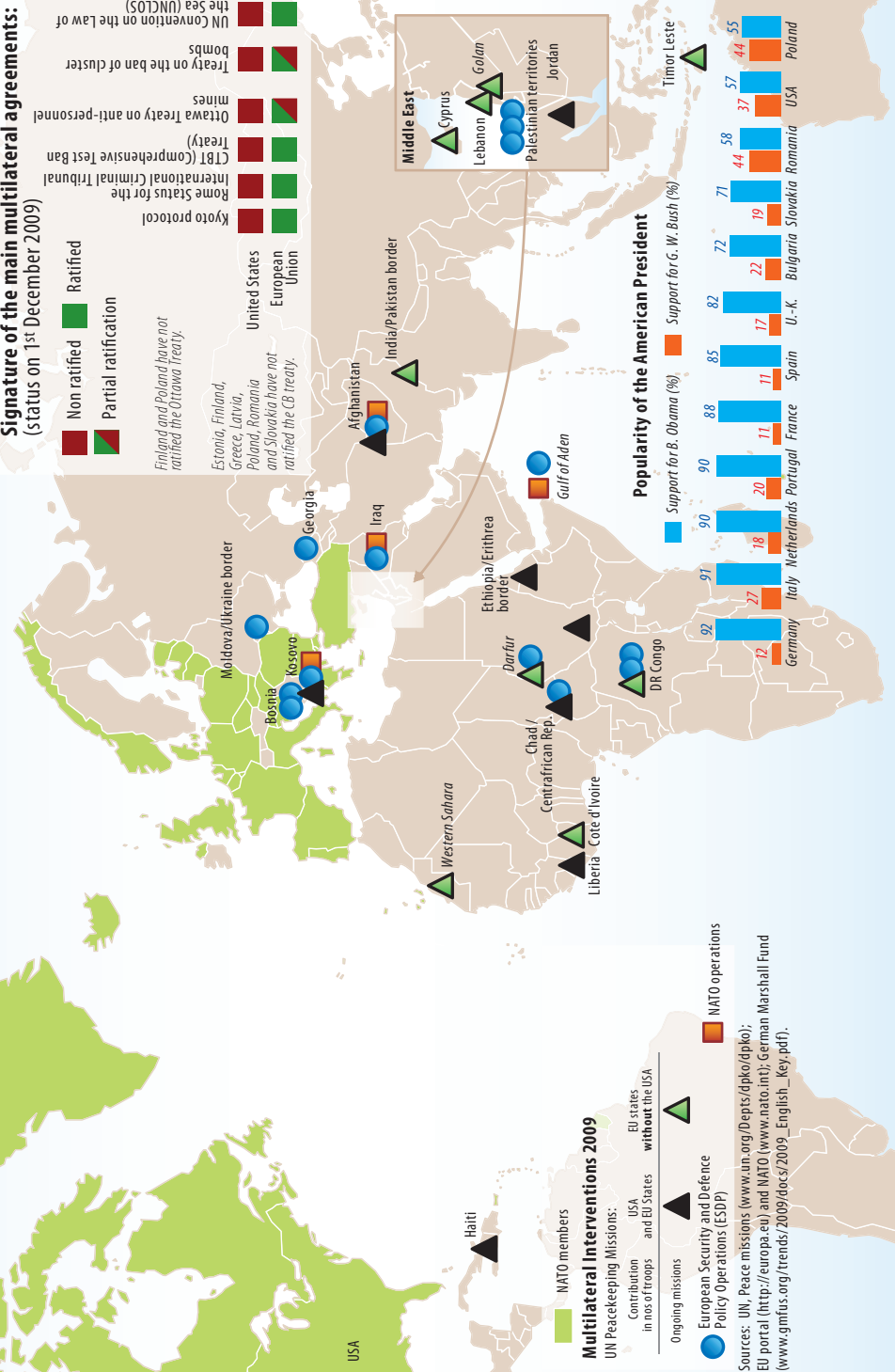
UN Peacekeeping Missions: Contribution in nos of troops USA and EU States without the USA

Ongoing missions

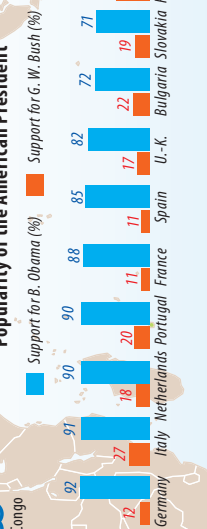
European Security and Defence Policy Operations (ESDP)

NATO operations

Sources: UN, Peace missions (www.un.org/Depts/dpko/dpko); EU portal (http://europa.eu) and NATO (www.nato.int); German Marshall Fund (www.gmfus.org/trends/2009/docs/2009\_English\_Key.pdf).

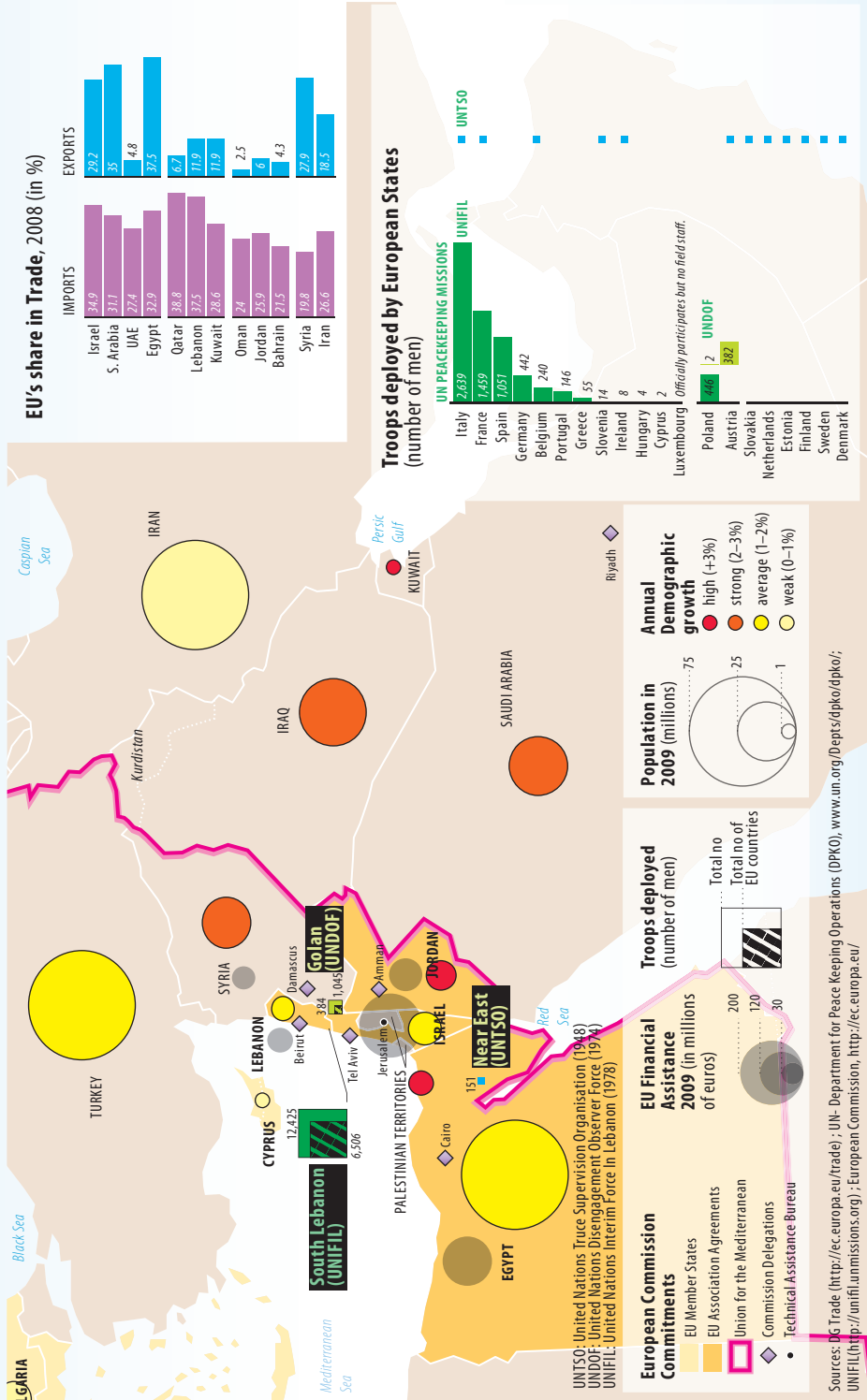


## Popularity of the American President



Passalunghi for the Robert Schuman Foundation, January 2010. © RFS.

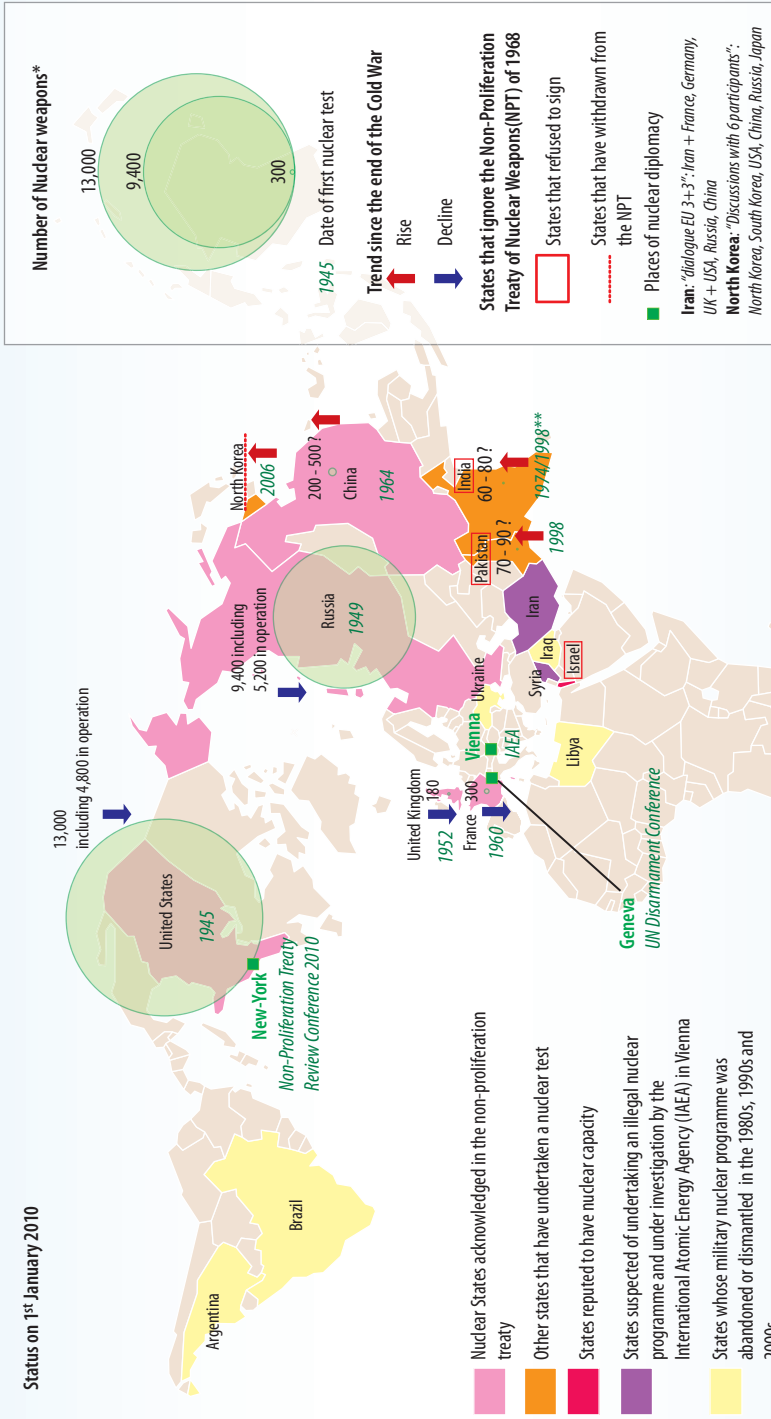
# The European Union and the Near and Middle East



Sources: DG Trade (<http://ec.europa.eu/trade>) ; UN - Department for Peace Keeping Operations (DPKO), [www.un.org/Depts/dpko/dpko/](http://www.un.org/Depts/dpko/dpko/) ; UNIFIL (<http://unifil.unmissions.org>) ; European Commission, <http://ec.europa.eu/>

# Disarmament and Non-Proliferation in 2010

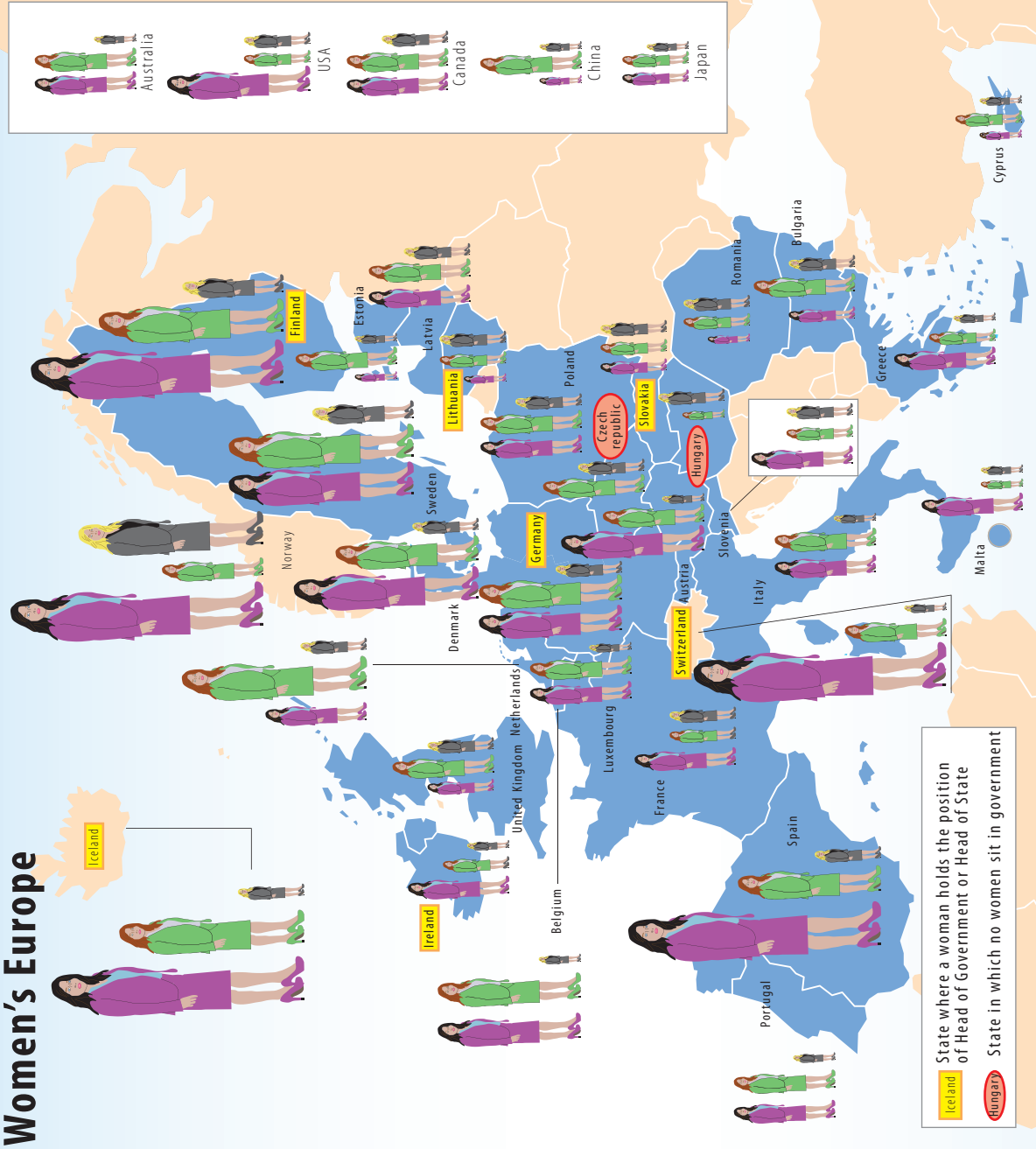
Status on 1<sup>st</sup> January 2010



\* Great uncertainty about the figures in the following countries: China, India, Pakistan, Israel, North Korea.  
\*\* India undertook one initial peaceful test in 1974 and renewed its tests with a campaign in 1998.

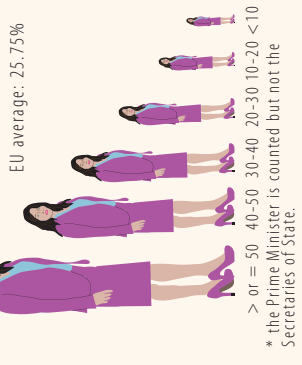
Sources: compilation by Camille Grand and International Atomic Energy Agency - IAEA - ([www.iaea.org](http://www.iaea.org))

# Women's Europe

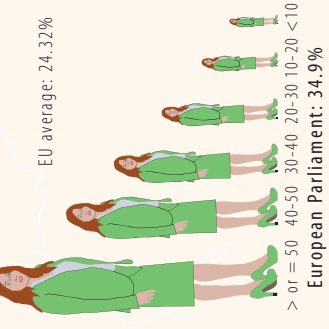


## Situation on 13th July 2010

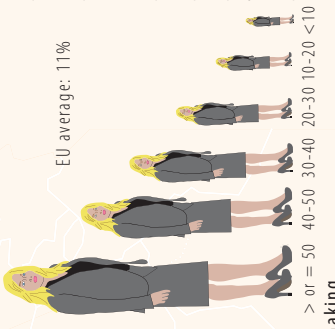
% of women in governments\*



## % of women in national parliaments (Lower or Single Chambers)



## % of women in decision making in the biggest companies that are floating on the stock exchange



**Iceland** State where a woman holds the position of Head of Government or Head of State

**Hungary** State in which no women sit in government

# Internal and external migrations

European Union external borders

Schengen area borders

Frontex Agency operations  
(Head office: Warsaw)

## External migration:

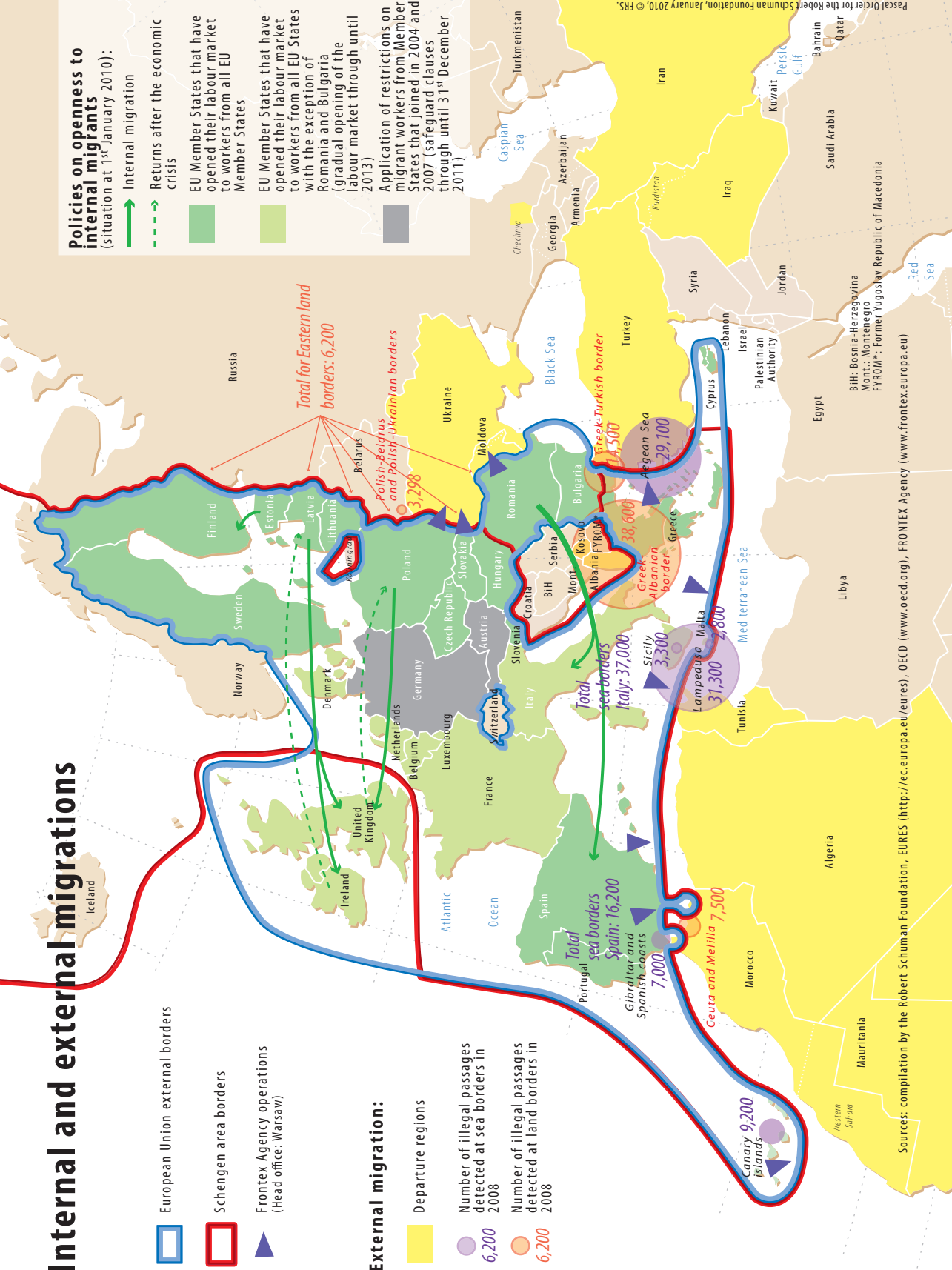
Departure regions

Number of illegal passages detected at sea borders in 2008

Number of illegal passages detected at land borders in 2008

## Policies on openness to internal migrants (situation at 1<sup>st</sup> January 2010):

- Internal migration
- Returns after the economic crisis
- EU Member States that have opened their labour market to workers from all EU Member States
- EU Member States that have opened their labour market to workers from all EU States with the exception of Romania and Bulgaria (gradual opening of the labour market through until 2013)
- Application of restrictions on migrant workers from Member States that joined in 2004 and 2007 (safeguard clauses through until 31<sup>st</sup> December 2011)

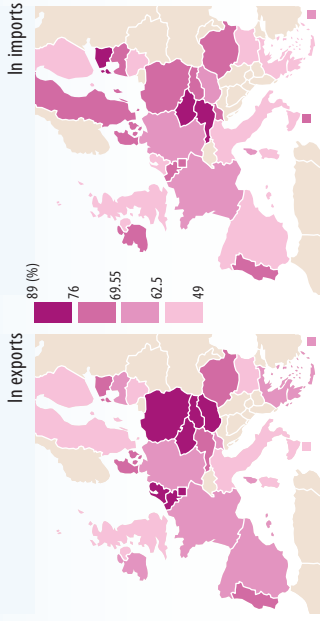


Sources: compilation by the Robert Schuman Foundation, EURES (<http://ec.europa.eu/eures>), OECD (<http://ec.europa.eu/eures>), OECD (<http://ec.europa.eu/eures>), FRONTEX Agency ([www.frontex.europa.eu](http://www.frontex.europa.eu))

Passal Order for the Robert Schuman Foundation, January 2010, © FR.S.

# Intra community trade, 2008

## Share of intra-community trade



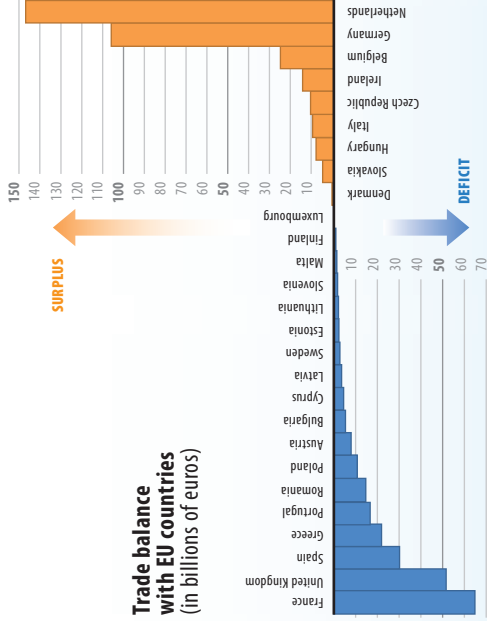
## Principle intra-community trade flows

Only the largest trade flows (over 1 billion euros) are represented here. Cyprus and Malta are not shown on this table.



Pascal Orfer for the Robert Schuman Foundation, January 2010, © FRS.

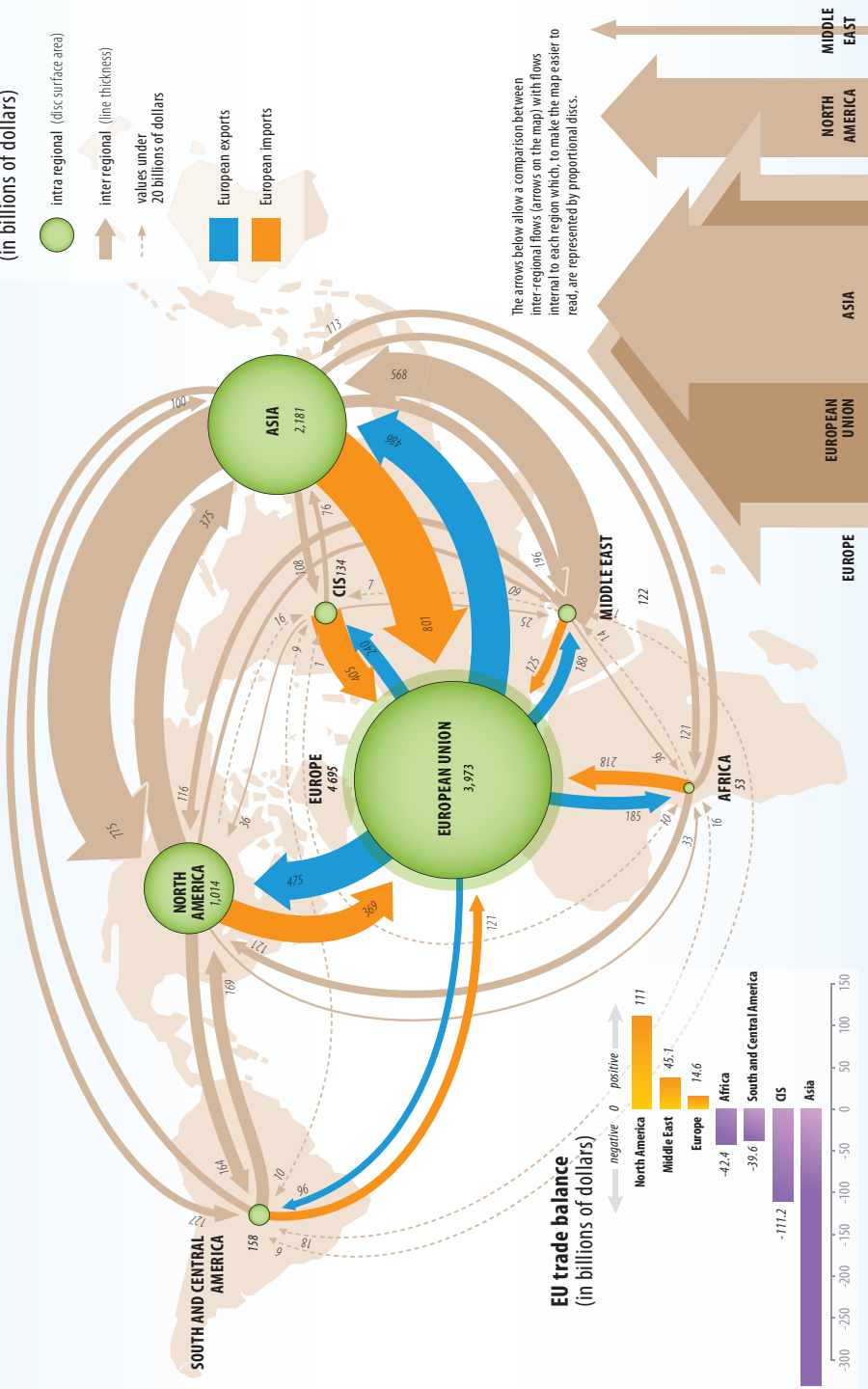
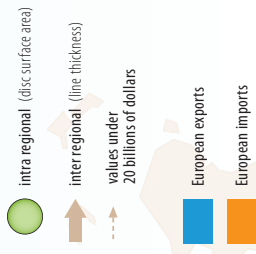
## Trade balance with EU countries (in billions of euros)



Source: Eurostat (<http://epp.eurostat.ec.europa.eu>)

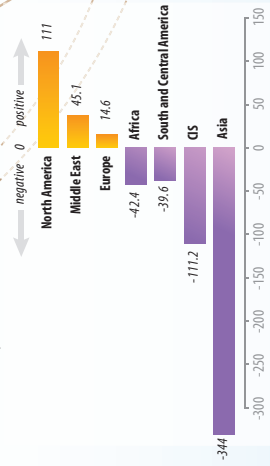
# The European Union & world trade in goods, 2008

## Trade in goods (in billions of dollars)



The arrows below allow a comparison between inter-regional flows (arrows on the map) with flows internal to each region which, to make the map easier to read, are represented by proportional discs.

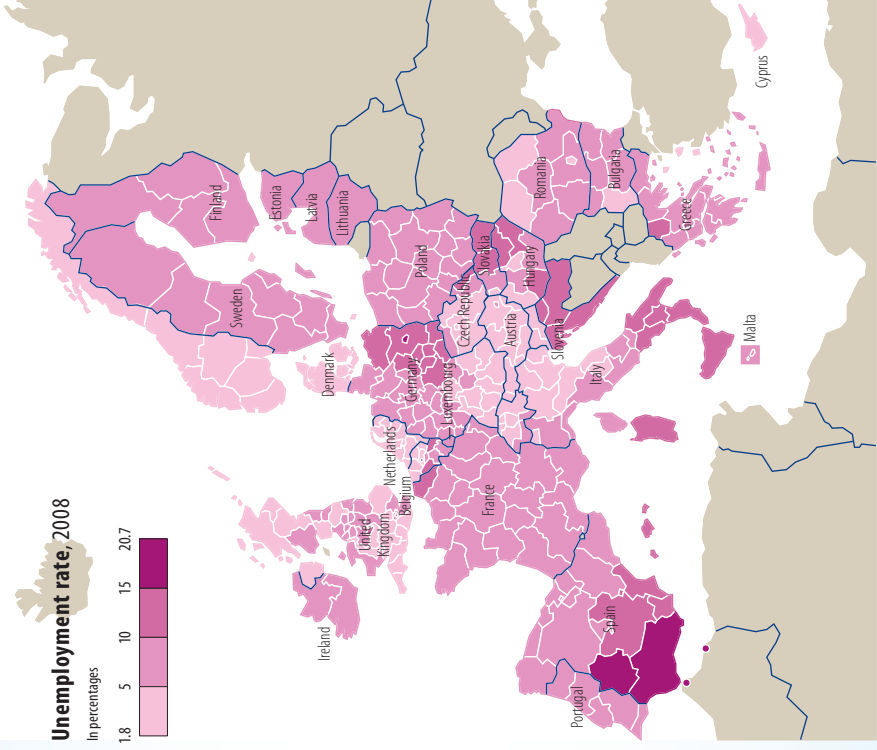
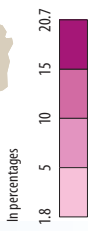
## EU trade balance (in billions of dollars)



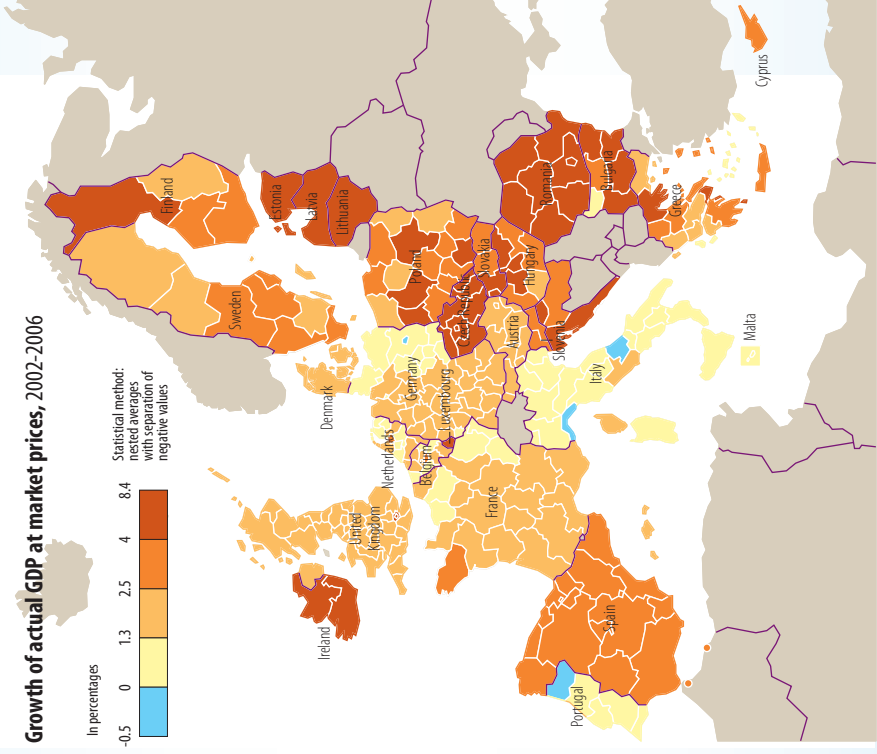
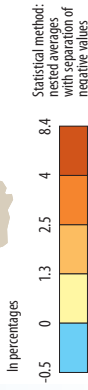
Sources: World Trade Organisation (WTO), International Trade Statistics 2008, www.wto.org

# Unemployment and growth of GDP

## Unemployment rate, 2008



## Growth of actual GDP at market prices, 2002-2006

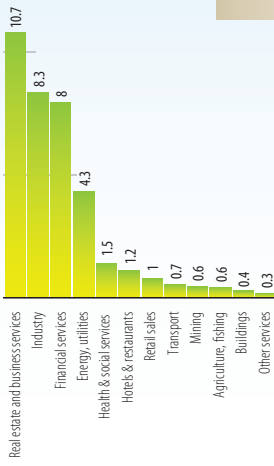




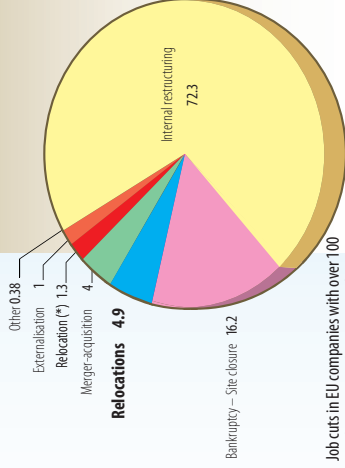
# Relocations within the European Union, 2008

## Relocations by activity sector

Share of relocations in job cuts in EU companies with over 100 employees, by sector (as a %)



## Job cuts according to type of restructuring (%)

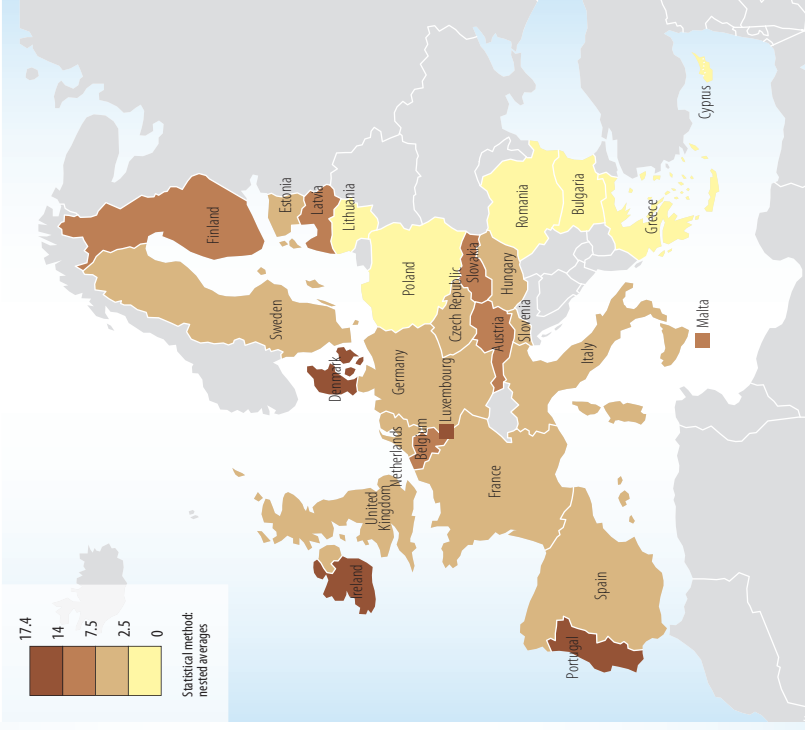


Job cuts in EU companies with over 100 employees, according to type of restructuring, across all sectors.

\* in another region of the same country

Sources: compilation by F. LUTZIN, from the European Restructuring Monitor ([www.euromfound.europa.eu/emrc](http://www.euromfound.europa.eu/emrc))

Share of relocations in job cuts in companies with over 100 employees, across all sectors (as a %)



Pascal Orléan for the Robert Schuman Foundation, January 2010, © FR5.

# Euro map

## Euro Area



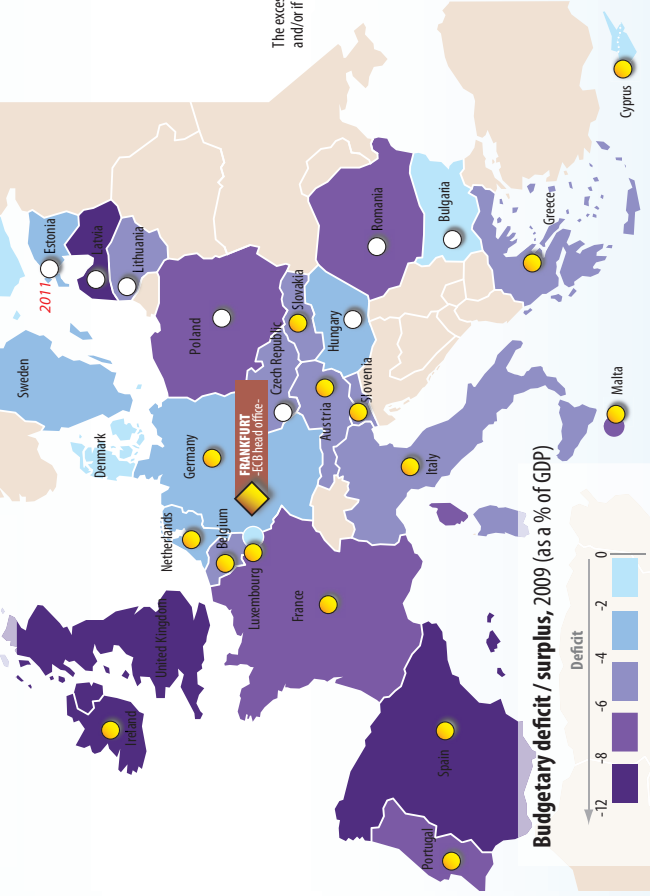
**Members**

The Euro has been created in 1999, Greece adopted it in 2000, followed by Slovenia in 2007, Cyprus and Malta in 2008 and Slovakia in 2009.



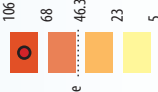
**Candidates**

2011 Planned date for introduction of the euro.

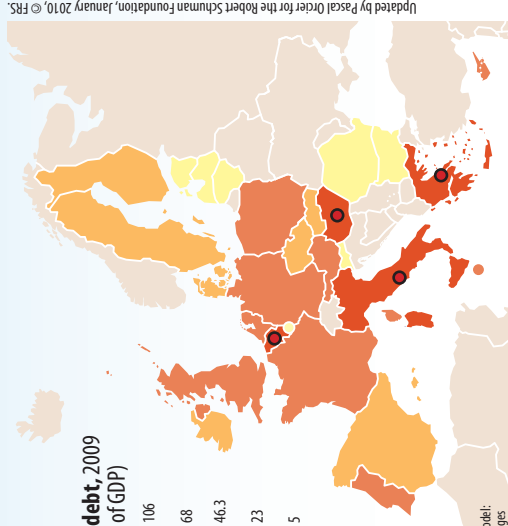


Sources: Robert Schuman Foundation (<http://www.robert-schuman.eu>), EU Portal (<http://europa.eu>) and European Commission ([http://ec.europa.eu/economy\\_finance](http://ec.europa.eu/economy_finance)).

## Public debt, 2009 (as a % of GDP)

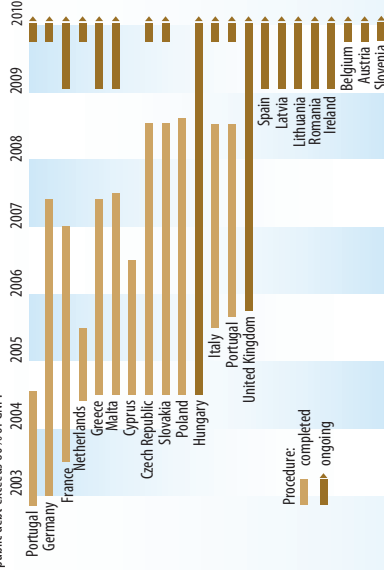


Statistical model: nested averages



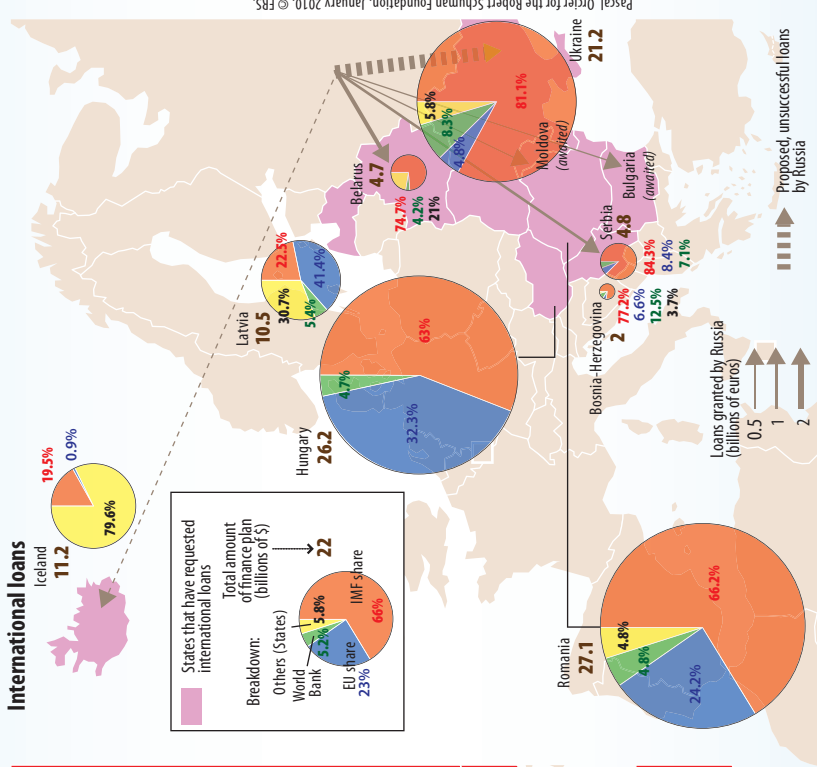
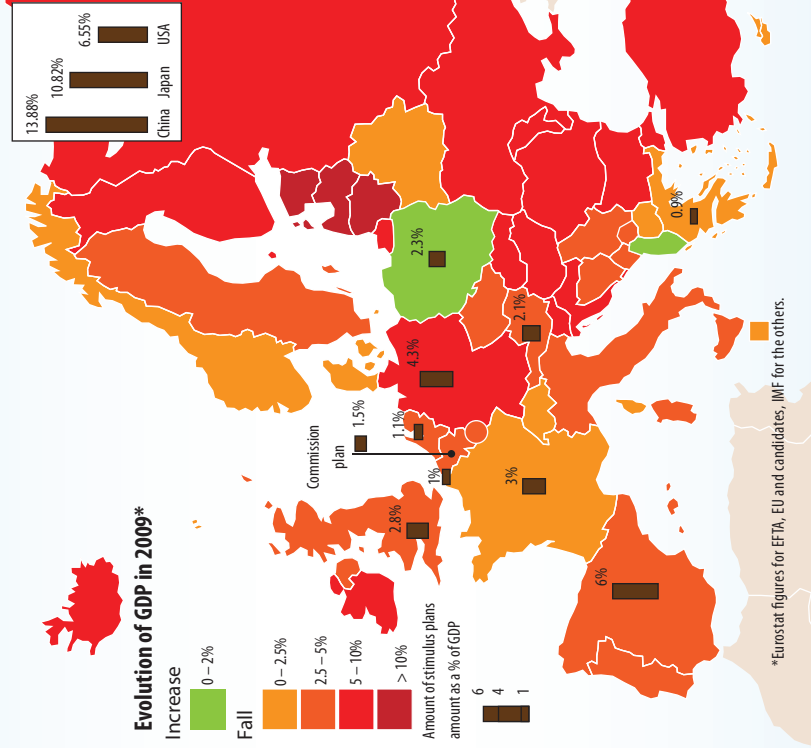
## Excessive deficit procedures

The excessive deficit procedure can be used if public deficit exceeds 3% of GDP and/or if public debt exceeds 60% of GNP.



# The Crisis in Europe, 2009

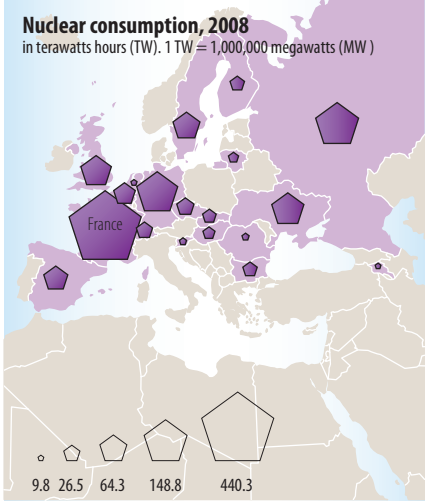
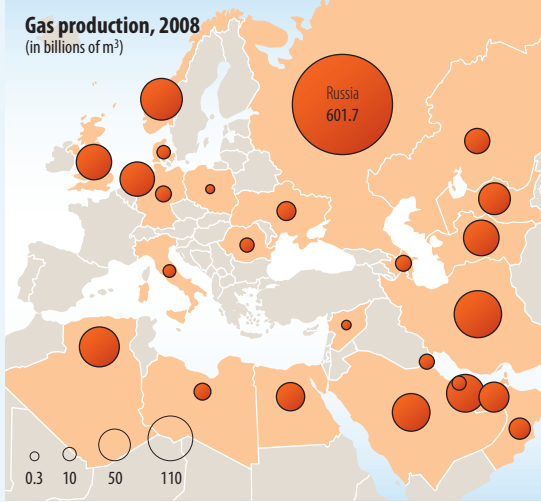
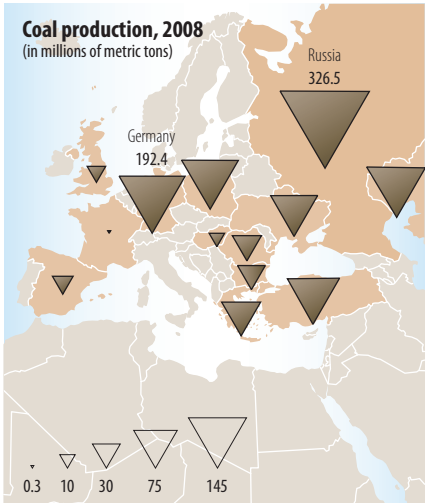
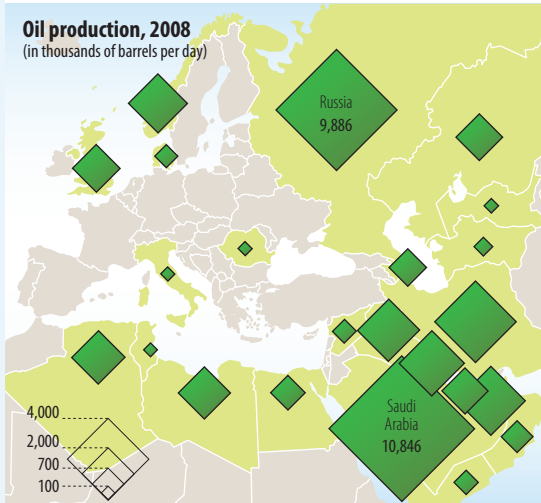
See also "Euro map"



Pascal Orlin for the Robert Schuman Foundation, January 2010. © FRS.

Sources: IMF (www.imf.org), Eurostat (http://epp.eurostat.ec.europa.eu), Bruegel, US Economic Department

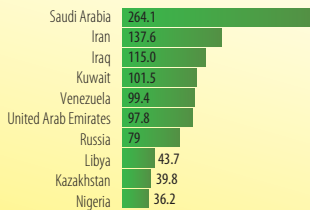
# Energy reserves and generation



## RESERVES

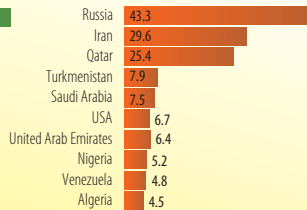
### Oil

(in billions of barrels)



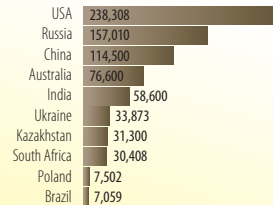
### Natural Gas

(in thousands of billions of m<sup>3</sup>)



### Coal

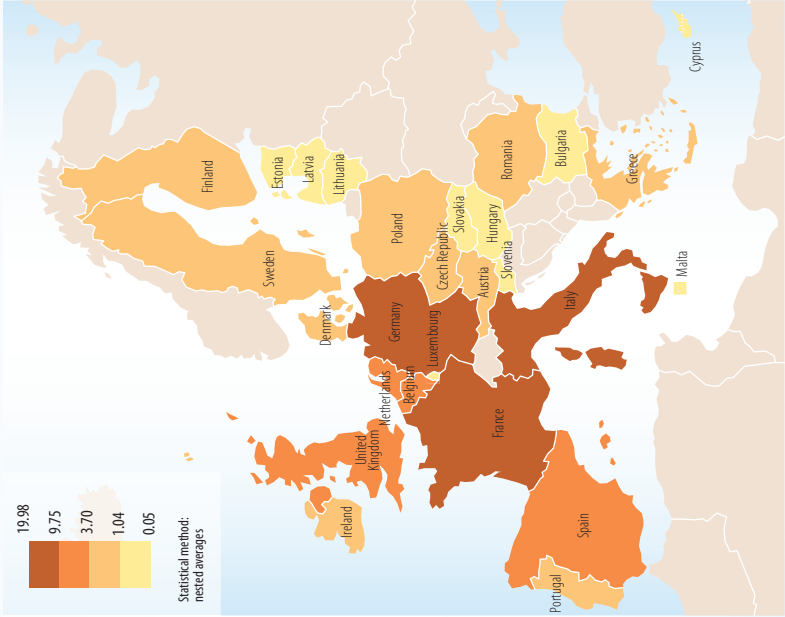
(in billions of metric tons)



Sources: British Petroleum, *Statistical Review of World Energy 2009*, [www.bp.com](http://www.bp.com) and IAEA, Energy and Economic Database, [www.iaea.org/DataCenter](http://www.iaea.org/DataCenter)

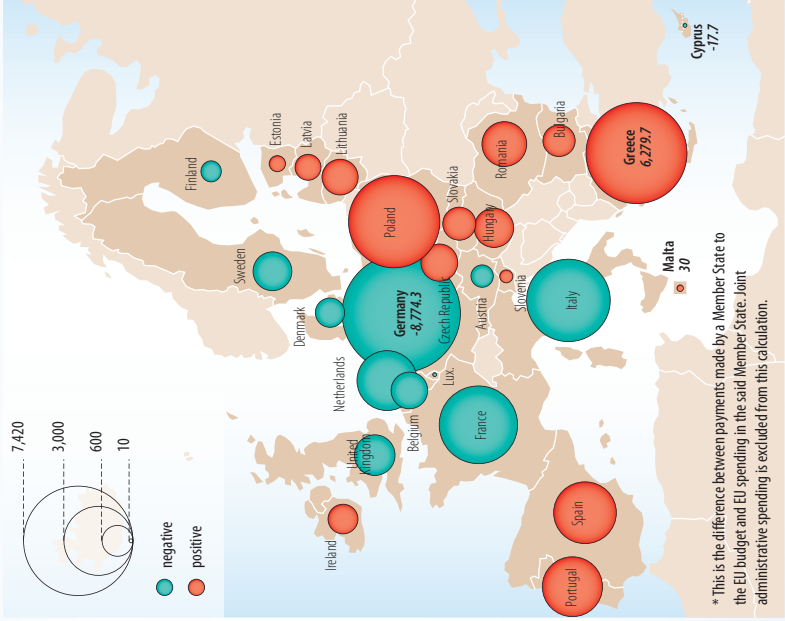
# European Union budget

Member States' contribution to community budget, 2008 (as a %)



Sources: compilation by Franck Lirzin, EU portal (<http://europa.eu/>)

Net operational budgetary balances\*, 2008 (in millions of euros)



Pascal Orler for the Robert Schuman Foundation, January 2010, © FR5.



# The European Union's Foreign and Security Policy Review and Outlook

Joachim BITTERLICH

**G**iven the progress planned for in the Lisbon Treaty in terms of institutional content and structure, the European Union and "its" common foreign and security policy – the CFSP, have a unique opportunity to take a vital step forwards.

However, are they actually mentally prepared to commit themselves to this new era or will they stall mid-way on the road towards a true common policy, which former German Chancellor Helmut Kohl always believed to be the final and most difficult achievement of European integration?

## **What Results for what Prospects after Lisbon? We have to get our Priorities Right**

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We have over 35 years of experience in this area. We witnessed first the cautious stages of the European Cooperation Policy, then more significant improvements with the Maastricht, Amsterdam and Nice Treaties as well as more promising developments with the security policy over the last ten years, since the European Council of Cologne in June 1999.

All of these developments prompt us to review and analyse realistically and without excessive enthusiasm the real outlook for the CFSP and its sister policy, the European Security and Defence Policy, the ESDP. These thirty-five years have been characterized by permanent progress; some steps have been greater than others, but they have all been achieved in small stages and not via major breakthrough; for 35 years the European Union has only been able to convince its audience in part – is the glass now half full?

The Lisbon Treaty could be the catalyst towards a united common foreign and security policy for the European Union if – and this is a pre-requisite that is not included anywhere in the treaties! – all of the Member States, and in particular the "Big" ones in the Union, are politically determined and ambitious enough to place their foreign policy at the service of the Union! If the "Big" States do not take the lead – and this specifically implies the Franco-German couple – the glass will always remain half empty!

This is why I am surprised with regard to the priorities set by Lady Catherine Ashton, Ms CFSP, who, for the very first time, is undertaking the function of High Representative

and Vice-President of the Commission, but who is not the Union's "Foreign Minister". Her first priority will be the establishment of the European External Action Service, the Union's Diplomatic Service<sup>1</sup>.

The establishment of such a common service is certainly useful, logical and pertinent, but it will be an implementation tool that will only make sense once the basic policy agreement has been made on the goals and means of the long-awaited EU common international and security policy – a strategy that is even feared by some of our friends and partners across the world, who prefer to deal with a divided Europe!

But does such an agreement really exist? Over the last few years, Europeans have agreed on the description of the vital details of an international strategy, but when we look more closely at the practice of the European policy in the face of major partners or crucial international issues, we find that it comprises rather a mixture of fundamental disagreements and weak and/or superficial agreements, and/or preferences for bilateral relations rather than common approaches.

By focussing on the aspect of implementation, the European Union gives the impression that it would like to avoid addressing a vital issue! Moreover, it seems quite daring to launch this new service at a time when relations between the diplomatic services of the Member States and this new institution have not yet been clearly defined.

A critical view is all the more necessary since 2010 will be a vital year in terms of international politics, with a multitude of conflicts, some recent, some long standing and some which have worsened.

This will be a year in which it will not suffice to bash the European "bible" emphasizing that "the Union has to reassert its leadership in a multipolar world which is destined to multilateralism. It must be an unequivocal reference in terms of democracy, human rights and social progress worldwide," as José Luis Zapatero and Herman Van Rompuy re-iterated lately in a joint article<sup>2</sup>.

It is true that the European Union enjoys an excellent reputation in all these areas, but this is not enough to be heard and above all to be followed. The Union is an inevitable player and partner who unfortunately still finds it hard to express itself and act collectively and coherently with regard to highly sensitive issues. We should not forget that the world is watching us and is judging us via our history rather than via our economic and monetary success.

2010 will be the first test year for the new European structures thanks to which "Europe will now have a higher profile and a stronger, more united voice in the international arena."<sup>3</sup>

However, higher visibility does not automatically mean a stronger and more united voice! Working together, united and not only on the smallest common denominator, is the key in the face of crises and conflicts which require the expression of a coherent European position – regarding the conflicts in the Middle East or in Afghanistan, or the future of the Balkans, our relations with the USA, Russia, China, etc. If Europeans cannot move forwards together in a significant manner they cannot be credible enough in the international arena.

An example of this situation was the Copenhagen Conference on climate change – a case study for the failure of a vital Union policy.

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1. See article in *Le Figaro* 20th December 2009.

2. J.L.R. Zapatero and H. Van Rompuy «2010 une bonne année pour l'Union», ("2010, a good year for the Union"), *Le Figaro*, *FAZ*, *El Pais*, *Corriere della Sera*, *Le Soir*, *De Standaard*, *The Guardian*, 4th January 2010.

3. *Ibid.*



The European Union entered this conference with a certain amount of pride – as the “champion of the world” with the clearest ambitions that went far further than any of its partners. But it stood alone and was marginalised. Only France and Germany could and should have taken this matter in hand on behalf of the Union, but everything leads us to think that they withdrew because of the risk they ran or because of their lack of courage.

It was the USA and China, who were highly criticised in Europe because of their hesitant, even negative attitude, who took hold of the negotiations and defined the vital content of the final package!

If the European Union had had a more political position, including alternative approaches, discussing and preparing the conference with these major powers instead of looking for support elsewhere, as if it were a conference of little importance organised by some sub-committee of the United Nations, it could have defined or at least, co-determined the orientation taken in Copenhagen.

## **The Challenges facing the European Union in terms of Foreign and Security Policy**

Let us look at some vital issues on the international agenda that are looming on the horizon – this is not an exhaustive list – starting with our immediate neighbourhood for which the European Union has even developed an institutional tool to be found in article 8 of the Lisbon Treaty.

### *The Balkans*

Real progress has been made in the Balkans since the dismemberment of and the war in former Yugoslavia. However the situation is still worrying. Only one country stood out from the rest and became a member of the European Union, Slovenia, whilst Croatia seems to be on the right track as long as reform continues and deepens.

Serbia would like to join the European Union and seems to be counting on the economic advantages but, given the problems it has with its neighbours and how the latter are perceived in the country, we might ask whether it is politically mature for this experience? Bosnia-Herzegovina seems to be bogged down in a post-Dayton situation and it is difficult to see where progress has been made – or can we content ourselves and say that today, due to a lack of arms, a war on the scale of the one that occurred in the 1990s now seems impossible or rather improbable?

Is this a satisfactory result for the Union? It might be more urgent for Lady Ashton and her colleagues to devote themselves to this region as a priority rather than lose their way in the labyrinth of a new diplomatic service!

### *Russia*

With regard to Russia it seems all too obvious when we say that the European Union needs an environment and therefore a stable, friendly Russia and that, at the same time, Russia needs Europe as a partner for its development.

However, have both sides really understood this necessity and have they thought about the content of this partnership which seems to stumble over the issue of energy supplies? Is it not rather mistrust that reigns in this relationship which has never become one of overall

partnership, but which takes the shape of bilateralism between Russia and various Member States?

Why is it that the 27 Heads of State and Government cannot give one of the Member States – the one who entertains the strongest relationship with Russia, i.e. their colleague German Chancellor Angela Merkel – the mandate to develop a relationship of this nature with her Russian counterpart?

### *The USA*

The USA is the European Union's most important political and economic partner and at the same time, it is the closest to Europe from an ideological point of view. In spite of its financial fragility, the USA is still the world's leading economy and, above all, the only military superpower.

The European Union and North America are closely linked, particularly via the Atlantic Alliance but they find it increasingly difficult to remain on the same wavelength, or at least to consult with each other at an early stage in order to reduce the risks run on either side of the Atlantic.

They compete on the world's market but do they not have a primordial interest in reviewing their partnership and even extending it, for example via more permanent consultation bodies and an early warning system in the event of a crisis?

The aim must be to build together a true partnership including, eventually, a transatlantic economic and financial area and also permanent dialogue with regard to international issues of crucial and common interest, together with a new Alliance.

### *China and Asia*

With regard to China, the European Union is far from having a common coherent approach towards this new world power. In terms of power, Europeans still seem to consider China as an emerging country, which may be true economically but they cannot grasp that this country has again become a true regional and world power.

Europeans progress in China in a dispersed manner, without any strategic consultation. Each Member State grooms its political and economic contacts with China, each seeks its own advantages, each celebrates the successes of its national economic players without realising that these are only short term victories and that our industries are in danger of losing in the long term.

Pessimistic observers – or maybe more realistic ones? – observe that the European Union is de-industrialising to the advantage of China, without understanding that it would be stronger if it acted on a common and mutual position.

It is clear that Europe needs a much more realistic strategy not only with regard to China, but also with regard to Asia as a whole which is – under the impetus of China – developing its economic integration with the creation of the largest free trade zone in the world; it has a future internal Asian market in view which is developing regular bodies for political consultation and includes other partners of major strategic importance such as India, Japan and Indonesia.

### *The Near East*

The Near East is a war zone on the European Union's doorstep where the prospects for peace are not getting any better, actually quite the opposite. Europeans vie with one another

in terms of visits, give sound advice but are unable to develop an approach, either together or with the USA, that might relieve the USA and possibly bring about tangible progress. Or is this an overly sensitive, historically laden issue that prevents both us and the USA from working together to the end so that no more blood is being shed?

Moreover it is surprising that the European Union still has not found a promising approach to develop a close neighbourhood relationship with the Mediterranean in spite of the various attempts and with all good will on all sides to do so. Even from this point of view, history and national sensitivity still seem to be impediments to the development of a close partnership! France should take the lead and use the European Union as a means to overcome a past which is still extremely sensitive and complicated.

### *Iran*

With regard to Iran, it is rather worrying to see the European Union's perplexity in the face of the Iranian phenomenon. For years, Europe – just like the international community – has tried to change the direction and development of this country. It finds it hard to understand that it is on the wrong track with sanctions threats. A majority seems to be aware at least that military action would be the worst solution for this country and for us! Or should we declare that those who fear that it is really Israel and Saudi Arabia that are preventing the development of a unifying solution to put an end to the pernicious isolation of this country in the region are in fact right?

### *Development Policy*

With regard to the development policy the European Union is certainly the main provider of aid funds in the world but, unfortunately, it is unable to coordinate national development policies and that of Brussels effectively; it cannot agree on a joint strategy and on common priority projects. Hence the European Union weakens its position in the face of other players, particularly China.

### *Defence Policy*

We have to admit that the security and defence policy is probably the most positive development within the CFSP over the last few years. We could say that European Defence is “on the right track”, even though some vital issues are still pending such as the establishment of centralised military structures, its relationship with NATO and in the area of armament.

A few months ago I appealed to the Member States, to those who felt courageous enough, to announce:

- that we want to complete the creation of European Defence, focusing on a group of states that are committed and in which each Member State is invited to contribute according to its means;
- that together we are going to establish our priority goals on the basis of a security strategy and provide it with the necessary military means;
- that we are going to finalise the necessary military institutions, in particular with a permanent operational planning centre that will progressively be able to undertake military operations;
- that we shall train joint units and move on to specialisation between European allies;

– and that we are going to initiate a European revolution in the area of armament by pooling our means of research, in the choice of arms and training in a joint armament industry<sup>4</sup>.

### *Future International Structures*

In 2008 and 2009 we witnessed the emergence of some future international institutional structures such as the G20, which comprised new elements such as the BRIC (Brazil, Russia, India, China) or the BASIC group (Brazil, South Africa, India, China).

Within the G20 and other international bodies, the European Union has come under heavy fire because it is over-represented by the big Member States as well as by the President of the Commission. In the future we will have to add the President of the Council and Ms CFSP! Is it not urgent to think about this and take a decision on a new operational mode, which would defend of course vital European interests, but which would be at the same time more acceptable for the rest of the world?

The European Union and its CFSP have arrived at a vital point in their development. Either they understand that they have to join forces in order to have a real influence in the defence of the EU's vital interests in the world or they will continue to play a secondary role with significant risks in terms of the guarantee of their long term future!

It is time for the European Union and its Member States to wake up and for France and Germany to accept their role as permanent, creative driving forces.

But all of this presupposes that the Member States understand their responsibilities and show their political determination to implement the CFSP together.

Brussels and the capitals do not need to defend their competences but owe it to each other to use them intelligently and in a complementary manner in order to defend European vital interests in the most effective way possible, since these are also their own national interests!

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4. Article published in *La Tribune* on 23<sup>rd</sup> March 2009.

# Europe and the USA: a Conditional Partnership

Nicole GNESOTTO

**N**ew America, new Europe. In just under one year the Euro-American relationship has indeed changed radically in every sense of the term. Barack Obama took over management of the USA and marked the first months of his mandate with unprecedented charisma. The Europeans for their part finally managed to close the chapter on a paralysing institutional saga: at the start of 2010 Europe with the Lisbon Treaty was finally able to face the world in good working order. *A priori* all of the ingredients were to hand to restore and contribute to a grand partnership between the Union and the USA: the American President is adulated in Europe; there was convergence on multilateral principles, dialogue and negotiation became the rule and not the exception; the joint power of both partners – which represent more than half of the world's wealth – as well as the interdependence of their economies in the present crisis reasserts the need and importance of perfect Euro-American cooperation. However the reality of the situation is not quite that. Between Europe and the USA the relationship appears excellent and sterile, still central, but increasingly difficult to set in motion.

## Convergence and Confusion

In 2009 Euro-American reconciliation seemed to be spectacular. Barack Obama's victory and above all his charisma enabled Europeans to love America once more, sometimes with the same strength of passion as their criticism or rejection during the decade under the Bush Administration. The latest German Marshall Fund Survey<sup>1</sup> revealed the newly recovered alliance between America and Europe: support for President Barack Obama grew by 80 points in Germany and by 77 in France in comparison to the support for George Bush; 41% of Europeans believe that transatlantic relations have improved since 2008; nearly half of Europeans (49%) expect America to assume strong leadership in international affairs against only 33% in 2008; as for American measures in response to the economic crisis these are approved of by over 70% of Europeans (whilst only 54% of Americans approve of them)! Ronald Asmus sums up this new love story – and maybe also future misunderstandings

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1. Transatlantic Trends 2009, The German Marshall Fund ([www.transatlantictrends.org](http://www.transatlantictrends.org)).

– between Europe and America perfectly: “President Obama is much more popular in Europe than at home in the USA (...) Europeans are expecting more of him than of their own leaders.”<sup>2</sup>

From a political point of view Euro-American cooperation has also taken off again. The ceremonies of NATO’s 60<sup>th</sup> anniversary were the occasion for France to close a difficult chapter in its history with Atlanticism; it re-integrated NATO’s military structures in the name of new complementarity between the Atlantic Alliance and the European Union. Afghanistan has bound the Europeans and Americans together in the same strategic challenge whilst the issue of Iranian proliferation has strengthened the vitality and diplomatic interplay of the Euro-American couple. President Obama has not been slow in adopting a rhetoric that is very close to the best European approaches with regard to the importance of multilateralism, the need for dialogue and negotiation including with rival powers, the primacy of law over force, the respect of democratic values and paying attention to those who are shaping a less and less western globalisation.

In short in just a few months America became an ally again, the friend, the central partner of Europeans in a way that it had never ceased to be from an economic and trade point of view. The transatlantic market is indeed a powerful reality; it is prosperous in spite of the crisis and integrated to a large extent. Together Europeans and Americans form a market of 800 million citizens. Their savings represent nearly 60% of the world’s wealth. Together they count for a third of world trade, 42% of the world’s trade in services and they are each other’s main trade partner (1.7 billion dollars exchanged daily). The management of the financial crisis and the dangers of an extended recession have also obliged both sides to increase cooperation with every G20 meeting.

However we should not delude ourselves with this new Euro-American honeymoon.<sup>3</sup> At least three reasons oblige us to see the situation in a more subtle manner. On the one hand Europeans seem as divided about Obama as they were about Bush’s America, but for different reasons: it is now the new members of the Union, from Central Europe, who show the greatest scepticism – even criticism about Obama whilst they were the most fervent supporters of his predecessor’s policy<sup>4</sup>. And conversely the countries that were a short while ago the most critical of America – including France and Germany – who are the most convinced by the wave of Obamamania: intra-European differences such as this notably suggest that a potential Euro-American partnership with Russia for the creation of a new European security structure would be difficult to implement.

Apart from these remarkable divisions in the perceptions of “old” and “new” Union members, the efficacy of this new Euro-American axis has become extremely relative. In this era of globalisation the West is no longer the master or even the centre of the world<sup>5</sup>. The transatlantic partnership seems to be increasingly necessary but increasingly inadequate. Even when they agree on everything – which in any case is never guaranteed – Americans and Europeans are no longer able to settle international crises alone. Neither Iran, Iraq nor North Korea, like the other conflicts in the Middle East or global issues such as global

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2. R. Asmus, “Europe and the Obama Bounce”, *International Herald Tribune*, 9<sup>th</sup> September 2009.

3. See T. Chopin and J. Vaisse « Pour une relation transatlantique désenchantée », Euractiv, 21<sup>st</sup> January 2009.

4. Cf. “Transatlantic Trends, Key Findings 2009”, chapter 2: A divide in the Continent: Central, Eastern and Western Europe, p. 10.

5. See N. Gnesotto: « La Sécurité dans un monde post-occidental », *Esprit*, May, 2007.

warming or health can be managed without the help of Russia, China or other regional powers. And what is true for political issues is all the more so for the settlement of economic and financial crises. The G20 is a perfect illustration of this: without the rest of the world the West has become astonishingly impotent.

Finally the third handicap is that this Euro-American reunion is rather a one-way affair. Europeans are happy at having rediscovered the America that they see as a legitimate leader once more, whilst the latter is looking elsewhere in search of building the foundations of its future power. Between the two partners confusion is just as evident as convergence. The American vision of the world is no longer shaped through the single prism of European security and NATO: the former is no longer the main strategic stake in globalisation, the latter is no longer the privileged instrument for the USA's global strategy. When it is still relevant, as with the war in Afghanistan the Americans turn to their European partners but they simply receive an evasive response. According to the damning words by Hubert Vedrine<sup>6</sup>, Europe is no longer – in America's eyes – a problem, a stake nor a source of support." For Washington it is China which notably features top of the list in terms of its main economic, and also as an uncertain but inevitable, strategic partner. Conversely, Europeans look less to the world than to America to strengthen their strategic position in globalisation. Today as yesterday the priority of the 27 Heads of State and government is not to build the EU as a strong, united, credible pole of within the emerging multipolar world: national obsessions on the part of European leaders are still the only political motor which matches perfectly with the American partnership. The same correlation can be made between the enhancement of Euro-American cooperation and the weakening of European integration: the Member States continue to privilege playing the card of bilateral relations with America – with whom or against whom they hope to secure their international future – to the detriment of a leap forwards embodied by the Union's common foreign policy.

## **A Conditional Partnership**

A peculiar disquiet is eating away at the Euro-American relationship: perceptions are excellent – the results inexistent. Without being a prophet of doom with regard to globalisation it should be stressed that there is a dual danger inherent to this situation: an increasingly "post-European"<sup>7</sup> America, on the quest for new partners of an equal world dimension, but one which is twice as weak because of the loss of Europe and due to Asia's global dynamism; a "pre-Maastricht" Europe, blinded by its national rivalries and its *special relationship* with Washington, slowly sliding down to the rank of marginal player in globalisation, a part of history. It appears then to be in the interest of both parties to re-establish a stable, effective, useful partnership between the European Union and the USA. However the revival of the Euro-American relationship will only occur under certain conditions.<sup>8</sup>

The first of these comprises in-depth thought about the institutional instruments employed in the Euro-American relationship. For five decades NATO represented an alliance of strategic necessity. With the disappearance of any collective threat it has become

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6. N. Vedrine, *Rapport pour le Président de la République sur la France et la mondialisation*, Fayard, 2008.

7. See the report by J. Shapiro and N. Whitney, "Towards a post American Europe: a power audit of EU-US relations", ECFR, November 2009.

8. See the report by the High Level Group on EU-USA relations, chaired by R. Prodi and G. Verhofstadt, *Notre Europe*, February 2010.

an alliance of political choice: in other words a fragile institution subject to the dangers of globalisation, the governance of which goes far beyond NATO's competence. Because it makes military force relative, globalisation also makes military alliances relative: although NATO is still a fundamental element in relations with the USA, it now only represents a vector, amongst others, of the Euro-American partnership. The effectiveness of this partnership can now be achieved by other means and notably via a strategic bilateral relationship between Europe and the USA. For the USA this implies accepting that the European Union is an autonomous partner and that differences in opinion between partners are possible: in other words giving up the more or less benevolent or authoritarian position of leader, which changes in the wind but remains as an intangible principle. For Europe it supposes the end of political dependency with regard to America, in other words the end of a type of protection which is deemed more comfortable by European governments than the taking of risks and the assuming of responsibilities in the international arena.

The second condition involves the European Union and national obsessions which plague all of the Heads of State. Globalisation produces a remarkable paradox whereby the role of States as the only legitimate players is enhanced because they protect, whilst new stakes in globalisation – climate, health, prosperity, etc., make purely national solutions increasingly inadequate and even impossible. However European States – hostile to any new delegation of sovereignty – only retain the first part of this equation whilst preaching at the UN, in Copenhagen and at the G20 the virtues of collective responsibility and world solidarity. It is therefore high time that Europeans put order in their own house and applied the founding principles of their own model of governance themselves: collective solidarity, the quest for general interest, the building of shared sovereignty with regard to a certain number of policies. The whole of Europe's recent history shows that Member States, including those who believe themselves the most powerful or the closest to America, can only be influential together. Divided Europe does not count. United Europeans can be one of the driving forces for the most harmonious regulation possible of globalisation. At the G20 for example Europe is at its worst: it is over-represented with 8 European seats and under-represented because there are not enough common positions on the part of the European Union. In the nascent multipolar world this situation is suicidal in the long term. Globalisation therefore demands that Europeans draw up a kind of "national European interest"; that Europe speaks with one voice; that the Member States accept, with the Lisbon Treaty, to start vital work again on political integration to maintain or build a real ability to influence over other poles of power – first and foremost their American partner.

The third condition entails clarifying the goals and ambitions of this new Euro-American partnership, in other words there must be agreement on the definition of the best possible world order. Two options are possible today in the transatlantic arena. The first lies in an extremely traditional idea of power relations and puts forward a return to a grand bipolar world confrontation, between the West and the rest of the world. In this geopolitical approach the strategy would only be a reactive one: in the face of the challenges of globalisation in which the marginalisation of Western power and leadership seems inevitable, Americans and Europeans would have no choice but to close ranks behind Washington to safeguard their common interests. The issue of energy security often features at the heart of this problem: given the competition on the part of China, which is notably avid for African oil and gas to continue its economic development, how can Western economies be guaranteed the maintenance of the energy supplies unless they defend the positions they have acquired? The second vision supposes a more open strategy with regard to globalisation.



It refuses to approve another binary division of the world and attempts, on the contrary, to reconcile traditional *realpolitik* and new political consequences of globalisation. It would lead to a more collective, multilateral strategy, combining the defence of legitimate Western interests which would include NATO, and the sharing of power with other poles of power that will have become inevitable. The invention of collective and not only western governance of world challenges is therefore raised to the rank of strategic necessity. Of course it is the second option that matches best with the sustainable interests of both Europe and the USA – this means the consolidation of an international system based on law rather than the arbitrary, justice rather than on force, sharing rather than exclusion. If the democratic West is to maintain its meaning and a mission this lies in its ability to convince, mobilise and include other partners in the new collective rules of globalisation. The Euro-American partnership will remain ineffective if it is seen as an alibi or a springboard for new leadership of the West, ie the USA. It is however full of promise if it becomes the condition for the rise of a new global partnership.



# Which type of European Policy in the Middle East?

Jean FRANÇOIS-PONCET

Of all the regions in the world the Middle East is the one closest to Europe. It imports most of its energy from there – oil and gas – and it dispatches a significant share of its exports there also. In 2008 France exported as much to Bahrain as it did to Brazil. Terrorism often comes directly or indirectly from the Middle East. Finally the two regions have a joint fate, due to the presence of several million Muslims and Jews in Europe – and notably in France.

## Relations between the European States and the Middle East

The relations that European States entertain with the states of the Middle East evidently differ from one country to another. Sometimes they are good, often tense and always difficult. There are three reasons for this.

First and foremost they are still marked by a colonial past. Although it only lasted a few decades – from the collapse of the Ottoman Empire to the independence of the countries in the region after the Second World War the memory of it is firmly established in people's minds.

Secondly tension is due to the rapid, far-reaching development of Muslim societies, the extent of which the West tends to underestimate: above all demographic transition. Birth control is now tending to bring birth rates down to levels that are close to the European average; rural exodus and then urbanisation which project the individual into a new modern context, fostering personal fulfilment, but threatening their relations with authority, the binding matter of social stability; the emancipation and rise of women. Women's education totals around 50% and their participation in economic activities rose from 3% to 19% between 1990 and 2001. This transformation has led to a conservative reaction and sometimes a clear but ambiguous return to traditional ideas. Hence the return to wearing the Islamic veil which far from being a sign of regression, enables women, if they are from conservative backgrounds, to undertake professional activities including in Saudi Arabia. Finally the return of religious figures is also a factor that creates distance. This emerges in a more ostentatious practice of prayer and fasting during Ramadan. By offering the faithful

a firm identity religion provides an answer to the generations who have been beaten and humiliated by defeat on the part of Israel. Islam has progressively set in as a place where dignity can be found again.

In addition to this the effect of social development on the political regimes has remained limited. The political landscape is certainly diverse but there is no regime that can be qualified as democratic. Elections are rarely pluralist and competitive. They are administered by regimes which are determined to control results via the manipulation of the electoral laws, the prohibition of parties or opposition candidates and a combination of fraud and repression. The result of this is that few regimes have any real historic or democratic legitimacy. The populations submit to this but have no confidence in their governments.

Lastly energy resources are, it is true, if not for the entire region or at least for the Gulf countries, a powerful advantage as well as an element of stability. The five OPEC countries in the Persian Gulf hold two thirds of the world's oil reserves and provide 30% of all oil used. Increasing purchases on the part of China now make it one of the main outlets for Middle-Eastern oil and gradually the entire region is turning as much Eastwards as it is to the West. The problem is all the more real since China refrains from intervening politically in the region's affairs, a luxury that Europe cannot really afford. Much is expected of it particularly with regard to three issues: the fate of the Palestinian people, the Iranian nuclear programme and the slow decline of Yemen.

## **Europe and Strategic Issues in the Middle East**

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### *The Israeli-Palestinian Conflict*

The Israeli-Palestinian conflict is the constant focus in relations between the West and Islam and nurtures the feelings that Arab States' have about it. It developed completely with the birth and rise to power of Israel seen as one of the West's creations. The impotence of the States in the region to win the war and also to make peace with Israel has facilitated the rise of Islamist movements which have taken up the nationalist discourse, replacing it under a cloak of religion.

The Israeli-Palestinian conflict is the issue on which the West's sincerity is judged. The Arab world accuses it of applying double standards. It is presented as being systematically complacent with regard to Israel which is pardoned for everything, notably when it ignores the Security Council's resolutions – infringing these it develops its colonies on the West Bank. On the other hand the Arabs are allowed nothing. Reproach is often founded but it does not take sufficient account of the obstacle that division amongst the Arabs creates in identifying a negotiation partner, who is able to talk for the entire Palestinian movement.

For talks worthy of the name to start two prerequisites have to be met. Israel must give up all further extension of its colonies on the West Bank – which Prime Minister Benjamin Netanyahu only accepts for a period of ten months excluding the "priority zones" and without putting building sites that have already started on hold. But the Palestinian Authority refuses to start negotiations on such biased foundations.

The second condition comprises finding a single negotiator on the Palestinian side who will represent both the Palestinian Authority and the Hamas which controls Gaza and its 1.5 million inhabitants. This is tantamount to saying that real negotiations are not about to start and that the USA with Europe's support should show as much determination as patience so that a ray of light appears at the end of the interminable Israeli-Palestinian tunnel.

Barack Obama's election raised hopes. The American President, unlike his predecessor, decided to commit his personal authority and that of his country in the quest for a negotiated settlement, thereby attempting to create an independent, viable Palestinian State that can live alongside Israel, with Jerusalem becoming the capital shared by both States. But the Arab world is growing impatient as it sees that the President is slow in imposing his views on his Israeli allies.

### *Iran's Challenge*

The Islamic revolution in Iran and the American invasion of Iraq intensified and hardened feelings of rejection with regard to the West. It is true that this hostility is aimed primarily at the USA which is hated by public opinion but with regard to whom the Arab governments adopt a schizophrenic attitude. They are the first to ask the USA to play a protective role in the region, to settle the Palestinian issue and even to put pressure on Iran. But this does not stop them from condemning Washington's "interference". It is to escape this uncertain, fluctuating relationship that they turn to Europe for more help: more of Europe to have less of America.

The establishment of the Mullahs in power in Teheran did not just make Iran's relations tenser with the West. It has led to rivalry between the Shi'a and Sunni which has become a common factor in all Middle Eastern countries. Where there are Sunni and Shi'a living side by side there is always or almost always conflict. In twenty years between 1984 and 2004 the Shi'a-Sunni divide has become a key factor of the Muslim world from the Mediterranean to the Indus.

The challenge the Iranian nuclear programme poses for the West is more recent but in many ways it is more of a threat than the Israeli-Palestinian conflict. Teheran insists that it does not want to provide itself with nuclear weapons. But its denials are hardly credible for three reasons: 1) its nuclear activities have been undertaken in the utmost secrecy, contrary to the promises it made as part of the Non-Proliferation Treaty and Teheran refuses to allow AIEA inspectors free access to its installations; 2) Iran has no electro-nuclear installation that could use enriched uranium; 3) finally Iran has developed ballistic missiles the most advanced of which have a range of 1,900 km which would be of little sense if they were only to transport conventional explosives. In addition to this the international community does not believe the Iranian denials at all.

Teheran could go beyond the nuclear threshold by the end of 2010 or during 2011. But it will take until 2015 for it to have just the beginnings of a coherent arsenal to be used for military means.

What danger is implied in Iran's accession to the atomic bomb? A priori it would not be a threat for Europe or the USA. However the question does arise for Israel because of the exiguity of its territory. One bomb could threaten the entire future of the Jewish state which Iranian President Ahmadinejad demands to be wiped off the surface of the earth. A preventive attack of the Iranian nuclear sites by Israel would in these circumstances be neither impossible nor unlikely. But it seems unlikely in the near future. Iran has significant means for retaliation either using its own territory as a base or Lebanon by way of the Hezbollah. In all likelihood the political and security effects of an attack against Iran make such a possibility difficult to imagine without aid or at least the tacit approval of the USA – who make their reticence quite clear.

## *Yemen*

For the West Yemen comprises a totally different kind of challenge: the slow but inexorable collapse of authority exercised over the country by its President Ahmed Saleh makes it a State – if it has not already collapsed – that is an extremely dangerous haven for Islamic movements. Al Qaeda it seems has transferred some of its leading executives there since their eviction from Iraq.

Ideally situated in the south of the Arab Peninsula between the Horn of Africa and the East it controls the Bab El Mandeb Strait. With 24 million inhabitants it is the most populous state on the Arabian Peninsula. It is also one of the poorest. Its agriculture suffers a cruel lack of water. It only produces 312,000 barrels of oil per day which the company Total uses and it only survives thanks to remittances on the part of a great number of Yemeni émigrés.

Its mountainous terrain, which is similar to Afghanistan, its proximity with Somalia and the autonomy enjoyed by many of its tribes protected by this specific kind of geography makes it a perfect refuge for extremist networks and training camps.

Osama Ben Laden, as well as his wealthy, powerful Saudi family come from Yemen and American secret services say – on the basis of their electronic surveillance – that the leaders of Al Qaeda established in Waziristan in Pakistan are in constant contact with their followers in Yemen. The latter has never been admitted as a full member of the Cooperation Council for the Arab States of the Gulf (CCASG) and only receives a small amount of aid from the wealthy Gulf Emirates.

A global strategy is necessary to put an end to the process whereby Yemen is slowly becoming Al-Qaeda's puppet. This should be a strategy that is funded by the Gulf oil states which have a vital interest in Yemen's stability – and if its implementation is not given to the West then at least it should be actively supported by it.

# Europe and Disarmament: between Proliferation, Dissuasion and Abolition

Camille GRAND

**A**t first sight, the European Union and disarmament belong to two distinct worlds since disarmament, in appearance at least, does not have a very high profile in the development of the Common Foreign and Security Policy (CFSP). The different stances, even divergences on the part of the Member States would explain this low profile and prevent Europe from speaking with one voice on the matter. The scope of this largely accepted analysis ignores however that, for the last thirty years, disarmament and non-proliferation have been at the heart of the CFSP's development and that the Union has become, without really seeing it, a major player in international negotiations in this area.

## Europe and Disarmament: a Major CFSP Theme – an Incomplete Agenda

From 1981 onwards, nuclear non-proliferation was included in the inter-governmental mechanism of the European Political Cooperation Policy (EPC) established in 1970. However, it was only during the decade 1985-1995 that the fight against proliferation became a major concern for security as the East/West conflict lost its central position and Europe really addressed the subject with the creation of the CFSP. It was therefore logical for the European Council of Lisbon (1992), when it defined the areas of foreign and security policy “that might be the focus of joint action as soon as the treaty (of Maastricht) came into force” as part of the CFSP, to mention the “issues relative to nuclear non-proliferation.”<sup>1</sup>

Since then the presidency of the European Union has made it a custom to speak on the occasion of each major diplomatic event about non-proliferation and disarmament by means of positions and declarations prepared by pertinent CFSP working groups (CONOP and CODUN). Mainly achieving consensus with regard to biological and chemical non-proliferation and the control of conventional arms, debates within the European Union

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1. European Council of Lisbon, 26<sup>th</sup>-27<sup>th</sup> June 1992 (Conclusions of the Presidency, Report on the probable development of the common foreign and security policy aiming to define areas that lent themselves to common action with regard to countries or specific groups, Doc SN 3321/2/92, §35).

tend to get heated if nuclear disarmament comes into question or if the direct security interests of the Member States are at stake as in the recent negotiation of the treaty banning cluster bombs.

However, it should be noted that since the Union has great experience in this matter and an increasingly wide ranging corpus of “approved language” according to the established diplomatic formula, the Union nearly always manages to express itself with one strong voice and it is now expected in many relevant diplomatic forums: the Disarmament Conference in Geneva, the First Committee of the UN General Assembly, the General Conference of the International Atomic Energy Agency, Review Conferences on the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), Chemical and Biological Weapons Conventions (CWC or BWC), and even the Ottawa Convention on Anti-Personnel Mines.

Nevertheless most EU Member States still have a disarmament and non-proliferation diplomacy that is distinct from that of the European Union and jealously guard the upkeep of their autonomy in this sensitive area which soon reaches the heart of any defence policy. This is particularly true with regard to nuclear matters. It is clear that neither France nor the UK want to allow Brussels to decide on their nuclear policy. It is almost certain that the states that have a strong diplomatic tradition in the field of disarmament (Ireland, Sweden, Austria) or an active diplomacy in this area (Germany, the Netherlands) have no intention either of relinquishing their right to express their opinion on the matter. Everyone intends then to continue to play his or her card, if necessary amongst other groups such as the “P5” which rallies the five permanent members of the Security Council who have nuclear weapons (including France and the UK) or the “New Agenda Coalition” which brings together seven supporters of nuclear disarmament including two Europeans (Ireland and Sweden).

Paradoxically the European Union’s influence relies on the diversity of the views it expresses. Indeed, and far from being the often criticised “smallest common denominator”, the views of the European Union often represent the potential point of balance from an international point of view: if Europeans manage to agree on a position it is highly likely that it may be taken up by a vast majority of states committed to one type of disarmament negotiation or another.<sup>2</sup>

If Europe wants however to enter a new stage and become a real player in these negotiations, it seems desirable, if not necessary, for it to build on its own agenda. This is all the more necessary since international events justify renewed and determined commitment on the part of the Europeans in this domain in the favourable context that is now created by the entry into force of the Lisbon Treaty.

## **Europe and the Return of the Nuclear Debate**

It may seem paradoxical to speak of the return of the nuclear debate, since the nuclear issue seems to have fallen into the background of Western powers’ strategies. This is particularly the case in Europe where nuclear issues are no longer of any major strategic concern.

First of all, we should remember the main features of the emerging nuclear order and disorder: proliferation is gathering pace and may become a major phenomenon because of

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2. On the role of the European Union “a laboratory of consensus”, see C. Grand «L’Union européenne et la non-prolifération des armes nucléaires», *Cahiers de Chaillot*, no. 37, IES-UEO, January 2000.



“proliferation cascades”; nuclear issues are gradually moving from Europe to Asia; we can witness the revival of the abolitionist movement, nuclear revival and a high demand for access to civilian nuclear technology.

Three issues seem to structure the decisive elements of this new “major debate”.<sup>3</sup>

Proliferation is the main, central issue: either the proliferation process that is developing in North Korea and Iran today is terminated and we can then address the 21<sup>st</sup> century nuclear issue with a certain amount of serenity or this is not the case and the future seems to be dark and will lead to a variety of systemic risks: chain proliferation, progressive, violent collapse of non-proliferation regimes; increased probability of use and erosion of the nuclear taboo; increased risk of terrorist hijacking; “renuclearisation” of international relations.

The revival of the debate about disarmament and “abolition” of nuclear arms suggests a radical review of the role played by nuclear arms in security policies. This revival comes in many shapes and sizes: government initiatives, expert research, media initiatives, boosting of academic work. Nevertheless several “unknowns” remain, either about the final positioning of the new American administration, the results and atmosphere at the NPT conference in 2010 or views adopted by non-Western nuclear players (Russia, China, India, etc.).

Finally, the understanding of this new debate cannot be complete if we do not include the less obvious renaissance of thoughts on dissuasion after years of discretion. This is typified by the contrast between differences in doctrines and stances of the various nuclear powers, the revival of the debate on more widespread dissuasion and the future of NATO’s stance on nuclear issues, the need to draw up a multiple-player nuclear system, incomplete plans about the share of nuclear issues in our defence policies in comparison with other tools such as anti-missile defence and the means to make conventional strikes.

With regard to all these subjects, which will shape the international system over the next few years, Europe does not seem to have much voice and is divided. In the face of proliferation, the activism of the EU3 (Germany, France, UK) who have been leading negotiations since 2003 with Iran contrasts with the reluctance of many Member States to commit to a stronger approach to the Iranian nuclear crisis, which would entail for example the adoption of new sanctions at the UN or failing this on the part of the European Union. The debate on abolition has witnessed the adoption by many Member States of President Obama’s vision of “a world free of nuclear arms” without further developing the idea themselves whilst France shows, more or less discreetly, its reticence about this idea. With regard to dissuasion and whilst 21 of the 27 EU members are also members of NATO, a nuclear alliance, and two of these are nuclear powers, the subject is still taboo and is not the focus of any real collective thinking.

This relative inertia contrasts with rapid developments in the rest of the world. This lack of strategic thinking about a world that is undergoing deep changes prevents Europe from launching serious dialogue with other players (USA, Russia, China, etc.). Because it does not think in strategic terms and as a strategic player, the Union is prevented from having any greater influence over the international arenas of disarmament and non-proliferation; this confines it to an often useful, technical, sometimes effective but rarely decisive approach.

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3. In the words of R. Aron when he typifies the nuclear debate of the 1960’s in *“Le Grand Débat”*, Calmann-Lévy, 1963.

## **In Support of a European Disarmament and Non-Proliferation Agenda**

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For the time being, the development of a truly European agenda for disarmament and non-proliferation encounters the reticence of the Member States who hesitate about addressing at too early a stage within the Union issues that are seen as vital to their own security and diplomacy. In addition to this, divisions between Europeans are said to be insurmountable particularly with regard to nuclear disarmament. It seems however that these obstacles are not impossible to overcome as seen with the agenda adopted during the French presidency of the Council of the European Union.

Firstly the positions of the EU members converge 95% of the time and differences, when they remain significant as is the case in nuclear matters, can be easily identified and are never incompatible with the adoption of declarations, positions or joint action.

Secondly the deep crisis experienced by non-proliferation and disarmament over the last decade and the major risks that exist with regard to the collapse of a regime that has been patiently put together since the 1960s justify European mobilisation since they are supposed to guarantee “effective multilateralism”. This is the idea behind the following eight proposals.

### *1. Addressing Non-Proliferation Crises*

As a first priority, the European Union has to mobilise effectively to face the Iranian and North Korean proliferation crises. Due to its geographic proximity and the central role played by Europeans since the start of the EU3<sup>44</sup> negotiations, Iran must be the particular focus of attention on the part of the European Union. Together with its American, Russian and Chinese partners in the process EU3 +3, it must show that strong diplomacy can make a difference with regard to proliferation.

The issue at stake goes beyond the prospect of a nuclear Iran. This crisis threatens both security in the Middle East and Europe and also the future of the non-proliferation regime. The Union cannot satisfy itself with cowardly relief by handing over the responsibility for dealing with this crisis to the USA; it must remain a central player defending its own interests.

The Union might then recall the urgency of this crisis on the occasion of the next diplomatic meetings including the NPT conference in the spring of 2010. Beyond that, Europe might put forward real proposals with regard to the handling of upcoming crises (in the light of previous experience with Iran and North Korea) in order to strengthen international tools to counter proliferation.

### *2. Re-Establishing the Credibility of Non-Proliferation Regimes*

Whereas the European Union attaches the greatest importance to the credibility of multilateral instruments, the non-proliferation regime, which is built around three main conventions that deal with arms of mass destruction (NPT, BWC and CWC<sup>5</sup>) and accompanying monitoring or screening exports tools (if they exist), is today undergoing a real

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4. Initially led by Germany, France, UK (the EU3), this negotiation associates the European Union in close cooperation and in particular the CFSP High Representative.

5. The Non-Proliferation Treaty of 1968, Biological Weapons Convention of 1972, Chemical Weapons Convention of 1993.

crisis. Adhering to treaties has never been as universal and yet, infringements and suspected infringements of commitments by signatory states wisely raise the question about the real respect of the commitments that have been subscribed to. A deleterious atmosphere is developing which, far from confirming the universal importance of non-proliferation, tends to be identified with a questionable Western political priority.

It is up to the European Union to reassert clearly the importance of having effective, credible multilateral tools which are also the tools of collective security. It is also legitimate to enhance regimes, whether this means checking on commitments or the punishment of infringements.

### *3. Re-establishing a Consensus with Regard to Nuclear Non-Proliferation*

Due to the diversity of its Member States, the Union is well placed to provide its contribution to the vital restoration of a solid consensus with regard to non-proliferation. The Non-Proliferation Treaty traditionally depends on three pillars: non-proliferation, disarmament and cooperation in the peaceful use of the atom. Whilst the NPT sinks into hermetic debate about the disarmament agenda, the European Union must help to re-establish consensus by offering a modern interpretation of priorities within the three pillars and relations between them. In this way, it will help to restore vital consensus for the states that take part in the NPT.

### *4. Finalising the Implementation of Multilateral Nuclear Instruments*

All European States are members of the Treaty for the total ban on nuclear trials (CTBT) and support the start of negotiations for a treaty banning the production of fissile materials (so called cut-off). These European priorities must be reasserted and the European Union must set as a goal the entry into force of the CTBT and the conclusion of negotiations on cut-off very soon.

### *5. Addressing Issues of Disarmament Specific to the European Continent*

The USA and Russia agree on the priority of the START process to reduce strategic arms. However, there remain in Europe several thousand Russian tactical nuclear arms. The reduction and disappearance of this stock (maybe by means of negotiations with regard to a few hundred American arms) is a European priority, just like the salvaging of the regime to control conventional arms in Europe which is threatened by a freezing, on the part of the Russians, of the CFE Treaty<sup>6</sup> effective since 2007. These are two issues which deserve particular European attention.

### *6. Controlling the “Nuclear Revival”*

Whilst for the first time in decades the civilian nuclear market is growing again and whilst the European industry intends to take its share of this, the European Union must show that civilian nuclear cooperation, security and non-proliferation go hand in hand by means of developing strong technologies with regard to non-proliferation and peaceful cooperation.

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6. Convention Forces in Europe Treaty, 1990, the application of which Russia announced it was “suspending” in December 2007.

### *7. Addressing, at last, the Issue of Ballistic Proliferation*

Whilst this is the specific arm to deliver from weapons of mass destruction, the proliferation of missiles is not the focus of the same amount of attention. The European Union decided to focus on this issue with the support of the Hague Code of Conduct; it can go further by taking the initiative on this point.

### *8. Thinking together about the Role of Dissuasion and the Prospects for Disarmament and even the Elimination of Nuclear Weapons in the 21<sup>st</sup> Century*

The nuclear issue is now becoming one for Asia but Europe can offer its experience of nuclear stability and instability during the Cold War in the definition of a stable nuclear order in the 21<sup>st</sup> century; it should think for itself about the role to be played by dissuasion in its own security. Considerations of this kind are taboo today but they are not incompatible with a parallel study of the prospects for drastically reducing arsenals or even of the conditions necessary for the elimination of nuclear weapons if it means that the world will become a safer place, without limiting ourselves to simply echoing President Obama's vision of things.

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The agenda adopted by the European Union and put forward to the UN under the French Presidency<sup>7</sup> opened the way to an ambitious approach. By going further and freely addressing the most sensitive issues, the Union may assert greater influence in terms of disarmament and non-proliferation in the international arena and promote its own agenda. In spite of the differences between the Member States within international organisations, Europe's voice is expected and respected. The 2010 Review Conference of the Parties to the NPT may be a first opportunity to try out this renewed ambition.

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7. Agenda presented to the General Assembly of the UN in 2008 which notably suggested:

- The universal ratification of the Comprehensive Nuclear Test Ban Treaty and the completion of its verification regime, and the dismantling as soon as possible of all nuclear testing facilities in a manner that is transparent and open to the international community;
- The opening without delay and without preconditions of negotiations for a treaty banning the production of fissile material for nuclear weapons (Fissile Material Cut-Off Treaty), the introduction of an immediate moratorium on the production of such materials and the dismantling of their production facilities;
- The establishment of confidence-building and transparency measures by the nuclear powers;
- The implementation of the New START Treaty signed by the United States and Russia, and an overall reduction in global stockpiles of nuclear weapons in accordance with Article VI of the NPT, in particular by the States which possess the largest arsenals;
- The inclusion of tactical nuclear weapons by the states that have them in their general arms control and disarmament processes, with a view to their reduction and elimination;
- The start of consultations on a treaty banning short- and intermediate-range ground-to-ground missiles;
- The adherence to and implementation by all of The Hague Code of Conduct;
- Beyond that, mobilization in all other areas of disarmament.

# 5

## Interview

### Vaira Vike-Freiberga

- 1. Last November you stood as a candidate for the post of President of the European Council. Your campaign struck home with many European citizens, to the point that it might even be called true "Vairamania". Can you tell us what you learnt from this?**

Two main things can be learnt from this phenomenon which is both astonishing and surprising. Firstly European citizens showed that they really wanted to take active part in a major historic process: the way in which the two key posts created by the Lisbon Treaty would be attributed, one being the President of the European Council and the other being the first High Representative for Foreign Affairs. Enabled by new communication technologies they showed in an original manner what they wanted. Of course we could not hope to change the course of history with one campaign that only lasted a few days. But I am convinced that this is the future path and that this form of communication may help citizens have their say on a good many issues which concern them – and this by other means than surveys and elections alone.

Secondly the support campaign on my behalf highlighted the personal qualities of the candidate as well as the pertinence of these qualities with regard to the position in hand. It seems to me that this candidature was a way of protesting against the tradition of bartering which first and foremost takes into consideration whether a person belongs to the left or the right and which lends very little attention to the candidates' experience, qualifications and personal qualities.

- 2. In your opinion will the next appointments in two and a half year's time be decided in the same way and according to the same procedure?**

Two and a half years is a really short period of time to change well established attitudes and customs but it is a real possibility. In principle procedures could be improved if there were as much true political as popular determination. In practice I doubt very much that it will happen. The established habits and customs will more than likely mean that the rules of the game will be the same and procedures will be as opaque and mysterious as the last time.

**3. In your opinion what should the role of the stable President of the European Council be?**

To my mind the post of stable President of the European Council should not just be restricted to the simple technical functions described in the Lisbon Treaty. He or she is not just a civil servant but an estimable European political figure. This post offers unique opportunities for involvement with the population which could help rally the citizens of all Member States around the grand project of European construction.

**4. With the Lisbon Treaty does the European Union appear to be well prepared to face developments in international relations?**

The institutional framework is in place. Now it is a question of using it to carve out positions of political consensus.

**5. If you had to define in a few words the main challenges facing the Union over the next few years what would you say?**

The Union must be able to show how it is contributing to the daily well-being of its citizens and its pertinence to the solution of international crises as they arise. Concerted, effective response for economic recovery is a necessity. Likewise a joint energy policy: political and technical measures to guarantee stable supplies, without forgetting the dangers of political influence engendered by over dependence on one single source of supply. Climate change and the necessary measures to reduce global warming will still be topical for the next few years. Defence and security including the fight against terrorism and organised crime will still be on the agenda for a long time to come. Will the Union be able to demonstrate its added value with regard to all of these issues in terms of each individual Member State?

**6. You are the Vice-President of the Reflection Group on the Future of Europe. What is the purpose of this and what is its goal?**

The Reflection Group on the Future of Europe would like to put forward a vision for the decade 2020-2030 that will remind Europeans of the advantages and the enormous creative potential they have and yet warn them at the same time of the work they must undertake from 2010 on in order to rise to the major challenges of the future.

**7. Does the question of the Union's borders seem inevitable to you in order to recover European support for the construction of the Community?**

The border issue is to my mind quite distinct from that of the construction of the Community. Each of these questions is important in its own way; each requires specific answers.

**8. Is there a type of strong, sustainable partnership which might replace straightforward membership as it stands? Here we are thinking of Ukraine, Georgia, Moldova and even Turkey?**

It seems vital to establish strong, sustainable kinds of partnership with a whole group of neighbouring countries for whom membership would not be an ideal, nor practical solution – (and this for various reasons). It would be a guarantee for both their future and ours. The development of several types of partnership should also not be ruled out; these could be designed according to the requirements and needs of each specific region: east, west (Iceland for example!), south-east and south.

**9. The work of the Reflection Group on the future of Europe pays particular attention to issues such as terrorism and international security. Will it make real proposals on this or will it present a more strategic plan which incidentally seems to be lacking within the Union's institutions?**

The Reflection Group hopes to present a certain number of real proposals in its report but they will be of a strategic rather than a tactical nature. It is not this group's job to enter into the specific details that are the responsibility of targeted expert groups in each domain.

**10. The European Union has developed on the basis of several common policies: coal and steel, agriculture, fisheries, trade, etc. In your opinion what new common policies would be necessary in the future? What in your opinion are the main challenges the European Union will have to rise to over the next few years?**

The list of areas which might benefit from common EU policies is long, including, as I have already said, an energy policy. For each new area which has to be addressed the fundamental question remains the same: are the Member States' leaders able (once again) to agree on the major guidelines of a common policy? Will they be able to overcome the centrifugal force of national interests and the turmoil of their own domestic policy? At the same time there is one pressing need (felt by all populations) and that is the constant re-assessment of the common policies which are already in existence – many of which require major overhaul, given the changes in circumstances that have occurred over the years.

**11. Every Member State has its own national interests at heart. The construction of Europe relies on the convergence of these interests, in certain areas at least. In your opinion what are these common European interests? How can they be defined?**

The "Fathers" of European construction, Robert Schuman and Jean Monnet were very wise in proposing a prudent beginning addressing rather specific economic issues then moving on step by step. Each step completed succeeded showing in a clear, pragmatic manner that it was effectively possible to combine disparate interests to transform them into common advantages. However every time it was necessary to analyse precisely and honestly what the advantages and disadvantages would be in terms of taking concerted

action or not. Is a grand common market really to the advantage of everyone? If the answer is yes, we should go for it. If not then we should look at which country will suffer as a result, why this is case and how this can be remedied in a fair and just manner. Is the free movement of services one of the founder principles of the Union? If this is so we should implement it unfailingly and without hypocritical exceptions. If it is not the case then let's stop the deceptive rhetoric and admit that we don't want it! More importantly it is about understanding that interests do not necessarily operate in a hermetic, limited environment in which the interests of one can only be acquired at the expense of another. According to gambling theory the universe is big enough for us to find "win-win solutions".

**12. The economic and financial crisis has struck the countries of Central and Eastern Europe full on, likewise the Baltic countries and notably Latvia. How do you see the degree of solidarity the Union is providing with regard to these countries? Does the solidarity you see between European countries seem adequate to you?**

In my personal, humble opinion the gestures of solidarity given to the new Member States who have been worst affected by the international crisis have not been of adequate size nor did they come quickly enough. I would even say they were rather timid and rather poor especially if we compare them to the gestures of solidarity that the Union has unceasingly deployed to other parts of the world.

**13. Do you think there is a European social and economic model? If this is so how can it be modernised to adapt it to the "grand economic transformation" that has typified the globalised world over the last few years? How can the European Union succeed in reconciling economic competitiveness and solidarity?**

The idea of a single, unique European social and economic model is a myth. It is easy to find four or five different models in Europe. The thing they all have in common is that they foster economic growth together with social responsibility. They only differ (and also from the American model) from each other because of the economic and political levers that the State is prepared to implement to achieve these. Whatever the specific model it is clear that before distributing collective wealth, it has to be created. But the need to guarantee sustainable economic development and productivity that is able to rise to world competition is not an excuse to enrich just the bankers, financial experts and shareholders in an obscene manner and impoverish entire populations. It is not a question of making a forced choice between creation and the distribution of wealth but of striking a happy medium. To do this there is not really a set, universal recipe – it has to be constantly reviewed to reach a balance.

**14. Is it possible to build a lucid, cooperative relationship with Russia? If so what would the means be for a realistic partnership between the European Union and Russia?**

To achieve real cooperation there must be goodwill on both sides and honest intentions. A partnership must necessarily have to be balanced and include mutual advantages. In the case of fossil energy for example Russia, as a producer needs a purchaser and the European



Union as a purchaser needs a supplier. For Russia however it is strategically more advantageous to negotiate one to one with the various members of the Union, rather than with one strong counterpart who would speak on behalf of the entire European Union. In this way it can achieve advantages that it would never have achieved if it negotiated with the entire Union. As long as the European Union is not ready to draw up a common foreign policy it will remain the weak partner in any business undertaken with Russia. Undoubtedly some countries think they are at an advantage by going it alone. In my opinion this is an error that the future will reveal.

### **15. What do you believe the European Union represents in the world?**

The European Union is like a half-sleeping giant that is not fully aware of its potential power in the world arena. In the eyes of some regions of the world this giant seems to be sleepwalking with legs that carry it along in a certain direction. Others believe that it has strong, powerful arms which move about a great deal but accomplish too little. For my part I would like to see the European Union as a wide-awake giant that is clear about its goals and fully aware of its power and responsibility.



# 6

## Summary of Political Europe

### European Elections 2009 Results, Overview, Outlook

Thierry CHOPIN and Corinne DELOY

In a democracy the people are in some respects the sovereign, and in others the subject. There can be no exercise of sovereignty but by their suffrages, which are their own will; now the sovereign's will is the sovereign himself. The laws therefore which establish the right of suffrage are fundamental to this government. And indeed it is as important to regulate in a republic, in what manner, by whom, to whom, and concerning what, suffrages are to be given, as it is in a monarchy to know who is the prince, and after what manner he ought to govern. (Montesquieu, *The Spirit of the Laws* – 1748, II.2)

On 4<sup>th</sup> and 7<sup>th</sup> June 2009 approximately 164 million Europeans turned out to vote and appointed the 736 Members of the European Parliament. The right easily won this transnational election in which the left achieved its lowest score since the first election of the European Assembly by universal suffrage in 1979.

This text assesses the results of the election and analyses the political balance both within the 27 Member States as well as within the European Parliament after the vote. In the second part, it examines issues raised by these elections, the European significance of which remains feeble in spite of the growing influence of the Strasbourg Assembly. Finally this article sets out some ideas to turn this five-yearly rendezvous, in which a growing number of citizens participate, into a truly European date.

#### **Clear Results. Victory for the Right in spite of a Relatively Stable Political Balance**

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##### *Clear Victory for the Right, Defeat for Social Democracy*

The seventh European elections witnessed a clear victory for the right. It won in 20 of the 27 European Union Member States; the left won in seven states. All of the right wing parties together won 44.5% of the vote across the Union, i.e. 5.3 points more than in 2004. In 10 of the Member States where it is in office, the right won the election: in Germany, Belgium,

France, Finland, Italy, Lithuania, Luxembourg, Netherlands, Poland, Czech Republic. Eight countries governed by the left also voted for the right wing opposition: Austria, Bulgaria, Cyprus, Spain, Hungary, Portugal, UK and Slovenia.

More than just witnessing the victory of the right, these European elections also confirmed the defeat of the social democratic parties. All of the leftwing parties together won 29.2% of the vote, i.e. their lowest score since 1979.

Their defeat was considerable in the “big” countries of the Union: Germany, France, Italy and the UK. Slovakia was the only Member State governed by the left where it succeeded in clinching the election. The right was also the focus of a sanction vote in five states: Greece, Malta, Denmark, Sweden and Estonia. The sanction vote, which is traditionally significant in this intermediary election, was however weak in 2009.

The results of the parties on the left of the left follow those of the social democrats. The Portuguese Communist Party allied to the Greens (CU-PEV) was the only party to rise above 10% of the vote (10.6%). Finally although the Greens achieved a high score in Belgium, France and Luxembourg, they only won 5.6% of the vote Union-wide and were not to be seen east of the Rome-Tallinn axis.

### *Extremes Struggling*

As for the extreme end of the political spectrum, we observe a stagnation on the far left (2.9% Union-wide), as it achieved a two-figure score in two countries only: Portugal and Northern Ireland. In Greece and the Netherlands the far left won more than 8% of the vote.

The far right won 6.6% on average across Europe and more than 10% in eight Member States: in Belgium (21.8%, if we add the results of four parties at the national level); Austria (17.37%, if we add the results of the Liberal Party, FPÖ to those of the Alliance for Austria, BZÖ); in the Netherlands (17%) where Geert Wilders succeeded in making the Freedom Party (PVV) the country’s second most important political party; Denmark (14.8%); Hungary (14.7%), Finland (14%); Bulgaria (11.96%) and Italy (10.22%).

The rise of the far right was also significant in the UK where the British National Party (BNP) won 8.3% of the vote and its first two seats in the Parliament in Strasbourg.

However the far right does not represent a homogeneous movement and cannot be considered as a united force.

### *Eurosceptics on the Decline*

Finally, these European elections herald a further decline for the Eurosceptics. The high score (18%) achieved by the Hans-Peter Martin list in Austria, a country where Euroscepticism has risen within all the parties, and by the UK Independence Party (UKIP) which achieved a similar score to that of 2004 and took advantage of the Labour’s defeat, are just exceptions which confirm the rule.

The Eurosceptic movements, traditionally strong in Scandinavia, clearly declined in comparison with 2004: 10.8 points less in Sweden (3.5%) and 3.7 points less in Denmark (9.3%). We should remember that in the latter country, these lists won around 20% of the vote in every European election from 1979 to 1999. Finally, Declan Ganley, founder of the European Eurosceptic Libertas Movement, which put forward candidates for this election in ten Member States and aimed to win 100 seats in Strasbourg, lost his wager and won, in the end, only one seat – Philippe de Villiers, Chair of the Movement for France, (MPF).

The economic crisis, which helped strengthen the protective role of the European Union and the euro and the assertion of the states as they faced it, finally weakened the arguments

of the sovereignists, defenders of the nation against a Union which, in their opinion, is too powerful.

Although the decline in turnout continues to be worrying and should lead to in-depth thinking about how to make this election truly European, the stagnation of the extremist parties and the decline of the Eurosceptics are encouraging and reassuring elements.

*A Political Balance that is still Relatively Stable*

*In fine* we should point out that contrary to the predominant image in France, which is deformed by the clear victory of the UMP and the collapse of the PS, the political balance within the European Parliament seems relatively stable. Indeed, the European People’s Party (EPP) certainly won, but its influence/political weight in Strasbourg is almost similar to what it was in the previous legislature (36%). After the Italian Democrats joined the European Socialists, the influence of the PSE, which has become the “Progressive Alliance of Socialists and Democrats” (S&D), only declined slightly (25% in comparison with 27% between 2004 and 2009). The Liberals of the ALDE have experienced a slight downturn (11.4% now in comparison with 12.7% during the previous legislature) but they will continue to play a key role in majority coalitions. The Greens are clearly on the rise but their progression is slow with 54 MEPs in comparison with 43; they now represent 7.5% of the European Parliament in comparison with 5.4% between 2004 and 2009; this can be explained by the fact that they only won seats in 14 EU Member States; again the ecologist group will continue, as in the past, to play a key role in the majorities. The relative stability of the political balance within the European Parliament does not make any real change likely as far as its future work is concerned.

The agreement on a grand coalition that was renewed by the EPP and the S&D bears witness to this. This so-called “technical” agreement aims to achieve an absolute majority (369 MEPs out of 736) and to distribute positions of responsibility within the European Parliament. With the 264 EPP and the 184 S&D MEPs, the two groups (that therefore bring together 448 MEPs) easily rise beyond the threshold that is necessary to achieve the absolute majority. Even though this technical agreement should not have any political effect on the freedom of vote of the various partners within this coalition, it is clear that the logic of consensus and the quest for trans-partisan compromise will remain central in the functioning of the European Parliament.

**Distribution of MEPs by political group within the EP (2009-2014)**

EPP	Group of the European People’s Party (Christian-Democrats)	265
ALDE	Group of the Alliance of Liberals and Democrats for Europe	84
GREENS/EFA	Group of the Greens/ European Free Alliance	55
S&D	Group of the Progressive Alliance of Socialists and Democrats in the European Parliament	184
EUL/NGL	Confederal Group of European United Left/Nordic Green Left	35
ECR	European Conservatives and Reformists	54
EFD	Europe of Freedom and Democracy	32
NI	Non Inscrits	27

Source: European Parliament

## What Conclusions can be drawn from the June 2009 Election?

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### *The Question of Participation*

The first lesson to be learnt from the election lies within the electoral turnout. It was declining in these first elections with 27 members: 43.2% on average in the Union, ie 2.7 points less than in 2004. This figure can be interpreted from various angles though. Indeed, in the 15 oldest Members, turnout rose to 47%, i.e. a slight decline (2.1 points less). The situation varies amongst the 12 Member States which joined the Union between 2004 and 2007 where turnout lay at 28.6% (+ 1 point). The seniority of the Union members and that of the establishment of democracy are therefore decisive factors in the turnout figures in the European election.

Although the level of participation is evidently not satisfactory, it is not catastrophic. Firstly it remains within the average of dual level elections that take place in federal political systems: for example, turnout in the mid-term elections of the American Congress in 2006 was 36.8%! Hence relatively low turnout is quite logical in an election in which the political stakes are not easy to discern: these elections do not yet clearly decide on the executive but are rather about legislative choices; the latter are moreover achieved in two cases out of three within the framework of/thanks to wide trans-partisan consensus even if political differences are increasingly evident with regard to certain subjects (in terms of socio-economic issues for example). In other words, without clear names and divisions, it is difficult to raise major civic interest in this election. Finally, and from a more economic and financial point of view, the crisis has undoubtedly pushed interest in the European elections into the background, behind issues of national importance (the national level being seen, rightly or wrongly, as being more protective and in any case more reassuring). The crisis has also highlighted the role of the European institutions as they were in the front line to provide answers. The decision-making bodies were probably given priority over the more “deliberative” institutions like the European Parliament, which was pushed out of the picture since they were not “marching in time” with the European Central Bank, the Member States (which were working together in the European Council) and to a lesser degree with the Commission.

Nevertheless, the constant decline in turnout may, in the long run, threatens the legitimacy of the European Parliament whose role grows treaty after treaty and whose powers are extended with the Lisbon Treaty. It also makes a reform of the organisation of the European elections urgent. None of the necessary conditions for a successful election (clarity of the issues at stake, common and understandable rules, controlled pluralism and polarised public debate) were present in 2009. A major part of the left even gave up putting forward a candidate for the position of President of the European Commission, as it anticipated the re-election of the outgoing President José Manuel Barroso (EPP) even before the citizens had expressed their will.

### *A Political Offer in or out of Line with the Economic and Social Context?*

Moreover the European elections of June 2009 do not seem to have led to any kind of renewal of the political offer in Europe. With regard to the EPP the centre right and the right embodied a kind of sanctuary of values in the context of the economic and financial crisis experienced by the European countries. In such a situation, one observed that citizens

turned to their own state but also to the governments in office, notably to those on the right which held the majority in the Union (18 governments out of 27 today). It is within this context that voters seemed to express what we might call “a choice of stability and protection.” The broad victory of the right throughout the Union provides this election with a European character in which around 380 million citizens were invited to take part. The response of most governments, mostly on the right, to the economic crisis (interventionism and protection of the State, clear determination for regulation, moralisation of wild capitalism, nationalisation of the banks, launch of recovery plans leading simultaneously to an increase in deficits and public indebtedness) apparently convinced voters that the right was more effective with regard to ongoing events.

Concerning the left, it seems that the Socialists and Social democrats did not offer convincing answers to the financial crisis. This undoubtedly shows the inability of European social democracy to define the stance it should adopt with regard to globalisation and its financial, economic and social consequences. This might explain, paradoxically, why European social democracy did not succeed – no pun intended – in “capitalising” on the crisis nor did it know how to “draw profit” from the ensuing social effects. Unable to come up with a new model of government or a different social organisation of the market economy in the era of globalisation, the Social democrats, if they want to return to power, will have to redefine their identity, review their strategy and draw up a new European model. They must sell Europe to the share of their traditional electorate, those who have suffered most from the present economic crisis and who often perceive the Union as the cause of all their problems.

Finally the Greens’ results show that the political offer put forward by the ecologists is in line with topical issues concerning the environment and that the European level seems to be the pertinent level of public action in the eyes of many citizens.

### *How can Citizens’ Interest in the European Parliament be Raised? By Revealing and Fostering Differences within the European Parliament*

Finally, the most recent European elections revealed further civic disinterest on the part of the electorate. It is often stressed that the culture of consensus, which is vital to the functioning of the Parliament may contribute to the relative civic disinterest in the European elections, notably in the countries where the political regime relies on a majority system (as in France); but not only. One should note that for over thirty years now, the culture of consensus has been the result of a deliberate quest for institutional self-assertion by the Parliament vis-à-vis the other two points of the institutional triangle (Commission and Council); this strategy has paid off, as shown by the increasing powers of the European Parliament treaty after treaty. Two issues should however be highlighted.

Firstly, recent empirical studies show that over the last ten years, votes within the European Parliament have tended to be increasingly polarized from an ideological point of view, in spite of the culture of compromise that has typified the institution for many years<sup>1</sup>. Dual-pronged political divisions are gradually developing: on the one hand, over the traditional issue opposing supporters and adversaries of further deepening of European integration; on the other, and this is a more recent development, over concrete decisions

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1. Cf. S. Hix, AG Noury, G Roland, *Democratic Politics in the European Parliament*, Cambridge, Cambridge University Press, 2007.

(directives, control over the Commission, etc.) which MEPs are called on to take and with regard to which the various parties can fully express their differences. This is not only the case in terms of economic issues, but also regarding subjects relative to “the area of freedom, security and justice” (asylum, immigration, etc.).<sup>2</sup>

For many years, such differences were minimized, as the European Parliament was dominated by a rationale of institutional self-assertion vis-à-vis the European Commission and the Council which relied on a kind of internal trans-partisan unity. If this rationale of institutional self-assertion has not disappeared, it should now take on a secondary facet. In this respect, one of the issues for the legislature that started just a few months ago will be to assert that the European Parliament, and more widely the European Union’s political system, are not monolithic, impermeable to pluralist ideas, but provide regular opportunities for debate and partisan encounters based on the power struggle that has just been decided upon for the next five years. First and foremost, it is because they will be better informed about the votes cast by their direct representatives and the political parties to which they belong that citizens will be able to decipher more easily the issues at stake in Europe; it will also encourage them to follow European political life more closely. The responsibility of the political parties and the media is naturally essential in highlighting the existence of these political differences.

Furthermore, and this is the second point, the new legislature might give elected MEPs the opportunity to determine whether partisan rationale will prevail in the period 2009-2014. Indeed, the enhancement of a rationale whereby partisan differences are asserted firstly depends on the results produced by the ballot boxes. The last elections in June 2009 did not however produce results that were sufficiently clear for a coherent majority to emerge (i.e. between the EPP and the ALDE), especially for the attribution of the position of President of Parliament. The agreement between the EPP and the PSE (now the S&D) prevailed therefore when the most important positions were being attributed. This agreement does not mean that these two parties will not confront each other when certain issues are being voted on, but it damages the political visibility of the Parliament’s functioning in the eyes of the public.

The relative vigour of the expression of partisan differences at the Parliament does not depend however on the results of the European elections alone. It also follows on from the voting rules in force within the Parliament that often emerge as impediments to the constitution of a clear partisan majority. Indeed MEPs often have to vote with a “majority”, and at times they even have to achieve two thirds of the votes cast. Even though the level of absenteeism during voting is not very high (from 10% to 20%), voting rules like these raise the necessary threshold to constitute a political majority and mechanically encourage the expression of trans-partisan choices. The existence of these voting rules is mainly due to the desire to privilege a rationale of consensus, which incidentally enables all of the political groups to exercise their influence on the Parliament’s final decisions. If we consider that it is now just as important to encourage the expression of clearer divisions when voting, this would mean however supporting the modification of these rules and lowering the thresholds necessary to comprise a majority, by opting as often as possible for a simple majority of the votes cast. The “small” parties represented in Strasbourg might naturally believe themselves disadvantaged by such a modification, but in reality their influence

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2. Y. Bertoincini and T. Chopin, « Elections européennes: l’heure des choix », *Notes de la Fondation, Robert Schuman Foundation*, no. 45, 2009.



would only be very slightly reduced in comparison with what it is at present – the limited nature of which is logically due to the fact that they won quite a low number of votes. It still has to be seen whether the main groups in Parliament would be prepared to commit themselves to supporting such a reform, which would enable them to build legislature majorities and reduce the number of votes they have to achieve when it is vital. Most of the Parliament's voting rules are established by the treaties and are therefore intangible in the short term. Some of them are however established by internal regulations, such as budgetary voting: the future MEPs may therefore decide to amend this internal ruling before asking for a later review of the treaties. This change – achieved in two stages – will allow the Parliament to enter the partisan era with greater ease by providing the choices it makes with increased political coherence and visibility in the eyes of the citizens that it is supposed to represent.<sup>3</sup>

## Are we Moving Towards True European Elections?

Fundamentally, the lack of interest in the European elections is mainly due to lack of knowledge of the specific issues that the Parliament has to address during a legislature. But as Alain Lancelot recently pointed out, “unfortunately there is little chance for strictly European issues and responses to emerge within a national electoral system. A long experience of electoral behaviour (shows) that election results depend as much on the offer put forward by the candidates as on the demand of the electorate. By offer we mean not only competition between the parties but maybe, to an even greater degree, the nature of the partisan system defined by the election method.”<sup>4</sup> With this in mind, realistic recommendations should be put forward that require no reform of the treaties, so that the European elections really do become a political high point in Europe. Here are some suggestions that deserve exploration.

### *Offer a Uniform Voting System in all Member States*

The establishment of a uniform electoral procedure in all Member States is an old conundrum which has been included in the texts since the Treaty of Rome, but which has never become a reality. We must immediately say that there is no question of harmonising the national electoral regimes; the idea is rather to create a regime that is specific to the European Parliament. The treaty on the functioning of the Union<sup>5</sup> provides that the election has to take place in accordance with a uniform procedure in all Member States.

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3. *Ibid.*

4. Cf. A. Lancelot «Lettre aux électeurs qui souhaiteraient des élections réellement européennes» (Letter to voters who would like real European elections) in European Issues no. 146, Robert Schuman Foundation, 28<sup>th</sup> September 2009 – [http://www.robert-schuman.org/doc/questions\\_europe/qe-146-fr.pdf](http://www.robert-schuman.org/doc/questions_europe/qe-146-fr.pdf)

5. Article 223 of the consolidated TFEU: “The European Parliament shall draw up a proposal to lay down the provisions necessary for the election of its Members by direct universal suffrage in accordance with a uniform procedure in all Member States or in accordance with principles common to all Member States.

The Council, acting unanimously in accordance with a special legislative procedure and after obtaining the consent of the European Parliament, which shall act by a majority of its component Members, shall lay down the necessary provisions. These provisions shall enter into force following their approval by the Member States in accordance with their respective constitutional requirements.”

The latter have however never applied this article (which was already included in the EC treaty<sup>6</sup>). Today there are as many voting systems as member countries, albeit, little progress has been made to harmonize these systems. A unique electoral system for a single Assembly is however the first premise of a democratic regime. A single electoral system would enhance the representativeness of the European Parliament, the building of a majority that adheres to the citizens' choice, the emergence of real transnational parties and the autonomy of the European Parliament and of its members from national political systems. As a result, the establishment of a uniform procedure would have a positive effect.

Having said this, one can ask what the desired effects of the voting method are from the point of view of "electoral engineering" adapted to the needs of the Union. However, two major issues emerge today: the link between the electorate and the elected parliamentarians (the ability of the former to recognize the latter as legitimate and easily identifiable representatives) and the ability to organise regular political, adequately distinguished alternation within the European Parliament (and consequently within the European Commission) to restore the direct link between the will expressed by the electorate and the policies pursued by the elected institutions.

The voting method should therefore aim to enhance the link between the MEP and his electorate, the establishment of MEPs in concrete areas of reasonable size. Since the emerging European political system would probably, at this stage of its development, be unable to integrate the obvious "majority" aspect involved in a system that requires a single candidate to receive a majority of the votes, it might be appropriate to find inspiration in the German electoral system, which combines both the proportional and the majority approach, a single candidate election and an election of lists. The possible variations are great in number but it seems vital to find a system that allows voters to identify their MEP easily and whereby MEPs, for their part, can take on their role as an elected representative within a clearly defined constituency whose size makes real political fieldwork possible.

As for the objective of political alternation, it seems appropriate to look at a model that integrates a "majority premium" for the European political party that wins the election across the Union or that provides the election of a share of MPs to the European Parliament on the basis of transnational lists of European parties. Such a system might have a virtuous effect as it would encourage European political parties to adopt truly European strategies and "reward" national lists that, for example, are able to rally around the same candidate for the presidency of the Commission at the expense of the lists that run with a purely national objective in mind. The European political system can only be plural; the election method must therefore remain proportional in principle, enabling the representation of the Union's political diversity within the Parliament. However, this principle should not necessarily lead to a permanent "grand coalition" between the EPP and the S&D, a vital factor in the illegibility of the Union's political work in the eyes of the electorate.<sup>7</sup>

### *Speed up the Formation of Real European Political Parties*

An election cannot be European without a system of European political parties. The acknowledgement of their role in the European Union's political system<sup>8</sup> and the

6. 190§4 (138§3) of the EC Treaty.

7. Cf. T. Chopin and L. Macek, «Après Lisbonne, le défi de la politisation de l'Union européenne», in *Les Études du CERJ*, no. 165, CERJ-Sciences Po, 2010.

8. Article 138 A of the TEU: "Political parties at European level are important as a factor for integration

institutionalisation of their status and funding<sup>9</sup> have made it possible to remove legal obstacles. The strengthening of their position should allow them to play a major role in conveying opinions between the citizen and the European Union, a role that is given today to the national parties, to participate more actively in defining national lists so that a European body of politicians, more easily identifiable and with a better profile can emerge, to establish supranational electoral programmes which are the only ones that can provide a community mandate and to employ the media, which have no politically competent correspondents in terms of European issues.

Of course many observers remark that a certain number of impediments reduce the ability of European political parties to copy their national counterparts, notably the heterogeneity of their members due to the influence of national cultures and the fact that the Union's political strategy is rather more the responsibility of the Commission (monopoly of initiative) and the European Council (role of providing impetus) than of the European Parliament. This is why it seems vital for European political parties to rely on their power to appoint the President of the Commission and to approve or reject the college of commissioners in order to personalise their political offer; they should do so by taking a stance with regard to such and such a candidate when it is time for the European elections to take place. The political parties should also set out a political doctrine that is adapted Europe-wide by using political foundations and think-tanks more than they do today. They should try to have greater influence over the Commission's choices in the context of its monopoly over legislative initiative, and also take a position with regard to issues addressed by the European Councils so that they can put pressure on Member States. Finally they should draw up a control mechanism in the selection of candidates on national lists, for example the respect of a charter that stipulates that as a vital criterion for selection, national parties must belong to European parties.<sup>10</sup>

In order for European political parties to become true political actors, an attractive voting system should be established. Only this type of perspective would make it possible for European political parties to stop being more or less formal structures, without any real influence over the work undertaken by the national parties which constitute them. To strengthen the politicization of the functioning of the Union it is imperative that, gradually, they become real European political parties that are able to develop and implement common political strategies and coordinated political campaigns. The system has to be specified so that active, significant participation on a national list with European impetus becomes the source of political added value and not a handicap. However, until now, the national political parties have believed that purely national political strategies are the most effective and that belonging to a European political party is a minor detail that has no real influence over their choice in an electoral campaign. If the political orientation of

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within the Union. They contribute to forming a European awareness and to expressing the political will of the citizens of the Union."

9. Regulation (EC) no. 2004/2003 of the European Parliament and the Council of 4<sup>th</sup> November 2003 relative to the status and funding of political parties on a European level.

10. The conditions to fulfil by candidates to be chosen by national parties on their lists might notably be: a distribution key between candidates for a first, second, third European mandate; a declaration on one's honour stating the respect of a non-accumulation of European and national mandates; assertion by candidates of their increased presence in the hemicycle and the committees, etc. The respect of a charter like this stipulating that national parties must belong to European parties would make it easier to select better candidates.

the Commission becomes a direct stake in the elections and if the voting system provides a majority premium to the European political force that can structure itself, for example, around the same candidate for the presidency of the Commission and his/her political programme during the electoral campaign, then the situation would be a totally different one (*cf. supra*).

### *Increase the Politicisation of European Issues*

A better voting system and truly European political parties will serve no purpose if the elections do not focus on political stakes that are clear and legible for the citizens so that they can play their role as arbiters in the political competition in which various political parties confront each other.<sup>11</sup>

If an election is to raise the interest of the electorate it has to offer a choice and voting must make it possible to decide. Politicization comprises in fact highlighting political stakes and letting the electorate make the final decision. If making political choices means that there are winners and losers, the political game is freely accepted because the return of elections every five years allows everyone to hope that one day they will be in the winners' camp. The lack of colour in the European elections however is linked to a lack of democratic debate with regard to European policies. The losers feel that they are irremediably wronged, not by the way that policies are oriented but rather by the principle of apparent irreversibility that is dominant in the community system itself. Politicized European elections would make it easier to change preference, to foster political innovation thanks to competition between the parties, to offer open, public debate that is vital for the provision of a clear mandate and to help the media relate European political stakes more clearly to the citizens.

With this in mind, politicising the European elections is one way of enhancing the European Union's political legitimacy – a Union that people could view differently and not just as a set of rules and restrictions which many feel they have not chosen. This supposes then, in a future political context, that the players involved (national and European political parties notably) propose and debate Europe-wide, on the basis of a public assessment of the term in office (of the European Parliament and the Commission) that is coming to an end and naturally on clarified political stakes regarding the tasks to be accomplished across the Community. This also means that the next President of the Commission should be elected on the basis of transnational lists put forward by the European political parties (*cf. supra*), in all transparency, competition and emulation of projects. The stakes lie in the construction and promotion of a European political legitimacy according to choices of orientation and action offered to the citizens.

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11. See T. Chopin "The Limits of the Functionalist Method: Politicisation as an indispensable means to settle the EU's legitimacy deficit." in O. Cramme (ed), *An EU "Fit for Purpose in the Global Age". Rescuing the European Project: EU Legitimacy, Governance and Security*, Policy Network, London School of Economics, 2009, vol1.

# The Electoral Year 2009

## The Right Continues to Dominate Europe

Corinne DELOY

**F**ive European countries renewed their national parliaments in 2009 (in Germany only the lower Chamber). Two of them chose to re-elect the team in office (the socialists in Portugal and the Christian Social Party allied to the socialists in Luxembourg). Two others opted for change: from right over to left in Greece and from left over to right in Bulgaria. Finally Germany, governed for the last four years by a grand coalition with the Christian Democratic Union (CDU) led by Chancellor Angela Merkel and the Social Democratic Party (SPD) gave a clear majority to the right.

The elections of the last twelve months have not revolutionised the balance of power within the European Union: the right is in office in 17 of the 27 Member States, the left rules in 9.<sup>1</sup>

### Success for the Right, Notably for Angela Merkel

2009 was marked by general elections that took place in Germany on 27<sup>th</sup> September. The previous election in 2005, which did not reveal a clear majority, led to a grand coalition comprising the Christian Democrats and Social Democrats. This year the CDU led by outgoing Chancellor Angela Merkel finally succeeded in winning with 33.5% of the vote. Her ally, the Liberal Democratic Party (FDP), won 14.6% of the vote. The two parties will govern together for the next four years.

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1. The Czech Republic is a specific case. Although the Civic Democratic Party (ODS) just won the elections in 2006 the country has been governed by an interim government led by Jan Fischer, economist without any political orientation since May 2009. General elections were due to take place in autumn 2009 but they have been postponed until spring 2010.

### The Government Majorities in the European Union – 31<sup>st</sup> December 2009

Countries governed by a leftwing majority	Countries governed by a rightwing majority
Austria (left/right coalition) Cyprus Greece Hungary Portugal Slovakia Slovenia Spain United Kingdom	Belgium Bulgaria Denmark Estonia Finland France Germany Ireland Italy Latvia Lithuania Luxembourg (right-left coalition) Malta Poland Romania Sweden The Netherlands (right-left coalition)

Angela Merkel can savour her victory and be happy that she made the right choice undertaking a campaign that focused on her personality, which is unusual in Germany where voters usually vote more for a party rather than a candidate. The Germans, who are seeking stability (notably at a time when their country is suffering the most serious economic recession since the Second World War), chose to re-elect a Chancellor who has succeeded in establishing an image of strength and consensus, values that are particularly appreciated by her fellow countrymen. Under her leadership the CDU has modernised and become more liberal with regard to issues of society, notably with regard to the woman's place in society together with that of homosexuals and by adopting a more positive attitude to immigration.

The Social Democratic Party which entered the general elections without any real leader nor credible candidate running for the seat of Chancellor, collapsed and achieved its lowest score ever since the end of the Second World War (23%). The party, destabilised by the Left Party (Die Linke), which took over issues such as social justice at the end of the 1990's and with regard to which it never managed to define a clear position, is now without a programme and a strategy. Whilst the CDU repositioned in the centre the SPD veered to the left in the hope of distinguishing itself from the rival party and in an attempt to win back some voters from the Left Party. This was in vain. The Social-Democrats who were unable in a time of globalisation to draw up a new government model, have had their ideas stolen (state socialism, demand for regulation, etc.) by a Chancellor who although she defends a liberal policy, has been able to convince people of her attachment to social balance. Many political analysts forecast a radicalisation and a swing to the left by the SPD in the months to come.

The German elections beat all the records. The weak results achieved by the country's major parties – CDU and SPD alike – (which now attracted less than 6 voters in 10 in comparison with nearly three-quarters of them 30 years ago) turned the “small” parties into

the victors of this election. The FDP rose to the highest heights; the Left Party (Die Linke) led by Oskar Lafontaine and Gregor Gysi improved its 2005 score by 3.2 points (11.9%), the Greens beat their 2002 record and rose above the 10% threshold of votes (10.7%). Finally turnout in these elections was the lowest ever recorded in Germany (70.8%, 6.9 points less than in 2005).

Once more then Germany has become a politically “normal” country with a strong government and a real opposition. The country now has five political parties that are well established nationally; long term this structure challenges and even threatens the two-party system and the traditional form of coalition that brings together a large and a small party which Germany has been used to for the last 60 years.

On 7<sup>th</sup> June the Christian Social Party (PCS/CVS) led by Luxembourg Prime Minister Jean-Claude Juncker, in office since the end of the Second World War (except for a period between 1974-1979) won the Luxembourg elections taking 38% of the vote and 26 seats (+2 in comparison with the previous election in 2004). He beat his outgoing government coalition partner, the Socialist Workers Party (POSL/LSAP) which won 21.5% of the vote and 13 seats (-1). The Prime Minister, who after 14 years as head of government, is still the most popular politician in the Grand Duchy can also be pleased at being the candidate to have rallied the greatest number of individual votes to his name. Jean-Claude Juncker undeniably embodies stability, a value approved by the Luxembourgers who are worried about their jobs and retaining their purchasing power.

Finally the most recent victory of the right on 5<sup>th</sup> July by the Citizens for the European Development of Bulgaria Party (GERB) – shield in Bulgarian –, led by the Mayor of Sofia, Boiko Borissov easily won the general elections with 39.7% of the vote (116 seats). He came out ahead of the Socialist Party (PSB) led by outgoing Prime Minister Serguey Stanichev who suffered a heavy defeat (17.7%) losing half of his seats in Parliament in comparison with the previous election in 2005 (-42).

With their vote the electorate sanctioned the inefficacy which they believe the socialist government has shown in its management of the economic crisis. Serguey Stanichev who had little room to manoeuvre and who introduced budgetary austerity measures in the first years of his mandate had over the last few months developed public investments to create jobs, he increased pensions together with civil servants’ wages and also decided on social measures to help the poorest but by doing this he increased State spending by 16% in twelve months, for which he was heavily criticised. The Bulgarians, the majority of whom, are finding the economic transition extremely difficult also condemned the government’s poor management with regard to fighting corruption and organised crime which Boiko Borissov incidentally placed at the heart of his electoral campaign. “Those who steal should be afraid. The thieves will all go to prison,” maintains the former bodyguard to former communist leader (1971-1989) Todor Jivkov. Boiko Borissov, appointed Prime Minister on 27<sup>th</sup> July 2009 is at the head of a minority government comprising ministers from the GERB only with the support of other rightwing parties and the far right formation, Ataka.

## **The Left, Victorious in the South**

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Portugal chose to re-elect the outgoing government in the general elections on 27<sup>th</sup> September. The Socialist Party (PS) led by Prime Minister José Socrates won 36.5% of the vote (96 seats, 25 less than in the previous election in 2005) against 29% (78, +3) for the

main opposition rightwing party, the Social Democratic Party (PSD), which achieved one of its weakest scores in its history. This decline benefited the People's Party (PP) led by Paulo Portas which recorded significant progress winning 10.4% of the vote (21 +11). The far left parties (Left Bloc and the Portuguese Communist Party) asserted their rising positions during the European elections in June winning 17.7% of the vote together (31 +7). Turnout was the lowest ever recorded in Portugal (59.7%).

Over his four years in office José Socrates has deeply reformed Portuguese society and implemented an economic austerity policy to turn his country into a competitive nation: reduction in the number of civil servants, reform of retirement pensions, numerous cuts in social budgets, introduction of greater flexibility in the labour law, continued privatisations, an increase in VAT, etc. Austerity has made it possible to diminish the budgetary deficit (from 6.1% in 2005 to 1.8% in 2007) before the economic crisis reduced the Portuguese efforts down to zero. The Socialist Party focused its electoral campaign on the need for economic recovery and for the use of public spending to help the poorest.

Again the electorate privileged government stability in preference to an opposition that did not know how to put forward a convincing programme nor take advantage of the division on the left or of the social discontent that has emerged on several occasions. "Portugal has finally returned to its political "normality" with an electorate that has dispersed amongst the country's five major parties," analyses Rui Oliveira Costa of the pollster Eurosondagem.

At the beginning of September Greek Prime Minister Costas Karamanlis (New Democracy, ND) was the source of surprise as he convened early general elections two years before time in order to have enough room to manoeuvre to undertake the difficult but necessary reforms for the country's future. The Prime Minister was not understood; it even caused anger within his political group. The wager, a risky one, turned into political suicide since the PASOK finally won the Greek general elections on 4<sup>th</sup> October with 43.9% of the vote and 160 seats (+58 in comparison with the previous election in 2007), ie an absolute majority. New Democracy won 33.4% of the vote and 91 seats (-61), the worst result achieved since it was created. ND has lost around one fifth of its electorate over the last two years, half of whom voted for PASOK. In addition to this the "small" parties achieved their highest result since 1958 on 4<sup>th</sup> October: 7.5% for the Communist Party (KKE), 5.6% for People's Orthodox Alarm (LAOS) and 4.5% for the Left Radical Coalition (SYRIZA).

Many analysts and also the electorate did not understand why Costas Karamanlis did not deregulate the economy nor why he did not impose more austerity with regard to the budget and why he did not address corruption which eats away at the country when he had all the latitude to do so. New Democracy also certainly paid the price for the great many financial scandals in which several of its members were involved (three ministers were forced to resign) as well as for the way it managed the social unrest that degenerated into urban violence in December 2008 (leading to the death of one teenager killed by the police) and the forest fires that occurred in the Athens region in August 2009.

The two main Greek parties opposed each other with regard to the solutions put forward to settle the economic crisis. Costas Karamanlis promised to undertake an austerity policy (freezing of salaries in the state sector and retirement pensions, step up the pace of privatizations) to bring State spending down by 30% over the next two years. At the other end of the scale PASOK was based on redistribution and recovery: public investment to a total of 5% of the GDP, increases in State sector salaries above the inflation rate, reduction in taxes of



those with the weakest salaries and the re-introduction of wealth tax, an increase in unemployment benefits and pensions, the renegotiation of privatizations that had already been undertaken (and the relinquishment of ongoing projects), etc.

Once again in Greece political power passed from a Karamanlis to a Papandreou. Costas Karamanlis is the nephew of former President of the Republic (1980-1995) Konstantin Karamanlis, and George Papandreou is the son of Andreas, founder of PASOK, and the grandson of George, the post-war leader, both former Prime Ministers. These two rival families have governed the country for 32 of the past 47 years of democracy that Greece has experienced since 1955.

In all the right continues to be mostly in the majority in Europe. This domination undoubtedly reflects not so much an acceptance of the liberal or even the conservative doctrine but a need for stability and confidence in the rightwing parties for greater efficacy in its management of the economic crisis and its ability to face the turmoil experienced by European society. The socialist victory in Portugal is also part of this logic. The social-democrats whose victory in Greece owes much to Costas Karamanlis's decision to call early elections are unable to put forward any real alternative programme to mobilise voters. In 2009 the European elections on 4<sup>th</sup>-7<sup>th</sup> June again confirmed the strong hold of the right on the European continent.

#### FOUR PRESIDENTIAL ELECTIONS, ONLY ONE NEW PRESIDENT

The President of the Republic of Slovakia, Ivan Gasparovic was re-elected to office on 4<sup>th</sup> April with 55.5% of the vote and 44.4% for his rival Iveta Radicova, the Democratic and Christian Union (SDKU) candidate. This result is a success – a promising one just a year before the general elections in June 2010 – for Prime Minister Robert Fico (Smer/Direction) who supported Ivan Gasparovic.

In Lithuania independent candidate Dalia Grybauskaite became the first woman to reach the supreme office in the first round of the election in this country on 17<sup>th</sup> May – she is the second in a Baltic State in the wake of Vaira Vike-Freiberga, President of Latvia from 1999-2007. The competence and independence of the former European Commissioner responsible for the Budget and Financial Programming were seen as the guarantees of efficacy and probity in a country that has been greatly affected by the economic crisis.

Six days later on 23<sup>rd</sup> May the Head of the German State, outgoing Horst Köhler, (Christian Democrat CDU) was re-elected to office – again in the first round of the election by the German Federal Assembly which rallies the 612 members of the Bundestag and an equal number of representatives from the country's 16 Länder. He won 613 votes i.e. the absolute majority of the vote, 503 went to his rival Gesine Schwan (Social Democratic Party SPD) and 91 to Peter Sodann (Left Party/Die Linke). According to the surveys this re-election was in line with the desires of the majority of Germans since two thirds of them said they would have voted for Horst Köhler if they had been called to ballot.

Finally Traian Basescu (Liberal Democratic Party, PD-L) was re-elected on 6<sup>th</sup> December as the head of Romania with 50.3% of the vote just ahead of his rival social democrat (PSD) Mircea Geoana (49.6%). An extremely difficult task now lies ahead of the Head of State: bringing the country out of the political and economic crisis that it is suffering and the launch of vital reforms for its modernisation.

**Reminder of the electoral results 2009 in the European Union  
(General Elections in%)**

Country	Turnout	Far Left	Government Left	Government Right	Far Right	Others
Luxembourg*	85,2	2	33,3	53	0	11,7
Bulgaria	60,2	0	18,5	53,8	9,3	18,4
Germany**	70,8	11,9	33,7	48,4	1,9	4,1
Portugal	59,7	18,7***	36,5	39,5	0,2	5,1
Greece*	70,9	12,8	46,4	33,4	5,6	1,8

\* It is obligatory to vote in this country.

\*\* Only the second votes (proportional representation) are counted in this table.

\*\*\* Here the result implies the Left Bloc, Portuguese Communist Party and other micro-parties on the far left.

**Electoral Movements in Europe in 2009**

Country	Electoral Movement	
	Previous Election	Election 2009
Luxembourg	Right	Right
Bulgaria	Left	Right
Germany	Right (Right/Left coalition)	Right
Portugal	Left	Left
Greece	Right	Left

## Elections in Europe in 2010

Date	Country	Type of Election
27 <sup>th</sup> December 2009- 10 <sup>th</sup> January 2010	Croatia	Presidential
3 <sup>rd</sup> February	Greece	Presidential (by parliament)
17 <sup>th</sup> January – 7 <sup>th</sup> February	Ukraine	Presidential
11 <sup>th</sup> and 25 <sup>th</sup> April	Hungary	General
25 <sup>th</sup> April	Austria	Presidential
6 <sup>th</sup> May	UK	General
28-29 <sup>th</sup> May	Czech Republic	General
9 <sup>th</sup> June	The Netherlands	General
12 <sup>th</sup> June	Slovakia	General
13 <sup>th</sup> June	Belgium	General
20 <sup>th</sup> June and 4 <sup>th</sup> July	Poland	Presidential
30 <sup>th</sup> June	Germany	Presidential
19 <sup>th</sup> September	Sweden	General
2 <sup>nd</sup> October	Latvia	General
3 <sup>rd</sup> October	Bosnia-Herzegovina	Presidential and General



# Women's Europe

Pascale JOANNIN

In spite of the speeches or the commitments of our leaders in support of real developments for women and true equality between men and women, acts are not forthcoming and matters are moving along even more slowly.

In Europe women are rather better off than in other parts of the world. The European continent, without being perfect, is where the place of women in society is the best. But there is still a great deal to do before equality of treatment on all levels will be really guaranteed.

Amongst the governments Greece and Portugal distinguished themselves in 2009 by appointing many women after their elections in the autumn. From the 22<sup>nd</sup> position that the two countries occupied equally at the end of 2008 they progressed to lie in 8<sup>th</sup> equal place at the end of 2009. However the ministerial reshuffle in France in June 2009 dealt a fatal blow to women and France which occupied 5<sup>th</sup> place in the ranking just one year ago dropped to 16<sup>h</sup> position!

In the European institutions, it is the European Parliament, which after the elections in June 2009 has progressed since it now includes 257 women, i.e. nearly 35% (in comparison with 31% before). And this has been achieved in spite of the reduction in the number of MEPs (732 instead of 785 previously). However we cannot say the same for the European Commission. The Barroso Commission I included only 10 women in May 2009<sup>1</sup>; the Barroso Commission II only includes 9. This is a regression.

Do we have to point out that women represent more than half of the European population? If the European leaders want the European institutions to be close to their citizens then they will have to be representative of society and respect the principle of equality between men and women, which has been included in the European treaties since the beginning.

The European Institute for Gender Equality opened its doors in Vilnius on 16<sup>th</sup> December 2009. This agency was created to provide support to the Member States and the European institutions in their work to promote equality between men and women, to counter

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1. W. Wallström, V. Reding, N. Kroes, M. Fischer-Boel, D. Grybauskaite, D. Hübner, B. Ferrero-Waldner, M. Kuneva, C. Ashton, A. Vassiliou.

discrimination based on gender and to raise awareness with regard to equality. It should therefore encourage them to take resolute steps to define a true European model of parity.

And this is because gradually Europe is becoming a model for other continents where the position of women is still precarious, not forgetting the great number of countries in which women's rights are completely ignored. Promoting women's rights is one of the effective means to taking civilisation forwards and to strengthening democracy. Finally the first Human Right is that of women.

## **Women in Economic Life**

Gradually women are conquering all professional sectors: in the European Union on average 59.1% of women work. However 31.1% of women work part time, i.e. a percentage that is four times higher than amongst men. Likewise we should note that the employment rate of women with children falls by 11.5 points whilst that of men increases simultaneously by 6.8 points. This reflects the unequal sharing of parental responsibilities and the inadequacy of childcare infrastructures. More must be done to facilitate greater reconciliation between private and professional life. In addition to this women who are equally qualified are far too often paid less than men (an average difference of 17.6% in the Union) which constitutes real discrimination.

Women are as qualified as men; they graduated with 59% of all university diplomas in the European Union last year. Although they are highly qualified and still greater in number on the labour market they still comprise a minority in posts of responsibility in companies and political organisations, notably at the highest level. Less than 30% of women occupy post of responsibility on average.

In the biggest companies on the stock exchange 10% of women on average (27% in Sweden and 24% in Finland) sit on their boards or are a part of the monitoring structure of European companies and only 3% are CEO's (15% in Bulgaria). Only Norway totals more than 42% thanks to a law adopted in 2004. France is looking into a similar measure.<sup>2</sup>

All of the Central Banks of the 27 Member States are managed by men. On average the highest decision making bodies include 18% of women (41% in Sweden). In five Member States (Germany, Austria, Cyprus, Luxembourg and Slovenia), the highest decision making bodies of each bank comprise men only.

The three financial institutions of Europe (European Central Bank, European Investment Bank and the European Investment Fund) are all managed by men and only 11% of women occupy an influential position.

In the central administrations of the 27 Member States women occupy 25% of level 1 jobs (52% in Slovenia) and 33% of the level 2 jobs (74% in Slovakia). In European administrations women represent 17% of level 1 jobs (directors general) and 25% of level 2 jobs (directors, advisors). Out of the 22 European agencies, 5 are chaired by women and 6 are led by women. Five women chair the Auditors' Court in their country (Cyprus, Latvia, Lithuania, Netherlands, Sweden). The European Auditors' Court comprises four women.

In the legal sector women represent on average 27% of the members of the European courts. None is chaired by a woman. The European Court of Justice includes four women judges. 31% are present in the Supreme Courts of the Member States (100% in Luxembourg)

2. <http://www.travail-solidarite.gouv.fr/actualite-presse/dossiers-presse/commission-nationale-negociation-collective-cncc-egalite-professionnelle-hommes-femmes.html>

and five women chair them (Austria, Luxembourg, Finland, Czech Republic, Romania). One woman chairs the German Administrative Court and three chair the Constitutional Court in their country (Spain, Luxembourg, Slovakia).

## **Women in Political Life**

In politics although the situation is developing slowly this depends exclusively on the good will of the leaders, who are mostly men.

In the assemblies, both local and national, which are supposed however to represent the entire population women are still under-represented: according to the Interparliamentary Union (IPU)<sup>3</sup> on 31<sup>st</sup> May 2010 of the 44,760 members of all the parliaments in the world (lower and upper chambers together) there were only 8,093 women i.e. 19%. The Scandinavian countries have the highest share of female parliamentarians (42.1%). Then comes the European Union (24.32%) followed by the Americas (22.7%), Asia (18.6%) and Sub-Saharan Africa (18.3%). The Arab countries only have 9.2% of women MPs.

Hence awareness has been raised over the last few years together with encouragement to promote and support parity which means that women must now achieve, if necessary by way of the law, the same position as men in public life. The idea of parity stipulates that the posts open to election should be distributed equally between men and women. It is the law in several countries. Although it is probably not the ideal situation it has led to opening up certain situations which would not have developed otherwise.

With regard to the number of women elected to Parliament 5 European countries lie in the first 10 places in the world ranking. According to the Interparliamentary Union (IPU)<sup>4</sup> on 31<sup>st</sup> May 2010 of these 5 countries 3 are EU Member States (Sweden, Finland, Netherlands), the other two are Norway and Iceland. The same goes for the number of women who chair one of the chambers of parliament. Of the 40 women identified by the IPU<sup>5</sup> on 31<sup>st</sup> May 2010 14 are Europeans, 8 of whom come from EU Member States (Austria, Bulgaria, Czech Republic, Estonia, Lithuania, Netherlands, UK, Romania), 9 the African States, 7 represent the Caribbean Islands, 6 the States of the Americas and 4 the States of Asia.

Since July 1<sup>st</sup> 2010 the average number of women within the Parliaments of the EU lies at 24.32%. The disparities between Sweden that comprises 46.99% of MPs and Malta which only has 8.70% are major. The EU is beaten by Australia, 27.33% but it is still ahead of Canada 22.1%, the USA 16.8% and Japan 11.3%.

In governments on average women represent 25.75% of ministers in the European Union. Finland is the only country which has more women ministers than men (55%), Spain follows with 52.94%. Two governments in Europe have no women at all: Hungary and Czech Republic.

Eight women are at present Prime Minister of their country including five in Europe (Germany, Slovakia, Finland, Croatia, Iceland), one in Australia, one in Bangladesh and one in Trinidad & Tobago.

Nine women are Presidents including four in Europe (Ireland, Finland, Lithuania and Switzerland), one in Argentina, one in India, one in Liberia, one in Costa Rica and one in Kyrgyzstan.

3. <http://www.ipu.org/wmn-f/world.htm>

4. <http://www.ipu.org/wmn-e/classif.htm>

5. <http://www.ipu.org/wmn-f/speakers.htm>

Finally European leaders granted *in extremis* and under pressure one position of responsibility in the European Union to a woman. The new function of High Representative for the Common External and Security Policy and Vice President of the Commission responsible for External Relations was given to Catherine Ashton. She became the “Union’s Foreign Minister” just like Hillary Clinton is for the USA.

Elected by direct universal suffrage since 1979 the European Parliament has over time seen its role and its powers grow. They will increase even more with the Lisbon Treaty that entered into force on 1<sup>st</sup> December last. The number of women within the Parliament has increased; there are more of them in the European Parliament (34.92%) than in the national parliaments (24.32%). Only one Member State (Malta) has not sent any women.

Women chair nine committees and eight delegations. Six are Vice-Presidents of the European Parliament and two are *questeurs*.

Two women have presided over the European Parliament: Simone Veil from 1979 to 1982 and Nicole Fontaine from 1999 to 2001.

Women now sit in the assembly in Strasbourg which is becoming an inevitable European institution. Increasingly they master the process of writing community legislation as it takes an increasingly important place with regard to the law and regulations. They should now work so that equality between men and women is no longer spoken of in vain but so that it becomes a reality. Some were quick to show this on 19<sup>th</sup> November last when the appointments were being made so that leaders had the courage to appoint a woman. Vigilance must be the watchword.

Women are not a category nor are they a minority. They are a component of the population just like men are and to be acknowledged they must see that their rights are confirmed at the highest level. They often represent the majority of the population. In Europe men are in the minority!

As a consequence parity must be a requirement. To be representative the parliamentary, governmental, judicial institutions and the management structures of companies must include as many women as men. If this is not done there will be no balance. The 20<sup>th</sup> century saw women achieve many rights – the 21<sup>st</sup> century must be that of the woman.



### Comparison of Women Managers in Companies (%)

Country	N° of companies studied	% of companies with female managers	% female managers
Norway	487	100	44
Sweden	180	76,1	21,9
Finland	100	66,7	16,8
USA	500	86,8	15,2
South Africa	380	67	14,6
Canada	500	60	13
Denmark	109	55,4	12,5
Netherlands	19	79	12,3
UK	100	75	12,2
Ireland	6	83	10,1
France	40	85	9,4
New Zealand	100	40	8,7
Australia	200	49	8,3
Spain	35	74	8,3
Iceland	100	29	8
Belgium	20	55	8
Turkey	30	-	8
Germany	44	82	7,8
Switzerland	23	57	6,6
Greece	9	56	6
Austria	20	35	6
India	2,308	26	4,9
Portugal	20	30	3
Kuwait	177	-	2,7
Oman	128	-	2,3
Italy	23	30	2,1
Jordan	50	14	2
Japan	100	16	1,4
Bahrain	46	-	1
United Arab Emirates	101	-	0,8
Qatar	38	-	0,3
Saudi Arabia	94	-	0,1

Source: [www.globewomen.org](http://www.globewomen.org)

### Women in the 27 National Parliaments (Lower or Single Chambers)

	Members State	Parliament	Date of Election	Total Seats	N° of Women	%		
1	SWEDEN	Riksdag	2006	349	164	46.99		
2	NETHERLANDS	Tweede Kamer	2010	150	62	41.33		
3	FINLAND	Eduskunta	2007	200	80	40.00		
4	BELGIUM	La Chambre	2010	150	59	39.33		
5	DENMARK	Folketinget	2007	179	67	37.43		
6	SPAIN	Congreso	2008	350	128	36.57		
7	GERMANY	Bundestag	2009	622	204	32.80		
8	AUSTRIA	Nationalrat	2006	183	51	27.87		
9	PORTUGAL	Assembleia da Republica	2009	230	64	27.83		
10	ESTONIA	Riigikogu	2007	101	23	22.77	<b>Average (%) 24,32</b>	
11	LATVIA	Saeima	2006	100	22	22.00		
	CZECH REPUBLIC	Poslanecka Snemovna	2010	200	44	22.00		
13	UNITED KINGDOM	House of Commons	2010	644	142	21.88		
14	BULGARIA	Narodno Sabeanie	2009	239	51	21.34		
15	ITALY	Camera di Deputati	2008	630	134	21.27		
16	POLAND	Sejm	2007	460	94	20.43		
17	LUXEMBOURG	Chamber of Deputies	2009	60	12	20.00		
18	LITHUANIA	Seimas	2008	141	27	19.15		
19	FRANCE	Assemblée National	2007	577	109	18.89		
20	GREECE	Vouli	2009	300	52	17.33		
21	SLOVAKIA	Narodna Rada Slovenskej Republiky	2010	150	23	15.33		
22	SLOVENIA	Zbor	2008	90	12	13.33		
23	IRELAND	Dail Eireann	2007	166	22	13.25		
24	CYPRUS	House of Representatives	2006	56	7	12.50		
25	ROMANIA	Camera Deputatilor	2008	334	38	11.38		
26	HUNGARY	Az Orszag Haza	2010	386	35	9.07		
27	MALTA	Kamra Tad Deputati	2008	69	6	8.70		
	<b>TOTAL</b>			<b>7121</b>	<b>1732</b>	<b>24.32</b>		

Source: Robert Schuman Foundation

## Women Ministers\* in the 27 Governments

	Member State	Date of Election	Ministers Members of Government	N° of Women	%	
1	FINLAND	2007	20	11	55.00	
2	SPAIN	2009	17	9	52.94	
3	DENMARK	2009	19	9	47.37	
4	SWEDEN	2006	22	10	45.45	
5	GERMANY	2009	16	6	37.50	
6	AUSTRIA	2008	14	5	35.71	
7	BELGIUM	2007	15	5	33.33	
8	GREECE	2009	17	5	29.41	
	PORTUGAL	2009	17	5	29.41	
10	POLAND	2007	18	5	27.78	
11	LUXEMBOURG	2009	15	4	26.67	
12	SLOVENIA	2008	19	5	26.32	
13	NETHERLANDS	2006	12	3	25.00	Average (%) 25,75
14	ITALY	2008	22	5	22.73	
15	MALTA	2008	9	2	22.22	
16	FRANCE	2007	19	4	21.05	
17	LATVIA	2007	15	3	20.00	
	IRELAND	2008	15	3	20.00	
19	BULGARIA	2009	17	3	17.65	
20	UNITED KINGDOM	2010	23	4	17.39	
21	SLOVAKIA	2010	14	2	14.29	
22	CYPRUS	2008	11	1	9.09	
23	ESTONIA	2007	13	1	7.69	
24	LITHUANIA	2008	14	1	7.14	
25	ROMANIA	2009	17	1	5.88	
26	CZECH REPUBLIC	2010	15	0	0.00	
	HUNGARY	2010	10	0	0.00	
	TOTAL		435	112	25.75	

Source: Robert Schuman Foundation

NB \*The Prime Minister is counted but not the Secretaries of State

### Women in the European Parliament

	Member State	N° of MEPs	N° of women	%
1	Finland	13	8	61.54
2	Sweden	18	10	55.56
3	Estonia	6	3	50
4	Netherlands	25	12	48
5	Denmark	13	6	46.15
6	France	72	33	45.83
7	Austria	17	7	41.18
8	Slovakia	13	5	38.46
9	Latvia	8	3	37.50
10	Germany	99	37	37.37
11	Belgium	22	8	36.36
	Hungary	22	8	36.36
	Portugal	22	8	36.36
	Romania	33	12	36.36
15	Spain	50	18	36
16	Bulgaria	17	6	35.29
17	Cyprus	6	2	33.33
	UK	72	24	33.33
19	Greece	22	7	31.82
20	Slovenia	7	2	28.57
21	Ireland	12	3	25
	Lithuania	12	3	25
23	Italy	72	16	22.22
24	Poland	50	11	22
25	Czech Republic	22	4	18.18
26	Luxembourg	6	1	16.67
27	Malta	5	0	0
	<b>Total</b>	<b>736</b>	<b>257</b>	<b>34.92</b>

Source: Robert Schuman Foundation

# Legislative Production of the Union in 2009: a Key Year

Pierre-Antoine MOLINA<sup>1</sup>

On 1st December 2009 the Lisbon Treaty entered into force after many ups and downs. The setbacks which preceded this event caused implementation to take place at the start of a new term in office for the European Parliament and during the appointment procedure of a new Commission. 2009 seems therefore to be a key year which offers both an opportunity to look back on legislative production over the past five years, and also to look into how this was affected by the transition from the Europe of Nice to that of Lisbon.

## The Last Year of the 2004-2009 Legislature

2009, the last year of the legislature, offered opportunities to complete ongoing legislative production.

Apart from the formal adoption of texts that were the subject of an agreement between the European Parliament and the Council at the end of 2008 under the French presidency (climate and energy package, maritime package, defence package, directive on the safety of toys), 2009 was punctuated with a certain number of significant reforms. In a context marked by the economic crisis, these reforms affected the financial area, with the adoption of the regulation relative to ratings agencies and directives on (UCITS) Undertakings for Collective Investment in Transferable Securities and obligations for solvency capital imposed on insurance companies (Solvency II). In addition to this general guidelines on the “financial supervision” package were adopted – this notably aimed for the creation of European regulation agencies – as well as the review of the directive on demands for own funds imposed on banks.

The “internal energy package” was also promulgated; this was a third wave in the deregulation of the gas and electricity sectors comprising five texts which notably made the separation between production and distribution activities more effective; the Agency

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1. The author is writing from a personal point of view: his opinions do not necessarily reflect those of the institution he works for.

for the Cooperation of Energy Regulators (ACER) was also created. Many texts were also adopted in the environmental domain (rewriting of the ecodesign directive, regulation on the trade of products using seal derivatives<sup>2</sup>, a new regulation on the European environmental management and audit system). The area of transport was also included with the “road transport’ package”, that aimed to define conditions surrounding access to the profession as well as the exercise of certain types of work, such as cabotage<sup>3</sup>, and “Single Sky II” which aimed to improve European results in terms of air traffic management and increase the competences of the European Aviation Safety Agency (EASA). Achievements were numerous in the area of telecommunications with the conclusion of the “telecom package” which required the use of the conciliation procedure between the European Parliament and the Council. The package, which comprises two directives on regulators’ powers and measures in terms of universal service and the protection of personal data as well as a regulation that creates the Body of European Regulators for Electronic Communications (BEREC), aims to set the regulations applicable to electronic communications. Also to be observed was the adoption of the second regulation relative to roaming on mobile telephone networks (Roaming II) that is designed to continue tariff reductions in this area and to extend the capping of prices so that it applies not only to vocal calls but also SMS and data services<sup>4</sup>.

Two regulations<sup>5</sup> were adopted in the area of justice and internal affairs which have led to an innovative measure: the Commission can now authorise Member States to conclude agreements, in their own name, with third countries in terms of the law applicable to contractual and non-contractual obligations as well as in the area of family law although they would be acting in an area of competence that is exclusively reserved to the Union. With regard to penal law we should note the framework decisions relative to the settlement of conflict in competence in the area of criminal procedure, the European criminal record and European judicial control.

As far as the common foreign and security policy is concerned legislative production in 2009 was marked by the issue of international sanctions. The regimes applicable to Somalia and North Korea were re-worked and a new regime applicable to Guinea was created. In addition to this the desire to learn from the Court of Justice’s<sup>6</sup> jurisprudence on *Kadi* and *El Barakat*, by enhancing requirements associated notably with the respect of the principle of contradiction, led to the modification of the regulations 423/2007, relative to sanctions taken against Iran in application of UN Security Council resolution no. 1737 and 881/2002 relative to sanctions targeting people and organisations associated with Al-Qaeda and the Taliban as part of the system established by UN Security Council resolution no. 1267.

In all 79 directives and 80 regulations that involved the two co-legislators were adopted, including all procedures over the first 11 months of 2009<sup>7</sup> in comparison with 57 and 54 respectively over the same period in 2008, which indicates a slight increase in legislative activity in comparison with the previous year, notably in terms of codecision (125 texts adopted over the first eleven months of 2009).

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2. See directive no. 125/2009.

3. See regulations nos. 1071, 1072, 1073/2009.

4. See regulation no. 544/2009.

5. See regulations nos. 662 and 664/2009.

6. See decision 30<sup>th</sup> September 2008, aff c-402/05 P and c-415/05 P.

7. Source: Legislative Observatory of the European Parliament ([www.europarl.europa.eu/oel](http://www.europarl.europa.eu/oel)).

From a qualitative point of view the internal market, in the wide sense of the term, is still predominant in the Union's legislative work, the regulation of financial services or networks seems to be a privileged area of reform. Conversely many issues concerning the social area, undoubtedly because they are politically sensitive, still face major obstacles such as the directives relative to the fight against discrimination, working hours and patients' rights with regard to cross-border healthcare<sup>8</sup>.

## A Maturing in the Community's Legal Order

These observations can, to a certain degree, apply to the entire legislature. Retrospectively negotiations relative to the "services" directive and the REACH regulation<sup>9</sup> seem to have been the high points of the past five years revealing both the importance of issues relating to the internal market in the wide sense of the term in the Union's legislative production and the ongoing institutional balance: the European Parliament asserted itself as a real co-legislator without impeding the Union's ability to legislate. From a quantitative point of view the number of legislative texts adopted after having been submitted to the European Parliament remained relatively stable: 1,265 during the legislature 2004-2009 in comparison with 1,253 during the previous period.

These figures encourage us to compare the results of the "better lawmaking" strategy<sup>10</sup> against the goal of reducing the amount of legislation highlighted by some of its supporters. 39 texts included in the Commission's simplification programme were adopted by the co-legislators in January 2009 whilst 50 were still pending. Whilst around 30 of the latter were adopted or seem to be on the verge of being adopted at the end of 2009 the Commission submitted 33 new initiatives to the institutions at the same time. Although in a communication dated 22<sup>nd</sup> October 2009<sup>11</sup> the work completed seems to be of consequence the Commission said it believed that the administrative burden weighing on companies had only been reduced by 6% in comparison with 33% had its programme been adopted in its totality. This suggests that fears with regard to the "unravelling" of the community *acquis* produced by the programme "better lawmaking" have not materialised.

At the same time the "codification" programme continues at a rapid pace. 229 acts were codified in January 2009 replacing 729 previous texts. The European Parliament adopted 35 new texts including codification over the first 11 months of 2009, to which we can add 21 acts adopted according to the "re-casting" procedure.

The share taken up by these techniques in the Union's legislative production bears witness to a certain maturing in the community legal order which now focuses less on extending its field than towards the reform of its content, as shown by the fact that over 80% of the legislative acts adopted in 2009 aimed to modified or repeal existing measures.

This maturing can also be seen in developments in procedures. Hence 80% of the acts adopted in codecision between 1<sup>st</sup> January and 1<sup>st</sup> December 2009 were so on first reading including texts as important as the "climate and energy package". This shows the institutions' ability to cooperate in view of the good performance of the community

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8. We should however note the adoption of a regulation on the coordination of social security systems.

9. See directive no. 123/2006 and regulation no. 1907/2006 respectively.

10. See the Inter-institutional agreement no. C321/01 on 16<sup>th</sup> December 2003.

11. See doc. COM (2009) 544.

legislative machine and at the same time they manage to maintain the balance that exists between them.

The massive use of “comitology” also bears witness to the scope of community legislation. In 2008 270 committees were already in place, deciding each year on over 2000 measures. 2009 was marked, in this respect, by the implementation of Regulatory Procedure with Scrutiny (RPS)<sup>12</sup> which aimed to associate the European Parliament in the writing of measures that complete or modify the non-essential elements of an act adopted in codecision. Two new “omnibus” texts each modifying several dozen basic acts were adopted to this effect (the first two were adopted in 2008) whilst other texts were modified individually. As for the fifth omnibus the European Parliament rejected it believing that the entry into force of the Lisbon Treaty involved the reform of the RPS.

## **2009, a Year of Transitions**

2009 distinguished itself in terms of legislative production from the point of view of the transitions that took place during that time. Although since 1994 it has been customary for a new legislature to coincide with the appointment of a new Commission the timetable meant that this time a new treaty would also be entering into force.

Now, these events are of a nature that normally impedes legislative production. After each renewal the European Parliament feels free to confirm (or not) the positions taken by the previous legislature and asks to review proposals again on which it has not decided yet. In addition to this when a new treaty enters into force traditionally it is the Commission which turns to the new Parliament with all of the ongoing texts whose legal base and/or procedure are subject to change. In the case of texts leaning towards codecision it is the Parliament’s responsibility to decide, case by case, if it is going to look at the opinion that it has issued as equivalent to first reading or not. In 2009 the range of modifications caused by the Lisbon Treaty (extension of subjects submitted to codecision or the approval of the European Parliament, reform of execution competences, institution of new legal bases) affected a major portion of the ongoing procedures.

In addition to this the uncertainty which had for a long time reigned over the date of the entry into force of the Treaty which modified the composition rules applicable to the new Commission, led to the appointment procedure only starting at the end of November – this supposed that there would be the appointment of a High Representative for Foreign Affairs and the Security Policy (HR). The Commission had to be maintained in office after the end of its mandate (set for 1<sup>st</sup> November by primary law) and found itself reduced to managing a “caretaker Commission”

A situation like this was not unprecedented<sup>13</sup> In the light of the custom in practice and the guidelines it had set itself<sup>14</sup> it seems that the Commission believes it can, in the name of “current affairs”, undertake measures pertaining to current management, measures dictated by an emergency situation and those that result from the obligations that the treaties or

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12. Introduced by the decision 2006/512/CE of 17<sup>th</sup> July 2006.

13. The Delors Commission from 6<sup>th</sup> to 23<sup>rd</sup> January 1995 and the Prodi Commission from 1<sup>st</sup> to 22<sup>nd</sup> November 2004 found themselves in the same situation. The Santer Commission whose members resigned on 15<sup>th</sup> March 1999 but were only replaced on 15<sup>th</sup> September although it was in a different position legally, also had to manage “current affairs”.

14. See the guidelines on this subject published in April 1999 by the Santer Commission “Bulletin Quotidien Europe”, “Europe Documents”, no. 2133, 9<sup>th</sup> April 1999, p. 1-5.



legislative acts force upon it (implementing acts, infringement procedures, etc.). For the rest it avoids taking any “new political initiative.” Adopting legislative proposals, seeking new mandates for international negotiations, publishing political guideline documents (green papers, communications, etc.) or making declarations forecasting the direction the following Commission might take seem to go beyond what it deems to be the management of “current affairs”. In addition to this the fact that this practice has never been validated by the Court of Justice<sup>15</sup> would only encourage it to be careful.

In this respect the attitude adopted at the end of 2009 tends to suggest that the Commission interpreted the idea of “current affairs” relatively broadly, maintaining, as far as possible, its ability to act. Hence it was able to retain a wide margin to adopt its texts to reach an agreement on the “financial supervision” package (cf. *supra*), accepting the Council’s adoption of a regulation that included temporary technical measures which were very different from its initial proposal; it even published an extremely innovative communication relative to delegated acts in December since this focused on the implementation of article 290 of the new treaty on the functioning of the European Union (TFEU).

The concurrence of events in 2009 should lead to a temporary slowing in legislative production, especially in 2010. In 2009 this phenomenon seems to have been offset rather more by a desire to complete ongoing procedures before deadlines were reached. This incentive was valid primarily for the Council, notably with regard to procedures that might “shift” over to codecision.

The entry into force of the treaty also required certain immediate measures, which were mainly the European Council’s or the Council’s responsibility: adoption of the internal regulations of these two institutions, appointment of the President of the European Council and of the High Representative, etc. As for the Commission it could, within the context of “current affairs” undertake the necessary basic legal changes. It seems that the only measure that had to be delayed for this reason was the regulation included in article 291 of the new TFEU; a text that was supposed to organise, in replacement of the “comitology” decision<sup>16</sup>, Member States’ control of the implementation competences that legislative acts attribute to the Commission. The adoption of the required proposal was deferred to the next college and “a pragmatic arrangement” was put forward by the co-legislators based on the provisional upkeep of the “comitology” decision.

Hence the implementation of the new rule of primary law which, of course, will have to be assessed again, started as a result of the Lisbon Treaty. The enhancement of the European Parliament’s powers via the extension of codecision but also in matters in which its approval is required (this involves international agreements in particular), the new role granted to national parliaments, the extension of the qualified majority vote within the Council and the reform of implementation competences planned for in articles 290 and 291 of the TFEU will certainly have significant affect on procedures regarding the adoption of the Union’s laws. From a material point of view the integration of all of the acts adopted on the basis of the former “third pillar” into the community legal order will also comprise a notable change. As for the new legal bases included in the treaty in a certain number of areas – what their effects are remains to be seen. Hence the true added value of the new Treaty will probably be perceived progressively and in the light of practice.

15. See however in the case of the Santer Commission the Court of First Instance’s decision dated 6<sup>th</sup> March 2003 (T-228/99 *Westdeutsche Landesbank Girozentrale and T-223/99 Land Nordrhein Westfalen*).

16. See decision no. 468/1999.



# 7

## Europe in Figures

Franck Lirzin<sup>1</sup> – Tom Schmitz

This statistical appendix includes a series of statistics that draw an economic portrait of the European Union. It provides the reader with the latest data available at the time of writing this book, mainly dating from 2008 and the beginning of 2009. Insofar as existing sources permit, we have also provided elements of comparison with the United States, Japan and several emerging economies (Brazil, Russia, India, China).

All data is given in euros or in euros at purchasing power parity.

### List of abbreviations

**EU27:** The 27 members of the European Union, which are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom.

**PPP:** purchasing power parity. According to the French National Institute for Statistics and Economic Studies (INSEE), “purchasing power parity is a currency conversion rate that expresses in a common unit the purchasing power of different currencies. The rate expresses the ratio between the amount of currency units required in various countries in order to purchase the same “basket” of goods and services. The rate used for standardisation in PPP is calculated by the statistics institutes that supply the data. The rate varies from year to year, which may explain certain differences with the Schuman Report 2009.

**n/a:** indicates that data is not available.

**\*:** indicates that the data was not available at the chosen date and has been replaced by the value for the previous year.

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1. The author writes from a personal point of view, his views do not necessarily reflect the views of the institution for which he works.

### Countries abbreviations

DE	Germany	GR	Greece	PT	Portugal	CA	Canada
AT	Austria	HU	Hungary	CZ	Czech Rep.	US	USA
BE	Belgium	IE	Ireland	RO	Romania	CN	China
BG	Bulgaria	IT	Italy	UK	United Kingdom	IN	India
CY	Cyprus	LV	Latvia	SK	Slovakia	TR	Turkey
DK	Denmark	LT	Lithuania	SI	Slovenia	RU	Russia
ES	Spain	LU	Luxembourg	SE	Sweden	BR	Brazil
EE	Estonia	MT	Malta			W	World
FI	Finland	NL	The Netherlands	EA	Euro Area		
FR	France	PL	Poland	EU	European Union		

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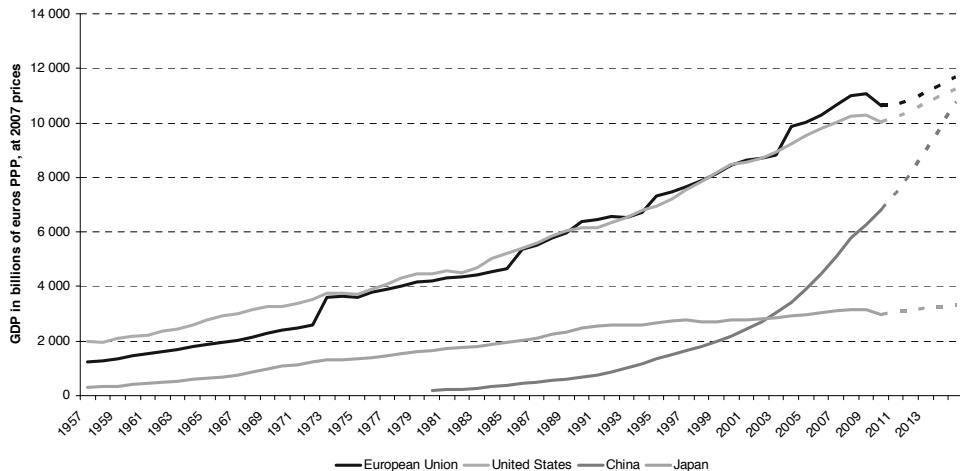
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# 1. The European Union: its Weight in the World

## 1.1. Economic Weight

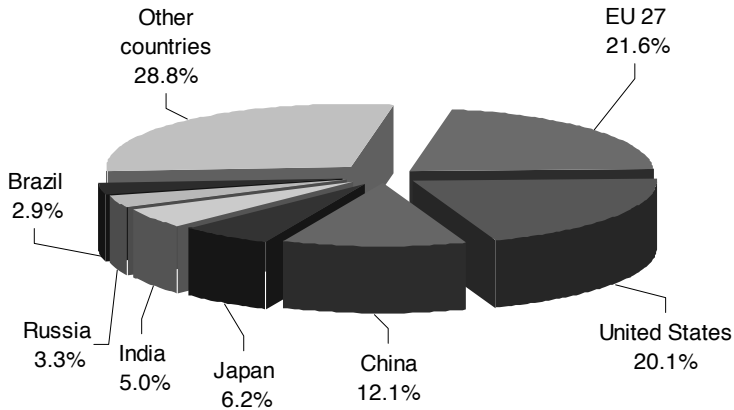
### 1.1.1. Comparative GDP in the EU, the United States, Japan and China (1957-2009)



Sources: IMF, Groningen Growth and Development Center and calculations made by the author.  
Data collected and collated for the Robert Schuman Foundation, © FRS

In just fifty years the European Union has become the world's largest economic power. Growth rate in the European economy has been roughly similar to that in the United States and the European Union caught up with the US due to its successive enlargements. The step-like graph above shows how, from 1973 and the first enlargement, the European Union and the United States had a similar GDP. The European Union only took a significant lead at the beginning of the noughties and with the last two enlargements. It now represents an economic market home to 500 million people, where free movement of goods, services, capital and people is assured, except in certain specific cases (safeguarding clauses regarding the freedom of circulation of workers from Central and Eastern European countries). In 1957 the European Economic Community, which then comprised France, West Germany, Italy, Belgium, the Netherlands and Luxembourg had a GDP 37% below that of the United States.

The economic crisis in 2008 changed the direction of American and European trends significantly. For its part, China continues its growth. In fact the crisis makes more imminent the moment when China can operate at the same level as its two main competitors. As for Japan, after a rapid start, it evolved less quickly as from the nineties, mainly due to the property, then banking crisis which hit the country. Slow demographic growth also explains a slower growth rate there than in the United States (high immigration), the European Union (gradual enlargements) and China (access of poor agricultural populations to the industrial economy).

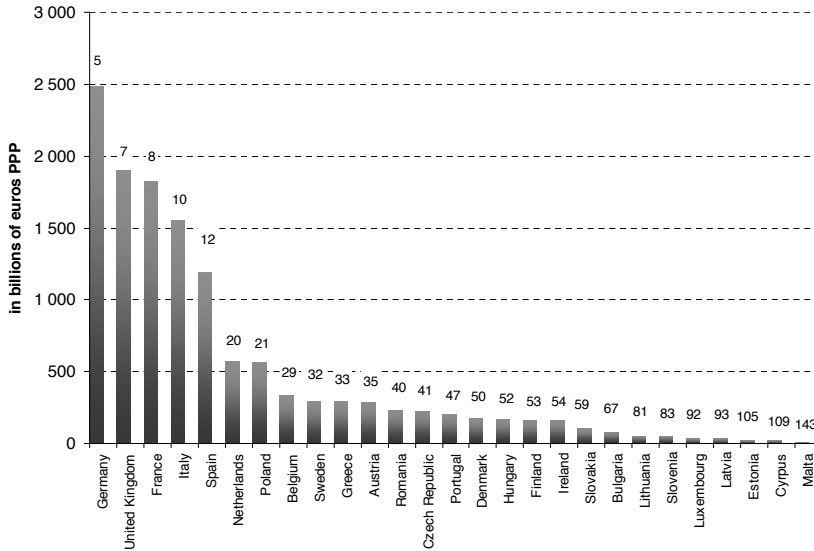
**1.1.2. Breakdown of world GDP, at purchasing power parity (2009)**

*Sources: IMF and author's calculations.  
Data collected and collated for the Robert Schuman Foundation, © FRS*

World GDP represents slightly over 60,000 billion euros at purchasing power parity. 2009 saw the first recession since the Second World War, as the GDP fell by -0.5%. This drop strongly contrasts with the growth rates of previous years. It was mostly due to the main economic players, the United States, Japan and the European Union. These three represent almost half of world GDP. However, this share is tending to be reduced in favour of emerging countries such as Brazil, Russia, India and China (the BRICs). They represent 23.3% of total, i.e. almost one quarter.

As an economic player in globalisation the European Union therefore weighs as much if not more than the United States.

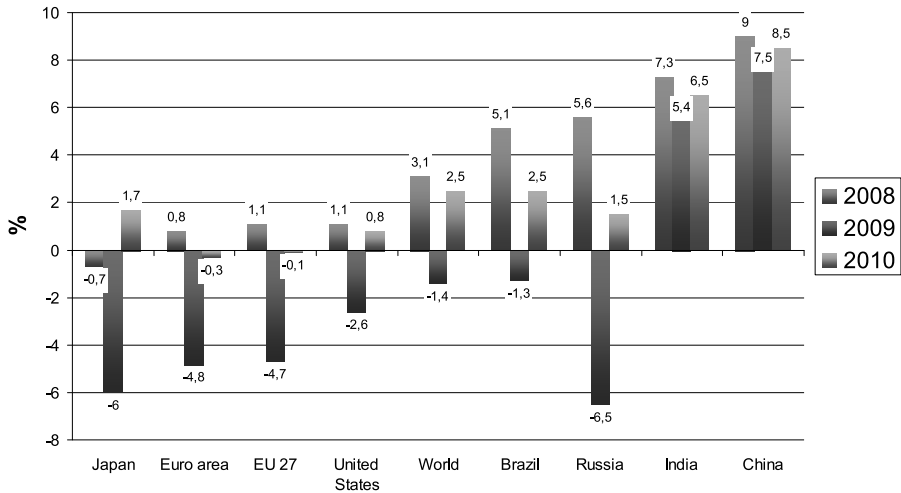
**1.1.3. GDP of EU Member States at purchasing power parity and world ranking (2008)**



Source: IMF  
Data collected and collated for the Robert Schuman Foundation, © FRS

Within the European Union there are major economic disparities. For example, the German GDP is 297 times higher than that of Malta. Germany is clearly the leading country: 5<sup>th</sup> in the world and with the largest population and the most important industrial sector. Behind Germany come the United Kingdom, France, Italy and Spain, ranked between 7<sup>th</sup> and 12<sup>th</sup> in the world. All these countries together represent 69% of the European Union's GDP. They are followed by Poland and the Netherlands. Finally comes a group of smaller countries which represent 31% of European GDP.

### 1.1.4. Actual GDP growth rates (in%) in 2008, 2009 and 2010: international comparisons

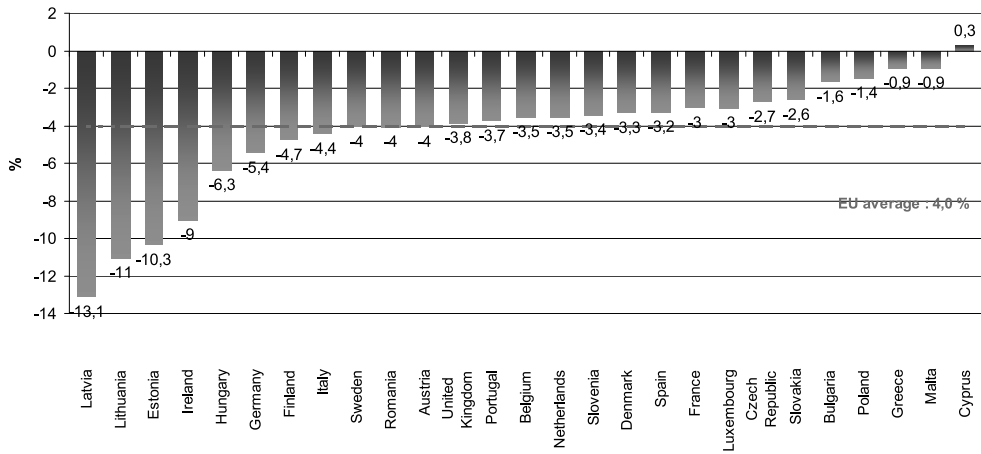


Sources: IMF and Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

Although the United States, Japan and the European Union represent almost half of world GDP, the growth of the latter is mainly due to emerging countries, particularly India and China. The economic crisis in 2008 has only served to strengthen this trend. Indeed, the crisis affected the most dynamic financial systems, directed towards a knowledge economy whereas more industrial, less innovative countries were less affected.

In 2007, growth in the European Union and the Euro Area slowed and became negative in 2008. 2009 was another difficult year and it is not yet certain that the situation will improve in any considerable way in 2010.

By 2010, the European Union will have returned to its 2007 level, i.e. a fall of almost 12% if its GDP had continued to grow in a linear way. This deficit in growth terms puts the major industrial countries in a weaker position compared to China or India (See part 3: the European Union and the economic and social crisis).

**1.1.5. Actual GDP growth rates in EU countries (2009)**

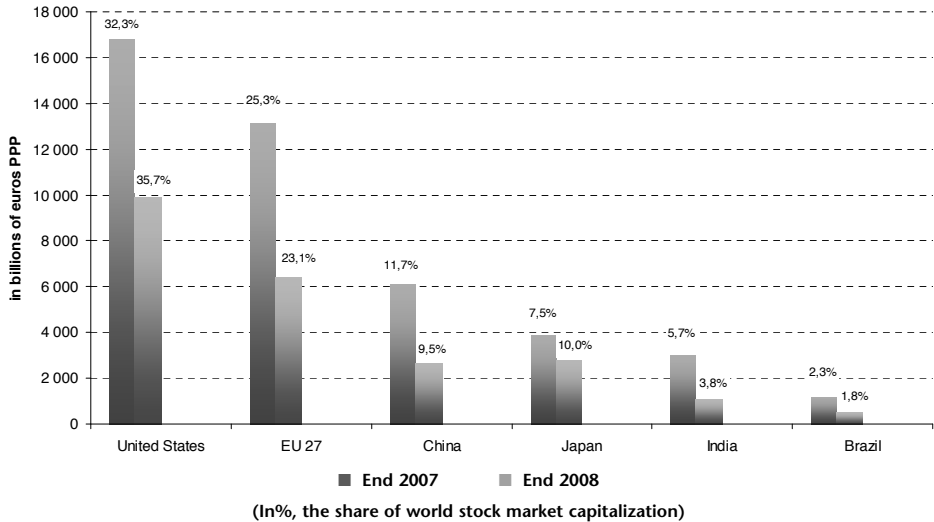
Source: Eurostat

Data collected and collated for the Robert Schuman Foundation © FRS

In 2009, growth was negative for all European Union countries except Cyprus. The average was -4%, i.e. a recession on a scale not seen since the Second World War. The countries most affected were those where growth over previous years had been the strongest: Latvia, Lithuania, Estonia, Ireland and Hungary. Germany, a major exporting country, was strongly hit by the fall in international trade. Smaller countries, or those on the margins of the world economy, were less severely affected. There is therefore major disparity between European countries.

## 1.2. Financial weight

### 1.2.1. Stock market capitalization of the world's main financial centres (2007-2008)

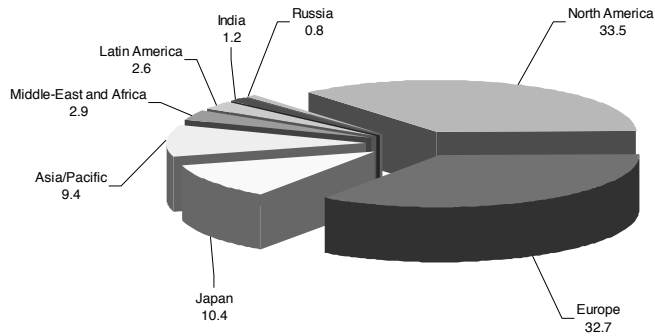


Source: World Federation of Exchange  
Data collected and collated for the Robert Schuman Foundation, © FRS

The graph combines data from the various world financial centres and shows both the value of capitalizations in billions of euros at purchasing power parity and the share of centres in total world capitalization. European stock market capitalization is second in the world, behind that of the United States. In 2007 the two main financial centres grouped 57.6% of world stock market capital. China, Japan, India and Brazil group 27.2% of capitalization, with the remainder divided between countries in the Middle East and other countries.

The financial crisis reduced the global value of stock market capitalizations by 46.5% and slightly changed the balance between financial players. The United States and Japan, although affected, strengthened their position in the world financial system compared to other countries, unlike European stock markets, whose share fell slightly.

### 1.2.2. Worldwide distribution of managed funds (2008) (%)



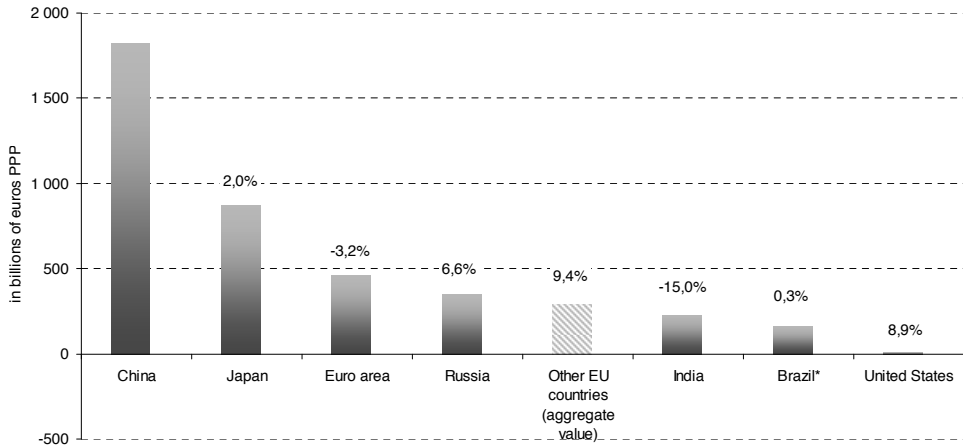
Source: Boston Consulting Group

Data collected and collated for the Robert Schuman Foundation, © FRS

In terms of managed funds worldwide, the position held by North America and Europe is overwhelming and represents 66.2% of total. Managed funds are made up of capital from pension funds or insurance funds that can be invested in financial markets (bonds, shares, raw materials, etc.). They therefore represent the financial strike force of an economic player. The Anglo-Saxon pension fund system explains in large part American and European preponderance; other countries use a distribution system which is outside the scope of financial markets (pensions in France for example). This is another circulation method for capital, which does not affect international financial markets.

The financial weight of the European Union and North America is therefore much greater than their actual economic weight.

### 1.2.3. Exchange reserves of the main central banks (June 2009) and growth over one year



Sources: IMF, Bloomberg  
Data collected and collated for the Robert Schuman Foundation, © FRS

Central banks' exchange reserves represent foreign capital that has penetrated into an economy. A country like the United States, whose currency, the dollar, is the international currency, has only very small exchange reserves: buying and selling is done in dollars in the United States; such is the privilege of this currency. Very few non-American currencies therefore enter the United States.

This is the exact opposite of what happens in China, a major export country which sells in dollars and converts this money into renminbi (also known as yuan). All the dollars entering China are stored at the Chinese Central Bank; they are then reinvested into American Treasury bonds. Japan, another major export country, is in the same situation.

Due to intra-zone economic exchanges, the Euro Area also accumulates major exchange reserves. This money is used to stabilise monetary exchanges within the European Union. During the crisis, the European Central Bank intervened, for example, on the monetary markets of countries outside the Euro Area in order to preserve monetary stability in the European Union. Similarly, other European Union countries accumulate a large amount of euros in their central banks.

\*The value for Brazil dated back to January 2009.

\*\*The growth of Chinese exchange reserves is not known in detail. It is estimated at around 30% over one year.



## 1.3. Demographic weight

### 1.3.1. Population

	Population in millions of inhabitants (1950)	Population in millions of inhabitants (2009)	Share in world population (2009)	Population in millions of inhabitants (forecast 2050)	Population aged under 15 years as a % of total (2009)	Population aged 65 years and over as a % of total (2009)	Fertility rate (2009)
Austria	6,9	8,3	0,12%	8,1	16,0	21,9	1,41
Belgium	8,7	10,7	0,15%	10,3	17,1	22,0	1,8
Bulgaria	7,3	7,6	0,11%	5,1	13,7	22,9	1,5
Cyprus	0,5	0,8	0,01%	1	19,8	16,9	1,55
Czech Republic	8,9	10,4	0,15%	8,5	14,7	19,9	1,52
Denmark	4,3	5,5	0,08%	5,9	18,8	21,2	1,85
Estonia	1,1	1,3	0,02%	1,3	15,2	21,7	1,79
Finland	4,0	5,3	0,08%	5,3	17,4	2,4	1,85
France	41,8	64,0	0,93%	63,1	18,4	20,9	1,85
Germany	68,4	82,2	1,19%	78,8	14,3	24,9	1,34
Greece	7,7	11,2	0,16%	10,7	14,4	23,0	1,41
Hungary	9,4	10,0	0,15%	8,3	15,5	21,3	1,42
Ireland	3,0	4,4	0,06%	5,8	20,4	15,2	1,92
Italy	47,1	59,6	0,86%	50,9	14,2	25,2	1,41
Latvia	1,9	2,3	0,03%	1,7	14,5	22,3	1,48
Lithuania	2,6	3,4	0,05%	2,6	16,8	20,3	1,43
Luxembourg	0,3	0,5	0,01%	0,5	18,5	18,7	1,69
Malta	0,3	0,4	0,01%	0,4	17,4	18,4	1,29
Netherlands	10,1	16,4	0,24%	17,1	18,3	19,2	1,77
Poland	24,8	38,1	0,55%	31,9	16,3	17,2	1,29
Portugal	8,4	10,6	0,15%	10,7	15,6	22,3	1,39
Romania	16,3	21,5	0,31%	16,8	15,7	19,3	1,35
Slovakia	3,5	5,4	0,08%	4,6	16,8	16,1	1,35
Slovenia	1,5	2,0	0,03%	1,6	14,2	20,4	1,47
Spain	28,0	45,3	0,66%	42,5	14,5	21,6	1,56
Sweden	7,0	9,2	0,13%	10,1	17,4	23,3	1,85
United Kingdom	49,8	61,2	0,89%	67,1	18,0	21,3	1,85
<b>EU 27</b>	<b>373,6</b>	<b>499,8</b>	<b>7,2%</b>	<b>470,1</b>	<b>16,7</b>	<b>19,1</b>	<b>1,56</b>
United States	157,8	317,6	4,6%	403,932	20,8	16,7	2,02
China	545,0	1 354,1	19,6%	1 417,045	22,0	10,8	1,79
India	371,9	1 214,5	17,6%	1 613,8	33,1	7,0	2,52
Japan	82,8	127,0	1,8%	101,659	13,8	26,5	1,27
Brazil	54,0	195,4	2,8%	218,512	27,5	8,9	1,7
Canada	13,7	33,9	0,5%	44,414	17,6	17,8	1,62
Russia	102,7	140,4	2,0%	116,097	15,1	17,2	1,46
<b>World</b>	<b>2 529,3</b>	<b>6 908,7</b>	<b>100,0%</b>	<b>9 149,984</b>	<b>28,4</b>	<b>10,2</b>	<b>2,49</b>
<i>Sources :</i>							
	<i>UN</i>	<i>Eurostat, UN</i>	<i>Eurostat, UN</i>	<i>UN</i>	<i>UN</i>	<i>UN</i>	<i>UN</i>

Data collected and collated for the Robert Schuman Foundation, © FRS

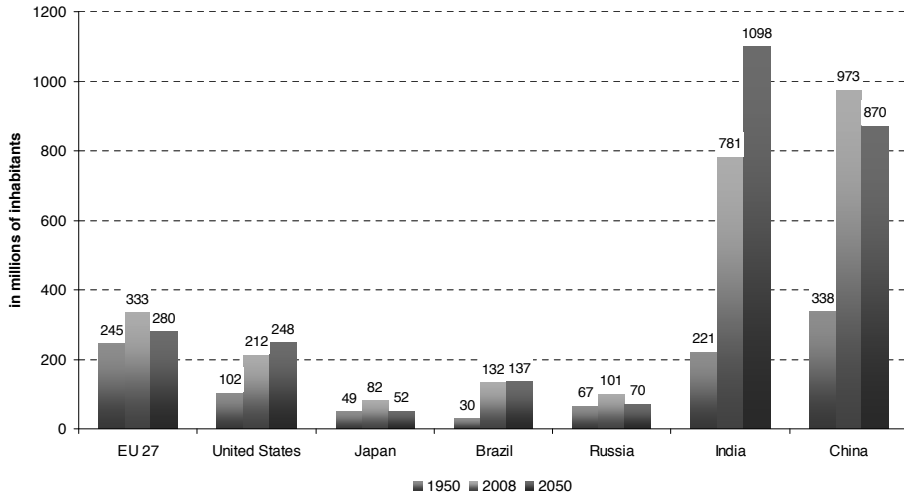
The European Union represents 7.2% of the world population and this share is falling fast: from 15% in 1950 to 5.1% in 2050 according to UN forecasts, i.e. a division by three. Over the same period, Japan and Russia saw a similar trend, whilst the United States went from 6.2% to 4.4%. The share held by major economies tends to decrease drastically: the United States, Japan and the European Union represented 24.3% of the world population in 1950, i.e. almost a quarter. By 2050 it is estimated that this share will represent 10.7%.

Contrary to popular belief, China's share is falling: in 1950 the Chinese population represented 21.5% of the world population, i.e. almost as much as the major industrial countries, but this level will fall to 15.5% in 2050. It is countries in Africa, Asia (particularly India) and South America (particularly Brazil), which are contributing most to demographic growth: the world fertility rate is 2.49 and only 1.56 in the European Union. Remember, it is estimated that a rate of

2.01, i.e. slightly more than two children per woman, is needed to ensure that the demographic balance of a country is positive.

This demographic trend puts the major industrialised countries in a difficult position. They represent only a minority of the world population but the major part of economic production and financial capital. The age pyramid also illustrates this imbalance: whereas only 16% of the European population is under the age of 15, this rate is 28.4% on world scale; on the other hand, 21.8% of Europeans are over 65 years old whereas this rate is only 10.2% at world level. The European population is ageing and is less and less significant at world level, whereas emerging countries hold an increasingly important position.

### 1.3.2. Population of working age in 1950, 2008 and 2050



Source: UN Data collected and collated for the Robert Schuman Foundation, © FRS

Although in 1950 the European Union and China had the largest populations of working age, this situation has now changed considerably. China and India now account for a major share of the world's workforce. The European Union remains the third largest reserve of workforce, but the 2010 decade will see a peak and population ageing will reduce the number of people of working age. The United States, which benefits from high immigration and a fertility rate which ensures demographic renewal, will see its worker population increase.

In the space of just a few years, the increase in the workforces in India and Asia has overturned the world's labour market situation. The arrival of new workers means new markets, new competition between workers and therefore a potential fall in the cost of labour. Globalisation is the expression of this transformation: the internationalisation of companies towards new, booming markets and the relocation of production to countries where labour costs are low. Faced with this phenomenon, the European Union has reacted by directing its efforts towards the knowledge economy with the Lisbon Strategy, which aims to retain the highest added value jobs in Europe.

### 1.3.3. Share of migration balance in population growth in EU Member States (1997-2008)



Source: Eurostat

Data collected and collated for the Robert Schuman Foundation, © FRS

With a fertility rate of 1.56, natural demographic growth is not sufficient to maintain the level of the European population. Immigration is necessary to check a massive fall in population: the migration balance is very positive in the European Union, which means that the number of people entering the European Union is greater than the number of people leaving it. Since 2001, the share of the migration balance in population growth has greatly increased.

## 1.4. Military weight

### 1.4.1. EU military spending

	Military spending, in billions of current euros (2008)	Share of nominal GDP (2007)	Share in world military spending (2007)
France	44,8	2,3%	4,5%
United Kingdom	44,6	2,4%	4,5%
Germany	31,9	1,3%	3,2%
Italy	27,7	1,8%	2,8%
Spain	13,1	1,2%	1,3%
<b>EU27 (2007)</b>	<b>204,0</b>	<b>1,7%</b>	<b>20,4%</b>
United States	414,1	4,0%	41,5%
China*	57,9	2,0%	5,8%
Russia*	40,0	3,5%	4,0%
Japan	31,6	0,9%	3,2%
Saudi Arabia	26,1	9,3%	2,6%
India	20,5	2,5%	2,1%
South Korea	16,5	2,7%	1,7%
Brazil	15,9	1,5%	1,6%
Canada	13,2	1,2%	1,3%
Australia	12,6	1,9%	1,3%
<i>Sources</i> Stockholm International Peace Research Institute (SIPRI), European Defence Agency			
* : Estimates			

*Data collected and collated for the Robert Schuman Foundation, © FRS*

In terms of total expenditure, European Union countries represent the world's second largest military centre, a long way behind the United States (overall the Europeans spend about half as much as the Americans), but nevertheless a long way ahead of China and Russia.

Most of this expenditure remains national, but some is already associated with joint European efforts within the context of the Common Foreign and Security Policy (CFSP). Finally, whereas military spending by the major Western European countries has stagnated over recent years, the budgets of many Eastern European countries are expanding rapidly, particularly due to these countries joining NATO.

**1.4.2. Defence Industry and Arms Trade**

	Number of companies amongst the world's top 100 arms companies (2007)	Total sales by these companies in billions of current \$ (2007)	Exports of conventional weapons (2004-2008), in billions of 1990 \$	As a % of world arms exports	World ranking	Main destinations
Germany	4	7,4	11,405	10%	3	Turkey (15%), Greece (13%), South Africa (12%), United Arab Emirates (32%), Singapore (13%), Greece (12%)
France	6	23,4	9,607	8%	4	
United Kingdom	10	45,3	5,132	4%	5	United States (21%), India (14%), Chile (9%)
Netherlands	n/a	n/a	3,803	3%	6	Chile (23%), Germany (14%), United Kingdom (10%)
Italy	4	11,6	2,761	2%	7	Peru (25%), Spain (8%), Greece (7%)
Spain	2	2,3	2,123	2%	8	Norway (57%), Chile (11%), Brazil, Poland (6%)
Sweden	1	2,8	2,012	2%	10	Czech Republic (20%), Hungary (19%), Finland (13%)
Poland	n/a	n/a	0,549	< 0,5 %	16	India (57%), Malaysia (24%), Iraq (11%)
EADS	1	13,1				
United States	44	212,4	34,901	31%	1	South Korea (15%), Israel (13%), United Arab Emirates (11%)
Russia	7	8,2	28,536	25%	2	China (42%), India (21%), Algeria (8%)
Ukraine	n/a	n/a	2,083	2%	9	China (14%), Georgia (14%), Azerbaijan (14%)
Israel	3	5	2,007	2%	11	India (24%), Turkey (19%), Mexico (9%)
China*	n/a	n/a	1,908	2%	12	Pakistan (29%), Iran (19%), Bangladesh (13%)

Source

Stockholm International Peace Research Institute (SIPRI)

\* Since no adequate data is available, Chinese companies cannot be ranked, although the SIPRI estimates that several of them are actually amongst the world top 100.

Data collected and collated for the Robert Schuman Foundation, © FRS

European arms companies (the largest being BAE Systems – United Kingdom, EADS, Finmeccanica – Italy – and Thales – France) represent about one quarter of the world top 100 companies; only the United States has a greater concentration in this field. Europe holds an important place in arms exports too: seven of the ten main arms exporters worldwide are European countries, with a total share of 31% of all world exports. This figure equals that of the United States and slightly exceeds the Russian figure (25%). The main clients in this field are emerging countries or other European countries and, more rarely, the United States.

## External operations since 2003 – ESDP – NATO – UNO

	Country	ESDP Mission	NATO Mission	UN Mission
Africa	Burundi			<b>BINUB**</b> (since 1 <sup>st</sup> January 2007) <b>ONUB</b> (21 March 2004 – 31 December 2006)
	Ivory Coast			<b>UNOCI</b> (4 April 2004 – 31 October 2010*)
	Darfur/ Sudan	<b>Support to AMIS II</b> (18 July 2005 – 31 December 2007)	<b>Support to AMIS</b> (June 2005 – 31 December 2007)	<b>UNAMID</b> (31 July 2007 – 31 July 2010*) <b>UNMIS</b> (24 March 2005 – 30 April 2010* ; the preparatory operation UNAMIS was established on 11 June 2004)
	Ethiopia and Eritrea			<b>UNMEE</b> (31 July 2000 – 31 July 2008)
	Guinea- Bissau	<b>EU SSR Guinea Bissau</b> (12 February 2008 – 31 May 2010*)		
	Liberia			<b>UNMIL</b> (19 September 2003 – 30 September 2010*)
	DRC	<b>Artemis</b> (12 June 2003 – 1 <sup>st</sup> September 2003) <b>EUFOR RD Congo</b> (25 April – 30 November 2006) <b>EUPOL Kinshasa</b> (April 2005 – June 2007) <b>EUPOL RD Congo</b> (1 <sup>st</sup> July 2007 – 30 June 2010*) <b>EUSEC RD Congo</b> (8 June 2005 – 30 September 2010*)		<b>MONUC</b> (30 November 1999 – 31 December 2009*)
	Western Sahara			<b>MINURSO</b> (April 1991 – 30 April 2010*)
	Sierra Leone			<b>UNIOSIL</b> (22 October 1999 – 31 December 2005)
	Somalia (Indian Ocean)	<b>EU NAVFOR Somalia « Atalanta »</b> (8 December 2008 – December 2010*)	<b>AMISOM</b> (June 2007 – February 2009) <b>Allied Provider</b> (October 2008 – December 2008) <b>Allied Protector</b> (24 March – 29 June 2009) <b>Ocean Shield</b> (since 17 August 2009)	
Chad/CAR	<b>EU FOR Chad/CAR</b> (28 January 2008 – 15 March 2009)		<b>MINURCAT</b> (25 September 2007 – 15 March 2010*)	
Americas	United States		<b>Assistance after the 9/11 attacks</b>	
	Haiti			<b>MINUSTAH</b> (1 <sup>st</sup> June 2004 – 15 October 2010)
Asia and Pacific	Afghanistan	<b>EUPOL Afghanistan</b> (June 2007 – 15 June 2010*)	<b>ISAF</b> (under NATO leadership since 11 August 2003 but made official by a UN Security Council Resolution on 13 October 2003 ; it had been created by a UN Security Council Resolution on 20 December 2001)	<b>UNAMA**</b> (since 28 March 2002)

	India and Pakistan			<b>UNMOGIP</b> (since January 1949)
	Indonesia	<b>Aceh Monitoring Mission AMM</b> (15 September 2005 – 15 December 2006)		
	Pakistan		<b>Assistance after the earthquake</b> (11 October 2005 – 1st February 2006)	
	East Timor			<b>UNMIT</b> (25 August 2006 – 26 February 2010* ; it was preceded by UNMISSET from 17 May 2002 to 20 May 2005)
	Turkey		<b>Display Deterrence</b> (26 February 2003 – 3 May 2003)	
<b>Europe</b>	Albania		<b>HQ Tirana</b> (since 17 June 2002)	
	FYROM	<b>EUPAT</b> (15 December 2005 – 14 June 2006) <b>EUPOL Proxima</b> (15 December 2003 – 14 December 2005) <b>EUFOR Concordia</b> (31 March 2003– 15 December 2003)	<b>HQ Skopje</b> (since April 2003) <b>Allied Harmony</b> (15 December 2002 – 31 March 2003)	
	Bosnia-Herzegovina	<b>EUFOR Althea</b> (since 2 <sup>nd</sup> December 2004) <b>EUPM</b> (1 <sup>st</sup> January 2003 – 31 December 2009*)	<b>HQ Sarajevo</b> (since December 2004) <b>SFOR</b> (14 December 1996 – 2 December 2004)	
	Cyprus			<b>UNFICYP</b> (since March 1964)
	Georgia	<b>EUJUST Themis</b> (16 July 2004 – 14 July 2005) <b>EUMM Georgia</b> (1 <sup>st</sup> October 2008 – 14 September 2010*)		<b>UNOMIG</b> (August 1993 – June 2009)
	Greece		<b>Distinguished Games</b> (2 <sup>nd</sup> August 2004 – 29 September 2004)	
	Kosovo	<b>EUPT Kosovo</b> (10 April 2006 – 14 June 2008) <b>EULEX Kosovo</b> (since 16 February 2008)	<b>KFOR</b> (since June 1999)	<b>UNMIK</b> (since 10 June 1999)
	Mediterranean		<b>Active Endeavour</b> (since October 2001)	
	Moldova/ Ukraine	<b>EUBAM Moldova-Ukraine</b> (2 <sup>nd</sup> June 2005 – November 2009*)		
<b>Middle East</b>	Golan			<b>UNDOF</b> (since May 1974)
	Iraq and Kuwait			<b>UNIKOM</b> (April 1991 – mid-March 2003)
	Iraq	<b>EUJUST LEX</b> (1 <sup>st</sup> July 2005 – 30 June 2010*)	<b>NATO Training Mission in Irak NTM-I</b> (since 14 August 2004)	
	Lebanon			<b>UNIFIL</b> (since March 1978)
	Middle East			<b>UNTSO</b> (since June 1948)
	Palestinian Territories	<b>EUBAM Rafah</b> (24 November 2005 – 24 May 2010) <b>EUPOL COPPS</b> (since 1 <sup>st</sup> January 2006)		

The start date of the mission corresponds to the date of its actual launching or, in the absence of such information, to the date on which the decision to launch it was made.

\*: estimated termination date of the mission; it might be modified.

\*\*.: political mission managed by the UN Department of Peacekeeping Operations.

Sources : <http://www.consilium.europa.eu/showPage.aspx?id=268&Lang=en>; <http://www.un.org/french/peace/peace/index.shtml>;

[http://www.nato.int/cps/fr/mat/live/topics\\_52060.htm?selectedLocale=en](http://www.nato.int/cps/fr/mat/live/topics_52060.htm?selectedLocale=en)

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## 2. The European Union and globalisation: competitiveness and foreign trade

### 2.1. European Union competitiveness in the world

#### 2.1.1. European Union competitiveness: summary indicators

	World ranking according to economic environment (2009)	Ranking according to ease of doing business (2009)	Major impact of innovation on businesses (2006, 2004)	Summary innovation indicator (2007)
	of 133 countries	of 183 countries	in % of the total number of innovative companies	score out of 1
Austria	17	28	9,7	0,48
Belgium	18	22	8,8*	0,47
Bulgaria	76	44	13,3	0,23
Cyprus	34	40	19,9	0,33
Czech Republic	31	74	14,2	0,36
Denmark	5	6	7,3	0,61
Estonia	35	24	7,8	0,37
Finland	6	16	5,2	0,64
France	16	31	15,9*	0,47
Germany	7	25	9,5*	0,59
Greece	71	109	20,8	0,26
Hungary	58	47	7,2	0,26
Ireland	25	7	10,2*	0,49
Italy	48	78	4,4*	0,33
Latvia	68	27	5,4	0,19
Lithuania	53	26	8,5	0,27
Luxembourg	21	64	6,8	0,53
Malta	52	nd	7,7	0,29
Netherlands	10	30	10,5	0,48
Poland	46	72	11,6	0,24
Portugal	43	48	15,0	0,25
Romania	64	55	14,8	0,18
Slovakia	47	42	10,8	0,25
Slovenia	37	53	17,2*	0,35
Spain	33	62	8,5	0,31
Sweden	4	18	7,1*	0,73
United Kingdom	13	5	n/a	0,57
United States	2	4	n/a	0,55
Japan	8	15	n/a	0,60
Brazil	56	129	n/a	n/a
Russia	63	120	n/a	n/a
India	49	133	n/a	n/a
China	29	89	n/a	n/a
Sources :	World Economic Forum 2009	World Bank, "Doing Business 2009"	Eurostat 2006 (*2004)	European Innovation Scoreboard (2007)

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The competitiveness of a territory depends on numerous factors: education, investments, effort in terms of R&D, quality of infrastructure, business climate, etc. This multi-factor approach used by the many surveys conducted by the World Bank or the European Commission can be summarized by a ranking. As limited as these rankings or scores which put together so many parameters are, they have the advantage of pointing out differences between countries.

Thus, the European Union is characterized by relative heterogeneity of countries in terms of innovation and international competitiveness, unlike countries such as the United States or Japan which show a more united and innovative face. Thus, on the one hand, countries such as Germany, the Netherlands, Sweden, Finland or Denmark are at the top of rankings: the business climate is good in these countries and innovation is supported by a favourable economic and political system. These countries are all in the north of the European Union.

On the other hand, countries that have recently joined the European Union and southern countries are not very favourable to business or innovation. One will note, however, that the potential impact of innovation is stronger there, which indicates that the margin for progress is important: innovation will have a stronger impact there than in an economy already saturated with innovation.

Between the two are “follower” countries, to use an expression used by the Innovation Scoreboard, that is to say countries where business and innovation exist but which are content merely to catch up with their neighbours rather than pushing the technological frontier forwards. France and Austria are amongst these countries.

### 2.1.2. Labour productivity: international comparisons

	Labour productivity per hour worked (2009)	Labour productivity per hour worked (2009)	Annual growth in productivity per person employed (1990 - 2008)	Number of hours worked per year and per person employed (2009)	Number of hours worked (2009)
	Euros PPP	% United States	%	Hours	in millions of hours
Austria	45,2 €	96%	1,5	1514,3	6,2
Belgium	46,3 €	99%	1,2	1620,5	7,2
Bulgaria	12,4 €	27%	2,4	1675,1	6,4
Cyprus	26,4 €	56%	1,8	1859,5	0,7
Czech Republic	21,8 €	46%	2,0	1950,3	10,3
Denmark	37,7 €	80%	1,4	1581,6	4,6
Estonia	18,4 €	39%	3,8	1967,4	1,3
Finland	37,3 €	80%	2,2	1727,3	4,4
France	44,7 €	95%	1,1	1572,6	40,8
Germany	43,1 €	92%	1,1	1431,9	57,7
Greece	32,7 €	70%	1,9	1952,0	8,9
Hungary	21,9 €	47%	3,2	1985,7	7,7
Ireland	41,2 €	88%	2,6	1872,4	3,9
Italy	38,9 €	83%	0,6	1576,2	39,8
Latvia	15,3 €	33%	2,4	1932,2	2,2
Lithuania	18,8 €	40%	2,0	1906,0	2,9
Luxembourg	61,5 €	131%	0,8	1564,6	0,5
Malta	24,5 €	52%	2,0	1897,6	0,3
Netherlands	47,4 €	101%	1,1	1395,6	12,2
Poland	18,0 €	38%	4,3	1991,9	31,7
Portugal	21,0 €	45%	1,4	1867,9	9,6
Romania	12,9 €	27%	3,9	1981,9	18,6
Slovakia	25,7 €	55%	4,1	1769,5	4,0
Slovenia	26,5 €	56%	2,9	1954,2	1,9
Spain	34,7 €	74%	0,5	1698,3	34,4
Sweden	39,4 €	84%	2,2	1625,6	7,4
United Kingdom	41,9 €	89%	2,2	1610,3	45,5
<b>Euro area</b>	<b>40,5 €</b>	<b>86%</b>	<b>n/a</b>	<b>1576,9</b>	<b>232,6</b>
<b>EU 27</b>	<b>35,1 €</b>	<b>75%</b>	<b>n/a</b>	<b>1651,0</b>	<b>371,2</b>
United States	46,9 €	100%	1,8	1775,3	258,1
Japan	32,7 €	70%	1,1	1783,3	113,9
<i>Sources</i>	<i>Groningen Growth and Development Center and author's calculations</i>				

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Although exchange rate variations make comparisons difficult (particularly for Japan), it is clear that the European Union is less productive than the United States and that, in addition, it works 11% less than the US. In all, the number of hours worked in the EU is less than in the US. This demonstrates a real deficit in terms of productivity and hours worked.

This difference can be explained by the heterogeneity of Member States. Countries such as Luxembourg or the Netherlands are more productive than the United States but much less time is spent at work there too.

Countries such as France, Germany or the United Kingdom have a productivity that is equivalent to that of the United States but that has risen only very slightly over the course of the past two decades. Whereas a country such as France tended to catch up with the United States during the “Thirty Glorious Years”, a breakaway occurred at the beginning of the eighties with computerisation of society: France failed to keep up and its competitiveness increased only very slightly compared to that of the United States.

Countries that have joined the European Union only recently have low productivity but work long hours and their productivity has increased a great deal over the past twenty years. These countries that are catching up are taking advantage of their membership of the Common Market. Ireland is in a similar position.

It is in Romania that people work the most but this is also the country with the lowest productivity. By contrast, it is in Germany that people work the least whereas productivity is very high there. Productivity gains have been transformed in the European Union into free time, whereas in the United States they have resulted in an increase in salaries: this is what is known as the European “preference for leisure time”.

## 2.2. Attractiveness of the European territory and the structure of its economy

### 2.2.1. Economy and job structure

GDP (2008)	Agriculture	Industry	Building	Trade, transport and communications	Financial activities	Public administrations
Austria	1,6%	23,2%	7,5%	23,2%	23,9%	20,6%
Belgium	0,7%	18,0%	5,2%	23,2%	29,4%	23,5%
Bulgaria	8,1%	21,6%	8,1%	24,3%	24,3%	16,2%
Cyprus	2,1%	10,1%	9,5%	27,0%	27,5%	24,3%
Czech Republic	2,3%	31,3%	6,3%	25,0%	18,0%	17,2%
Denmark	1,1%	20,5%	5,8%	21,3%	24,4%	26,9%
Estonia	2,9%	21,0%	8,6%	25,7%	23,8%	18,1%
Finland	3,0%	25,0%	6,9%	21,7%	21,7%	22,0%
France	1,8%	13,9%	6,6%	18,7%	33,7%	25,3%
Germany	0,7%	26,1%	4,0%	18,0%	29,4%	21,7%
Greece	3,1%	13,5%	6,3%	33,3%	19,8%	24,0%
Hungary	4,4%	24,4%	4,4%	22,2%	22,2%	22,2%
Ireland	2,0%	25,3%	8,4%	17,4%	27,2%	19,4%
Italy	2,1%	20,8%	6,4%	22,0%	28,0%	20,8%
Latvia	4,7%	22,1%	10,5%	31,4%	15,1%	17,4%
Lithuania	3,3%	14,3%	8,8%	29,7%	24,2%	20,9%
Luxembourg	0,4%	9,8%	6,2%	21,4%	45,6%	16,7%
Malta	2,5%	18,0%	3,3%	26,2%	21,3%	28,7%
Netherlands	1,9%	19,6%	5,9%	20,8%	28,3%	23,6%
Poland	4,8%	22,9%	8,4%	27,7%	19,3%	18,1%
Portugal	2,2%	17,8%	6,7%	24,4%	23,0%	26,7%
Romania	7,0%	26,3%	12,3%	26,3%	14,0%	15,8%
Slovakia	3,7%	28,4%	8,3%	25,7%	17,4%	15,6%
Slovenia	2,5%	25,0%	8,8%	22,5%	22,5%	18,8%
Spain	2,7%	17,3%	11,4%	24,5%	22,7%	21,4%
Sweden	1,6%	22,8%	5,1%	19,6%	24,4%	26,9%
United Kingdom	0,7%	17,6%	6,0%	20,2%	32,2%	22,8%
<b>EU27</b>	<b>1,8%</b>	<b>20,0%</b>	<b>6,7%</b>	<b>20,9%</b>	<b>28,0%</b>	<b>22,2%</b>
<b>World</b>	<b>4,0%</b>	<b>32,0%</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
United States	1,2%	19,6%	79,2%	n/a	n/a	n/a
Japan	1,4%	26,4%	72,2%	n/a	n/a	n/a
Brazil	5,5%	28,5%	66,0%	n/a	n/a	n/a
Russia	4,1%	41,1%	54,8%	n/a	n/a	n/a
India	17,2%	29,1%	53,7%	n/a	n/a	n/a
China	10,6%	49,2%	40,2%	n/a	n/a	n/a
Sources	Eurostat, CIA World Fact Book					

Data collected and collated for the Robert Schuman Foundation, © FRS

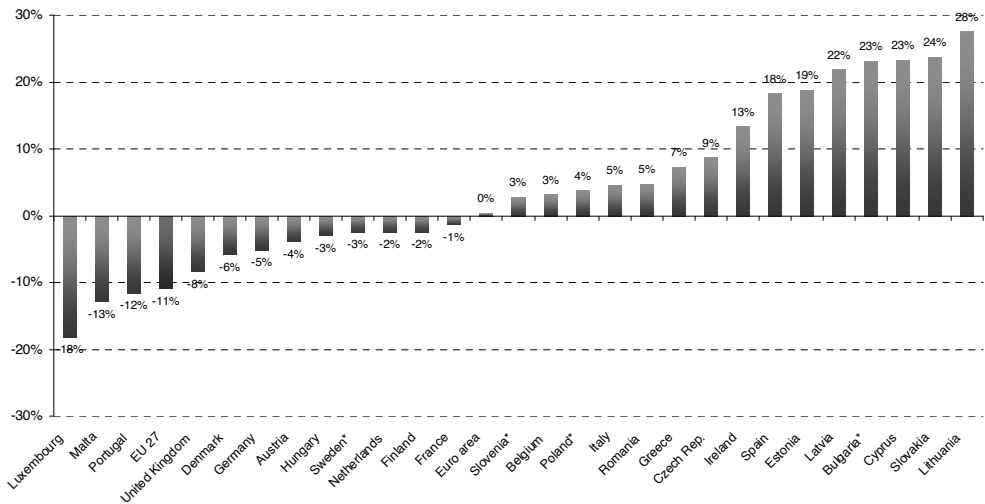
Like the United States or Japan, the European Union is a knowledge economy, where agriculture is marginal and industry tends to merge into services. Industry represents 20% of GDP and 18.3% of jobs; agriculture represents 5.3% of jobs but only 1.8% of GDP. There are major differences between activities: 5.7% of jobs are in the financial sector and represent 28% of GDP. The European Union tends to specialise in these high added value sectors, and is thereby marginalising sectors that pay less, whereas these are the largest sectors in emerging countries.

This position hides differences within the European Union itself which are sometimes due to strategic national choices. Thus, the financial sector represents 45.6% of Luxembourg's GDP, i.e. almost half. Trade, for its part, represents one third of Greek GDP, mainly due to that country's enormous merchant fleet. Some countries, such as Germany, Slovenia, Slovakia and Ireland remain highly industrial, following thus a long tradition.

Jobs (4th quarter 2008)	Agriculture	Industry	Building	Trade, transport and communications	Financial activities	Public administrations
Austria	5,6%	16,8%	9,3%	26,8%	5,9%	22,0%
Belgium	1,6%	17,3%	7,3%	21,9%	6,5%	27,5%
Bulgaria	8,0%	24,8%	10,4%	27,0%	4,1%	17,9%
Cyprus	4,4%	11,2%	12,0%	29,2%	7,3%	23,2%
Czech Republic	4,2%	29,5%	9,6%	22,6%	4,7%	19,4%
Denmark	2,7%	15,5%	6,8%	23,0%	6,9%	22,6%
Estonia	3,7%	19,5%	11,4%	26,9%	4,6%	23,2%
Finland	4,7%	17,0%	7,3%	21,9%	5,9%	22,1%
France	2,8%	15,4%	7,4%	21,7%	5,9%	26,7%
Germany	1,9%	22,7%	6,5%	21,8%	6,7%	23,4%
Greece	11,7%	13,1%	8,5%	29,8%	4,2%	22,5%
Hungary	4,5%	23,9%	8,0%	25,8%	5,2%	22,3%
Ireland	n/a	n/a	n/a	n/a	n/a	n/a
Italy	4,0%	21,1%	8,6%	24,2%	5,3%	23,6%
Latvia	7,8%	19,1%	10,6%	27,1%	2,6%	22,5%
Lithuania	7,6%	17,5%	10,5%	28,1%	4,4%	22,4%
Luxembourg	2,0%	7,3%	8,0%	18,2%	13,0%	29,9%
Malta	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	2,5%	11,2%	6,0%	22,4%	6,7%	24,6%
Poland	14,8%	22,6%	7,9%	22,7%	4,0%	19,7%
Portugal	11,4%	18,1%	10,4%	24,4%	3,6%	20,4%
Romania	28,9%	22,6%	8,2%	18,9%	2,3%	13,1%
Slovakia	4,3%	29,0%	10,9%	23,1%	4,1%	19,7%
Slovenia	8,5%	27,5%	6,6%	22,9%	5,7%	19,7%
Spain	4,3%	15,1%	11,0%	28,1%	5,3%	22,2%
Sweden	2,3%	14,2%	6,6%	20,5%	6,1%	30,0%
United Kingdom	1,5%	12,4%	9,0%	24,3%	8,1%	26,2%
<b>EU27</b>	<b>5,3%</b>	<b>18,3%</b>	<b>8,2%</b>	<b>23,3%</b>	<b>5,7%</b>	<b>23,0%</b>
<b>World</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
United States	1,4%	10,2%	5,1%	29,9%	19,3%	34,1%
Japan	n/a	n/a	n/a	n/a	n/a	n/a
Brazil	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a
India	n/a	n/a	n/a	n/a	n/a	n/a
China	n/a	n/a	n/a	n/a	n/a	n/a
<i>Source</i>	<i>Eurostat</i>					

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### 2.2.2. Fall in industrial jobs (2000-2008)



Sources: Eurostat 2008 (\*2007)  
Data collected and collated for the Robert Schuman Foundation, © FRS

This table shows how industrial jobs evolved in European countries between 2000 and 2008. Although overall the number of jobs in industry has fallen in the European Union and has been barely maintained in the Euro Area, it is clear that individual national situations are very different. On the one hand, big, traditionally industrial countries, such as the United Kingdom or Germany, have seen the number of jobs in industry fall dramatically, at the cost of restructuring and social conflicts that have sometimes proved difficult. This development coincides with the evolution towards a society of services and knowledge.

On the other hand, new Members are heading straight into an industrial economy, often at the price of a fall in employment in the agricultural sector.

### 2.2.3. Production specialisation in the EU, the United States, China and Japan (2005)

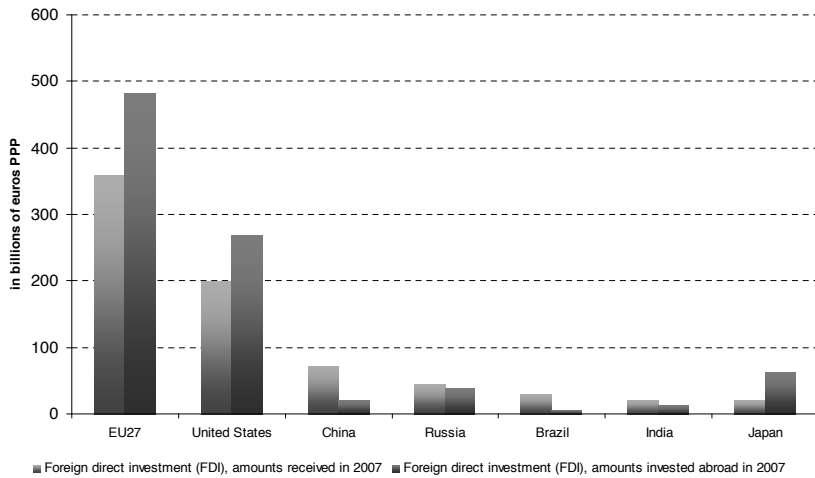
EU27*	Value of exports in billions of euros	United-States	Value of exports in billions of euros
1. Car Industry	429,5	1. Hotel and tourist industry	87,7
2. Food Industry	263,4	2. Car Industry	68,5
3. Hotel and tourist industry	245,7	3. Services to companies	58,7
4. Services to companies	243,6	4. Information technology	52,2
5. Metallurgical industry	225	5. Transport and logistics	50,8
6. Transport and logistics	199,7	6. Food Industry	49,2
7. Pharmaceutical industry	174,5	7. Aeronautical and defence industry	41,2
8. Equipment Industry (manufacture of production tools)	172,8	8. Chemical industry	38,8
9. Chemical industry	166,9	9. Equipment Industry (manufacture of production tools)	36,0
10. Oil and gas industry	153,8	10. Metallurgical industry	31,8
<b>China</b>		<b>Japan</b>	
1. Information technology	103,7	1. Car industry	109,4
2. Clothing industry	58,2	2. Information technologies	53,9
3. Communication equipment	52,7	3. Equipment industry (manufacture of production tools)	43,6
4. Metallurgical industry	43,9	4. Metallurgical industry	35,2
5. Entertainment and audio-video reproduction equipment	37,1	5. Transport and logistics	28,7
6. Textiles	31,8	6. Entertainment and audio-video reproduction equipment	26,4
7. Motorised products	28,6	7. Furniture	23,1
8. Hotels and tourism	23,7	8. Services to companies	21,9
9. Sports, leisure and children's equipment	21,3	9. Chemical industry	19,6
10. Furniture	21,3	10. Communication equipment	15,8

\* Including intra-community trade

Sources: Institute for Strategy and Competitiveness (Harvard Business School) and author's calculations.  
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The European Union and the United States have a similar industrial profile. Only two sectors differ significantly: the I.T. sector and the aeronautical and defence sector, which are much larger in the United States. The European Union has not succeeded in keeping up with the revolution in information technologies and this sector is comparatively very little developed in Europe. It is a high added value sector that can draw along with it both innovation and research, but it is also subject now to strong international competition. China and Japan are competitors of the United States in this sector.

### 2.2.4. Foreign direct investment worldwide (2007)

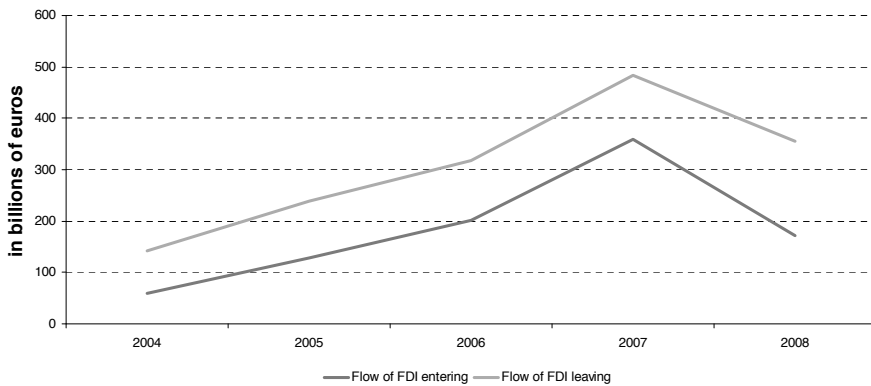


Sources: CNUCED, Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

Contrary to popular belief, the European Union remains the world’s top destination for foreign direct investment (FDI). The European Union is even in surplus in this regard, meaning that it invests more capital outside its territory than it receives. In this respect it is comparable to the United States and, to a lesser extent, to Japan.

By contrast, “BRIC countries” (Brazil, Russia, India, China) are countries that receive FDI but which export only very little capital.

### 2.2.5. Evolution of EU foreign direct investments (2004-2008)



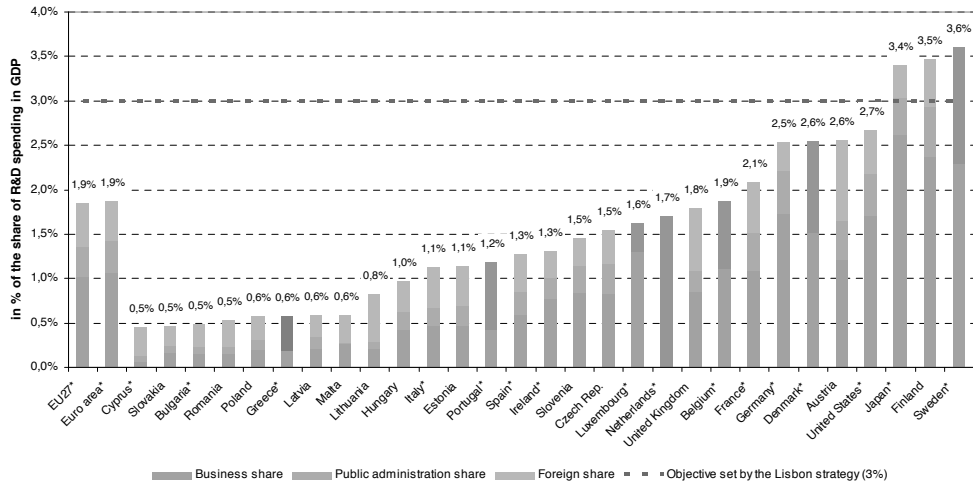
Sources: CNUCED, Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

Traditionally, the European Union exports more FDI than it imports, meaning that it is a net investor. However, the crisis has led to a reduction in FDI, which corresponds to the slowdown in world financial and trade exchanges. Companies have invested less (merger, acquisition) outside of their own territory. This is a unique turnaround which illustrates both the change in dynamic strategy used by companies and the extent of the crisis.



## 2.3. R&D in the European Union

### 2.3.1. R&D spending in the European Union by sector as a % of GDP (2007)



Sources: Eurostat and author's calculations.  
Data collected and collated for the Robert Schuman Foundation, © FRS

R&D (Research and Development) is a fundamental element in the knowledge economy. The Lisbon Strategy had set an objective of 3% of GDP to be devoted to R&D by 2012. Only two countries, Finland and Sweden, have achieved this goal. R&D efforts, as well as financing of R&D, vary a great deal from one country to another. Cyprus spends barely 0.5% of its GDP on research and development, whereas Sweden devotes 3.6%, i.e. seven times more. This graph can be compared with the tables in part 2.1 to illustrate the fact that the most innovative countries are those that spend the most on research.

### 2.3.2. EU innovation indicators

	Summary innovation index (2008)	Summary territory competitiveness index (2009)	Share of jobs in science and technology (2007)	Share of exports of high tech goods (2006)	Investment in capital risk (2008)
	<i>score out of 100</i>	<i>world ranking</i>	<i>% of total jobs</i>	<i>% of exports of manufactured goods</i>	<i>as a % of GDP</i>
Austria	534	17	37,6	11,2	0,03
Belgium	507	18	46,7	6,6	0,10
Bulgaria	221	76	30,8	3,3	0,00
Cyprus	471	34	42,5	21,3	0,00
Czech Rep.	404	31	36,0	12,7	n/a
Denmark	570	5	48,9	12,8	0,09
Estonia	454	35	46,8	8,0	0,00
Finland	610	6	49,7	18,1	0,12
France	497	16	41,9	17,9	0,13
Germany	361	7	43,7	14,1	0,07
Greece	361	71	31,2	5,7	0,01
Hungary	266	58	31,7	20,3	0,03
Ireland	533	25	41,2	29,0	0,03
Italy	354	48	35,6	6,4	0,05
Latvia	294	68	37,2	4,2	n/a
Lithuania	239	53	40,6	4,7	0,00
Luxembourg	524	21	43,4	40,7	0,00
Malta	329	52	31,1	53,8	0,00
Netherlands	484	10	49,9	18,3	0,12
Poland	305	46	32,5	3,1	0,06
Portugal	364	43	22,1	7,0	0,07
Romania	277	64	23,0	3,8	0,04
Slovakia	314	47	31,8	5,4	0,00
Slovenia	446	37	38,9	4,7	n/a
Spain	366	33	39,7	4,9	0,10
Sweden	637	4	48,9	13,4	0,30
United Kingdom	547	13	43,2	26,5	0,34
<b>EU27</b>	<b>475</b>	<b>n/a</b>	<b>39,3</b>	<b>16,6</b>	<b>0,13</b>
United States	550	2	n/a	26,1	0,20
Japan	600	8	n/a	20,0	n/a
<i>Sources</i>	<i>European Innovation Scoreboard</i>	<i>World Economic Forum</i>	<i>Eurostat</i>	<i>Eurostat</i>	<i>Eurostat and author's calculations</i>

Data collected and collated for the Robert Schuman Foundation, © FRS

The aim of the Lisbon Strategy is to make the European Union the most competitive economy by 2010. At the heart of this ambition is countries' ability to innovate. In a globalised economy, innovation is necessary to renew products and conquer new markets and thus face up to world competition. It has to be said that this ambition was not achieved in 2009, with the exception of a few countries, such as Sweden, Finland, Denmark and the Netherlands. The European Union exports only 16.6% of high tech products, whereas the United States and Japan export respectively 26.1% and 20%.

Countries like Sweden and the United Kingdom have highly developed capital risk, which helps innovative young companies when they start up and finances the most risky projects. However, on average, the United States has a much larger mechanism for the financial management of entrepreneurial risk. This situation is due to heterogeneity between European countries; some, like Slovakia or Bulgaria, have no capital risk whilst other Member States are investing much more in this field.

### 2.3.3. Patents

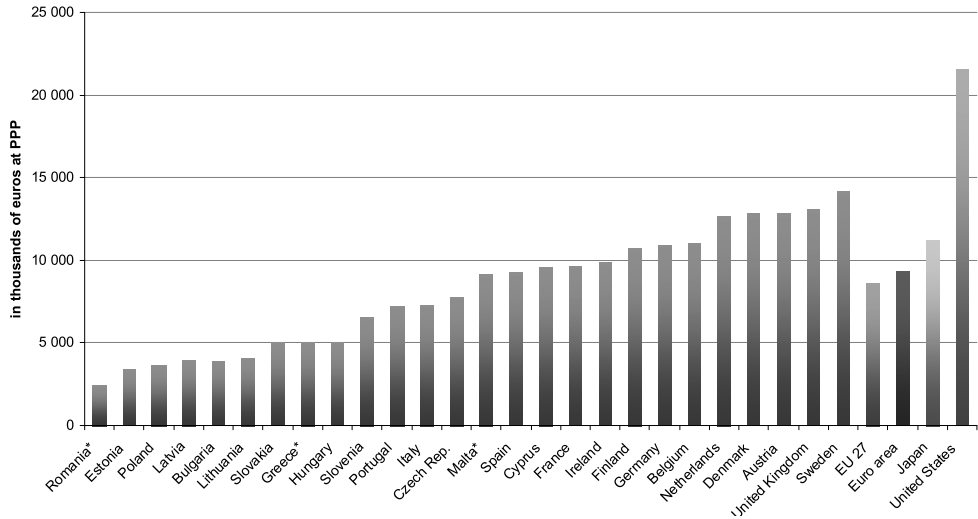
	Number of patents granted by the European Patents Office (EPO, 2007)	Of which, high tech patents (2006)	Number of patents granted by the United States Patent and Trademark Office (USPTO, 2008)
	per million inhabitants	% of patents registered	per million inhabitants
Austria	75,0	22,2	68,8
Belgium	56,1	20,8	56,4
Bulgaria	0,5	0,4	2,4
Cyprus	17,7	0,4	1,3
Czech Rep.	4,2	1,3	5,6
Denmark	84,9	20,5	104,7
Estonia	2,2	4,9	1,5
Finland	154,3	53,8	168,7
France	75,4	21,1	57,6
Germany	164,2	28,4	119,1
Greece	2,5	0,9	2,2
Hungary	4,8	2,4	6,8
Ireland	27,9	7,7	39,5
Italy	37,9	5,6	31,7
Latvia	1,3	0,2	0,9
Lithuania	0,6	0,6	3,9
Luxembourg	210,8	28,6	82,7
Malta	24,4	3,0	4,9
Netherlands	118,0	25,8	101,8
Poland	0,7	0,4	1,7
Portugal	10,6	1,9	2,8
Romania	0,3	0,2	0,5
Slovakia	1,3	0,9	2,4
Slovenia	16,3	2,2	8,5
Spain	9,2	2,8	8,5
Sweden	172,4	38,8	136,0
United Kingdom	32,3	11,8	63,4
<b>EU27</b>	<b>55,1</b>	<b>13,3</b>	<b>51,7</b>
<b>Euro area</b>	<b>76,5</b>	<b>16,7</b>	<b>59,5</b>
United States	40,1	34,4	289,1
Japan	86,0	50,5	282,3
Sources	EPO and author's calculations	Eurostat	USPTO and author's calculations

Data collected and collated for the Robert Schuman Foundation, © FRS

Intellectual and industrial property is an essential element in the knowledge economy. Without the assurance of being able to protect discoveries and draw dividends from them, no company would innovate. Innovation protection encourages research and development.

Europeans register about as many patents on their own territory as the United States and Japan, but many less in the United States. The number of patents registered on American territory is much higher than the number registered on European territory. There is a real European deficit here, both in terms of the number of patents locally and in other countries.

### 2.3.4. Annual spending on education per student in higher education (2006)



Source: Eurostat (\*2005)

Data collected and collated for the Robert Schuman Foundation, © FRS

One of the success factors in a knowledge economy is the quality of education of future managerial staff. Although it is difficult to measure this quality, it can be estimated by looking at how much countries spend per student on higher education. The United States has made the strategic choice of concentrating on education to make its economy more competitive. The US is well ahead of the best Europeans, which are the United Kingdom, Sweden, Austria, Denmark and the Netherlands. On average, the European Union and the Euro Area are well below efforts made by the United States.

### 2.3.5. Education and professional training

	Probable length of time spent at school (2007)	Rate of further education amongst 15-25 yr old (2007)	Financial assistance given to pupils and students (2006)	Level of corporate contribution to training (2005)
	years	as a % of age group	as a % of total public spending on education	as a % of company staff
Austria	16,5	53,8	5,2	24
Belgium	19,6	68,6	4,3	38
Bulgaria	15,7	52,4	14,2	31
Cyprus	14,8	41,2	13,0	n/a
Czech Rep.	17,3	62,1	3,8	77
Denmark	19,0	66,9	16,5	29
Estonia	18,0	55,4	3,0	33
Finland	20,5	70,9	7,0	39
France	16,6	59,2	3,8	35
Germany	17,6	65,4	7,9	43
Greece	17,4	60,1	0,6	14
Hungary	17,8	50,8	0,7	18
Ireland	17,4	58,1	10,2	n/a
Italy	17,0	56,3	4,3	35
Latvia	17,6	68,7	6,9	16
Lithuania	17,9	62,5	5,3	8
Luxembourg	13,9	41,8	2,2	n/a
Malta	14,7	44,5	0,6	n/a
Netherlands	17,7	67,5	12,8	61
Poland	17,9	70,3	1,8	20
Portugal	17,0	53,0	3,3	25
Romania	15,9	53,6	4,6	20
Slovakia	16,4	56,3	5,2	68
Slovenia	18,0	70,1	7,8	31
Spain	17,2	62,1	4,3	32
Sweden	19,7	66,6	11,1	21
United Kingdom	16,2	47,3	6,6	54
<b>EU27</b>	<b>17,2</b>	<b>59,5</b>	<b>6,0</b>	<b>32</b>
<b>Euro area</b>	<b>17,3</b>	<b>n/a</b>	<b>5,6</b>	<b>n/a</b>
United States	17,1	57,1	8,1	n/a
Japan	15,1	26,9	3,9	n/a
Source	Eurostat			

Data collected and collated for the Robert Schuman Foundation, © FRS

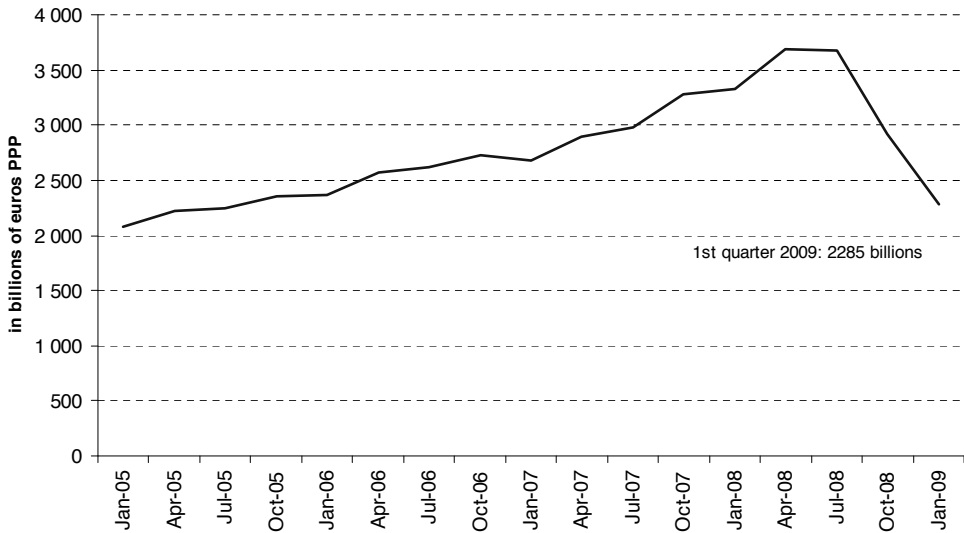
The average estimated length of time spent at school is 17.2 years in the European Union, which is more or less the same as in the United States. There is relative uniformity between European Countries, with notable exceptions such as, on the one hand, Luxembourg or Malta, which can be explained by late entry into the school system and, on the other hand, Finland or Sweden where lots of students continue to higher education. Moreover, correlation between the rate of higher education and the length of time spent at school is 83%.

However, the financial assistance from which students and pupils benefit varies a great deal from one country to another, in the same way as annual spending per student (see graph 2.3.4). Sweden, the Netherlands and Denmark, as well as Bulgaria and Cyprus, provide their pupils with large-scale financial support.

Professional training goes hand in hand with initial education. It means that workers can be kept up to standard and good management and that innovation practices can be spread within the economy. However, it is not very widespread in many European countries. There are major disparities between some European Union countries, as shown by the cases of the Czech Republic and Lithuania. In many cases, these disparities illustrate major cultural differences in the world of work. However the European Union is not significantly behind in this respect, compared to the United States.

## 2.4. The European Union in international trade

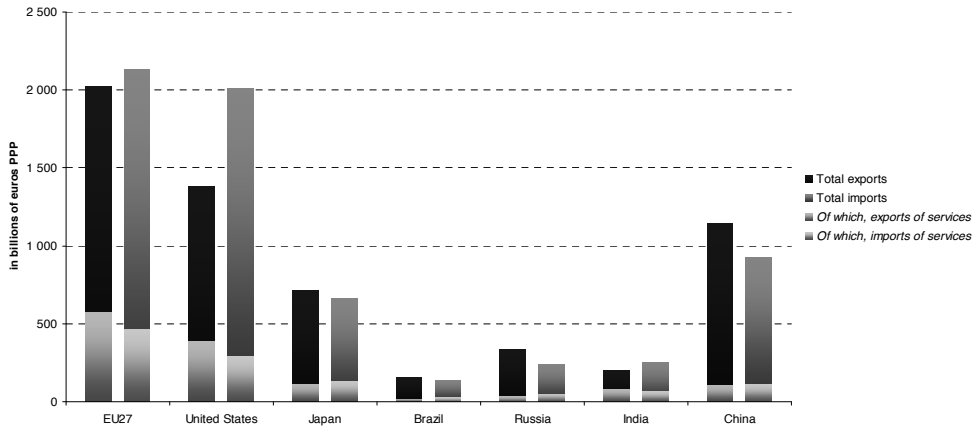
### 2.4.1. Global evolution of world trade (January 2005 – January 2009)



Source: WTO  
Data collected and collated for the Robert Schuman Foundation, © FRS

The financial crisis has caused a fall in world exports, something that had not happened since 1945. The fall was 38% in value terms between April 2008 and January 2009; it was then contained but international trade has still not returned to its pre-crisis level. This historic situation has had major repercussions on big export countries such as Germany and Japan.

### 2.4.2. Main exporters of goods and commercial services (excluding intra-EU trade)



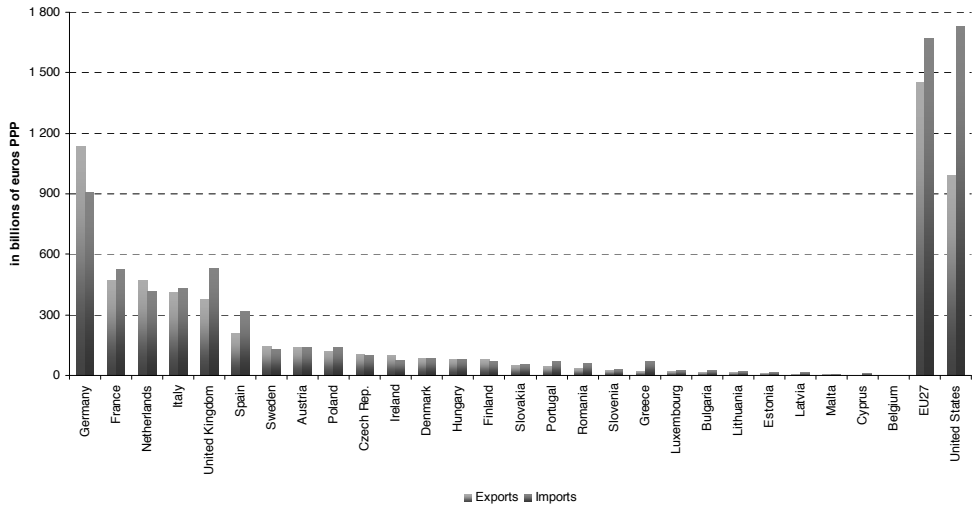
Source: WTO Data collected and collated for the Robert Schuman Foundation, © FRS

The European Union is by far the world's largest exporter of both goods and services. It exports 46% more than its nearest competitor, the United States, which puts it at the very heart of international commercial exchanges and globalisation. It owes this position in particular to certain major exporting countries such as Germany and the Netherlands. The main exporters, in addition to the United States, are Japan and China, which have seen major expansion over recent years.

The European Union represents 12.2% of total exports and 13.7% of total imports. The United States is the other major importing country, and both the EU and the US have negative trade balances, unlike China and Japan.

Services play a major role in the European Union's international commercial exchanges: 39.3% of exports and 27.9% of imports. The United States have a similar profile. In their exports, services are over-represented in India and goods in China and Russia. Different strategies are therefore being outlined within globalisation, leading to the creation of macroeconomic imbalances.

### 2.4.3. Exports and trade balance (2008)



Source: WTO

Data collected and collated for the Robert Schuman Foundation, © FRS

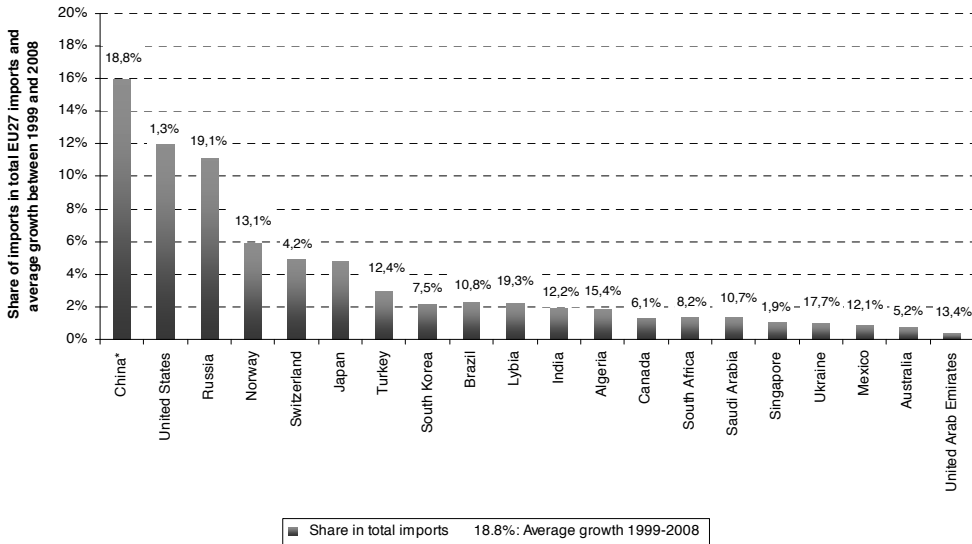
There are three groups of countries in the European Union: Germany, the world's leading export country, whose entire economy is concentrated on external markets, secondly France, the Netherlands, Italy, the United Kingdom and, to a lesser extent, Spain, which enjoy a large amount of trade with the world, and, thirdly, all the other countries.

This situation hides a variety of disparate situations: some countries such as the United Kingdom and Spain have major trade deficits, whilst Germany has a strong trade surplus. Also, some countries concentrate more on the internal European market (Germany, even though it trades extensively with China and the United States) whilst others concentrate on external markets (United Kingdom). These situations hide different economic orientations.

In macroeconomic terms, the European Union and the United States, despite their similarities in terms of participation in international trade, are actually in very different positions. The European Union, whose internal market is, for many countries, a natural trade market and where countries with strong trade surpluses compensate for those in deficit, has a trade balance which is almost nil. It varies from one year to the next, but remains limited. The United States, on the other hand, has a trade balance that has deteriorated massively in recent years and, in the long run, this situation could threaten the stability of the dollar.



### 2.4.4. Where do European imports come from? Main EU suppliers in 2008

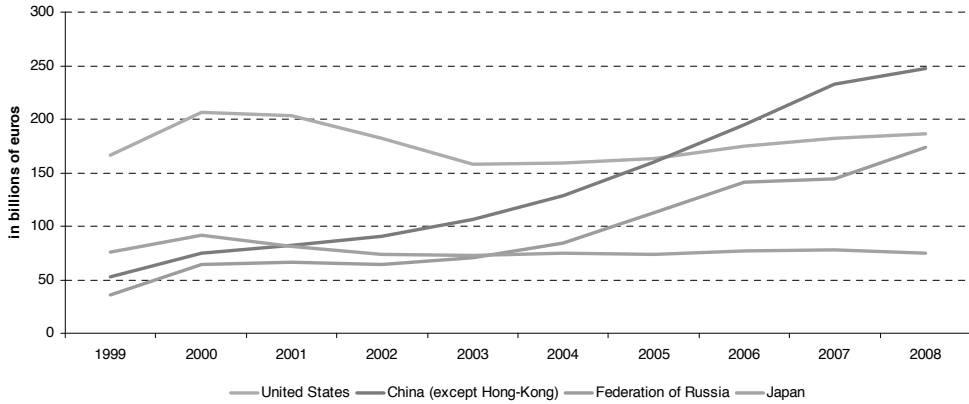


Source: Eurostat Data collected and collated for the Robert Schuman Foundation, © FRS

In less than ten years, imports from China and Russia have increased respectively by 18.8% and 19.1%, putting these two countries in first and third place amongst supplier countries to the European Union. By contrast, imports from the United States and Japan increased by only 1.3% for the former and decreased by 0.1% for the latter. China moved ahead of the United States in 2005 and Russia is set to do the same in a few years' time. Imperceptibly, the international economic balance is moving from the United States to Russia and China, the former a close neighbour to the European Union (with major energy imports) and the latter a major manufacturing country.

It can also be observed that the European Union has economic relations with every geographic area in the world, both far-flung partners such as Australia and Mexico and closer neighbours (Turkey and Switzerland).

### 2.4.5. Evolution of main EU imports (1999-2008)

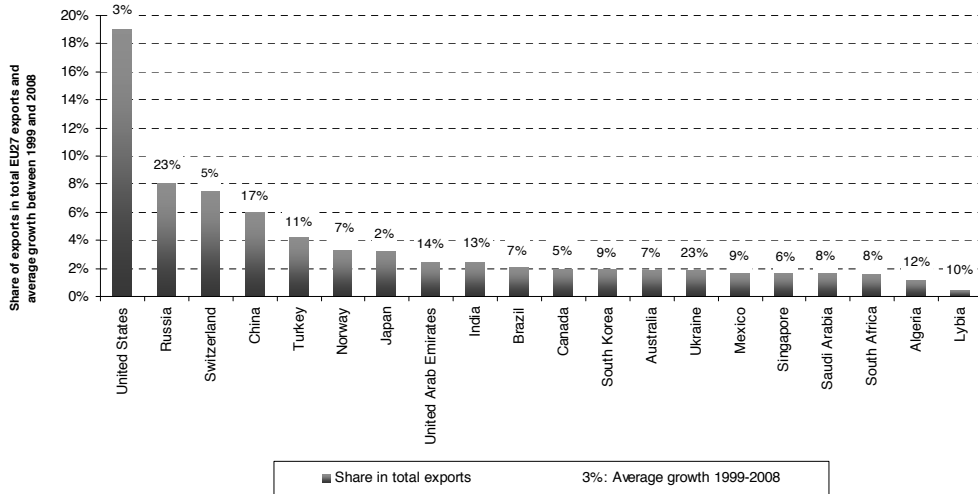


Source: Eurostat

Data collected and collated for the Robert Schuman Foundation, © FRS

China has now become the European Union's top supplier. It has overtaken the United States and its exports to the European Union are growing at a sustained rate. Countries surrounding the geographic area of the European Union are also enjoying high growth, vastly superior to that of traditional suppliers (Japan, Switzerland, United States). Raw materials (oil) play a large part in this growth, but we are also witnessing a re-centring of the Union's commercial relations around its neighbours and China. Trade balances are being redeployed around the Mediterranean and through to the East, towards emerging countries.

### 2.4.6. Where do European exports go? Main customer countries of the European Union in 2008



Source: Eurostat

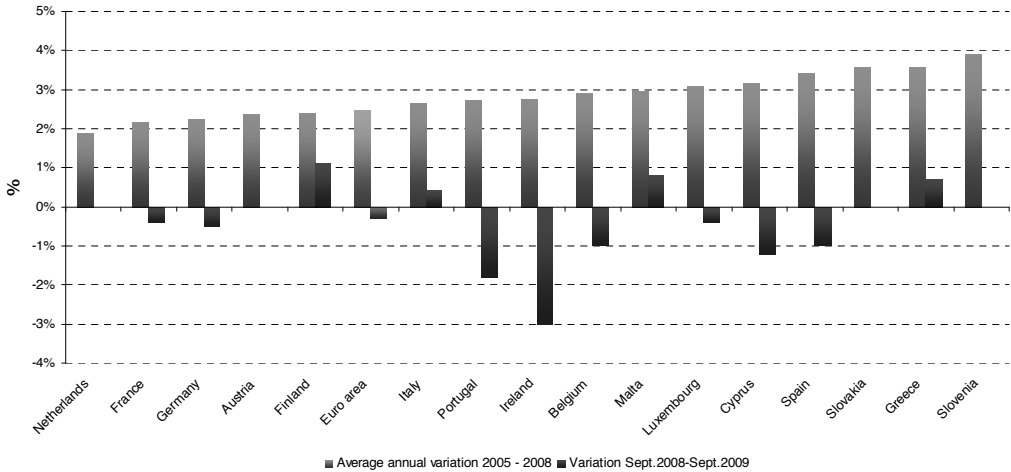
Data collected and collated for the Robert Schuman Foundation, © FRS

The exports landscape is different from that of imports: the United States occupies by far the first place, with 19.1% of total exports from the European Union. The Union's second largest commercial partner, Russia, represents only 8% of total. However, exports to Russia or China have grown rapidly over the past decade. More generally, countries to which exports increased the fastest, Russia, China, United Arab Emirates, India and Ukraine, are all emerging countries where European companies can exploit new, rapidly expanding markets. Although European Union exports go to every geographic area in the world, we can observe a tendency to trade more with the closest countries (Algeria, Libya, Ukraine, Russia) and with countries with the highest potential in market terms. This development is the result of the diversification strategy used by European companies.

## 3. The European Union and the economic and employment crisis

### 3.1. The roots of the financial and economic crisis

#### 3.1.1. Evolution of real property prices in the euro zone



Source: ECB  
Data collected and collated for the Robert Schuman Foundation, © FRS

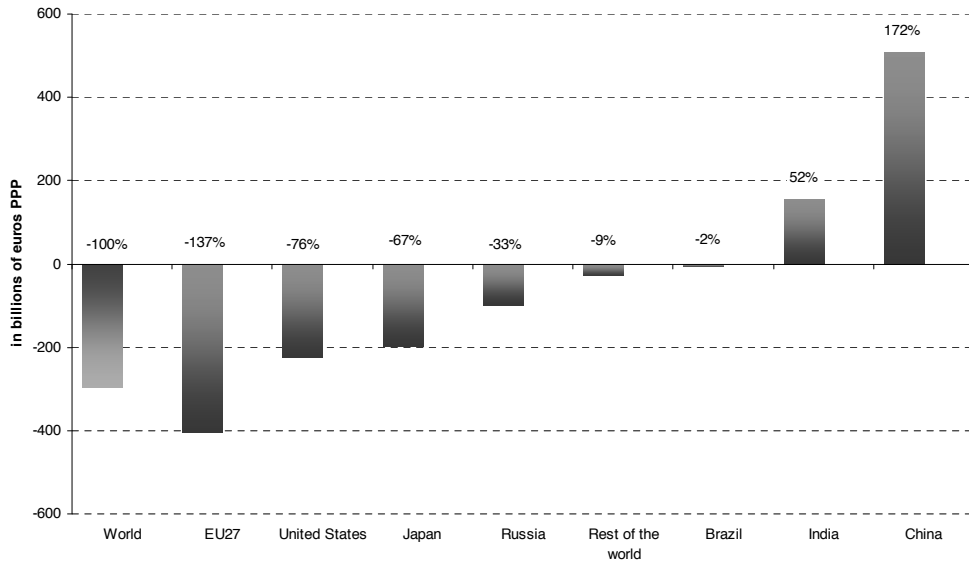
The “subprimes” crisis which began in July 2007 was the result of a real estate bubble bursting in the United States and of the cascading depreciation of asset backed securities. Over the course of the past decade, real estate prices had increased considerably on the other side of the Atlantic, as well as in most Member States: an average of +2.4% per year in the Euro Area between 2005 and 2008 and an increase of 30.5% between 1996 and 2008. In 2009, prices there fell by an average of -0.3%.

Some countries were impacted more strongly than others, especially Ireland, Portugal and Spain. The United Kingdom was also affected as well as some of the Balkan States. Others, like Finland and Italy, were relatively spared.

This domino collapse in “subprime” financial securities led to panic on the financial markets. The liquidity of these markets gradually dried up, paralysing the entire banking system and plunging the world economy into recession.

## 3.2. Economic crisis

### 3.2.1. Distribution of world growth in 2009

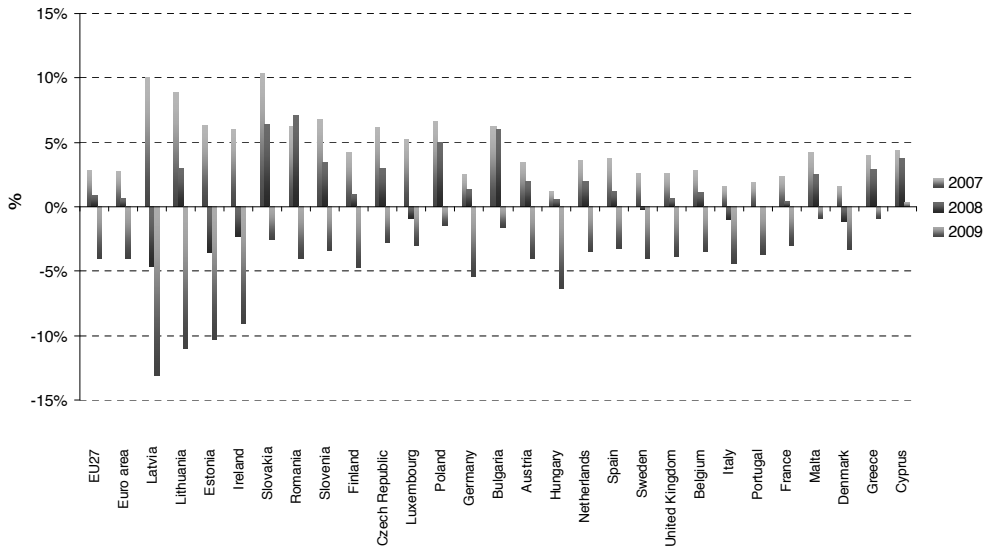


Source: IMF and author's calculations  
Data collected and collated for the Robert Schuman Foundation, © FRS

The economic crisis impacted every economy, but in different ways: advanced countries, the United States, Japan and the European Union, were the most strongly affected. The crisis paralysed a financial system that was supplying a knowledge economy, close to the technological frontier. The financial system that had been set up gradually over recent decades was based on liberalisation and an ability to adapt to a more flexible, flowing type of capitalism, operating around innovative projects. The financial systems of emerging countries, which are more rigid, less internationally-focussed and more adapted to a mainly industrial economy, were actually less affected, as was the case with China.

In July 2009, over a period of one year, 295 billion euros at GDP purchasing power parity had disappeared, i.e. a variation of -0.5%, something that had not happened since 1945. It was the European Union (137%), the United States (76%) and Japan (67%) which contributed most to this fall. With their strong growth China and India limited the world recession. With the exception of the major industrial countries, the rest of the world was only slightly affected, representing barely 9% of the fall worldwide.

### 3.2.2. GDP growth in EU Member States (2007-2009)



Source: Eurostat and author's calculations.  
Data collected and collated for the Robert Schuman Foundation, © FRS

The graph shows GDP growth development for each Member State over the three years of the crisis: 2007, 2008 and 2009. Whereas growth was positive for all states in 2007, it was negative in 2009 (except in Cyprus). The economic crisis was swift and brutal and led to impressive situation reversals: Latvia went from 10% growth in 2007 to -13.1% in 2009, i.e. growth differential of 23.1%!

In 2010, growth is set to be lacklustre for all European countries, varying between -0.8% in Estonia and +0.8% in Sweden and Poland. Only Ireland (-2.6%), Latvia (-3.2%) and Lithuania (-4.7%) should see their position deteriorate further, according to Eurostat forecasts.

### 3.2.3. Investment and consumption in the EU

	Investment as a % of GDP (2009)	Variation in investment rate 2007-2009	Consumption, as a % of GDP (2009)	Variation in consumption rate 2007-2009
Austria	20	-8,3%	54,6	2,8%
Belgium	21,8	0,5%	54	3,3%
Bulgaria	28,8	-3,4%	67,8	-1,9%
Cyprus	22,7	3,2%	66,4	0,2%
Czech Republic	23,2	-7,9%	50,9	6,7%
Denmark	19,6	-11,7%	49,7	1,4%
Estonia	23,7	-27,1%	57,6	4,3%
Finland	19,4	-4,9%	53,3	5,5%
France	21,2	-1,9%	58,3	3,0%
Germany	18,2	-2,7%	58,9	3,9%
Greece	18,4	-18,2%	72	1,1%
Hungary	18,9	-10,0%	53,6	0,4%
Ireland	15,9	-39,5%	48,9	5,8%
Italy	18,5	-12,7%	60	2,2%
Latvia	26	-22,8%	54,7	-12,2%
Lithuania	19,8	-29,3%	61	-5,7%
Luxembourg	18,8	-3,6%	35	8,7%
Malta	16,3	-17,3%	62,6	2,8%
Netherlands	19,5	-2,0%	47,6	2,4%
Poland	20,7	-4,2%	62,9	3,8%
Portugal	18,8	-13,8%	66,5	2,3%
Romania	31,8	4,6%	63,6	-5,5%
Slovakia	24,9	-4,6%	57,6	3,0%
Slovenia	24,5	-10,9%	53,7	2,9%
Spain	25,2	-18,7%	56,6	-1,2%
Sweden	17,2	-9,5%	46,8	0,2%
United Kingdom	15,5	-12,9%	64,5	1,1%
<b>Euro area</b>	<b>20,1</b>	<b>-8,2%</b>	<b>57,7</b>	<b>2,5%</b>
<b>EU 27</b>	<b>19,6</b>	<b>-8,0%</b>	<b>58,4</b>	<b>1,9%</b>
United States	16,5	-14,9%	69,4	-0,6%
Japan	21,2	-9,4%	58,8	4,4%

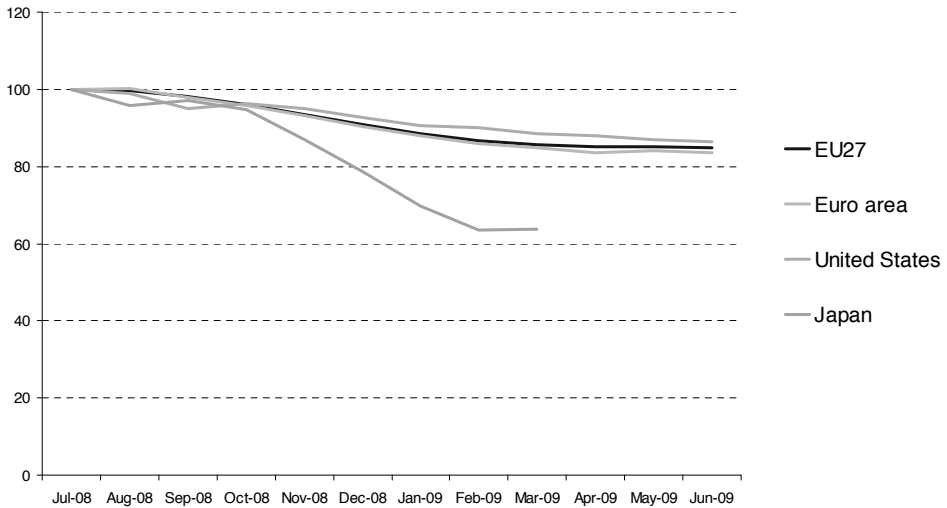
Source: Eurostat.

Data collected and collated for the Robert Schuman Foundation, © FRS

In the European, American and Japanese economies, consumption represents the major share of GDP. This is particularly true in the United States. Consumption has been affected only slightly by the crisis, and even grew in Europe and Japan. The economic crisis is not therefore a crisis in consumption, which explains why economic stimulus plans implemented by countries did not concentrate their efforts on consumption but rather on stimulating investment.

Although investment represents on average only 20% of the production of industrial countries, it is the main driving force for growth and businesses. It is important both in the short term in order to optimise and improve the manufacturing and production process and also in the long term to ensure countries' international competitiveness. Reduction has been massive: -14.9% in the United States, -8% in the European Union, with reduction of up to -29.3% in Lithuania and -39.5% in Ireland. These sudden falls caused the economic recession but they will, above all, have long-term consequences since countries affected have been unable to renew their production tools and invest in the technologies of the future. This is why stimulus plans have attempted to counter this drop by encouraging investment: construction of new buildings and infrastructures and reduction of taxes on companies to encourage productive, innovative investment.

### 3.2.4. Industrial production index



Source: Eurostat

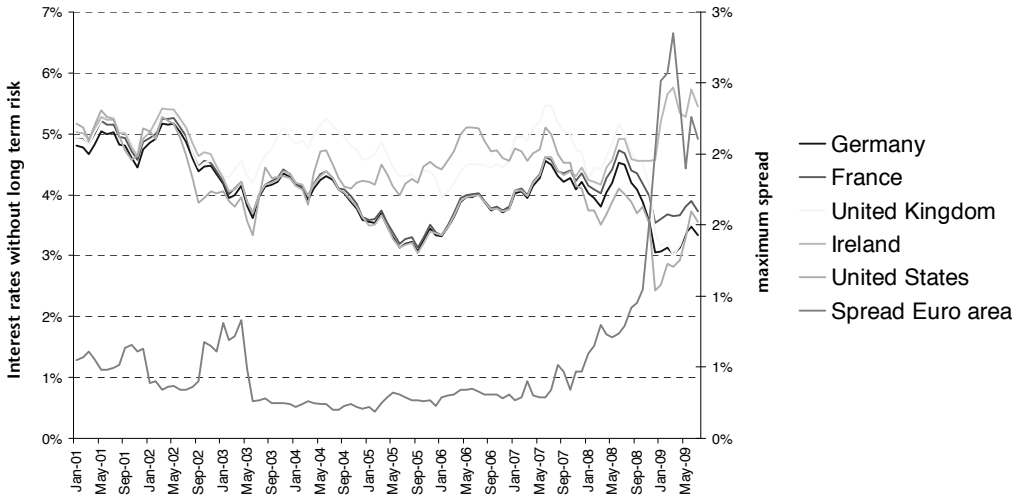
Data collected and collated for the Robert Schuman Foundation, © FRS

Industry was the first victim of the financial crisis. Industry concentrates most of R&D spending, investments and cash requirements. Blockage of the international financial system severely hampered industry. The most affected in the short term were the industries most dependent on the financial markets, particularly the car industry.

Starting from base 100 in July 2008, when the economic crisis started, it is clear that industrial production collapsed in every industrialised country through until the first half of 2009. Since then it has stagnated rather than truly getting back to growth. The long term effect of a fall in investment and the difficulties that the financial markets are still facing mean that the effects of the crisis will continue to be felt for many years, but it is impossible to predict exactly how they will be expressed.



### 3.2.5. Evolution of long term risk-free interest rates (10 years) and maximum spread in the Euro Area

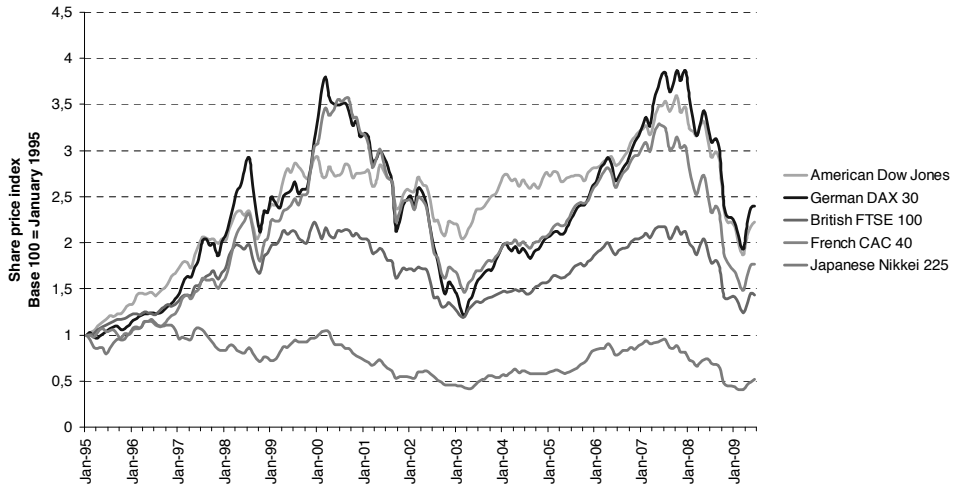


Source: ECB, FED and author's calculation  
Data collected and collated for the Robert Schuman Foundation, © FRS

Interest rates for long term government bonds are the reference base for other rates. The higher they are and the more expensive it is to borrow and invest. Until July 2007 interest rates in the Euro Area were relatively similar between countries; rates were even converging. The Euro Area spread shows the difference between the lowest and the highest interest rate in the Euro Area.

From July 2007 onwards, divergence in rates can be observed within the Euro Area, to an extent that had never previously been seen. The crisis revealed very different financial situations from one state to another; some states saw their rating downgraded by the rating agencies, illustrating the structural weakness of these economies. The downgrade in rating had the effect of raising interest rates. Investors who had previously tended to consider the Euro Area as a single block suddenly reconsidered their position. The effect of the crisis was to strain monetary links between European countries. The ECB reacted by injecting liquidities to calm the markets and counter centrifugal effects. It thus avoided the kinds of situations that occurred prior to the creation of the Euro Area.

### 3.2.6. Developments on stock markets (1995-2009)

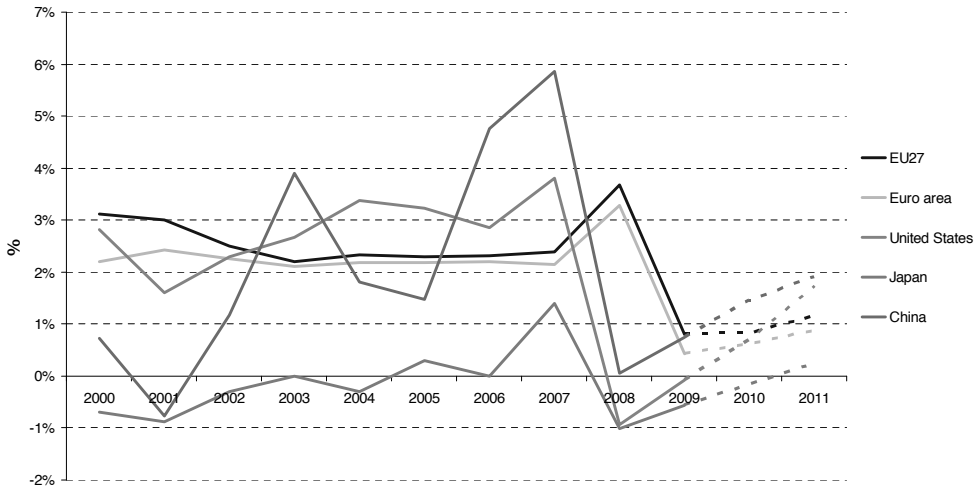


Source: Eurostat and author's calculation  
Data collected and collated for the Robert Schuman Foundation, © FRS

As is the case in every crisis, the stock markets reacted downwards, falling heavily after July 2007 and, above all, in September 2008 after the bankruptcy of Lehman Brothers bank and the high risks of illiquidity that weighed on the markets. Between June 2007 and March 2009, the Euronext index fell by -55.9%. The lowest point was reached in December 2009 when markets were at their January 1996 level. More than a decade reduced to nothing.

Very strong correlation is also observed between European and American markets, demonstrating the strong links that unite these markets, both via joint stock markets (NYSE Euronext for example, which includes the Paris, Amsterdam, Brussels and New-York stock markets) and the strong integration of all these economies. Japan, which has been in a difficult economic and financial position since the serious property crisis of the nineties, has seen its stock market index stagnate.

### 3.2.7. Inflation rate evolution (2000-2009)



Source: IMF

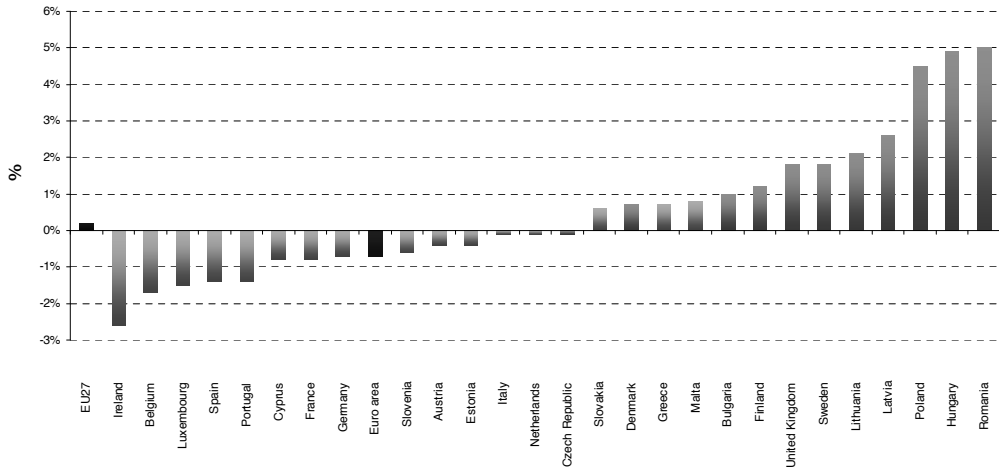
Data collected and collated for the Robert Schuman Foundation, © FRS

Whereas the inflation rate had been maintained at around 2-3% in Europe and the United States for several years, in part thanks to the monetary policy implemented by Central Banks, the economic crisis and sudden fall in the price of oil brought inflation down to rates close to zero. The fall in central banks' key rates meant that a reasonable actual rate could be maintained. Deflation, which began in 2009 in some European countries and the United States, results however in numerous threats to the stability of the economy. Inflation can be countered by restrictive monetary policies, but deflation is a phenomenon that self-maintains and from which it is difficult to exit. The case of Japan can be used as an illustration: since the nineties it has been alternating between inflation and deflation without achieving a return to growth.

The figures date from August 2009 and forecasts were maybe too optimistic at that time. Indeed, by the end of 2009 the euro zone was subject to deflation, modest, yes, but the situation was different from what had been forecast.

The large amounts of liquidities that were injected into the economy along with the increase in energy prices observed at the end of 2009 mean that hyperinflation threatens in the long term. It is between these two threats, Charybdis and Scylla, between deflation and hyperinflation, that the central banks are navigating, making use of all their financial tools and finding new ones in order to avoid them both.

### 3.2.8. Inflation rates in EU Member States (2009)



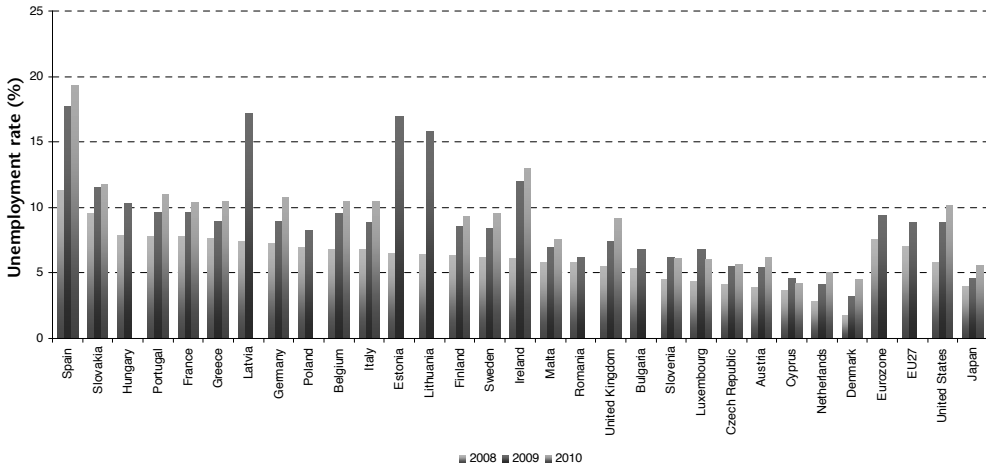
Source: Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

Low inflation in the European Union hides some very different realities. Most Euro Area countries are undergoing major deflation, an average of -0.7% at annual rates. Some countries, such as Ireland, have seen prices fall at an annual rate of -2.6%. This deflation situation is dangerous for the economy because it self-maintains and traditional monetary policy tools (rate reduction) do not work. Deflation is becoming the main challenge faced by the European Central Bank.

By contrast, countries that have joined the European Union only recently still have large-scale inflation, in part due to the volatility of their currencies and to the structure of their economy. For many years these economies have had high inflation rates and the crisis has caused this trend to vary only slightly.

### 3.3 Employment Crisis

#### 3.3.1. Evolution of unemployment rates in EU Member States (2008-2010)

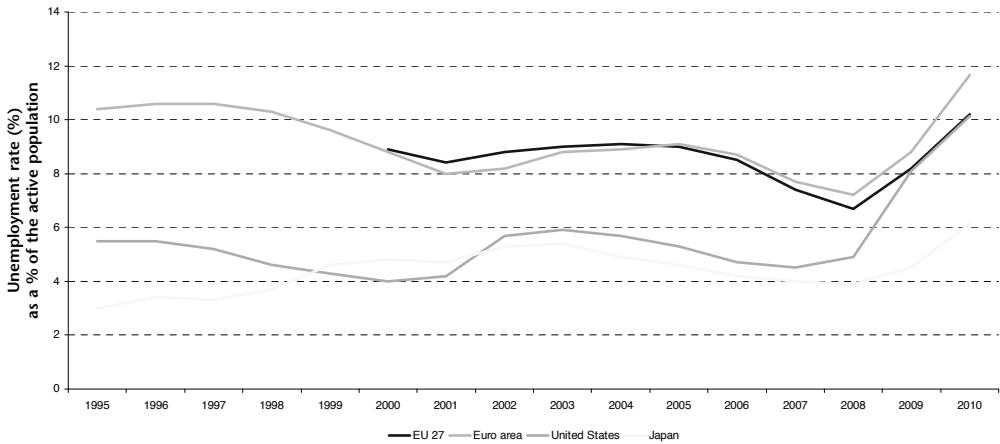


Source: Eurostat, IMF and ILO  
Data collected and collated for the Robert Schuman Foundation, © FRS

After the financial crisis and the economic crises comes the social crisis. There is always a gap of about a year between these various phases in a crisis. Every European Union country, the United States and Japan have seen their unemployment rates increase rapidly. The increase has been a function of the strength of the economy in question and the structure of its employment market. The country most affected has been Spain, where the unemployment rate will be close to 20% in 2010 according to forecasts issued by Eurostat, the IMF and the International Labour Organisation (ILO). The Baltic countries and Ireland also experience massive rises.

Unemployment increased by 27% in the European Union between 2008 and 2009, i.e. slightly more than 6 million people out of work within the space of just one year. The ILO forecast that in 2009 the crisis would cause an increase in the number of unemployed people of between 40 and 50 million.

### 3.3.2. Evolution of unemployment rates in the United States, Japan and the EU (1995-2010)

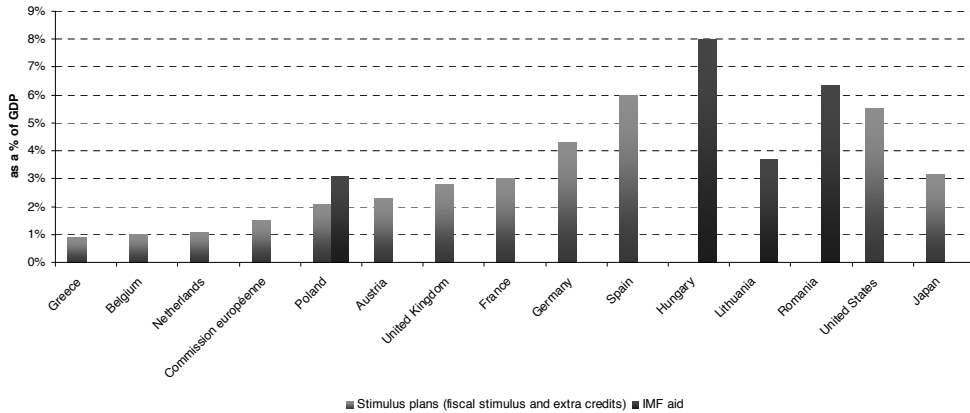


Source: Eurostat, IMF and ILO  
Data collected and collated for the Robert Schuman Foundation, © FRS

Since 1995 unemployment rates in the European Union had tended to fall. The crises of 1995 and 2001 had led to an increase in unemployment which had been reabsorbed in just a few years. The American labour market, more flexible than in Europe, reacted strongly to the previous crises. The “subprimes” crisis caused a major break in unemployment trends: unemployment increased rapidly from 2008 to reach levels that had been unheard of for decades. The United States suffered a bigger increase than in the European Union, starting from an unemployment rate that was structurally and historically lower, and the two rates are now almost the same. Economic forecasting bodies do not foresee any improvement before 2010 or even after that, with rates of 11.7% for the Euro Area and 10.1% for the United States. Hitherto increases in unemployment have not resulted in social unrest but rather in major changes to the labour market: in France, for example, the number of companies being created, particularly amongst the self-employed, has increased considerably. This is probably due to the decision of workers who have been made redundant or who have left their jobs to set up their own autonomous activity.

### 3.4. Stimulus plans and their consequences

#### 3.4.1. Summary of stimulus plans and IMF aid (mid 2009)



Source: IMF, Bruegel, US Economic Department and author's calculations  
Data collected and collated for the Robert Schuman Foundation, © FRS

To counter the most negative effects of the crisis, an expansionist monetary policy (massive injection of liquidities into the financial system) and a Keynesian and interventionist budgetary policy were implemented. Under the impulse of international institutions such as the IMF and in coordination with the Central Banks, most governments decided to implement massive stimulus plans. The aim of these plans was to stimulate the economy by investment which, as we have seen, was the first victim of the crisis. The plans had two sides to them: some were made up of tax reductions, and more particularly reductions in taxes on investments and innovation, and others were devoted to the launch of major building projects to improve existing infrastructures or the financing of innovative projects.

The most ambitious stimulus plans have been implemented by the United States, Spain, Japan and Germany. These were also the countries most impacted by the crisis. These stimulus plans ensured that strong deterioration of the economy was avoided. In other words, public debt resulted in a few extra GDP points, limiting the expected recession. Without these plans, the impact of the crisis would have been stronger; their counterpart is however the major increase in public debt. Moreover, it is not at all certain that this public investment will be truly productive in the long term and that the stimulus plans will have anything other than short term effects.

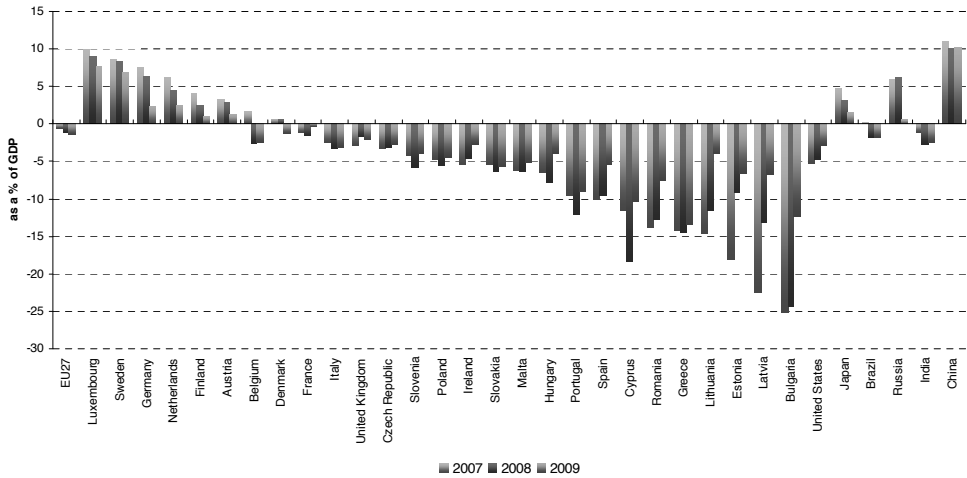
The IMF has also intervened amongst more fragile countries, such as Hungary, Latvia and Romania to avoid a collapse of their banking and finance system. This is the usual role played by the IMF. Assistance given to Poland was different: the IMF lent money without demanding any structural reforms in return, as is usually the case. This relaxing of the IMF's intervention rules has enabled it to be more present and more in demand amongst countries in difficulty.

It should be noted that the Commission's stimulus plan does not correspond to the sum of EU27 stimulus plans.

It should be noted that IMF aid for Poland is a loan and not conditional aid.

The payment of aid to Romania was suspended in 2009 after the collapse of the government.

### 3.4.2. Current deficits in EU Member States (2007-2009)



Source: IMF

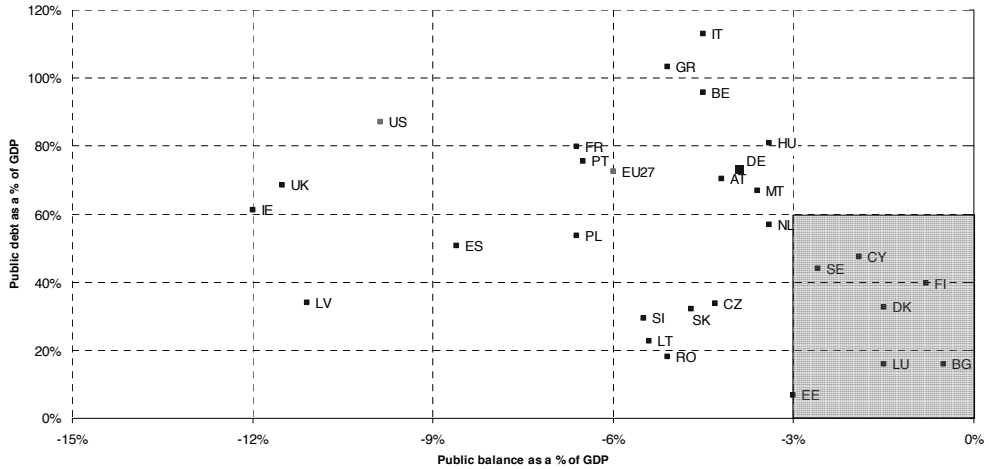
Data collected and collated for the Robert Schuman Foundation, © FRS

Current deficits, which demonstrate capital requirements, show two groups of countries. Those with surpluses (Germany, the Netherlands, China and Russia) due to their export activities, and those which have to import capital to finance growth, first and foremost amongst which are some of the new members of the European Union. France remains relatively balanced. Transfers from one country to another within the European Union mean that a certain degree of balance can be retained: unlike the United States, the European Union has almost no current deficit. This does not mean that it is independent from the rest of the world but that the variety of economic situations amongst its members ensures relative neutrality.

The crisis has not altered balances but has reduced the scale of imbalances (in surplus or deficit).



### 3.4.3. Balance and public debt in EU Member States (2009)



Sources: IMF, Eurostat, European Commission  
Data collected and collated for the Robert Schuman Foundation, © FRS

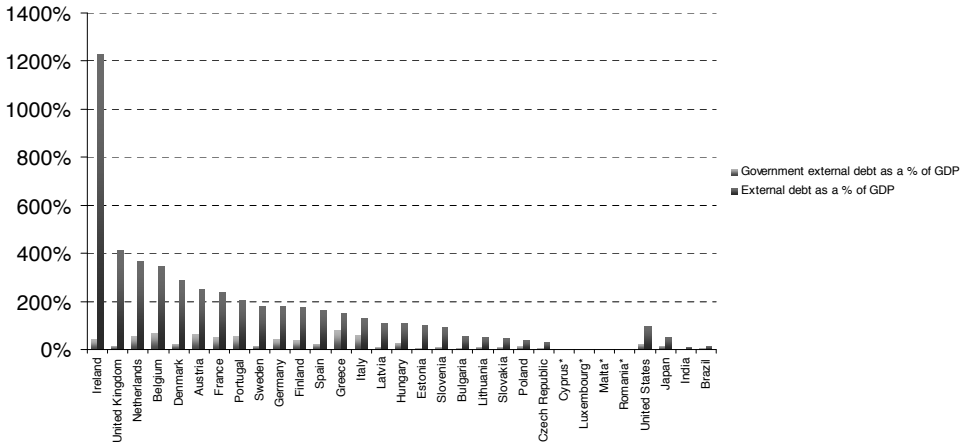
The fall in tax income, linked to economic slowdown combined with an increase in social spending due to the deterioration in the labour market, has considerably increased current deficits amongst Member States. Expansionist budgetary policies (economic stimulus plans) also added to these deficits.

Whereas the Maastricht criteria provide for public debt a limit set at 60% of GNP and a public deficit below 3% of GDP, most countries have been unable to stick to these two criteria during the course of the crisis. Only a few countries, which previously had positive public accounts, or accounts close to zero, still respect the Maastricht criteria. Two groups of countries stand out: the United Kingdom, Ireland, Spain and Latvia, which have experienced a major deterioration in their public balance, which, in the long term will result in a major increase in public debt. Restrictive measures will have to be taken in order to return to a more stable situation. Italy, Greece and Belgium had very high public debt prior to the crisis; it is getting even worse and it prevented them from fully committing to an expansionist budgetary policy.

On average, in the European Union, public deficit will be -6% in 2009 and public debt 72.6% of GDP.

In the long term, the poor situation of public accounts could be a problem for the stability and credibility of the Euro Area.

### 3.4.4. External debt of EU Member States and their governments (2009)



Sources: IMF, Eurostat, World Bank and author's calculations  
Data collected and collated for the Robert Schuman Foundation, © FRS

The external debt of a state represents all public or private debts held by non-residents. This is the debt index of a given population vis-à-vis the rest of the world. In most cases government debt is well below that of the rest of the country (individuals, businesses, etc.), except in Greece or in Italy.

Situations are very disparate. The most alarming situation is that of Ireland, which is indebted by up to 12 times its own GNP. This means that it would take 12 full years of work to fully reimburse all its creditors. Ireland is therefore particularly dependent on external countries and is vulnerable to changes in the economic and financial climate.

Most of the small countries open to the world, such as the Netherlands, Belgium or Austria are also massively indebted vis-à-vis the rest of the world. More closed countries, such as Japan or Poland, are much less so. The Japanese public debt is therefore mostly held by residents: although this debt is very large it does not make the country dependent on foreign creditors.

### 3.4.5. Deterioration in public finances

	Public debt, as a % of GDP (1998)	Public debt, as a % of GDP (2008)	Public debt, as a % of GDP (2009)	Public debt, as a % of GDP (2010)	Variation 1998-2008	Variation 2008-2010
<b>EU27</b>	<b>67%</b>	<b>62%</b>	<b>73%</b>	<b>79%</b>	<b>-7,5%</b>	<b>29,1%</b>
Austria	65%	63%	70%	75%	-3,5%	20,3%
Belgium	117%	90%	96%	101%	-23,5%	12,6%
Bulgaria	80%	14%	16%	17%	-82,3%	22,7%
Cyprus	59%	49%	48%	48%	-16,2%	-2,4%
Czech Republic	15%	30%	34%	38%	98,7%	27,2%
Denmark	61%	33%	33%	34%	-45,2%	1,2%
Estonia	6%	5%	7%	8%	-12,7%	62,5%
Finland	48%	33%	40%	46%	-30,7%	36,8%
France	59%	68%	80%	86%	14,6%	26,3%
Germany	60%	66%	73%	79%	9,3%	19,4%
Greece	106%	98%	103%	108%	-7,8%	10,7%
Hungary	62%	73%	81%	82%	17,7%	12,7%
Ireland	54%	43%	61%	80%	-19,4%	84,5%
Italy	115%	106%	113%	116%	-7,9%	9,7%
Latvia	10%	20%	34%	50%	103,1%	156,9%
Lithuania	17%	16%	23%	32%	-6,0%	104,5%
Luxembourg	7%	15%	16%	16%	107,0%	11,6%
Malta	53%	64%	67%	69%	20,0%	7,5%
Netherlands	66%	58%	57%	63%	-11,4%	8,4%
Poland	39%	47%	54%	60%	21,1%	26,8%
Portugal	52%	66%	75%	82%	27,4%	22,7%
Romania	17%	14%	18%	23%	-18,1%	66,9%
Slovakia	35%	28%	32%	36%	-20,0%	31,5%
Slovenia*	27%	23%	29%	35%	-14,9%	53,1%
Spain	64%	40%	51%	62%	-38,4%	57,7%
Sweden	69%	38%	44%	47%	-45,0%	24,2%
United Kingdom	47%	52%	68%	82%	11,3%	57,1%
<b>United States</b>	<b>68%</b>	<b>71%</b>	<b>87%</b>	<b>97%</b>	<b>4,2%</b>	<b>38,2%</b>
<b>Japan</b>	<b>112%</b>	<b>196%</b>	<b>217%</b>	<b>227%</b>	<b>74,9%</b>	<b>15,9%</b>

Source: Eurostat, European Commission and IMF  
Data collected and collated for the Robert Schuman Foundation, © FRS

As a consequence of the economic crisis, the public finances of European Union countries have deteriorated quite considerably. Between 1998 and 2008 a major effort was made to reduce public deficits, particularly in countries that had previously been subject to difficult situations (large-scale public debt in Belgium, large-scale public deficit in Bulgaria), as well as in Scandinavian countries (Finland, Sweden, the Netherlands), which have returned to a virtuous budgetary policy.

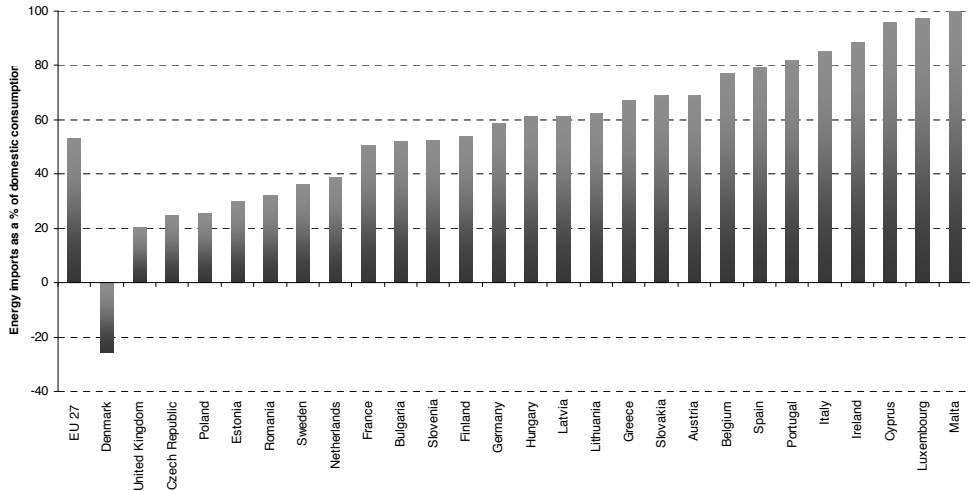
However, within just two years the crisis was to wipe off all the efforts made since 1998. Between 2008 and 2010, the average public debt of the European Union increased by 29.1%, whereas it had fallen by just 7.5% in ten years. All other countries saw their budgetary position worsen compared to the position in 1998, with the exception of Belgium, Bulgaria, Denmark and Sweden. With the same amount of effort as between 1998 and 2008, over 30 years will be required to return to the initial position.

The economic crisis known as the “subprimes” crisis has therefore considerably upset the European economy as it deteriorated public finances, increased the unemployment rate and massively reduced investments. The effects of the crisis will be felt for many years and no-one is in a position to say exactly in what ways.

Statistics for public debt in Slovenia are only available since 2001.

## 4. The European Union and scarcity of resources

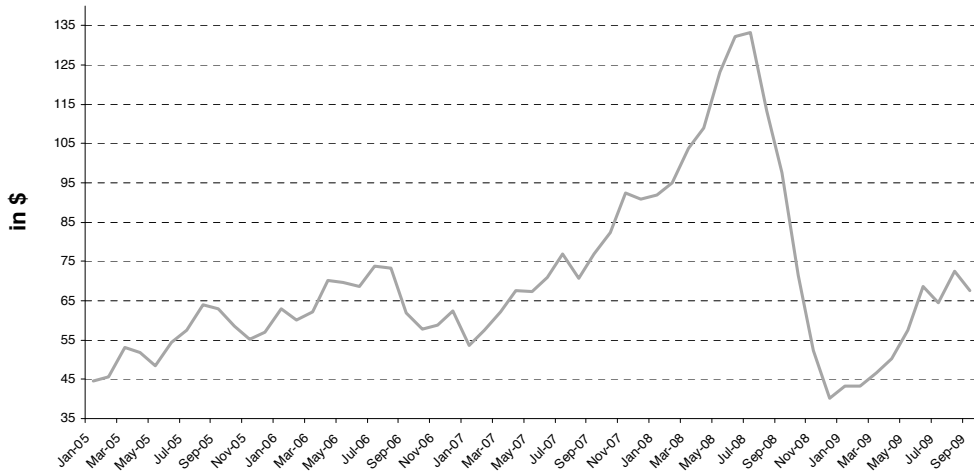
### 4.1. Energy dependency of EU Member States: net energy imports



Sources: Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

With the notable exception of Denmark every country in the European Union is energy-dependent. On average the European Union imports 53.1% of the energy it consumes, i.e. about half. Some countries, such as Malta, Luxembourg and Cyprus, are completely dependent on energy imports since they produce very little or none at all on their own territory. Others, like the United Kingdom, are relatively independent, due to the presence of energy resources on their own territory.

#### 4.2. Evolution in the price of the barrel of Brent, in dollars (2005-2009)



Source: Ministry of Ecology  
Data collected and collated for the Robert Schuman Foundation, © FRS

The globalisation and liberalisation of oil markets have made the Brent price unstable. The increased influence of China and emerging countries and the ever-increasing use of fossil fuels mean that prices are subject to upward trends. In 2008 a bubble formed, under the pressure of both a fall in production and an increase in world demand. At the peak of the bubble, the price of a barrel was 3 times its 2005 price. This sudden increase resulted in an increase in the price of energy, an increase in inflation and difficulties for companies with high energy requirements. When the bubble burst, markets were relieved and a general reduction in prices was observed.

With the gradual recovery of economic activity, oil needs are again increasing, dragging prices upwards. The main oil producing countries are seeking to stabilise prices at around 80 dollars, i.e. a price that is still considerably higher than prices seen in the nineties and at the beginning of the noughties.

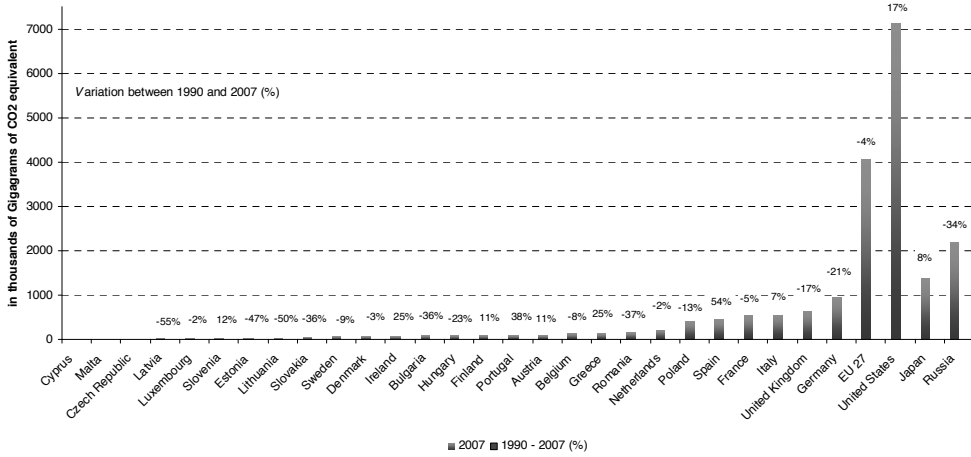
### 4.3. Prices of electricity, gas and petrol in EU Member States (2009)

	Price of standard unleaded petrol in euros per litre with tax (2009)	Share of taxes in the price of standard unleaded petrol (2009)	Price of diesel fuel in euros per litre with tax (2009)	Price of domestic fuel oil in euros per gigajoule (2009, *2008)	Price of gas to industry in euros per gigajoule (2009, *2008)	Price of domestic electricity in euros per kWh (2009, *2008)	Price of electricity to industry in euros per kWh (2009, *2008)
Austria	1,18	42%	1,16	13,13	8,9*	0,138	0,089*
Belgium	1,41	39%	1,10	13,54	8,7	0,15*	0,098*
Bulgaria	n/a	n/a	n/a	10,9469	8,7	0,0685	0,064
Cyprus	1,02	57%	1,01	n/a	n/a	0,1336	0,116
Czech Republic	1,20	46%	1,21	11,5531	9,0	0,1102	0,106
Denmark	1,34	39%	1,17	12,3959	7,4	0,1239	0,074
Estonia	1,01	49%	1,11	8,9926	7,3	0,0712	0,059
Finland	1,35	37%	1,16	n/a	8,0	0,0974	0,066
France	1,34	39%	1,19	13,01	9,8	0,0959	0,065
Germany	1,35	36%	1,24	13,3*	11,3*	0,1	0,098
Greece	1,10	51%	1,12	n/a	n/a	0,1055	0,095
Hungary	1,15	47%	1,16	10,1343	9,1	0,1227	0,112*
Ireland	1,20	46%	1,20	15,76	9,3	0,1792	0,131
Italy	1,36	42%	1,26	12,0*	8,8*	0,17*	0,103*
Latvia	1,03	56%	1,04	13,2097	10,9	0,0957	0,090
Lithuania	1,02	53%	1,04	9,9989	8,7	0,0799	0,092
Luxembourg	1,15	47%	1,02	12,8*	11,3*	0,1595	0,118
Malta	1,09	56%	1,02	n/a	n/a	0,9*	0,122*
Netherlands	1,49	40%	1,17	14,179	9,0	0,14	0,095
Poland	1,18	43%	1,12	8,8525	7,7	0,0883	0,086
Portugal	1,39	41%	1,20	15,68	9,8	0,143	0,089
Romania	n/a	n/a	n/a	5,2832	5,1	0,0814	0,081
Slovakia	1,16	44%	1,22	10,781	11,1	0,1294	0,142
Slovenia	1,06	49%	1,06	14,44	11,3	0,107	0,106
Spain	1,10	49%	1,05	13,8*	7,6*	0,1294	0,110
Sweden	1,27	36%	1,23	13,9953	9,3	0,104	0,066
United Kingdom	1,39	37%	1,46	10,5*	8,0	0,14*	0,108
<b>EU 27</b>				<b>11,8*</b>	<b>8,9*</b>	<b>0,12*</b>	<b>0,088*</b>
<b>Euro area</b>				<b>12,7*</b>	<b>9,4*</b>	<b>0</b>	<b>0,088*</b>
Source :	Eurostat, 2009	Eurostat, 2009	Eurostat, 2009	Eurostat, 2009 (*2008)	Eurostat, 2009 (*2008)	Eurostat, 2009 (*2008)	Eurostat, 2009 (*2008)

Data collected and collated for the Robert Schuman Foundation, © FRS

The cost of energy is relatively uniform within the European Union and differences can often be explained by taxation differences. Taxes represent between 36% and 57% of the price of unleaded petrol for example.

### 4.4. Greenhouse gas emissions (2007)

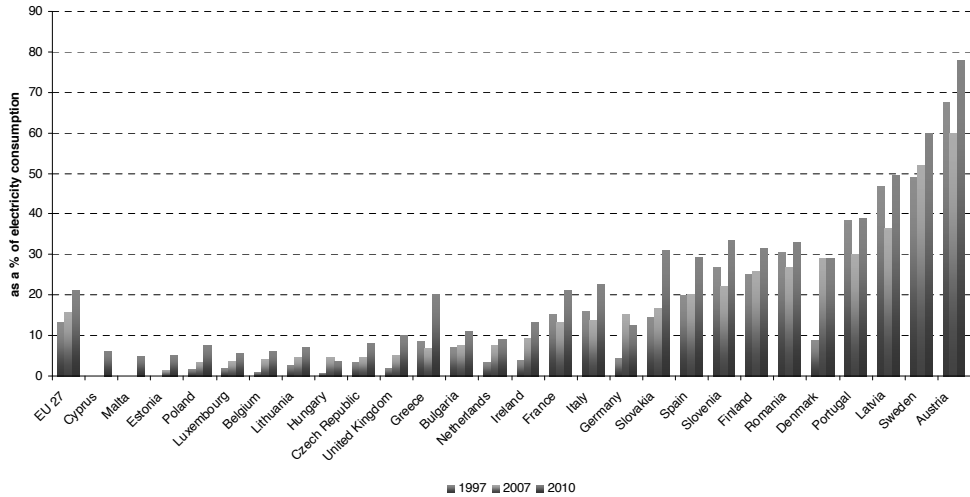


Source: Eurostat  
 Data collected and collated for the Robert Schuman Foundation, © FRS

The graph shows weighted emissions of greenhouse gases, in millions of tonnes of CO<sub>2</sub> equivalent. This is a summary view that only serves for comparison. A great deal of heterogeneity is observed in greenhouse gas emissions, which represents different industrial intensities. A country like Germany will naturally pollute more than a relatively non-industrial country such as Luxembourg. However, the United States and the European Union, although similar in terms of industrial and economic profiles, differ clearly from one another in terms of greenhouse gas emissions. The United States emits 75% more than the European Union and trends are in opposition too, since the European Union reduced its emissions by 4.3% over a period of 17 years whereas those of the United States increased by 16.8%.

With the exception of Portugal, Spain, Ireland, Slovenia and Finland, all Member States have made a major effort to reduce their greenhouse gas emissions, in line with the objectives set by the Kyoto protocol in 1998.

#### 4.5. Share of electricity produced from renewable energy sources

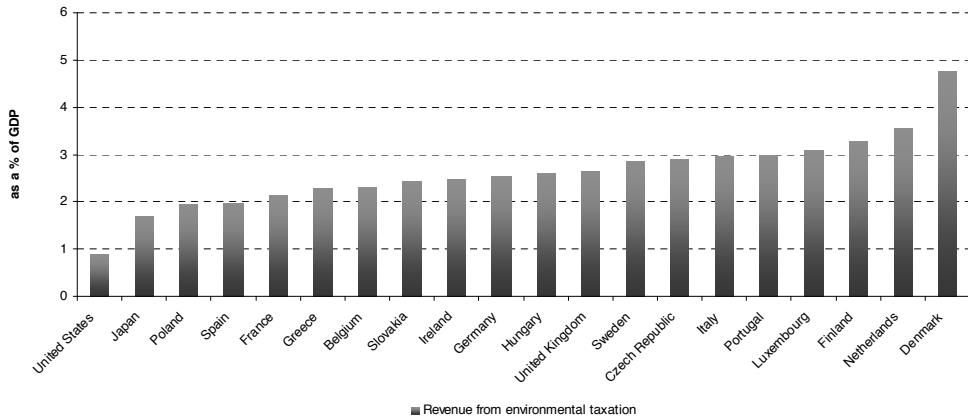


Source: Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

The share of renewable energies in electricity consumed tends to increase in the European Union, from 13.1% in 1997 to 21% in 2010 according to an estimate. In 2007, this share was at 15.6%; forecasts for 2010 are perhaps a little too optimistic. This situation hides environmental strategies that are very different from one country to another. Some, like Sweden, Austria and Estonia, have made a clear choice in favour of renewable energies with, in 2007, 60% of Austrian energy coming from renewable sources. This trend allows these countries to be less energy-dependent on other countries.



#### 4.6. Revenue from environmental taxation (2008)



Source: OECD

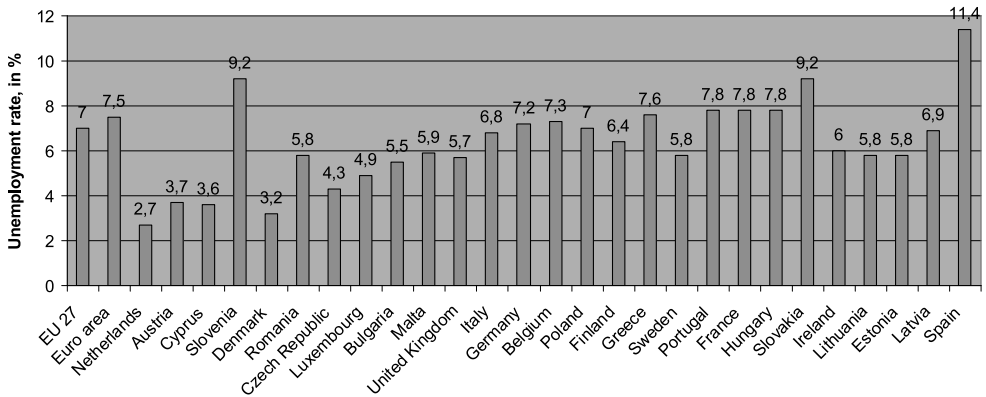
Data collected and collated for the Robert Schuman Foundation, © FRS

Environmental fiscal policies gradually implemented by countries now cover a relatively wide field of activities, including hydrocarbons, electricity and cars. Ecological taxation aims to restrict environmental impacts by offering incentives to change certain behaviours (increase of taxes on petrol, for example) or by compensating for negative externalities and pollution. Thus, taxes on CO<sub>2</sub> emissions can work in tandem with investment in production systems that do not produce CO<sub>2</sub> emissions. Scandinavian countries were the first to implement ecological taxation; they were followed, more recently, by Germany, the United Kingdom and France where specific legislations have been developed. The intensity of green taxation demonstrates the effort made by governments to take account of the ecological impact of human activities and to attempt to reduce it.

## 5. The Europeans, disparities and homogeneity

### 5.1. Social Europe

#### 5.1.1. Unemployment rates in the EU (2008)



EU average: 7%

Source: Eurostat

Data collected and collated for the Robert Schuman Foundation, © FRS

This data is from 2008 and shows the social situation prior to the crisis. For an analysis of the effects of the crisis on the labour market, please refer to part 3 of this book where this topic is addressed.

The average unemployment rate in the European Union was 6.7% in 2008 compared to 4.9% in the United States and 3.9% in Japan. European structural unemployment is greater than in these two latter countries due to a different (more rigid) labour market structure and to the presence of countries with high unemployment rates. There is actually a certain unity in the European labour market, encouraged by the European Union social policy, as well as major differences between the countries. Within the European Union itself, the unemployment rate triples and even quadruples, from 2.8% in the Netherlands to 10.2% in Slovakia.

### 5.1.2. Structure of the active population (2008)

	Employment rate	Growth in employment rate 1997-2007	Employment rate amongst men	Employment rate amongst women	Ratio between M/W employment rates	Unemployment rate amongst under 25s	Employment rate of seniors (55-64 yrs)
Austria	72,1	5%	78,5	65,8	84%	8	41
Belgium	62,4	9%	68,6	56,2	82%	18	34,5
Bulgaria	64,0	n/a	68,5	59,5	87%	12,7	46
Cyprus	70,9	n/a	79,2	62,9	79%	8,8	54,8
Denmark	78,1	3%	81,9	74,3	91%	7,6	57
Estonia	69,8	7%	73,6	66,3	90%	12	62,4
Finland	71,1	11%	73,1	69	94%	16,5	56,5
France	65,2	8%	69,8	60,7	87%	19,1	38,3
Germany	70,7	9%	75,9	65,4	86%	9,9	53,8
Greece	61,9	11%	75,0	48,7	65%	22,1	42,8
Hungary	56,7	9%	63,0	50,6	80%	19,9	31,4
Ireland	67,6	20%	74,9	60,2	80%	12,7	53,6
Italy	58,7	14%	70,3	47,2	67%	21,3	34,4
Latvia	68,6	14%	72,1	65,4	91%	13,1	59,4
Lithuania	64,3	4%	67,1	61,8	92%	13,4	53,1
Luxembourg	63,4	7%	71,5	55,1	77%	17,3	34,1
Malta	55,2	n/a	72,5	37,4	52%	11,9	29,1
Netherlands	77,2	11%	83,2	71,1	85%	5,3	53
Poland	59,2	-3%	66,3	52,4	79%	17,3	31,6
Portugal	68,2	3%	74,0	62,5	84%	16,4	50,8
Czech Republic	66,6	-2%	75,4	57,6	76%	9,9	47,6
Romania	59,0	-10%	65,7	52,5	80%	18,6	43,1
Slovakia	62,3	0%	70,0	54,6	78%	19	39,2
Slovenia	68,6	8%	72,7	64,2	88%	10,4	32,8
Spain	64,3	33%	73,5	54,9	75%	24,6	45,6
Sweden	74,3	7%	76,7	71,8	94%	20	70,1
United Kingdom	71,5	2%	77,3	65,8	85%	15	58
<b>EU 27</b>	<b>65,9</b>	<b>8%</b>	<b>72,8</b>	<b>59,1</b>	<b>81%</b>	<b>15,4</b>	<b>45,6</b>
<b>Euro area</b>	<b>66,1</b>	<b>12%</b>	<b>73,4</b>	<b>58,8</b>	<b>80%</b>	<b>n/a</b>	<b>44,4</b>
United States	70,9	-2%	76,4	65,5	86%	n/a	62,1
Japan	70,7	1%	81,6	59,7	73%	n/a	66,3

Source : Eurostat 2008

Data collected and collated for the Robert Schuman Foundation, © FRS

In order to understand differences in the structural unemployment rate, it is interesting to compare the labour markets in various countries. On average, employment in Europe has increased much more than in the United States or Japan. This increase is due to the dynamism of certain countries such as Spain, Ireland or Greece; these are also the countries that have been most severely affected by the crisis. The employment rate, which represents the share of population with a job, varies from 55.2% in Malta to 77.2% in the Netherlands.

However, there are differences between men and women in terms of jobs. The ratio between the employment rate of men and that of women is used to measure gender inequality. It is observed that this rate is never over 1, which means that the employment rate amongst men is everywhere higher than that of women. This rate comes close to 1, i.e. perfect equality in Sweden (94%), Denmark (91%), Lithuania (92%) and Latvia (91%). It is much lower in Malta, Greece and Italy.

The situation of young people is also difficult; 15.4% are unemployed (excluding students), i.e. a much higher rate than the average for other age groups. This rate is particularly high in Sweden, Italy and Spain.

The situation of seniors is also difficult since their employment rate is 45.6% at European level, whereas it is at 62.1% in the United States and 66.3% in Japan. In these two countries retirement age is much later than in Europe. By excluding some of its active population, young people and seniors, the European Union is penalised compared to the United States and Japan.

### 5.1.3. Structure of the labour market (2008)

	People with a part-time job (as a % of total employment, 2008)	People with a second job (as a % of the active population, 2008)	Employees with a fixed-term contract (as a % of the number of employees, 2008)	Average age for leaving the employment market (2007)
Austria	23,3	3,2	9,0	60,9
Belgium	22,6	2,4	8,3	61,6
Bulgaria	2,3	0,5	5,0	64,1
Cyprus	7,8	2,6	13,9	63,5
Denmark	24,6	7,6	8,4	60,6
Estonia	7,2	2,4	2,4	62,5
Finland	13,3	3,1	15,0	61,6
France	16,9	2,0	14,2	59,4
Germany	25,9	2,6	14,7	62,0
Greece	5,6	2,1	11,5	61
Hungary	4,6	0,9	7,9	n/a
Ireland	18,6	1,8	8,5	64,1
Italy	14,3	1,1	13,3	60,4
Latvia	6,3	4,4	3,3	63,3
Lithuania	6,7	3,4	2,4	59,9
Luxembourg	18,0	1,3	6,2	n/a
Malta	11,5	2,8	4,3	58,5
Netherlands	47,3	5,6	18,2	63,9
Poland	8,5	4,3	27,0	59,3
Portugal	11,9	4,7	22,8	62,6
Czech Republic	4,9	1,2	8,0	60,7
Romania	9,9	2,0	1,3	64,3
Slovakia	2,7	0,7	4,7	58,7
Slovenia	9,0	2,6	17,4	59,8
Spain	12,0	1,7	29,3	62,1
Sweden	26,6	6,2	16,1	63,9
United Kingdom	25,3	2,7	5,4	62,6
<b>EU 27</b>	<b>18,2</b>	<b>2,6</b>	<b>14,0</b>	<b>61,2</b>
<b>Euro area</b>	<b>19,8</b>	<b>2,3</b>	<b>16,4</b>	<b>61,3</b>
Source :	Eurostat 2008	Eurostat 2008 and author's calculations	Eurostat 2008	Eurostat 2007

*Data collected and collated for the Robert Schuman Foundation, © FRS*

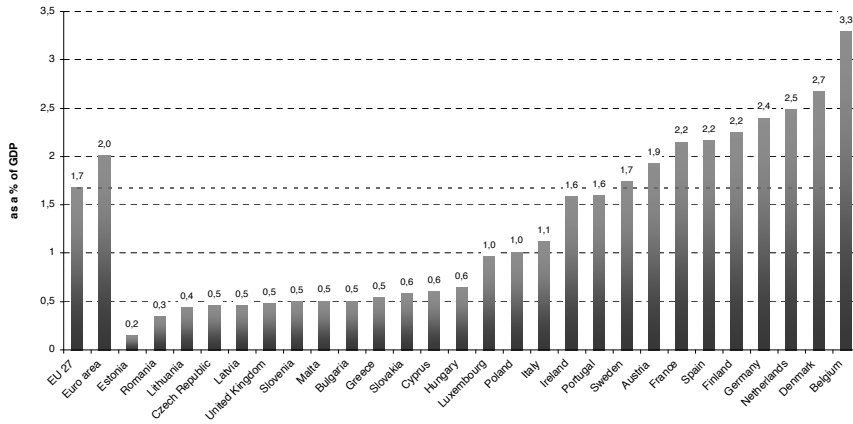
A few parameters can be used to measure the differences between European social models, beyond the so-called “European social model”. Part-time work is highly developed in the Netherlands (47.3% of workers), a rate that illustrates a real social phenomenon, whereas it is almost non-existent in Hungary or Slovakia. These differences can be explained by different cultures and legislative and social mechanisms that encourage this type of work. Specifically it is frequent for women in these countries to work part-time for family reasons.

Similarly, there are many Swedish, Dutch and Danish people with two jobs. Hungary and Bulgaria do not experience this phenomenon. This difference can be explained in part by the free time available to some people (part-time work, low number of hours worked per year, per job).

The share of the population with a fixed-term contract can be used to judge labour market stability. The large number of such contracts in Poland, Portugal, Spain and even in France may illustrate relative instability and lack of job security in the labour market.

Finally, the average retirement age varies between 58.5 years in Malta and 64.3 years in Romania, i.e. a difference of almost 6 years.

**5.1.4. Public spending on employment market policies (2007)**

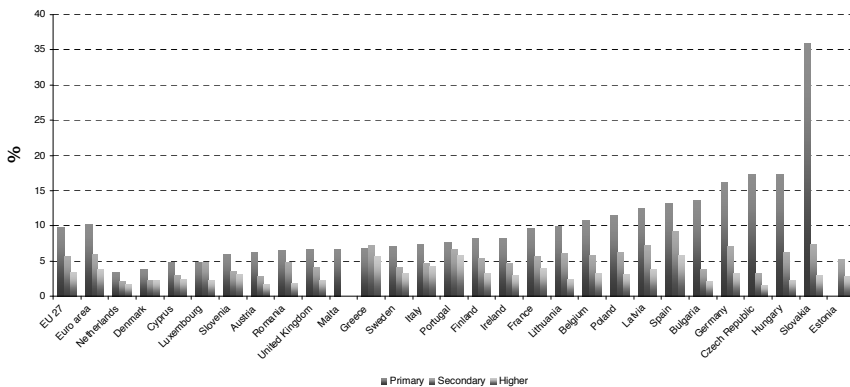


Source: Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

Although the European Union average in terms of public spending on employment market policies is around 1.7% of GDP, this amount varies from 0.2% in Estonia to 3.3% in Belgium. These policies aim to help the unemployed or those who are disadvantaged in their search for work. They concern mainly the unemployed but also population groups who experience difficulties in accessing the labour market. Each country has its own system and its own approach to public employment policies. The above graph summarises all of these policies for each country and does not therefore highlight any particular characteristics specific to each of these countries.

Employment market polices include professional training policies, work incentives, job protection or re-adaptation policies, job creation initiatives, assistance with setting up companies, maintaining and supporting income in case of lack of work and, finally, early retirement.

**5.1.5. Unemployment rate according to level of education (2008)**

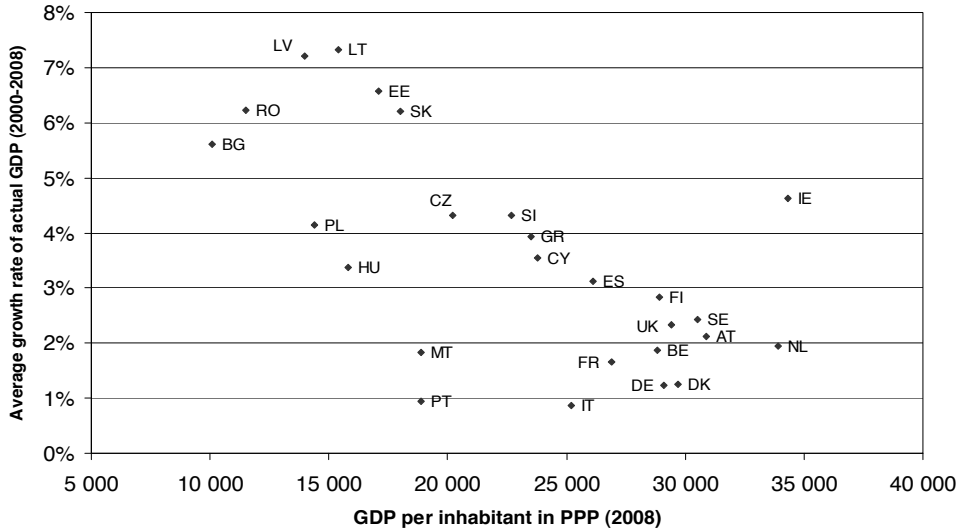


Source: Eurostat  
Data collected and collated for the Robert Schuman Foundation, © FRS

In all European countries the level of education determines the ability to find a job: the higher the level the lower the unemployment rate (respectively 9.8%, 5.6 % and 3.4%). The only exception is Greece where secondary education does not provide any more guarantees than a lower level.

## 5.2. Europeans and their purchasing power

### 5.2.1. GDP per inhabitant (2008) and average annual growth rate of GDP (2000-2008)

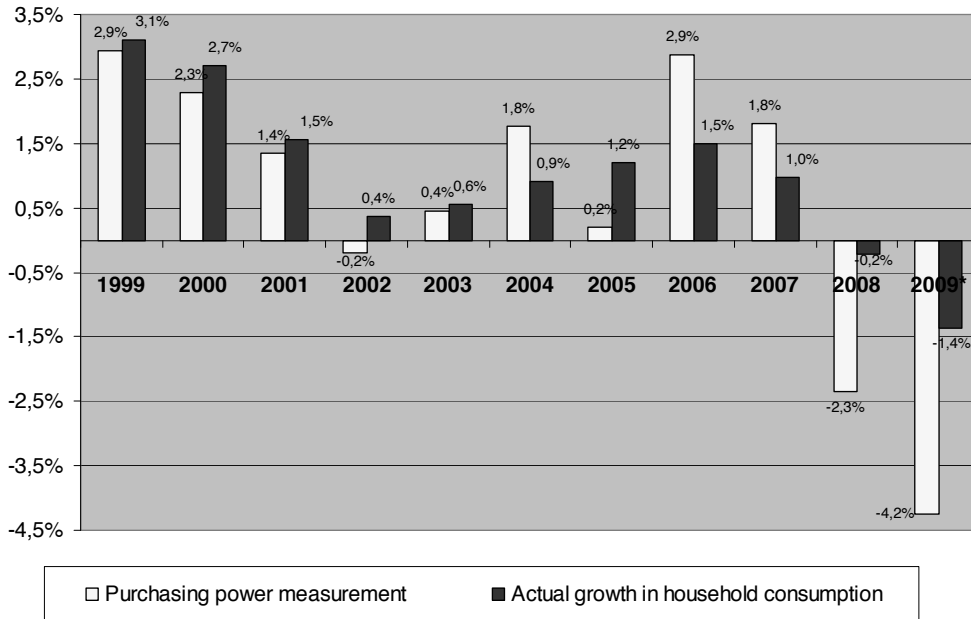


Source: Eurostat and author's calculations  
Data collected and collated for the Robert Schuman Foundation, © FRS

The high income level per EU 27 inhabitant (€25,100 PPP in 2008) still conceals disparities between Member States, as GDP per inhabitant varies between €63,500 PPP for Luxembourg and €10,100 for Bulgaria.

Nevertheless, for most of the noughties, countries with the lowest level of GDP experienced stronger growth than more advanced countries, thus partly catching up. This was particularly true for the three Baltic States and for Bulgaria, Romania and Slovakia which experienced an average growth rate of over 5%. Ireland, which had already made significant economic progress, continued to grow very quickly prior to the crisis, becoming the second richest country in the European Union. However, other countries which were below the average were unable to equal this performance and some even lost ground, such as Portugal for example.

### 5.2.2. Evolution of the purchasing power and household consumption in Euro Area (1999-2009)

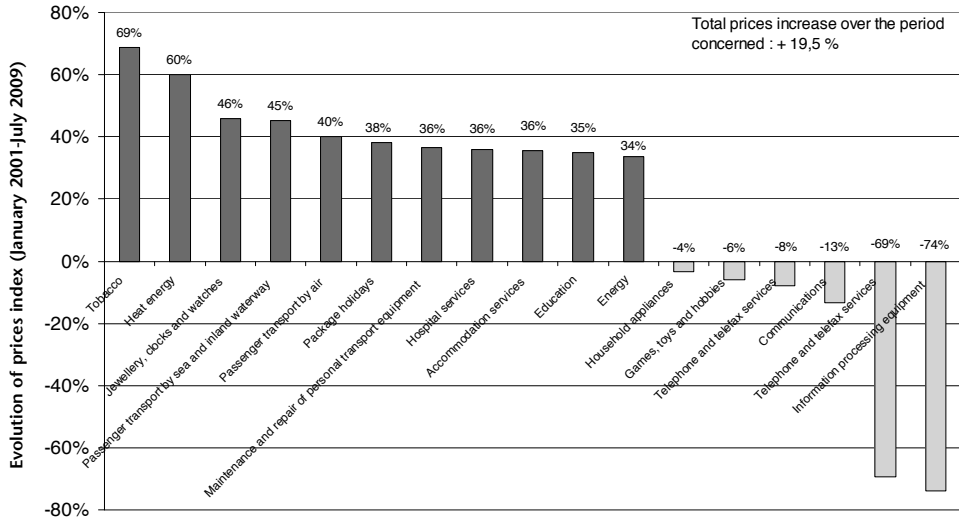


Sources: Eurostat and author's calculations  
Data collected and collated for the Robert Schuman Foundation, © FRS

The purchasing power measurement used here is the growth rate of the net disposable national income, calculated per inhabitant and in real value, in order to take account of the effects of demographic growth and inflation.

This indicator follows economic cycles in the Euro Area, along with actual household consumption levels; the latter went up massively in 1999-2000 but fell with the recession at the start of the noughties, before increasing again. Finally, the current crisis again resulted in a strong fall in purchasing power and household consumption in 2008 and 2009. It can be observed nevertheless that the collapse in purchasing power is stronger than that of consumption.

### 5.2.3. Prices that have most/least increased in the Euro Area (January 2001 and July 2009).



Sources: Eurostat and author's calculations  
Data collected and collated for the Robert Schuman Foundation, © FRS

Overall the Euro Area witnessed moderate inflation between 2001 and 2009, of about 2% per year. This global figure summarises price developments that can be very different depending on the activity sectors, which explains the fact that “perceived” inflation is not identical to official inflation.

Thus, with the effect of technological advances in particular, prices of technological materials and communication equipment (computers, mobile phones, cost of a call or an SMS) have fallen dramatically since the start of the decade. The prices of other goods stagnated, particularly because of the increased effect of international competition in globalisation, such as domestic electrical goods or clothing (for which prices increased by only 0.87% over the whole of the period). By contrast, the highest price rises concern above all the energy sector (electricity, heating, passenger transport, etc.) and are due in particular to the very high rise in world prices of raw materials, oil and gas.



### 5.2.4. Inequalities and poverty (2007)

	Inequalities in income distribution		Poverty		Unemployment trap <sup>5</sup>
	Gini coefficient <sup>1</sup>	Ratio between the highest and the lowest decile <sup>2</sup>	Poverty rate <sup>3</sup>	Poverty at work rate <sup>4</sup>	
Austria	26	6,9	12	6	68,0
Belgium	26	8,2	15	4	83,0
Bulgaria	35	6,9	22	6	75,8
Cyprus	30	n/a	16	6	61,0
Czech Republic	25	5,3	10	3	72,0
Germany	30	6,9	15	7	74,0
Denmark	25	8,1	12	4	90,0
Estonia	33	10,4	19	8	63,0
Spain	31	10,3	20	11	82,0
Finland	26	5,6	13	5	75,0
France	26	9,1	13	6	77,0
Greece	34	10,2	20	14	59,0
Hungary	26	6,8	12	6	81,0
Ireland	31	9,4	18	6	78,0
Italy	32	11,6	20	10	72,0
Latvia	34	10,3	19	8	80,0
Luxembourg	27	6,8	14	9	88,0
Lithuania	35	10,3	21	10	87,0
Malta	26	n/a	14	4	62,0
Netherlands	28	9,2	10	5	81,0
Poland	32	9,0	17	12	79,0
Portugal	37	15,0	18	10	82,0
Romania	38	7,6	25	18	70,9
Sweden	23	6,2	11	7	82,0
Slovenia	23	7,3	12	5	80,7
Slovakia	24	6,8	11	5	43,0
United Kingdom	33	13,8	19	8	68,0
<b>Euro area</b>	<b>30</b>	<b>n/a</b>	<b>16</b>	<b>8</b>	<b>75,82</b>
<b>EU 27</b>	<b>31</b>	<b>n/a</b>	<b>17</b>	<b>8</b>	<b>74,63</b>
United States	47 (2008)	15,9	24 (2005)	n/a	71
China	42	13,2	n/a	n/a	n/a
Brazil	55	40,6	n/a	n/a	n/a
India	37	8,6	n/a	n/a	n/a
Canada	33	9,4	n/a	n/a	n/a
Japan	25	4,5	n/a	n/a	60

<sup>1</sup>The Gini coefficient measures inequality of income on a scale from 0 to 100, where 0 indicates perfect equality of incomes and 100 perfect inequality.

<sup>2</sup> This is the ratio between total income of the 10% richest households and the 10% poorest households.

<sup>3</sup> Percentage of the population which, after social transfers, has at its disposal only 60% of the median income.

<sup>4</sup> Poverty rate of people in jobs, with the same poverty threshold (60% of median income).

<sup>5</sup> Eurostat defines the "unemployment trap" as the percentage of gross income which, on transition from a period of unemployment to a new job, is "absorbed" by the combined effects of the increase in taxation and social contributions and the loss of benefits. The indicator is calculated for a single person, without children, earning, when in a job, 67% of the average salary.

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The two indicators of inequality of income, represented by the Gini coefficient and the ratio of incomes between the highest and the lowest deciles show that overall, there are less inequalities in the European Union than in other industrialised countries (with the exception of Japan) or in emerging countries. At intra-European level, inequalities are particularly high in Eastern Europe (Baltic States, Bulgaria, Romania, etc.) and in Southern Europe (Portugal, Greece, etc.). They are lowest in Scandinavian countries and in some Central European countries (Slovenia, Slovakia, Czech Republic, etc.).

The poverty rate, after social transfers, is 17% in the European Union and again remains well below the latest value measured for the United States (24% in 2005). Generally speaking, the most unequal countries also have a higher poverty rate.

The phenomenon of the “Working Poor” reaches 8% of the working population in Europe. It is particularly significant in Romania, Greece, Poland and Spain.

All of these figures, including those for the “unemployment trap”, show that although European social systems are still different with regard to their redistributive or incentive effect, they do nevertheless demonstrate a certain degree of homogeneity vis-à-vis the rest of the world, which could lead to refer to a “European model”.

### 5.2.5. Inequalities between growth rates and unemployment rates in the EU (1999-2009)

	Average growth rate <sup>1</sup>	Average unemployment rate <sup>2</sup>
Austria	1,6%	4,3%
Belgium	1,5%	7,7%
Bulgaria	4,9%	12,4%
Cyprus	3,4%	4,3%
Czech Republic	3,5%	7,4%
Denmark	1,0%	4,5%
Estonia	5,1%	9,1%
Finland	2,3%	8,5%
France	1,4%	8,9%
Germany	0,7%	8,7%
Greece	3,5%	9,9%
Hungary	2,5%	6,7%
Ireland	3,5%	4,7%
Italy	0,6%	8,3%
Lithuania	5,0%	10,8%
Luxembourg	3,5%	3,6%
Latvia	5,0%	10,3%
Malta	1,5%	7,0%
Netherlands	1,6%	3,4%
Poland	3,6%	15,5%
Portugal	0,8%	6,2%
Romania	4,7%	7,2%
Slovenia	3,5%	6,1%
Slovakia	4,8%	15,9%
Spain	2,6%	10,4%
Sweden	2,0%	6,6%
United Kingdom	1,8%	5,2%
EU 27	1,6%	8,4%

1 Average annual growth rate of actual GDP. For Malta the period considered is 2000-2009. For all countries, the value of actual GDP for 2009 is provisional.

2 For Bulgaria, Cyprus and Malta, the period considered is 2000-2008.

Source : Eurostat and author's calculations,

*Data collected and collated for the Robert Schuman Foundation, © FRS*

On average, the growth rate of European economies was 1.6% over the course of the past decade, whilst unemployment was at an average of 8.4%; this shows that many European countries have been unable either to create sufficiently vigorous growth or to check the phenomenon of mass unemployment.

Growth was strongest in the Baltic States and Central Europe, which were catching up, as well as in some older Member States (Luxembourg, Ireland, Greece). Nevertheless, in these high growth countries, and in Greece, very high unemployment rates indicate that the economic catch-up has not been able to resolve all the structural problems inherent to these economies. Specifically, the unemployment rate was on average 10% higher in Bulgaria, Latvia, Lithuania, Poland and Spain. In the West, the two largest economies of the euro zone, France and Germany, both witnessed sluggish growth, with persistent high unemployment, between 8 and 9%, whilst, at least prior to the crisis, the United Kingdom was able to find a more efficient model in these areas.

### 5.2.6. Average income, median income and inequality of salaries between men and women (2007)

	Average income <sup>1)</sup>	Median income <sup>2)</sup>	Gap between Male/Female remuneration levels <sup>3)</sup>
Austria	20 377	18 222	20,0% (2006)
Belgium	18 217	16 726	7,0% (2006)
Bulgaria	3 871	3 343	10,7%
Cyprus	21 100	18 230	22,8%
Czech Republic	10 098	8 913	23,3%
Denmark	18 245	16 958	17,3%
Estonia	8 069	6 765	28,2%
Finland	17 265	15 534	19,9%
France	17 411	15 604	11,0% (2006)
Germany	19 787	17 338	22,0% (2006)
Greece	13 763	11 577	10,0% (2006)
Hungary	7 369	6 631	16,1%
Ireland	20 978	17 843	17,5%
Italy	16 725	14 580	9,0% (2005)
Lithuania	7 037	5 854	19,0%
Luxembourg	33 539	29 292	14% (2006)
Latvia	6 823	5 594	13,2%
Malta	13 714	12 572	3% (2006)
Netherlands	20 196	17 718	23,0%
Poland	6 756	5 704	7,2%
Portugal	11 699	8 933	8% (2006)
Romania	3 526	2 942	10,8%
Slovenia	14 388	13 298	7,9%
Slovakia	7 592	6 888	22,7%
Spain	14 753	13 011	13,0% (2006)
Sweden	17 101	15 968	17,5%
United Kingdom	22 262	18 943	21,0%

1) Average net income per inhabitant, expressed in PPP for people aged over 16.

2) Median net income per inhabitant, expressed in PPP, for people aged over 16.

3) Gap between the average gross hourly wage earned by male and female employees, expressed as a percentage of the average gross hourly wage earned by men.

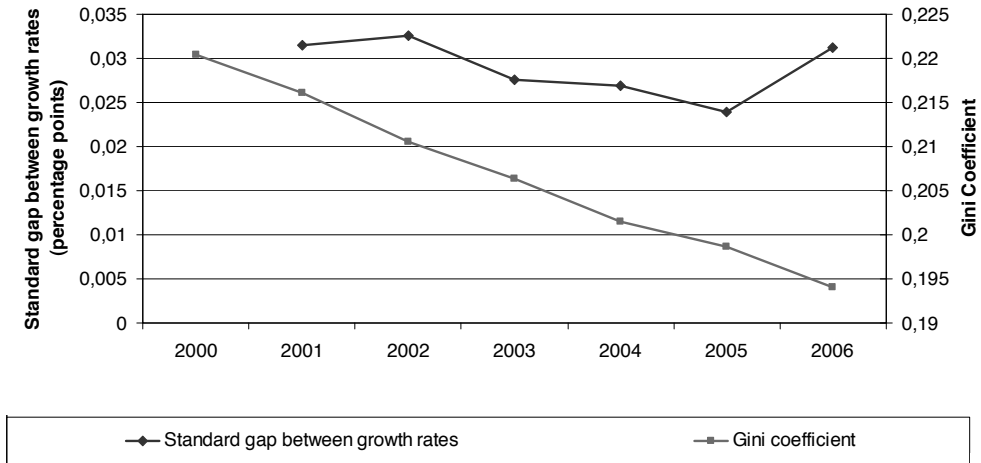
Source : Eurostat

*Data collected and collated for the Robert Schuman Foundation, © FRS*

Intra-European differences between average and median incomes reflect here again the inequalities in development between Member States.

By contrast, inequality in salaries between men and women does not follow the same dividing lines: it can be very high in countries with a high average salary, such as the Netherlands (23%), Germany (22%) and the United Kingdom (21%) and in countries with much lower average salaries, such as Estonia (28.2% and Slovakia (22.7%). Similarly, countries where it is particularly low (Malta, Belgium and Poland), do not necessarily have a comparable level of salaries.

### 5.2.7. Is there any economic convergence between the regions of the EU 27?



Sources: Eurostat and author's calculation  
Data collected and collated for the Robert Schuman Foundation, © FRS

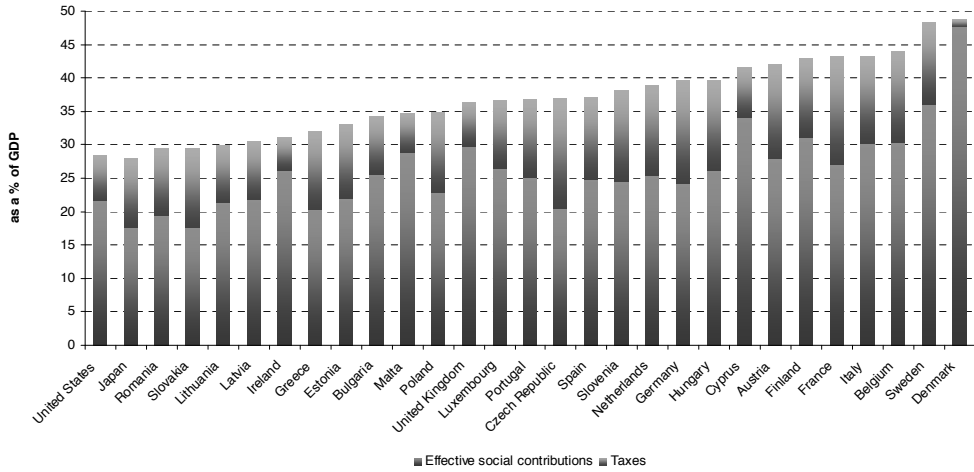
The question of economic convergence between states and European regions is a major objective for the European Union.

More than the development of the standard gap in growth (which, logically, should be large when the poorest regions catch up with the richest, i.e. grow more quickly than them), the fall in the Gini coefficient, (which fell by 12% between 2000 and 2006) indicates that there really is a process of convergence and that differences in living standards between the various regions of the European Union are decreasing.

Yet, despite this positive observation, the process does not appear to be automatic: after a catch-up phase, some disadvantaged regions in the old EU 15, such as Portugal or Southern Italy, are again falling behind the rest of the Union.

### 5.3 Europeans and Taxes

#### 5.3.1. Levels and structure of obligatory contributions (2008)



Sources: Eurostat and OECD  
 Data collected and collated for the Robert Schuman Foundation, © FRS

Taxes and contributions represent 40.1% of GDP on average in the European Union, i.e. a rate higher than those measured in both the United States and Japan. Rates vary from 29.4% in Romania to 48.7% in Denmark, i.e. a differential of 19.7% within the common market. Taxation levels can double and thus represent very different social and fiscal models from one country to another. The country where the tax rate is highest, at 16.3% of GDP, is the Czech Republic, compared to 6.7% in the United States.

### 5.3.2. Taxation in EU Member States: implicit tax rate on consumption, capital and work and low income tax rates

	Income tax rate (as a % of GDP, 2008)	Implicit tax rate on consumption (as a % of GDP, 2007)	Implicit tax rate on salaried work (as a % of GDP, 2007)	Implicit tax rate on capital (as a % of GDP, 2007 (*2006))
Austria	50,0	21,6	41	26,1
Belgium	53,7	22,0	42,3	31,1
Bulgaria	10,0	25,4	29,9	n/a
Cyprus	30,0	21,4	24	50,5
Czech Republic	15,0	21,4	41,4	25,6
Denmark	59,0	33,7	37	44,9
Estonia	27,0	24,4	33,8	10,3
Finland	0,0	26,5	41,4	26,7
France	45,8	19,5	41,3	40,7
Germany	47,5	19,8	39	24,4
Greece	40,0	15,4	35,5	15,9*
Hungary	40,0	27,1	41,2	16,3*
Ireland	41,0	25,6	25,7	18,5
Italy	44,9	17,1	44	36,2
Latvia	25,0	19,6	31	14,6
Lithuania	24,0	17,9	32,3	12,1
Luxembourg	39,0	26,9	31,2	n/a
Malta	35,0	20,3	20,1	n/a
Netherlands	52,0	26,8	34,3	16,4
Poland	40,0	21,4	35	22,8*
Portugal	42,0	20,3	30	34
Romania	16,0	18,1	30,1	n/a
Slovakia	19,0	20,6	30,9	17,5
Slovenia	41,0	24,1	36,9	23,1
Spain	43,0	15,9	31,6	42,4
Sweden	56,4	27,8	43,1	35,9
United Kingdom	40,0	18,4	26,1	42,7
<b>EU 27</b>	<b>37,8</b>	<b>20,0</b>	<b>36,5</b>	<b>n/a</b>
<b>Euro area</b>	<b>42,1</b>	<b>19,6</b>	<b>38,7</b>	<b>32,1</b>
Source :	Eurostat 2008	Eurostat 2007	Eurostat 2007	Eurostat 2007 (*2006)

Data collected and collated for the Robert Schuman Foundation, © FRS

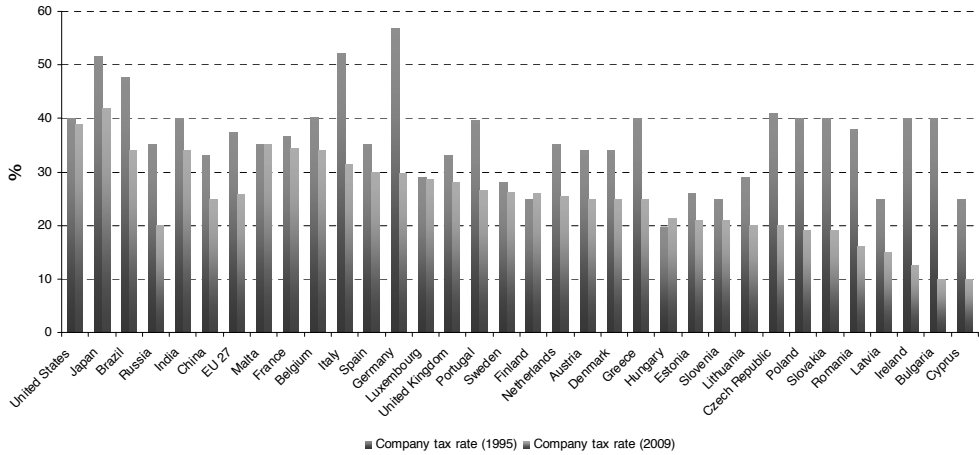
Tax rate details illustrate very different tax models within the European Union. Thus, the income tax rate varies from 10% in Bulgaria to 56.4% in Sweden. The choice of tax rate can be strategic, in order to attract high incomes, within the context of fiscal competition.

The rate of consumption tax, TVA in France, is relatively uniform throughout the European Union, with an average of 20%.

The implicit tax rate on salaried work is also one of the strategies of fiscal competition, as well as controlling and managing the labour market. It varies from 24% in Cyprus to 43.1% in Sweden.

Some countries, such as the United Kingdom, which have chosen to adopt low levels of taxation on work (26.1%) compensate for this by adopting high income tax rates (40%). The balance between these rates means that national fiscal strategies can be defined.

### 5.3.3. Company tax rates (1995-2009)



Data collected and collated for the Robert Schuman Foundation, © FRS

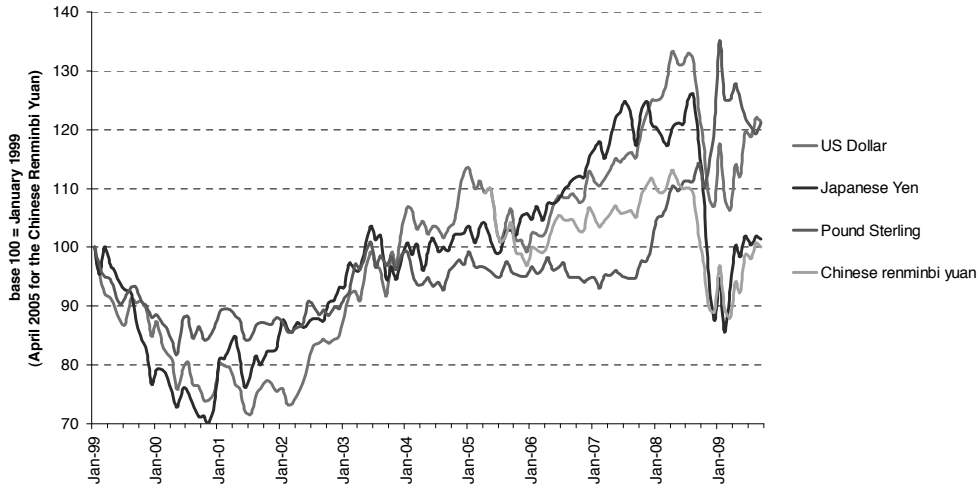
Between 1995 and 2009, not a single country increased its company tax rates; almost all countries reduced this rate, in some cases considerably so, such as in Poland, Slovakia and Germany. Romania saw the highest reduction, at -57.9%. The European Union, which was at the same level as the United States in 1995, is now well below that country, with respectively 25.9% on average compared to 39%.



## 6. Ten years later: what future for the euro?

### 6.1. The euro versus international currencies

#### 6.1.1. Euro exchange rates against the main currencies (1999-2008)



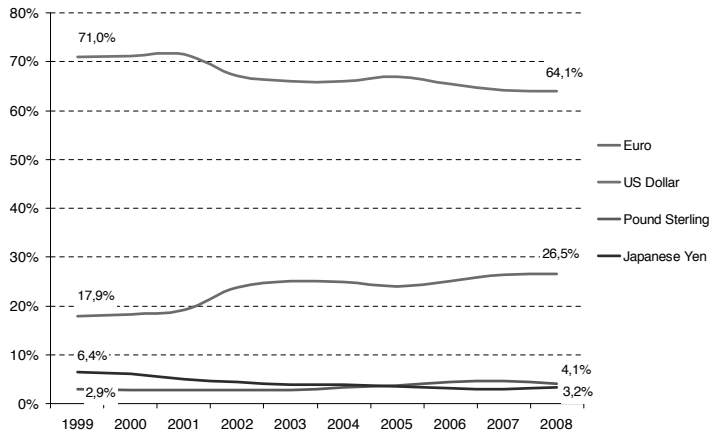
Sources: Bank of France, ECB  
Data collected and collated for the Robert Schuman Foundation, © FRS

The euro was introduced in January 1999. Right from introduction its exchange rate collapsed in terms of other currencies, reflecting shared fears over its future and sustainability. Ten years later the position has been reversed. The consistent policy of the European Central Bank, with its strong objective of limiting inflation, has given strong credibility to the euro. Its rate went up, as it returned to its initial level in 2003 and even continued its rise. The rise of the euro against the dollar has penalised European exports and made certain industrial sectors extremely fragile.

The economic crisis has temporarily modified the situation. The difficulties encountered by the United Kingdom have hit sterling hard, and its exchange rate with the euro is now at its lowest historic level, with one pound worth almost one euro.

On the other hand, after a period of fragility, the dollar is again acting as the refuge value and its exchange rate has got back into balance against the euro. It was a general movement of capital repatriation that permitted this increase but, with the end of the crisis, the dollar is heading down again. The increase in American deficits is making the American currency fragile in the long term. The yuan, anchored to the dollar, has followed a similar path.

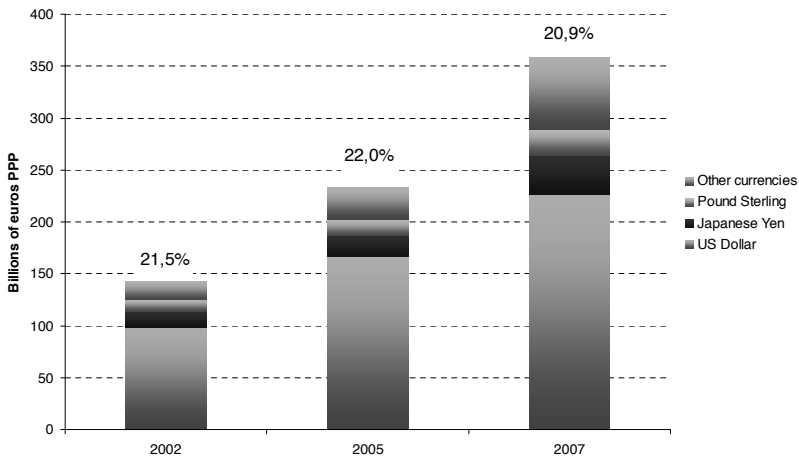
### 6.1.2. Euro share in world currency reserves



Sources: IMF  
Data collected and collated for the Robert Schuman Foundation, © FRS

The dollar, as international reserve currency since the Second World War, represents the major share of reserves held by central banks. However this dominance was shaken by the arrival of the euro. The European currency, used in territories similar to those in the United States, has numerous advantages. The stability of the currency against a falling dollar means that banks can diversify their assets and spread risks. In less than ten years the euro has increased from 18% to 27% of international reserves, encroaching mainly on the yen and the dollar.

### 6.1.3. Euro share in exchanges on currency markets

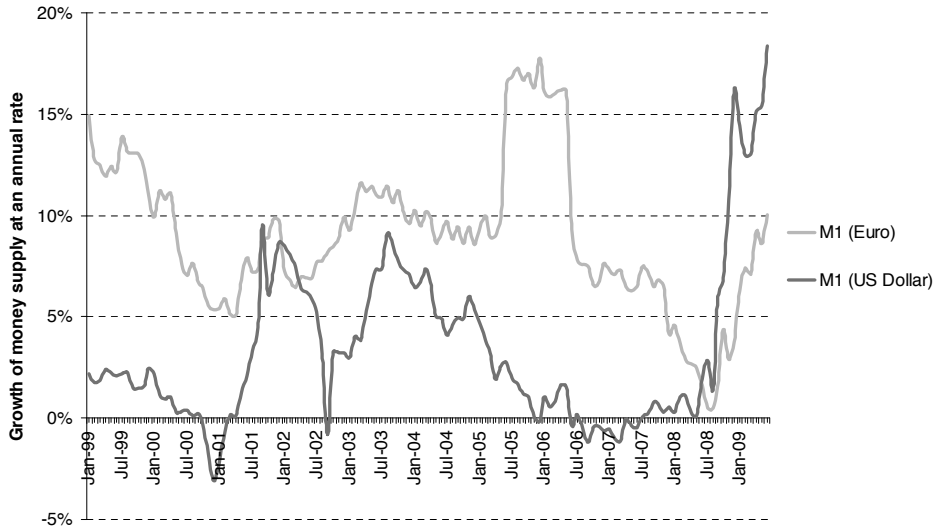


Sources: ISB  
Data collected and collated for the Robert Schuman Foundation, © FRS

Globalisation and exponential growth in international exchanges have boosted the currencies market, which has increased in volume by over 200% in 5 years. The share of the euro in these exchanges indicates the portion of payments that are made with euros, i.e. the importance of the euro in international trade. This share has remained more or less stable over the years, at between 21.5% and 20.9%. The dollar remains the dominant currency on these markets.

## 6.2. The euro and the financial crisis

### 6.2.1. Evolution of money supply in the Euro Area and the United States



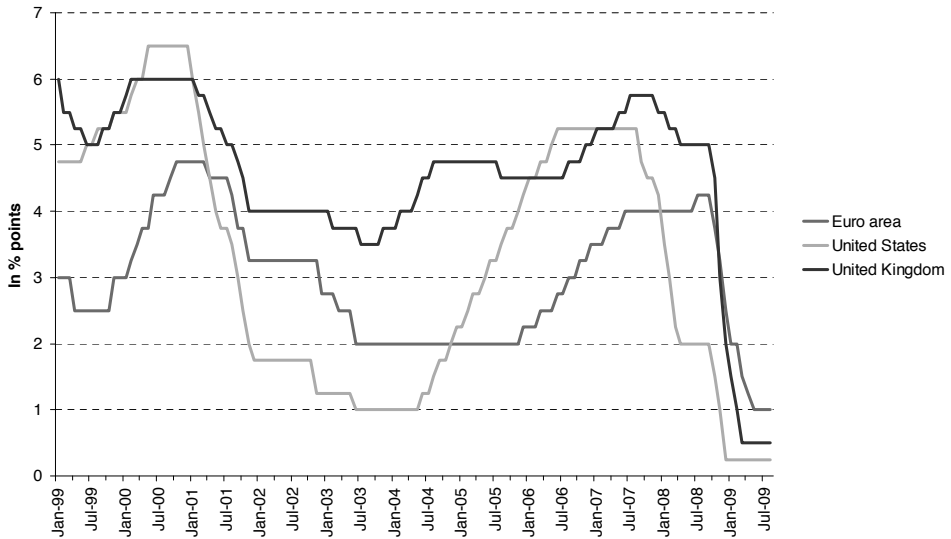
Sources: ECB, Fed  
Data collected and collated for the Robert Schuman Foundation, © FRS

The graph compares the rate of evolution of money supply M1, that is the most restrictive monetary base (notes, liquidities, short term accounts). Growth rate fluctuates a great deal, but is consistently above GDP growth: high growth in commercial exchanges and the massive use of credit explain this situation.

Money supply in the Euro Area has tended to increase quicker than that of the dollar, but the rhythm has been jerky. In periods of recession, the United States implements an expansionist monetary policy, which results in a rapid increase in the growth of money supply. After 2001 the Fed attempted to slow this growth rate and provoked, with the increase in interest rates, the “subprimes” crisis. In reaction to this, the Fed increased available money supply as never before. Since it has been unsuccessful in regaining a stable growth rate after 2001, it is difficult to imagine how the Fed will be able to do so after 2009.

The European Central Bank implemented, on the contrary, a more stable, often countercyclical policy.

### 6.2.2. Evolution of key Interest rates of the ECB, the Fed and the Bank of England (1999-2009)

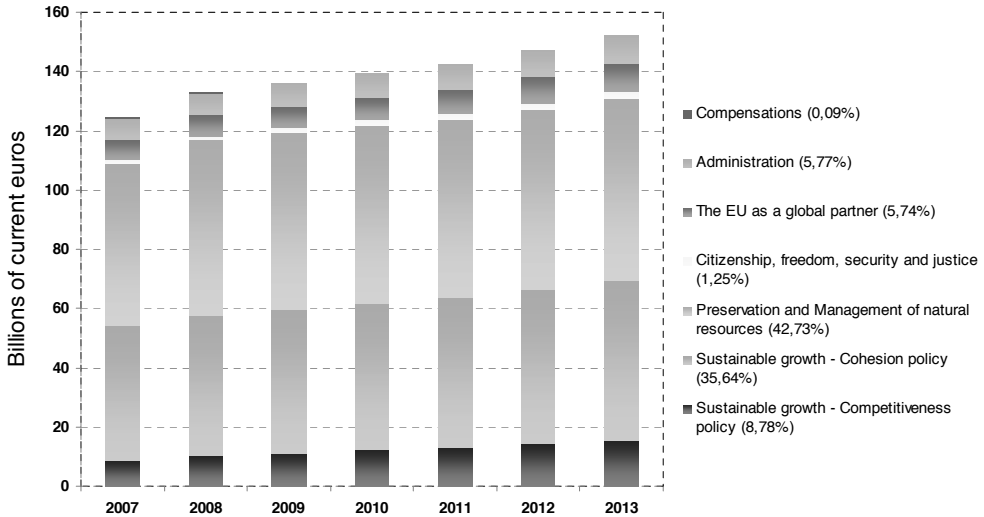


Sources: ECB, Fed, Bank of England  
Data collected and collated for the Robert Schuman Foundation, © FRS

The key interest rates of the three Central Banks, American, British and European have similar profiles. The Fed is more reactive and provokes much greater variations of its interest rates than either the Bank of England or the European Central Bank (ECB). Variations in rates correspond to monetary policies implemented after economic crises: a reduction in rates allows for an expansionist monetary policy which injects liquidities into the economy and avoids the negative effects of credit restriction. The 2008 crisis led to a rapid fall in rates down to levels never seen before, close to zero.

## 7. The European Union budget

### 7.1. Financial framework 2007-2013



Share of the budget in GNI (EU Gross National Income), %							
2007	2008	2009	2010	2011	2012	2013	2007 - 2013
1,04%	1,06%	1,04%	1,02%	1,00%	0,99%	0,98%	1,02%

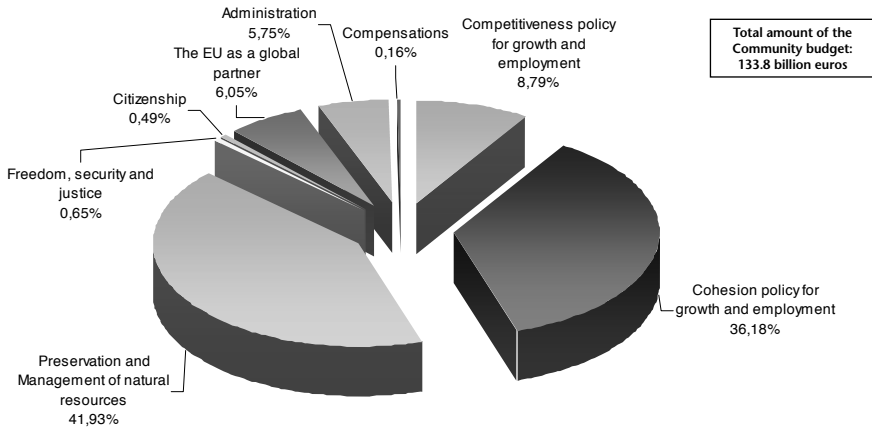
Source: European Commission  
Data collected and collated for the Robert Schuman Foundation, © FRS

The financial framework 2007-2013, which sets the major outlines of the European Union budget for this period, provides for an increase in total spending of 22% over the period, an increase that remains nonetheless lower than that of the gross national income (GNI) of the 27 Member States. Commitment appropriations are therefore reduced from 1.02% to 0.98% of GNI and remain well below the ceiling amount of 1.24%.

Commitment appropriations correspond to expenditure that the European Union has pledged to finance. They are not necessarily equal to actual spending on projects co-financed by the Union which may extend over several years or even be abandoned. Actual spending is therefore systematically lower than commitment appropriations.

The overall structure of the budget is only slightly changed. Spending that increases the most is under the “freedom, security and justice” heading (+ 161%) and the “competition” heading (+73%), whereas spending on agriculture increases by only 11% over the entire period.

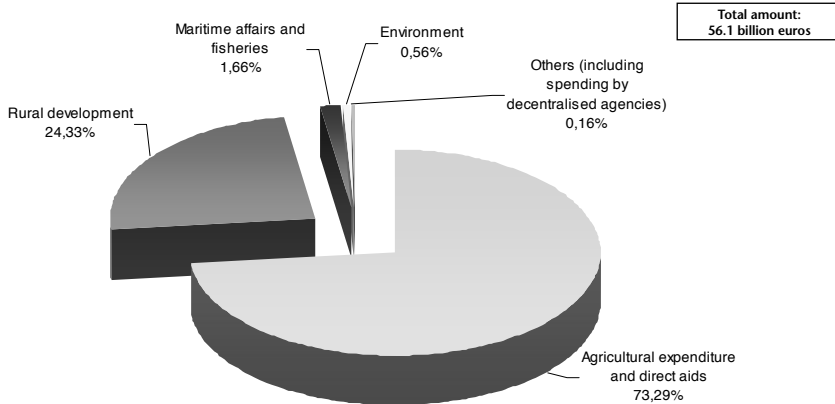
### 7.2. Breakdown of the EU budget by heading (2009)



Source: European Commission  
Data collected and collated for the Robert Schuman Foundation, © FRS

The Common Agricultural Policy (CAP) included mainly in the “Conservation and management of natural resources” category remains the largest heading in the Union budget, as it represents around 42% of total spending. Cohesion and competitiveness policies, intended to accelerate economic convergence between the various regions in the Union, come next at 36% and 9% respectively. The rest of the budget is devoted mainly to administrative expenses and to the promotion of the European Union’s global role.

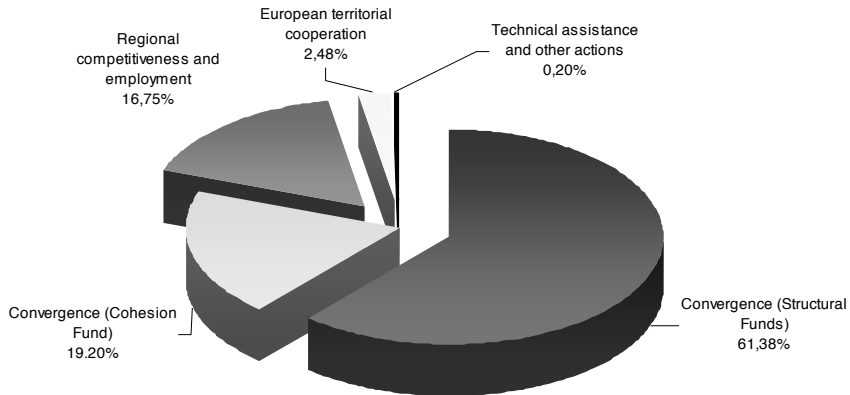
### 7.3. Budget devoted to agricultural policy, the environment and rural development (2009)



Source: European Commission  
Data collected and collated for the Robert Schuman Foundation, © FRS

With the various reforms of the CAP, which have gradually brought subsidised prices closer to world prices and have removed the link between aid and direct production, the share of agricultural spending and direct aid has fallen, and more and more resources are being devoted to rural development. Nevertheless, traditional spending (that is to say spending related to the markets and direct aid) still remains massively in the majority.

#### 7.4. Budget for Cohesion policies (2009)



Source: European Commission  
Data collected and collated for the Robert Schuman Foundation, © FRS

Cohesion policies mainly aim at bringing living standards closer in the various regions of the Union. Thus, the aim of convergence, which represents the main part of this heading (81%), is to target two types of beneficiaries:

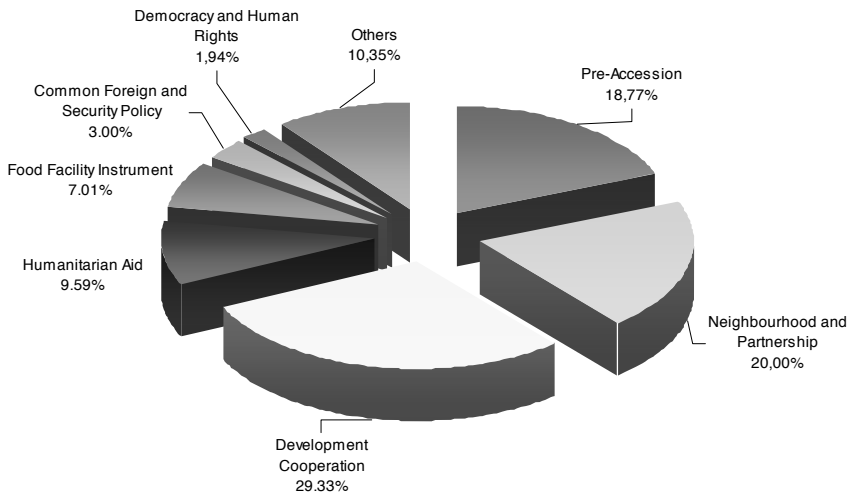
- regions that are behind in terms of development, whose gross domestic product (GDP) per inhabitant is lower than 75% of the Union average, are the arena for structural funds action, and particularly for the ERDF (European Regional Development Fund)

- Member States that are behind in terms of development, whose gross national income (GNI) per inhabitant is less than 90% of the Union average, are supported by the cohesion fund.

In both cases, the European Commission co-finances infrastructure or development projects with the local authorities.

Finally, regions that do not benefit from these policies are nevertheless supported by the Union within the framework of the “regional competitiveness” policy, which represents around 17% of total cohesion spending and promotes innovation, employment and integration into the world economy.

### 7.5. The EU as a global partner (2009)



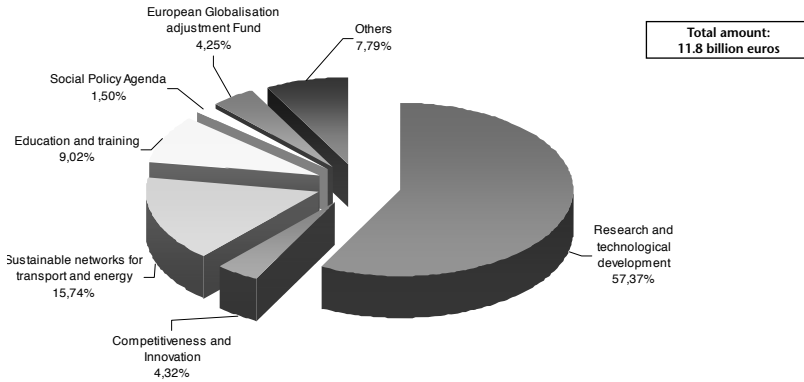
Source: European Commission  
Data collected and collated for the Robert Schuman Foundation, © FRS

In budgetary terms, the top global field of action by the European Union is development aid: together, development cooperation and humanitarian aid represent 39% of spending in this field.

Whereas these efforts are aimed mainly at non-European countries, the Union also actively supports its direct zone of influence, through the neighbourhood policy and official membership candidates (Former Yugoslav Republic of Macedonia (FYROM), Croatia and Turkey) and those considered to be “potential candidates” (Albania, Bosnia-Herzegovina, Kosovo, Montenegro, Serbia). This proximity action also represents around 39% of spending.



**7.6. Budget for Competitiveness policies (2009)**

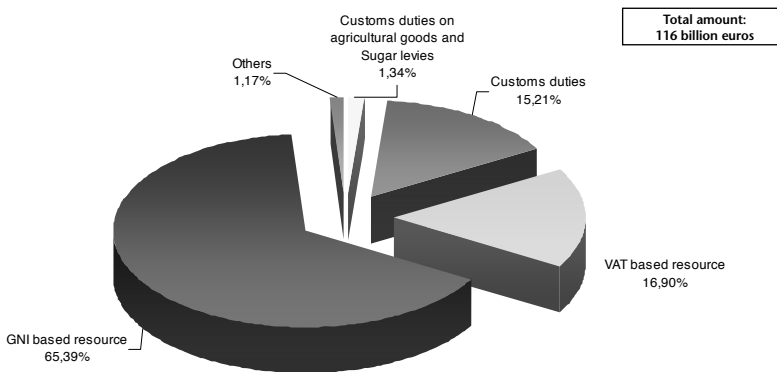


Source: European Commission  
 Data collected and collated for the Robert Schuman Foundation, © FRS

Competition spending is mainly concentrated on support for research & development (R&D), one of the stated priorities of the European Union over these past few years (57%). It is followed by the promotion of cross-border transport or energy networks, one of the European Union’s oldest tasks; education policies also represent a major share of the competitiveness budget.

This heading also includes an innovation put forward by the Commission, the “European Globalisation Adjustment Fund”, which is set to work in regions affected by relocations. The financial resources devoted to it remain however relatively modest.

**7.7. EU budget financing – breakdown by type of revenue (2009)**



Source: European Commission  
 Data collected and collated for the Robert Schuman Foundation, © FRS

European Union resources increasingly come from a direct contribution by Member States, calculated according to their GNI (Gross National Income). These payments now make up two thirds of community resources, whereas “traditional” own resources, such as customs duties or levies on VAT incomes have gradually become less significant, whilst remaining nevertheless quite considerable.



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