



THINK GLOBAL – ACT EUROPEAN IV

THINKING STRATEGICALLY ABOUT THE EU'S EXTERNAL ACTION

Directed by Elvire Fabry

Foreword by Pascal Lamy
and António Vitorino

The recommendations of
16 European think tanks

STUDIES & REPORTS • APRIL 2013
96

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in collaboration with Chiara Rosselli

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FOREWORD

*by Pascal Lamy, Honorary President, Notre Europe – Jacques Delors Institute
and António Vitorino, President, Notre Europe – Jacques Delors Institute*

Twenty years after the Treaty of Maastricht created the Common Foreign and Security Policy, Europeans face the risk of being marginalised on the international scene. The euphoric period following the fall of the Soviet Union – when it seemed obvious that the world would westernise and that politics would become more democratic and economies more liberal – has ended.

Long-term economic shifts underway since the 2000s – the rise of ever more economically potent and politically assertive powers – have translated into a gradual yet relentless reversal of global relationships of power. 2012 will be remembered as the turning point when the production of the rising economies exceeded that of old industrialised countries. With this shift of economic power – mainly towards Asia and soon towards Africa – European influence and regulatory capacity on the global level are increasingly questioned.

In this time of complex evolutions and shifting tectonic plates, the ‘Think Global – Act European’ project brings together 16 think tanks and over 40 experts to examine the EU’s external action.

The economic crisis has commended EU efforts to concentrate on the internal challenges of recovery and fiscal consolidation. Yet the EU is entering a new phase of its existence in which it is called upon to anticipate the negative spillover of the crisis on the attractiveness of the EU model both at home and abroad. To do so the EU must equip itself with an integrated global strategy introducing more coherence with its internal policies.

Developing a common foreign policy reflecting both European values and interests is an instrument for the much needed legitimisation of the European

project in the eyes of our fellow citizens. The way we view foreign policy is not just the way of having a say in international affairs, but it's also a key element in the internal consolidation of an innovative and inspiring European common project.

At a moment when the forces of discordance amongst Member States intensify, as increased economic competition fosters the renationalisation of European policies, the fourth edition of this report assumes, with more resolve than ever before, the 'united in diversity' motto that has been the guiding principle of the project since its inception.

The 'Think Global – Act European' report is indeed the product of a process of collective thinking, outlining key recommendations for strengthening and increasing the coherence of the EU's instruments of external action as well as providing the building blocks for new strategic thinking in the ambit of the EU's external action.

We are proud to present the product of such a stimulating process of cooperation, which has allowed for the constructive and enlightening confrontation of different viewpoints.

The hope is that this report will provide the impetus for new strategic reflection on the EU's role as a global power, allowing the EU to achieve a new and open outlook on the evolution of the new trends that are reshaping our current world order. Our wish is that European institutions as well as national diplomacies will grant serious consideration to the relevant and innovative proposals for concrete action put forward by the authors of this valuable report.

10 KEY RECOMMENDATIONS

In the context of increasing global interdependence, the European Union needs to emphasise long term strategic thinking to react to the tectonic changes occurring on the global scene. In order to anticipate the negative spill-over of the economic and financial crisis on the EU's international influence and avoid the progressive marginalisation of Europeans, the EU must equip itself with a more integrated external action strategy, by:

1. Improving the coherence of internal and external EU policies

The benefits of the Single market – as a springboard for the promotion of European common interests abroad – are limited by the slow development of the external dimension of internal policies. In addition, the fragmentation of external policies and the delimitation of tasks between the European Commission (EC) and the European External Action Service (EEAS) stand in the way of a more political mindset, which is a prerequisite for developing a comprehensive forward looking strategy.

To emphasise the external dimension of internal policies in fields where Member States can concur on the long-term strategic interests of the EU, and to improve the consistency between new foreign policies and traditional diplomacy, a more active cooperation between the two institutions is required and could be usefully supported by initiatives amongst which:

- the appointment in the next 2014 Commission of a Commissioner for Enlargement and Neighbourhood that is also deputy to the High Representative for Foreign Affairs and Security Policy;

- the creation of permanent joint task forces allowing for the pooling of expertise, instruments and resources of the EC and the EEAS on specific issues, for instance on mobility.

2. Addressing the fragmentation of economic governance within the EU and its external representation

Member States hope to make up for the lack of EU domestic demand with proactive national trade diplomacy emulating the “geo-economic” strategies of rising economies. This will likely not be sufficient to boost the EU’s economic competitiveness. Beyond the Commission’s mandate for the negotiation of market access, there is little emphasis on trade as a coordinated EU external strategy and competition between Member States undermines their long term interests. The priority for the EU’s long-term economic competitiveness is therefore:

- to knit Europe’s markets closer together by consolidating the Single market, especially in relation to services.

Leveraging EU economic performance abroad also requires strengthening the EU’s voice in global macroeconomic and financial affairs. In particular two initiatives seem promising:

- the creation of a single voice for the euro area at the IMF;
- the extension of the recently established European Supervisory Authorities (ESAs) as institutional platforms to coordinate and represent European views in global financial regulatory negotiations.

3. Engaging with traditional and new global players – especially with China

Within the current multipolar framework, strategic cooperation between the EU and the US is required to create a global level-playing field promoting

western values in global economic governance and addresses the ever more recurrent abuses of state capitalism.

Vis-à-vis new economic powers, and in particular China, the EU will lack assertiveness if relations remain channelled through individual Member States. New initiatives aiming at developing mutually beneficial relationships include:

- transparency on the sovereign debt bonds purchased by China;
- the creation of a system of incentives supporting existing demands for liberalisation and pointing at a ‘second opening’ of the Chinese economy (encouraging Chinese private initiatives in order to strengthen Chinese private capital; supporting the development of private company ownership, IPOs, intellectual property rights...).

4. Developing a comprehensive strategic approach for sustainable growth and access to strategic resources

Green growth and sustainable development, a pillar of both the EU’s internal and external actions, will remain at the forefront of the EU agenda despite the burden of the financial and economic crisis on its Member States’ green transition. Highly strategic interests, like quality of life and economic competitiveness, would be threatened if climate change and natural resources depletion were to be unsuccessfully managed. These challenges are not only internal but global in nature, requiring better coordination and coherence between these two dimensions.

For the EU this implies:

- gaining credibility at the global level by strengthening internal instruments, particularly saving emissions trading from irrelevance;
- empowering Europeans via collective rather than unilateral actions, especially in relation to accessing key natural resources such as natural gas;

- developing the external dimension of key internal policies (energy and other raw materials);
- avoiding the trap of a narrow Eurocentric vision when developing renewable energy projects abroad, by conceiving these as mutually beneficial endeavours, for instance in the promotion of low-carbon energy in Mediterranean Partner Countries;
- meeting food security and environmental challenges in European agriculture;
- and systematically looking for more efficient and ecological ways of managing natural resources on both internal and external markets.

5. Supporting legal migration

Beyond the short term challenges induced by rising unemployment, the labour force shortage fuelled by the ageing of the European population calls for a serious debate and further action regarding a more comprehensive EU migration policy. The following three initiatives would be of particular interest:

- Within the framework of Mobility Partnerships, groups of states, sharing a similar need for (highly) skilled workers and offering similar working, salary and living conditions, could cooperate more closely to put in place attractive and mutually-reinforcing policies for the recruitment of workers with the right profile.
- Internally, the EU should improve existing rules on the admission of migrants and reinforce the possibility for residing migrant workers to move within the EU for employment purposes.
- Enhanced coordination of integration policies is needed to support this process.

6. Moving beyond a “security-driven perspective” on migration and developing a comprehensive approach with other EU policies

A foreign ministers’ approach would allow broadening the debate on migration to social, economic and environmental issues and should be developed by:

- strengthening the role of the European External Action Service.

EU policies which have an impact on migration, such as development and cooperation policies, need to be taken into account to achieve consistency. This implies:

- abandoning the principle of conditionality which makes support for development conditional upon results obtained in migration control (readmission and border control). Cuts in development aid will not help address migration issues.

7. Moving from a defensive attitude towards the neighbourhood to the development of mutual interests

The EU has yet to find an adequate response to competing influences in the neighbourhood (illiberal values, alternative attractive markets...) and to react more promptly to the mismatch between on one hand the EU’s long-term policies and institutional slowness and on the other hand the fast-paced changes and urgent demands of its neighbours. Whilst article 8 TEU mandates Europeans to actively engage their vicinity, a more positive outlook on the opportunities that could be seized in a stabilised and integrated neighbourhood implies:

- addressing the decrease in effectiveness of the principle of conditionality used in EU policies, by setting political and policy benchmarks with measurable criteria (e.g. very narrowly defined objectives, such as freedom of speech) for a more rigorous allocation, or reduction, of funding;

- support regional stability through innovative incentives more strictly correlated to the pragmatic short-term objectives and interests of the neighbouring countries' civil societies (particularly in trade and mobility) and acknowledging the potential of partners' traditions in promoting pluralism and democracy.

8. Shifting towards a proactive and cooperative engagement with other regional actors like Turkey and Russia

Specific forms of cooperation with Turkey could help achieve shared objectives in the neighbourhood, particularly in the Mediterranean region.

- Whilst assertively engaging Brussels and Ankara in finding a solution to the Cyprus issue, the EU and Turkey should jointly and strategically engage with neighbours - notably the Arab states, appreciative of the Turkish model - in as many regional projects as possible (infrastructure, higher education and research, business development, etc.).
- The feasibility of a progressive opening of the EU-Turkey customs union to other neighbours could be investigated in order to boost intra-regional trade and the economic transformation of the region.

The engagement of Russia is a more daunting task yet there is no alternative.

- The Common Spaces dialogue should be revamped to serve as a forum for constructive exchange between working groups of ministry officials on small-scale projects in their shared neighbourhood.
- But the official track has to be accompanied by a strengthened outreach to civil society (partnerships between municipalities and schools, student exchanges and trilateral projects with East European partners) in order to gain an acute understanding of partner expectations and to support actors that are key for the successful implementation of the EU's goals in the East.

9. Conducting an EU defence policy review

The Common Security and Defence Policy (CSDP) will not become a vehicle for great military power competition; but nor should the EU expect to only have to deal with relatively-small peacekeeping operations. There are a number of potentially important tasks in-between that may require the use of military force, ranging from responding to major humanitarian crises to protecting maritime trade routes.

EU governments should therefore re-state the purpose of CSDP by:

- conducting a “European defence review” outlining the EU’s geo-strategic priorities, the threats to European security, and the types of operational scenarios EU governments must prepare for.

10. Grasping the nettle of military capabilities

EU governments need to consider how they intend to maintain and develop military capabilities that give them the agility and autonomy they need to respond to future crises and challenges. If cuts in national budgets and capabilities continue their current trends, most European armies might eventually become irrelevant. EU governments should therefore:

- look beyond their current “pooling and sharing” efforts towards integrating military capabilities;
- and make more efforts to integrate their procurement needs, which would help further consolidate the European defence industry.

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This selection remains under the responsibility of the rapporteurs.

GENERAL SYNTHESIS

*by Elvire Fabry, Senior Research Fellow,
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1. Time for a strategic rebound

The sovereign debt and banking crisis has drained the energy of European leaders. It is distracting them from the major geo-economic and geo-political trends which are transforming the world. **The European Union's external stakes are largely neglected.**

With the ECB's Outright Monetary Transactions (OMT) programme markets have calmed down. Partial progress has also been made with the decision to create a first pillar of a Banking Union in the euro area. But the crisis is far from resolved with persisting risks of liquidity and banking crises. **Squaring the circle, in order to perform a strategic rebound in a time of austerity and avoid a 2030 scenario of a G8 counting no European State, is particularly difficult.** The crises in the euro area have highlighted major flaws in European economic and political governance. Strong divisions and distrust between Member States reflect profound questioning about the EU's tools to return to growth. While further steps towards integration in the field of EMU remain necessary, policy makers are wary of how these will impact national sovereignty, making them unlikely to embrace these unless there is strong pressure from either civil society or another round of crisis. Yet growing social unrest is accompanied by ever more citizens calling for a re-nationalisation of European policies. Further integration will likely take time. In addition, the intervention fatigue resulting from the internal crisis fuels a rather defensive attitude towards an increasingly turbulent neighbourhood. **There is no evidence that political leaders will find the strength and drive to see beyond internal worries and engage in global strategic thinking.**

Yet existential doubts about the EU's added value in facing external challenges will not help citizens to buy into difficult reforms and further integration; and the relative decrease of EU influence on the global scene is becoming more apparent.

With the rise of new economic powers and the diversification of international players, particularly non-state actors, **centres of decision making are increasingly diverse and competing world-views are materialising**. The emerging powers challenge the liberal order based on Western values and institutions (open markets, social bargains, democracy, multilateral institutions and cooperative security) and what until the crisis was expected to be a progressive Westernisation of the world through globalisation. **Europeans have to prepare to engage in an ever more intense competition over values.**

In addition, this diffusion of power provokes a dilution of international responsibility for global public goods, such as security, environmental sustainability, trade openness, or macroeconomic and financial stability. Economic empowerment is not directly translated into global political or hard power – in spite of dramatic increases in military expenditure in countries like China and India. The priority of rising economies remains that of fostering their growth model – also affected by the crisis – and to conduct internal reform. China, in particular, is using global governance fora for its own self-interested agenda rather than for ensuring the provision of global public goods. This tendency of the new economic powers to perform as free riders at the global level with yet no clear agenda with regards to global order, coupled with the Obama administration's focus on internal concerns, as well as the relative decline of EU influence on the international scene and the weakening of the multilateral system could lead to **a vacuum in global leadership.**

To regain international influence and have a say in the shaping of the new world order, Europeans have **no other alternative than to focus on their shared interests in the changing world and to translate these into a long term strategy.** Defining this strategy implies looking beyond the conventionally defined and widely debated new centres of powers. For instance there is a tendency to underestimate Europe's interests in Africa. By 2030 Africa will count a population of 1.5 billion and represent, together with China

and India, two thirds of the world's young professionals between 19 and 25 years of age. Europeans could better anticipate the benefits that their geographical position and historical links with Africa could offer – notably by realising the potential of this young labour force for tackling the EU's medium term demographic challenge.

Nevertheless any attempt to define a European global ambition would arguably be too rhetorical to provide a useful basis for the elaboration of a comprehensive European external strategy. **A cautious step is instead that of beginning by an accurate assessment of the main challenges derived from new demographic, economic and geopolitical realities.**

The 16 European think tanks involved in this project have therefore opted to conduct this assessment *via* the definition of topical strategic approaches:

- the promotion of EU economic interests abroad,
- a sustainable management of strategic resources,
- a comprehensive migration strategy addressing the EU demographic challenge,
- an innovative neighbourhood policy allowing to regain influence in the region,
- and a more coordinated management of hard security capacities allowing to preserve EU's credibility and influence long term objectives.

These areas of interest underline fields where the external dimension of internal policies should be actively developed in order to reap the benefits of the Single market – an obvious asset for the EU's attractiveness and influence abroad – and where more consistency could be attained between new foreign policies and traditional diplomacy, were the EEAS to succeed in thoroughly exerting its role, recognised by the Court of justice, of ensuring coherence between all aspects of EU external policies.

2. EU economic governance: leveraging European interests on the global scene

Whilst crisis management has triggered some important governance reforms in the euro area, **there is no alternative to further economic integration** to face both internal and external European challenges.

2.1. Beyond the export contest

The EU has yet to come up with a convincing growth strategy. This firstly requires the accomplishment of internal economic and financial integration and of a coordinated interaction with Europe's major trading partners. Yet the export-oriented policy of some Member States undermines a common EU approach and fails to reap the full benefits of the EU's economic weight, doing little to boost European long run prosperity, productivity and innovation.

- **The implementation of the Single market** – starting with removing remaining barriers to trade in the area of services – remains the main driver to boost internal demand and increase EU competitiveness abroad. Other than being a driver for growth, it could pave the way for a reinforced common external economic strategy and contribute to project European norms globally. (*J. Springford, EPC & R. Youngs, Fride – p. 39*)

2.2. Increasing the efficacy of the EU's external economic representation

Achieving a single European voice in monetary, financial and regulatory affairs has become critical. Yet, the fragmentation of the EU's external representation and its failure to influence the global regulatory agenda are striking.

Strengthened regulatory authority and compliance within the EU, coupled with improved information sharing and coordination among all relevant European actors (public and private), would contribute to institutional compatibility and effective communication of agreed EU positions and increase its bargaining power at the global level.

- **Extending the recently established European Supervisory Authorities as institutional platforms to coordinate and represent European**

views in global financial regulatory negotiations, would constitute a significant improvement. (*F. Chatzistavrou & D. Katsikas, Eliamep & Y. Tirkides, CCEIA - p. 76*)

In addition, **increasing coordination among Member States for the representation of the euro area within international organisations** requires first and foremost understanding that European Member States are currently overrepresented and that this *status quo* is unlikely to resist indefinitely. The EU should anticipate these evolutions and organise so as to best preserve its power.

- A stepping-stone towards unified external representation would be the **creation of a euro area committee to coordinate voting rights within the IMF**, providing for fewer coalitions and subsequently strengthening the negotiating power of the European bloc. (*D. Schwarzer, SWP & F. Steinberg, Elcano & D. Valiante, CEPS - p. 66*)

2.3. Engaging with the US and China

Fragmentation not only undermines EU action but also affects relations with traditional and new strategic partners, which are mostly developed through national capitals. Other than the Commission's mandate for the negotiation of market access *vis-à-vis* economics partners, there is little emphasis on trade as a coordinated EU external strategy.

Within the present multipolar setting, more strategic cooperation between the EU and the US is required to create a global level-playing field which promotes Western values in global economic governance and addresses the ever more recurrent abuses of state capitalism (illegal subsidies, forced technology transfers or disrespect of intellectual property rights).

- **A renewed Transatlantic Free Trade Agreement** – removing remaining trade barriers – could increase the EU's GDP by 0.7 per cent per annum and contribute to setting the standard for future trade negotiations with emerging countries.
- More targeted initiatives like the **creation of a Transatlantic Innovation and Research Space and a joint EU-US Research Energy Council**

could help bring new technologies to the market and be a driver of much needed innovation and growth.

- Finally, the EU and the US should engage in **permanent economic dialogue on macroeconomic issues** in order to explore mutual challenges and interdependencies, and strengthen the normative framework for the international economic and monetary system. (*P. Świeboda, demosEUROPA - p. 50*)

Yet, Europeans also need to find a European way of engaging with the new economic powers in the construction of a new global economic order. China exerts ever-stronger economic and political power and Europeans must realise that they have interests that cannot be satisfied by the enduring pursuit of 27 diverging policies *vis-à-vis* China. No single Member State can successfully compete with China on a bilateral basis. A more proactive strategy is needed, using both multilateral channels and pragmatic EU-China bilateral alliances. The recent more assertive attitude of the EU (on public procurement, reciprocity and anti-dumping issues) must be reinforced to protect European investments in China, whilst simultaneously pursuing constructive cooperation in areas of shared interests (e.g. potential Chinese investments in the EU's neighbourhood). Europeans would benefit from:

- **more coordination on European sovereign debt bonds purchased by China** (introducing transparency between the Member States would ensure that purchases do not affect policy);
- **as well as the creation of a system of incentives supporting existing Chinese internal demands for liberalisation and pointing at a 'second opening' of the Chinese economy** (efforts to welcome Chinese private enterprises, strengthening Chinese private capital, supporting the development of company ownership, IPOs, intellectual property rights, etc.). (*A. Kratz & J. Parello-Plesner, ECFR - p. 58*)

3. EU natural resources: towards sustainable and strategic management

Highly strategic interests, like quality of life and economic competitiveness, would be threatened if climate change and natural resources depletion were to be unsuccessfully managed. Faced with rising powers' increasing consumption of natural resources and ever more assertive resource policies, the EU needs to equip itself with the necessary tools to guarantee its supply of natural resources whilst preserving its sustainability objectives. Yet recent international negotiations have highlighted that in spite of the EU's concrete and commendable efforts, in a time of global economic crisis, the EU's ability to positively influence the international debate on regulation has been drastically reduced. **Sustainable development may well be the field in which external ambition will be most driven by internal achievements.**

3.1. Acting at home

Despite the financial and economic crisis slowing down the green transition of European economies, **the EU has little choice but that of leading by example.**

- In the short-term, it is first of all by **focusing on domestic implementation and showcasing the resulting environmental and economic gains of energy efficiency and waste management**, that the EU will advance the sustainable development cause internationally. (*A. Ahtonen & A. Frontini, EPC – p. 93*)

Yet implementation is frustrated by the fact that a key strategic resource, energy, remains of shared competence between the EU and Member States. In the face of threats to EU security and prosperity, driven by increasing EU dependency on energy imports, at the very least **the EU must become more assertive internally by consolidating its common energy market.**

- **The setting of mandatory targets for the Energy Efficiency Directive** would be a step in the right direction. (*A. Ahtonen & A. Frontini, EPC – p. 93*)
- The EU must **define an unambiguous regulatory framework and clarify official EU positions on contested issues such as shale gas and**

genetically modified organisms, so as to be able to identify a targeted number of efficiently funded research projects on the one hand, and on the other, provide clear future prospects for investors. (*S. Andoura, Notre Europe – Jacques Delors Institute & C. d'Oultremont, Egmont – p. 102*)

- Where there are striking internal divisions, such as on **Carbon Capture Storage**, the EU would benefit from **being more transparent which would avoid mismanaging expectations both internally and internationally**. (*S. Tindale, CER – p. 130*)

3.2. Aligning external action with domestic choices

The EU needs to equip itself with a systematic strategic approach to resource management, consistently identifying existing resources and assessing ways to preserve and develop these according to European needs. Coherence between internal choices and EU external action is to be established in those policy areas where Member States can agree on shared European long-term strategic interests.

- One such case would be **incorporating environmental externalities in the prices of agri-food products whilst standing firm in applying the same internal regulation to external operators active in the Single market**, as well as continuing its efforts to promote internal norms on a global scale. (*N. Chambon, Notre Europe – Jacques Delors Institute – p. 121*)
- In the international context of cut-throat competition, the EU's legal tools are not always the best and sole instruments with which to pursue the EU's interests. The Union must develop a more comprehensive strategy encompassing political, diplomatic, security and economic tools. The creation of a European common market for energy must be complemented externally by a commitment to the **conclusion of unified EU energy partnerships tailored to the diversification of supply and the strengthening of Member States' negotiation power**. (*S. Andoura, Notre Europe – Jacques Delors Institute & C. d'Oultremont, Egmont – p. 102*)

3.3. Getting out of the Eurocentric vision

For the sake of coherence between its neighbourhood and energy policies, the EU needs to abandon its euro-centric approach which supports European industries and engineering firms whilst too often neglecting the development of its partners. This does not imply a less zealous pursuit of the EU's interests, much to the contrary. It entails the realisation of genuinely mutually-beneficial projects for the EU and its partners – hence ensuring their long-term sustainability.

- **The Mediterranean Solar Plan provides a good example of the need for the EU to foster the creation of a shared area of prosperity and reinforce its projects' development potential**, providing thus for the region's growing energy demands but also creating new economic opportunities for all partners. (*G. Escribano, Elcano – p. 112*)

Furthermore, the EU needs to distance itself from overly normative and improbable rhetoric, if it is to succeed in having international echo, particularly amongst emerging economic powerhouses which exert ever more influence over the resource debate by expressing the concerns of developing countries. The EU must learn to act as a mediator between opposing factions by **developing more pragmatic short-term measures**.

- With regards to the greening of global markets, **the EU could target transparency and fragmentation in global supply chains, resource nationalisation and the creation of credible incentives for resource efficiency**.
- **To engage with other influential powers, it should support both unilaterally and within international trade fora, the Asia Pacific Economic Cooperation's (APEC) efforts towards increasing trade in environmentally friendly goods, as well as all similar initiatives.** (*A. Ahtonen & A. Frontini, EPC – p. 93*)

4. EU migration strategy: from zero to positive sum

Movements of people have been deeply transformed over the past years. In addition to the constant onset of new conflicts forcing people to flee from their country, booming young labour force in economies with low employment capacity, instability of Mediterranean countries experiencing a political transition, economic turmoil in the euro area periphery and attractiveness of rising economies, are all provoking new movements of people and call for better anticipation of European long run needs. Beyond the development of very negative discourses around immigration and integration induced by rising unemployment, **the need to address the labour force shortage of ageing societies threatening the sustainability of the EU social model, calls for a serious debate and further action regarding the establishment of a more comprehensive EU migration policy.** (*H. Martens, EPC – p. 146*)

4.1. Shifting away from a security-driven perspective

A reset of migration rhetoric in positive terms, reconciling domestic labour force needs, security and development, is imperative. **The EU has to depart from its antagonistic security paradigm, driven by Home affairs diplomacy, and develop a constructive comprehensive approach with other EU policies (development, cooperation policies...).**

- **A foreign ministers' approach relying on an increased role of the European External Action Service (EEAS) in migration issues, would be commendable in order to broaden the debate to social, economic and environmental concerns.** (*S. Carrera & L. Den Hertog & J. Parkin, CEPS – p. 152*)
- It would also imply **giving up the principle of conditionality in the ambit of development support, whereby support for development is made conditional upon results obtained in migration control** (readmission and border control). (*R. Gropas, Eliamep – p. 182*)

4.2. Engaging in the global war for talent

If the EU chooses to remain a “fortress Europe”, reluctant to welcome third country nationals, it will experience a backfiring effect when needing to attract low, middle and highly skilled migrants to fill in labour shortages. Support to legal migration by a comprehensive EU policy allowing Member States to compete in the “global war for talent” is urgently required.

- **It could be developed within the framework of Mobility Partnerships**, where groups of Member States, sharing similar needs for (highly) skilled workers and offering similar working, salary and living conditions, could cooperate more closely to put in place attractive and mutually-reinforcing policies for the recruitment of workers with the right profile. (*T. Maroukis & A. Triandafyllidou, Eliamep – p. 173*)
- To be the most attractive labour market for highly qualified migrants the **EU also needs a more unified labour market** facilitating flexibility in the allocation of workers. It should **improve and develop existing rules on admission of migrants and reinforce the possibility for residing migrant workers to move within the EU for employment purposes**. (*A. Ette & R. Parkes, SWP & A. Sorroza & C. Gonzales Enriquez, Elcano – p. 162*)
- But this process has to be accompanied by enhanced integration policies fostering social inclusion of migrants. **Further information and discussion on best practices of integration need to be developed between Member States**. (*H. Martens, EPC – p. 146*)

5. The EU’s neighbourhood as an opportunity

The litmus test for the EU’s credibility at the global level is its capacity to manage successfully a neighbourhood that has become ever more challenging with the perspective of lasting instability following the Arab political transition, the growing regional influence of a more assertive Russian neighbour and the emergence of new actors in the Mediterranean area. Too embedded in a Euro-centric vision and a defensive attitude, the EU has not yet found an adequate response to competing influences in the neighbourhood

(illiberal values, alternative attractive markets on the East, etc.). Unrest in Egypt and Tunisia as well as the Syrian conflict indeed highlight the limits of the fast yet rather formalistic European response to the Arab uprising.

The decreasing appeal of a crisis-ridden EU enjoying lower financial leverage needs to be counterbalanced by profound rethinking of EU strategic relations and priorities beyond the 2011 European Neighbourhood Policy review, allowing to reduce risks of conflict and attracting neighbours to the EU's values and Single market. Instead of fearing to be reduced to a provincial power in the global setup, by focusing on their neighbourhood, Europeans should **view the opportunities that can be seized in a more stabilised and integrated neighbourhood more positively, and prepare a positive agenda to engage the area more decisively.** (*M. Comelli, IAI – p. 197*)

- **A communication produced by the Commission (possibly jointly with the EEAS) would usefully highlight the mandatory formulation of Article 8 TEU on the engagement of the Union in the neighbourhood, and encourage discussion among institutional actors as to what the EU is to achieve through its neighbourhood competence.**
- **A strengthened and more coherent ENP could be supported by the appointment in the next 2014 Commission of a neighbourhood commissioner that is also a deputy to the High representative for foreign affairs and security policy.** (*C. Hillion, SIEPS – p. 204*)

5.1. Developing mutual interests beyond conditionality

Pursuing a policy of continuity, the EU has reinforced the principles upon which the ENP has always been based, first amongst which, conditionality. But **the efficacy of the principle of conditionality is ever more problematic**, especially in an era marked by the rise of new donor countries – the so-called new economic powers – with an entirely different approach to conditionality.

- Implementation efforts require **setting political and policy benchmarks with measurable criteria (e.g. very narrowly defined objectives, such as freedom of speech) for a more rigorous allocation or reduction of funding.** (*M. Comelli, IAI – p. 197; L. Najšlová & V. Řiháčková, Europeum &*

O. Shumylo-Tapiola, Carnegie Europe – p. 225; H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215)

- Beyond that, concrete short-term objectives are urgently needed to react more promptly to the mismatch between on one hand the EU's long-term policies and institutional slowness and on the other hand the fast-paced changes and urgent demands of its neighbours. The EU needs to **support regional stability through innovative incentives more strictly correlated to the pragmatic objectives and interests of neighbours** (e.g. visa liberalisation, trade agreements, etc.). (*M. Comelli, IAI; L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225; H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215)*
- **Deep engagement with civil society via the development of concrete and visible joint policies involving businesses and non-governmental organisations (NGOs)** is mandatory for the EU to understand its partners' expectations and support the voice of actors fostering public interest. In a time of austerity, capitalising on this relatively low-cost yet high value added approach is key for the successful implementation of the EU's goals in the region. (*L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225; H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215)*
- In addition, in the Southern neighbourhood, the EU must **prevent the dangerous segmentation of southern civil society by making a bigger effort in engaging with traditional and faith-based parts of civil society**. The EU could apply its civil society concept more flexibly, developing a greater dialogue with Islamic donors and NGOs along with acknowledging the potential of its counterparts' traditions in promoting pluralism and democracy. (*H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215)*

5.2. Developing co-management with other regional actors

To manage threats and establish the neighbourhood as a hub for sustainable economic growth, Europeans must manage their trust capital with their

partners. They should develop a more proactive and cooperative engagement with other regional actors, like Russia, Turkey or Qatar, pragmatically combining trade, hard security, migration and development objectives, as well as carrying out joint initiatives with more geographically remote powers such as China. (*A. Balcer, demosEUROPA – p. 236; L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225*)

- In Turkey, the EU's expertise in civil society engagement can play a substantial role in the consolidation of the country's democratic transition and a stronger Turkish civil society could help reinforce the perception of Turkey as a successful model for the Mediterranean.
- **Europeans should also explore areas where the EU and Turkey have mutual interests** and could develop common projects together with the Arab states (infrastructures, higher education and research, business development, etc.).
- **A progressive opening of the EU-Turkey customs union to other neighbours** could significantly boost intra-regional trade and provide a great example of how the EU could positively impact the region's economic development whilst simultaneously pursuing its own interests. (*A. Balcer, demosEUROPA – p. 236; H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215; M. Comelli, IAI – p. 197*)
- In the light of the newly forged customs union between Russia, Belarus and Kazakhstan and its noteworthy potential power of attraction for EU Eastern neighbours, a re-evaluation of EU policies towards the region is also commendable to tackle growing indifference towards EU proposals – and notably towards the Eastern partnership. Yet building trust with Russia is necessary in order to progressively merge EU and Russia's interests in their neighbourhood. **The revamping of the Common Spaces dialogue** (to serve as a forum for constructive exchange between officials and working groups of ministry officials on small-scale projects) **should be accompanied by a strengthened outreach to civil society** (partnerships between municipalities and schools, student exchanges and tri-lateral projects with East European partners). (*L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225*)

6. EU defence: the capabilities and credibility conundrum

Talks on the Common Security and Defence Policy (CSDP) foreseen in the agenda of the December 2013 European Summit, **re-considering the role military instruments should play in the overall toolbox of EU power resources**, could not be more timely.

The economic crisis has impacted national defence budgets, and cuts in budgets without coordination across Member States are leading to the expansion of capacity gaps at a time when elsewhere, particularly in the rising economies, the main trend outlines a tremendous increase of defence expenditure. The issue at stake is not simply a loss of credibility but of basic security, as neighbours' instability and the instability of our neighbours' neighbours threaten to produce potential spill-over effects on the EU itself. The recent Libyan, Syrian and Malian cases have illustrated the increased willingness of the US to leave Europeans to deal with their own security, whilst underlining the lack of European consensus on the use of robust force. (*D. Keohane, FRIDE – p. 250; J. Techau, Carnegie Europe – p. 267*)

6.1. Conducting an EU defence policy review

The possession of a wide diversity of instruments, ranging from civilian tools – diplomatic corps, development and humanitarian projects – to traditional defence activities, has become the hallmark of EU foreign policy and has proven to be effective, for example in the Horn of Africa. Yet the use of defence as a form of statecraft needs to be clarified as there remain a number of potentially important tasks that may require the use of military force, ranging from responding to major humanitarian crises to protecting maritime trade routes.

- **A clear explanation of why Europe needs a military option is imperative and should be conducted via a “European defence review”** outlining the Europeans **geo-strategic priorities** (e.g. focusing on the neighbourhood vs remaining a security provider in Asia?), **functional shared interests** (e.g. protecting energy supplies, maritime trade routes, etc.), **and existential interests** (e.g. promotion of international law, traditional defence, etc.) as well as the types of operational scenarios EU governments should prepare for. (*N. Witney, ECFR – p. 258; J. Techau, Carnegie Europe – p. 267*)

- **EU governments should also develop defence dialogue and military cooperation with strategic partners like India, Russia, Japan and South Korea,** similar to the ones initiated with Brazil and China – respectively in 2012 and 2013 – **to develop more transparency and mutual trust.** (*D. Keohane, FRIDE – p. 250*)

6.2. Grasping the nettle of military capabilities

Going beyond the limited “pooling and sharing” initiatives – mainly in training and equipment – creates sovereignty issues.

- To address the dilemma between watered-down national sovereignty on the one hand and weak European power on the other, governments should **use the full potential of Permanent structure cooperation offered by the Lisbon Treaty, which means not only cooperation but military integration.** (*R. Kempin, SWP – p. 276*)
- The latter could have a real impact, despite reductions in defence expenditure, if **beyond the focus on equipment, duplication of production and procurement were also addressed. The leverage produced would be even more important if further developments in common logistics support systems (transport capacities...) and interoperability were pursued.** (*J.-P. Darnis, IAI – p. 284*)

Negotiations in this field need to be conducted at the level of chiefs of state and governments for they do not only determine the EU’s agility and autonomy to respond to future crises and challenges by combining diplomatic, development and humanitarian resources, but also ultimately deeply impact Member States’ industrial policies, competitiveness and employment.

None of the above can be translated into action **if a more entrepreneurial mindset is not developed** via increased mutual trust and complementarity between Member States, the European Commission and the EEAS. The proposals addressed here by the 16 think tanks therefore pave the way for **a positive agenda of EU external action** allowing for the fostering of trust of both institutional actors as well as citizens, in the EU’s capacity to effectively engage with a new global order defined by fast-paced changes and ever more diffuse centres of power and decision making.

PART 1: EU ECONOMIC GOVERNANCE: LEVERAGING EUROPEAN INTERESTS ON THE GLOBAL SCENE

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SYNTHESIS

1. External and internal challenges

For several years now, the European Union has been facing two simultaneous challenges: the first internal, dealing with the crises in the euro area, and the second, interrelated, external challenge, dealing instead with the declining role of the EU in the world economy. Within Europe, the ongoing sovereign debt crisis has put the euro area under strain. In a low-growth-high-unemployment environment, most Member States are implementing substantial structural reforms and budgetary consolidations. At the same time, the euro zone area is creating a banking union, and has made progress with reforms for fiscal and economic governance, but has yet to move towards a meaningful fiscal and political union, which are necessary conditions for the economic and political sustainability of the euro. **Given the urgency for crisis management and the ongoing need to improve banking, economic and fiscal governance structures, political attention has been mostly concentrated on EU internal developments.** This inward orientation urgently needs to be rebalanced in order to tackle the second, interconnected, challenge the EU

faces: **that of maximising its external influence in a rapidly changing world in which Europe is rapidly losing relative power and influence.**

2. The decline of the EU's economic influence

The rise of new players on the world scene, notably China and other emerging countries, is reflected in the evolution of the institutions of global economic governance. In 2008-2009, the G20 summit took over from the G7/8 as the most important forum for the discussion of global economic and financial developments and potential international coordination efforts. One out of five G20 members is European. In the G8, half of the members were European. Also the EU's presence in the International Monetary Fund (IMF) has been relatively reduced: the European governments had to give up two of their eight seats in the Executive Board. Europe's voice has further been weakened by the fact that several European states have become recipients of IMF aid. **Together, the relative loss of economic weight and the visibly poor performance in terms of growth, debt and banking stability have accelerated the decline of Europe's normative power.** Neither EU countries nor the US are today necessarily considered as 'models' and Western liberal preferences have less weight in shaping the debate on the future organisation of global economic and financial affairs.

One could expect that its weakened role on the global level would have pushed EU Member States closer together in their appearance on the global scene in order to defend joint interests more effectively. For instance, given that the EU is the largest trading block in the world and that trade policy is an area where Europe speaks with a single and powerful voice, one could thus expect an influential role for the EU. **Quite the contrary, the EU is not doing particularly well in handling the external dimension of trade. And the same could be said about economic, financial and monetary issues.**

Moreover, the **fragmentation of its external representation, in particular in macro-economic policy fields, and its troubles influencing the global regulatory agenda and the reform of the international monetary system are striking.** Most problems can be traced back to the unwillingness of some Member States to transfer more power to unified representations in

multilateral institutions or the fragmented ways in which European Member States exercise power when dealing with external partners.

This applies to the EU's attempts to leverage its economic performance abroad and, in particular, to its strategy in dealing with traditional and new partners. New initiatives need to be taken in order to once again move closer to the EU's traditional American partner and promote western values in global economic governance. Europeans also need to find their own way of engaging with the new economic powers in the construction of a new global economic order. The problem is less in itself the rise of new powers like China or India, than it is Europeans' lack of an accurate assessment of new demographic and economic realities at the political level and the absence of a clear understanding of EU interests.

3. Ways ahead

3.1. The EU's trade strategy: crisis-driven competition versus long term EU competitiveness

Member States pursue commercial diplomacy in a way that is increasingly undermining to a common EU approach. Competition between Member States for market access is rising as they desperately seek sources of growth in exports to make up for slow domestic growth, as consumers are weighed down by debt and governments cut spending. This strategy is unlikely to make Europe richer. Besides moving forward with the banking, the fiscal, the economic and the political union, **the EU has to fuel domestic demand by promoting policies that boost consumption and investment in those Member States that are not as harshly hit by the debt crisis. In the long term, Europe has to improve its slow rate of productivity growth. The EU needs new efforts to boost trade among the EU Member States by knitting Europe's markets closer together** and by increasing competition between European firms, especially in services. This is more likely to be successful than current attempts by Member States to try to emulate emerging economies' 'geo-economic' strategies. (*J. Springford, CER & R. Youngs, FRIDE – p. 39*)

3.2. Engaging with China

With regard to the BRICs, and especially with regard to China, Europe needs to redefine its strategy in order to ensure that both parties benefit from an increasingly close and diversified relationship. So far, **Europe's approach to the BRICs has been fragmented and essentially based on trade and competition policy.** With China, the EU recently became more assertive, notably on public procurement, reciprocity, and anti-dumping issues. China chose to retaliate, slowing down investment in developed countries where China was not welcome. **The EU needs to clearly define European priorities in the strategic partnership, to match Chinese 'core interests'** and consistent demands on the arms embargo, Market Economy status and the One-China policy. Regarding Chinese bond holdings, foreign country purchases of sovereign debt in Europe should be made public so that opacity cannot be employed to enhance political influence. Joint European messages should be delivered at bilateral visits to ensure that sovereign debt purchases do not affect policy. Europeans should moreover create a system of incentives for co-operating with reformers in China. Thus, the EU could leverage already existing insider demands for liberalisation in order to achieve its economic goals. With regard to rising Chinese FDI in Europe, the EU should make a special effort to welcome Chinese private enterprises, which will also strengthen the position of Chinese private capital at home. But it is essential to ensure reciprocity and the protection of European investments in China. Finally, Europe should encourage a 'second opening' of the Chinese economy, one that increases domestic consumption and acts as a new source for global growth. Company ownership and IPOs, intellectual property rights, the financial and service sectors, and public procurement are all areas of pressing interest for Europe in this context. (*J. Parello-Plesner, ECFR & A. Kratz, ECFR – p. 58*)

Besides China, the EU needs to develop comprehensive strategies to deal with other key emerging powers like India and, particularly with middle powers like Mexico, Brazil, Indonesia, South Africa or – closer to the EU – Turkey: economies that may have an increasing influence in the world over the next decades.

3.3. Reinventing the transatlantic economic partnership

The EU should work towards a major initiative to advance the recently launched transatlantic trade and investment agenda. Eliminating tariffs would make companies from the US and the EU more competitive. Removing existing trade barriers could increase the EU's GDP by 0.7% and the US's GDP by 0.3% per annum and promote common standards, especially in trade in services, that could later be adopted by third parties or included in WTO negotiations. On macroeconomic issues, the EU and the US should engage in a regular strategic economic dialogue in order to explore mutual challenges and interdependencies, and coordinate policies more effectively. Other important areas of dialogue include energy and climate change, within the ambit of which the US shale gas and oil revolution has improved the country's position fundamentally. In the field of climate change, research collaboration on major technologies across the energy mix would be a promising perspective. Creating a Transatlantic Innovation and Research Space and a joint EU-US Research Energy Council would greatly help to bring new technologies to the market. Finally, Europe should seek cooperation with the US in its efforts to strengthen the normative framework for the international economic and monetary system.

(P. Świeboda, DemosEUROPA – p. 50)

3.4. A single voice for the euro in monetary, financial, and regulatory affairs

Europe could increase its influence in global macroeconomic issues if it is capable of creating a single voice for the euro area in global financial and economic affairs in general and in the IMF in particular. Increasing coordination among Member States for the representation of the euro area within international organisations can be pursued in two ways. The first option would be to simply improve coordination in the use of voting rights currently allocated to euro area members, which are today split in two individual memberships and six different coalitions. This could be done through the creation of a euro area committee. The second option would be the creation of a single chair for euro area countries. Membership would need to be officially handled by an institution that has control on budget and fiscal policies, since the voting rights are immediately linked to the effective quota held within the Fund. This institution could be potentially represented by the European Stability

Mechanism, which may increase its importance in the future economic governance set up of the euro area if it becomes central in the coordination of fiscal policies. An alternative would be a euro area economic government, if the EU was willing to embark on a major treaty change. This option requires a reform, or at the very least a reinterpretation, of IMF Articles of Agreement, since officially only ‘countries’ can be part of the IMF. The second impediment to such a proposal concerns the re-calculation of the formula. By removing intra-EU flows from the calculation of the quota, the Euro area total quota may fall well below 21%, making the first option more attractive if no major reform of the formula is going to be undertaken in the coming years. However, this option would make more sense (for the benefit of having an integrated framework of external representation) if the IMF was to modify this formula and reduce the weight of euro area countries that are currently overrepresented. (*D. Valiante, CEPS & D. Schwarzer, SWP & F. Steinberg, Elcano – p. 66*)

In the field of financial governance, the EU’s current process of internal financial and banking reform should be used to strengthen the EU’s voice. The task is to promote a more unified and cohesive external representation of its positions. However, this potential may not be realised unless its design takes into account the institutional characteristics of global financial governance, which is composed of a variety of organisations often transcending the traditional public-private dichotomy. The EU should build on its own experience from international accounting harmonisation by turning its ad hoc governance initiative with the International Accounting Standards Board into a full-blown strategy in all areas of financial regulation. The generalisation of this strategy consists in extending the recently established European Supervisory Authorities (ESAs) as institutional platforms to coordinate and represent European views in global financial regulatory negotiations. More specifically, in order to strengthen the EU’s regulatory capacity and ensure its institutional compatibility and complementarity with global financial regulatory fora, the newly established ESAs should act as institutional platforms to coordinate and represent European views in global financial regulatory negotiations. Moreover, it should be ensured that the design of the new European banking supervisory authority takes into account both the dimension of the EU’s external representation in global banking regulation as well as the new agency’s relation to the European Banking Authority (EBA), thus avoiding further fragmentation in the European financial regulatory landscape. To complement

the ESAs, appropriate governance structures compatible with the global financial regime are needed. (*F. Chatzistavrou, Eliamep & D. Katsikas, Eliamep & Y. Tirkides, CCEIA – p. 76*)

A well formulated deepening of integration is the only solution to both internal and external European challenges. The EU needs to solve its internal economic problems (low growth and productivity and incomplete governance of the euro) in order to be able to exercise more influence globally. The internal crisis is an opportunity. The internal changes, required to make the monetary union sustainable and the European economies more competitive, require a higher level of political integration, and further integration in turn could facilitate the construction of a single European voice in foreign economic policy.

EUROPE'S TRADE STRATEGY: PROMISE OR PERIL?

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Summary

Europe's growth strategy is based on a larger trade surplus with the rest of the world, to make up for slow domestic growth, as consumers are weighed down by debt. Therefore, Member States have pursued commercial diplomacy, with foreign ministries organising trade fairs, brokering sales of energy, transport, and arms equipment, and in some cases making bilateral trade deals, undercutting EU efforts. Governments are doing everything they can to drum up export growth, especially in emerging economies. This strategy is unlikely to make Europe richer in either the short or the long term. The continent's short-term problem is a lack of domestic demand: overall exports to the rest of the world would have to grow at an unlikely pace to offset it. The continent's long term problem is a slow rate of productivity growth. More competition between Europe's firms is more likely to raise productivity, and with it living standards, than a government-sponsored export drive.

Introduction

Some Europeans are tempted to shift trade policy away from laissez-faire. As China and other emerging powers seek to lock up foreign trade, investment and resources for their firms, EU Member States are tempted to respond. In straitened circumstances, and desperate for sources of growth, European governments are drumming up exports through commercial diplomacy and by brokering deals, particularly in energy. Member States differ on how far governments should directly try to steer trade strategy; but all have embarked on a more systematic engagement with trade. This is not new policy, but more

countries have been pursuing it, with more vigour, since the onset of the economic crisis.

A more politicised foreign economic policy is not entirely without merit. If EU Member States worked together, they might be able to induce rising powers to rely more on markets, and less on state control.

However, the current tangle of competing ‘geo-economic’ policies is risky, and ineffective. Fiercer competition between EU Member States does not augur well for the longer term challenge of managing relative decline. Rising powers are proving adept at playing European countries off one another to strengthen their own positions. And most grievously, the EU is ignoring what most matters: the underlying productivity of its economy. Rather than obsessing about exports to the rest of the world, the EU should focus on measures to boost demand and internal trade through the Single market. This, rather than politically motivated trade deals, is the route to improving European living standards.

1. The export contest

Germany has taken so-called ‘geo-economics’ furthest. Chancellor Merkel’s trade and investment efforts are increasingly and conspicuously oriented towards China, through a flurry of high-level visits, investment delegations and trade fairs. The German government is agreeing to more foreign arms sales: between 2000 and 2010 the number of export deals approved by the state doubled.¹ Germany has hesitated little in striking out on its own in pursuit of its interests. It negotiated bilaterally with China to agree on standards for electric cars and associated renewables-related trade, undercutting the EU. It also struck bilateral deals with Kazakhstan and Mongolia on access to rare earths in response to China’s restrictions on exports, undermining parallel EU efforts.²

1. Deutsche Welle, “Arms exports show apparent hypocrisy of German foreign policy”, 21 April 2011.

2. Hans Kundnani and Jonas Pareto-Plesner, “China and Germany: why the emerging special relationship matters for Europe”, *Policy Brief 55*, European Council on Foreign Relations, May 2012.

While Germany attracts most attention, nearly all Member States are moving in a similar direction. Denmark has created a new post, minister for Trade and Investment, in its ministry for Foreign Affairs, charged with helping Danish companies win contracts. The new ministry has developed individual commercial partnerships with each of the Brics countries.³ The Netherlands is deploying a new commercial diplomacy strategy, of which one part is improved embassy support for businesses.⁴ Poland is exploring the ‘globalisation of Polish foreign policy’, with more emphasis on trade beyond Europe.⁵

The French government has called for a new ‘economic patriotism’. Spain has given its embassies a ‘specifically economic mandate’ and ‘Marca España’ (the ‘Spanish brand’) is now the guiding principle of Partido Popular’s foreign policy. Spain won train contracts in Saudi Arabia and Kazakhstan, which the Spanish king lobbied for; the latter contract is worth €1 billion over 15 years. Even the free trading UK has launched an overtly commercial foreign policy. Foreign secretary William Hague has restructured the Foreign ministry around trade. David Cameron has instructed ambassadors around the world to report back on what they have done to back British business. The prime minister led the UK’s biggest ever trade delegation to India; follow-up trips by Indian ministers secured the two countries’ biggest ever joint investment packages, worth more than €5 billion. The UK now strives to be ‘the Gulf’s commercial partner of choice’: a network of new bilateral accords has been constructed across the region to back British businesses in beating the competition to contracts.⁶

Member States have pursued economic diplomacy in different forms. German state bodies plan a broad-based mercantilist strategy to boost the exports of its Mittelstand. The French government favours a narrower diplomatic backing of national champions to secure contracts in global markets. The UK, Netherlands and Nordic countries have become keen to actively promote exports, but are more reluctant for the state to cut overtly across multilateral rules.⁷

3. Claus Grube, “The international situation and Danish foreign policy in 2011”, in: Danish Institute for International Studies, *Danish foreign policy yearbook*, 2012, p. 24.

4. Huub Ruël and Lennart Zuidema, “The effectiveness of commercial diplomacy: a survey among Dutch embassies and consulates”, *Clingendael Discussion Paper No. 123*, March 2012.

5. DemosEUROPA conference, “Poland and the world in 2030”, 2012.

6. Lord Howell, Foreign Office Minister, “UK relations with the GCC region: a broadening partnership”, Speech, GCC and the City conference, 20 June 2012.

7. Maaike Okano-Heijmans, “Power shift: economic realism and economic diplomacy on the rise”, in: E. Fels et al (eds), *Power in the 21st century*, 2012.

The Commission has become increasingly concerned about Member States bending rules to support national champions in their global export drives.⁸ While the Lisbon Treaty enshrines a commitment to wrap bilateral investment treaties into single EU deals, in practice the scramble for exports has tipped the scales even more towards bilateralism and away from common EU approaches. Competition is increasing between Member States for commercial access to emerging markets. This has not been accompanied by co-ordination measures at the EU level. Support for common EU mechanisms on seeking debt purchases or investment contracts has not been forthcoming. There has also been debate in Brussels and Frankfurt about market intervention to lower the value of the euro as a means of boosting exports, in a mercantile strategy for recovery.

This uncoordinated export contest will do little to boost European prosperity in the short run. Europe's growth strategy is unduly reliant upon export growth, rather than building domestic demand. The euro area is being reformed in Germany's image: an economy dependent on exports, with very low growth in domestic consumption and investment. But emerging economies will not be willing to buy more from Europe than they sell back, as their growth strategies are also founded on exports. Moreover, not all European countries can specialise, as Germany does, in machine tools, chemicals and infrastructure equipment that emerging economies need to build industrial capacity. The US is increasingly annoyed with the Europeans for piggybacking on American demand, rather than raising levels of consumption and investment at home.

For European countries to grow in the short term, they must restore domestic demand. But there has been no attempt at symmetrical adjustment to the debt crisis. The periphery of the euro area must grow to pay down its debts. The core could help if it stopped saving so much (the inevitable consequence of a very large trade surplus) and boosted consumption and investment. Higher demand in the euro area would help the continent to grow.

To succeed in the long term, Europe must raise the rate of productivity growth. While the Commission and several Member States have introduced initiatives

8. Alex Nourry and Nelson Jung, "Protectionism in the age of austerity – a further leveling of the playing field?", *Competition Policy International*, Volume 8, Number 1, Spring 2012.

aimed at meeting this challenge, foreign economic policy pulls in the opposite direction. The unseemly scramble for contracts to build Indian nuclear power stations or to sew up energy deals with Russia will do very little for domestic firms' rate of productivity growth, or for their innovative capacity. Europe's current trade strategy is mostly an exercise in states competing to select which European firms will export, rather than trying to make them become more productive companies. Long-term growth is founded upon productivity growth, not how many exports a country sells. Why else would the United States be the richest large economy in the world, but export far less than Europe? To boost living standards, Europe would do well to concentrate more on raising the level of trade between its members than increasing the volume of exports with the rest of the world. Such a strategy would deal with two unalterable facts about international trade: emerging economies are slowly producing higher quality goods and services; and to increase productivity and innovation in manufacturing and services – and thus maintain its position at the top of the value chain – Europe needs a good deal more competition between its firms.

Europe's foray into geo-economics involves a risk: it appears to neglect an understanding of the conditions that really drive growth.

2. External trade and the Single market

For decades before the 2008 crash, international trade grew much faster than the global economy as a whole. Trade slumped in 2009, but since 2010, this trend has reappeared. How can trade be growing faster than GDP? The answer lies in the growth of cross-border production: multinational corporations increasingly use international supply chains, so exports and imports grow faster than the economy. Container ship technology made international freight transport cheaper and faster. Governments reduced tariffs and subsidies that held back trade. The iPhone is designed in the US, while its chips are made in South Korea, and it is assembled in China.

Two forms of specialisation underlie globalisation. The EU should take them into account when considering forays into geo-economic strategy. First, different countries specialise in production at different levels of quality and

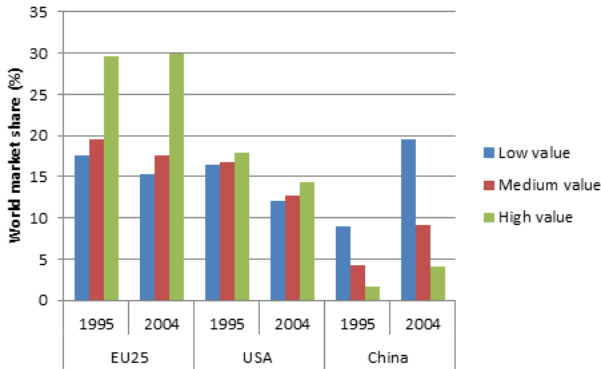
technological complexity, depending on the cost of land, labour and capital. In short, countries specialise in luxury or low-cost goods and services.

The trend towards specialisation by production value is long-standing. In the 1950s and 1960s, South Korea made lower ‘value added’ goods – textiles, steel and shipping – at scale, in vast quantities, for international markets. It had abundant cheap labour, and the government steered capital investment towards exports. South Korea specialised in goods where small margins on each unit turned into large profits when sold to millions of industrial and household consumers across the globe. China, Russia and then Brazil have since pursued the same strategy in their own way, specialising in manufacturing, energy; and agricultural and mineral commodities respectively.

To leaders in the developed world, this is double edged. Cheap goods from developing countries improve consumers’ purchasing power, allowing them to buy more goods and services overall. Yet the world’s markets in tradable goods are bifurcating: the developed world is losing unskilled and semi-skilled manufacturing work to the poorer, but fast growing countries. Global production is increasingly based upon factor costs: keeping high cost work with high margins in rich countries, and moving lower value added production to China and other developing countries.

This process is happening very quickly. Between 1995 and 2004, China’s world market share in low and medium value goods doubled, while the American and European share shrank (see Figure 1). In the low value goods trade, Chinese companies took market share at a rate of 0.9 per cent a year. And it has plans to move into higher value goods, just as Japan has, followed by South Korea, Singapore and the other Asian ‘tigers’.

Figure 1. Market shares in goods, by value



Source: European Commission, DG Trade, *Global Europe: EU performance in the global economy*, October 2008, p. 16.

However, European leaders should not fear this global division of labour. This is how the gains from trade are realised. The theory of comparative advantage holds that even if Germany is better at making low value added goods than China, it should still specialise in higher value added goods because it will make more money by doing so. There are losers in the process – namely, the poorly skilled – but this is better tackled by investment in education and by redistributive policies than by protecting domestic firms, which pushes up prices for all domestic consumers, including the poor.

The second form of specialisation is more local. Firms and workers making similar products clump together in clusters, such as biotechnology in Boston and finance in the City of London. Within countries, local communities of expertise are formed. Workers with specialist skills will move to an area where job opportunities are plentiful, encouraging firms that can use their skills to group together. Financiers specialising in particular sectors will do the same, hence the number of venture capital firms in Silicon Valley. Companies in sectors based upon scientific research, such as biotechnology, tend to cluster around universities. Nearby firms can also more easily learn from each other, borrowing innovations and headhunting innovators. And different companies in the same supply chain – accounting firms, business consultants and multinational

company headquarters, for example – reduce their transport costs if they are near each other.

As transport costs have fallen and international supply chains and markets have grown, local clusters are needed to keep a competitive edge in high value international markets. The US leads the world in information and mobile technology and applied science because of its clusters in Silicon Valley and around its world-beating universities. Germany's Rhineland manufacturing cluster is the main reason for the EU's very large trade surplus in manufactured goods: its medium and high technology cars, household durables and machine tools are of the best quality.

The EU has some significant strengths – and some big challenges to overcome – when these trends in international trade are taken into account. As China specialises in lower – and increasingly medium – value-added production, Europe has to focus on higher-value added work. The question is: how should the EU respond?

The EU's Member States are still the biggest traders with the rest of the world – larger than the US. It has a strong position in high value added production, especially in pharmaceuticals, manufacturing, fashion, financial services, arms and aerospace. However, it could do better.

The EU should cultivate competition at home. Competition, among other things, drives productivity growth: when a company's profits are under threat from a more efficient competitor, it has a greater incentive to try to improve productivity. Competition also encourages more innovation. In competitive markets, consumers will quickly switch to companies that provide better quality products, or new products that satisfy an urge or an appetite, and even create new consumer tastes (mobile devices have satisfied an unrealised consumer desire for incessant communication in different formats, for example). If the EU could raise the level of competition its companies face, they would become more productive and innovative.

The obvious tool to raise the level of competition is the Single market. On average, trade between the American states is four times higher than it is between

EU Member States.⁹ This puts American companies under far greater competitive pressure: if a firm in New Hampshire has to compete with Californian firms – or those based in all 50 states – rather than those based in its own state, it must spend more resources on improving the efficiency of the production process and the quality of its products to survive. A more integrated market, with more common regulation and more mutual recognition, would raise competition between firms across the EU.

More integrated markets across the EU would also encourage firms specialising in particular industries to group together. There are still large barriers that firms – and indeed, workers – must hurdle to move from one Member State to another.¹⁰ The US also has far larger clusters of companies taking advantage of pools of skilled labour, learning from each other, and taking advantage of university-led innovation. This shows up in the proportion of workers employed in clusters: approximately 60% of US employees work in industries with firms that are more clustered together in America than in Europe, compared to around a quarter of European workers employed in more clustered industries than in the US.¹¹ Lacking such geographic concentration, European firms do not take as much advantage of lower transport costs and specialist pools of labour, and all firms in the market do not take up new innovations as quickly.

European leaders would boost firms' performance by knitting Europe's markets more closely together. Policies they could deploy to do so include:

- Meaningful recognition of other Member States' qualifications, and reductions in the number of regulated professions;
- Recognition by Member States of each other's regulations, especially in the service economy;
- A tougher competition authority;

9. Consuelo Pacchioli, "Is the EU internal market suffering from an integration deficit? Estimating the 'home-bias effect'", *Working Document*, Centre for European Policy Studies, May 2011.

10. John Springford, "How to build European services markets?", Centre for European Reform, September 2012 for barriers in the services sector, many of which are also prevalent in the goods sector.

11. Christian Ketels *et al.*, "EU vs US: A comparative analysis of geographical concentration patterns of employment across cluster categories", Swedish Network for European Studies in Economics and Business, May 2008.

- A fully integrated energy system, regulated at the EU level, which would drive down energy costs;
- Policies to promote non-bank forms of finance: especially bond and equity markets for smaller European companies;
- A common corporate tax policy.

As a trade strategy, this is far more likely to be successful than trying to copy emerging economy ‘geo-economic’ strategy. If countries lock up commodities and agricultural products for themselves, rather than relying on market mechanisms, productivity in raw materials and farming will fall, and prices will rise. Developing economies may benefit from a fair amount of state control of investment to develop their heavy industry and manufacturing sectors. But developing economies have many more unused resources than rich countries, and so the state is more likely to pick winners than it would in an economy where resources are already largely employed and where productivity improvements are found by taking existing labour or capital equipment and deploying it more effectively in another way. In mature economies, productivity and innovation across the entire economy determine economic growth. Better productivity and innovation may mean that Europe exports more high value added goods and services. Or maybe not: more productive Europeans would have higher wages, and might decide to buy more expensive products themselves, rather than selling them overseas.

Many prominent writers have argued that Europe needs to devise a more ruthless strategy in pursuit of geo-economic interest as the core determinant of the continent’s future prosperity.¹² It has become commonplace for analysts to argue that the EU needs to start meeting rising powers on their own terms. While it is convincing to urge the EU and its Member States to get more serious about developing foreign economic policy, the geo-economic route is not the panacea it has become widely assumed to be. To succeed, Europe needs most of all to tend its own garden.

12. Stephen King, *Losing control: the emerging threats to Western prosperity*, Yale University Press, 2011; Dambisa Moyo, *How the west was lost*, Penguin, 2012; Parag Khanna, “Europe needs a truly global action plan for 2020”, in: Jan Techau (ed), *Strategic Europe*, Carnegie Endowment for International Peace, 2012.

3. Main recommendation

By conducting bilateral trade deals and commercial diplomacy, and brokering export sales, European governments hope that state action can drive up export sales. This strategy is wrong-headed: these deals undercut EU trade efforts, and are unlikely to significantly raise European exports as a whole.

Instead, **the EU should focus on boosting trade between its Member States, which will help to raise the continent's low rate of productivity growth - the key to long term prosperity.**

TOWARDS A TRANSATLANTIC MARKET

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Summary

A new transatlantic momentum has been set in motion by the economic crisis. Both the US and the EU need every impulse for growth they can find. Their effort can also help to create a single global market based on regulatory convergence, equality of rights and responsibilities, and a level-playing field. The success of TAFTA, the new trade and investment agreement which is being launched, is necessary if the US and the EU want to take advantage of their predominant role in the international economic system. In parallel, the EU and the US need to better understand each other's macroeconomic policies with a view to improved coordination which is required by their structural interdependence. Finally, the jury is still out on whether the EU and the US can come to a joint understanding on issues of energy and climate change. Research collaboration on new technologies can help to bridge the existing policy gap.

Introduction

The transatlantic economic agenda has been shaped in recent years by the economic crisis and the interaction of different strategies pursued by the US and the EU in an effort to overcome it. Much of the debate has addressed the main sources of instability, particularly in the context of the euro area crisis. There is now an opportunity to break through the growing wall of distrust with a major initiative to advance the transatlantic trade and investment agenda.

That project has been on the back burner in recent years for a number of reasons. Efforts to revive the Doha round of multilateral trade talks played a role in the early period. A potential global agreement was prioritised to bilateral arrangements. The EU was closely attached to the objective of effective

multilateralism. In the meantime, however, the balance of power in the WTO tilted towards smaller and less developed countries, making any breakthrough agreement difficult. Conclusions had to be drawn. As a result, in recent years the EU has focused on bilateral trade agreements with other partners such as South Korea, India, Singapore and Canada, while the Obama administration has been on the defensive in its trade policy, continuing earlier initiatives without floating new ones.

1. Getting the most out of the crisis

Economic slowdown has helped refocus attention on the benefits of a new transatlantic trade and investment agreement. Michael Froman, a senior official in the White House, has spoken of the need to have it completed ‘on one tank of gas’. At least part of the reason is that exports have been a powerful driver of growth in the US economy. They account for almost half of US growth in during the recovery period, much more than the average 12% in previous economic cycles. The Brookings’ ‘Export Nation 2012’ report found that manufacturing was responsible for three-quarters of additional sales abroad between 2009 and 2010. Last year, the EU imported a massive US\$ 243.5 billion in US goods.¹

In spite of the crisis, Europe provides a more attractive type of demand than emerging economies, whose growing middle classes will continue to want basic consumer goods throughout the next decade. The EU and the US remain each other’s most important trade and investment partners. Over US\$600 billion is traded between the EU and the US each year – about one-third of global trade – while US\$1.9 trillion is invested by the US in the EU and US\$1.5 trillion by the EU in the US (2010 figures).

The American government has moved to assertively promote American exporters’ prospects. US ambassadors around the world have been instructed to shift their focus to economic statecraft. Trade policy, however, has remained fairly static. No new initiative was launched during President Obama’s first term in office. He has had to renegotiate deals with South Korea, Panama and

1. US Census Bureau figure.

Columbia, agreed under George W. Bush, in order to appease the auto industry and labour unions. The Transpacific Partnership, Washington's flagship project, has absorbed US policymakers but is not near completion. The domestic political consensus has become anti-trade.

2. The promise of a Transatlantic Free Trade Area (TAFTA)

This means that an agreement with the EU could be an opportunity for President Obama to kick-start his trade policy as debate in the US cools down, not only with the end of the electoral season but also with China's shrinking current account surplus and independent analysis of the undervaluation of the renminbi. The latter showed that the beast is not as ugly as it has often been portrayed. Political frictions will continue and Obama is not likely to be granted the fast-track Trade Promotion Authority from the Congress which Mr Romney would have won. However, the Republican-dominated House will be easier for Mr Obama to deal with given the suspicions on trade issues among the Democrats.

In Europe, just as 2012 was a year of stabilisation, 2013 will be about an intensive search for new sources of growth. The potential deal with the US features highly on that list. There is no reason to doubt EU leaders' commitment. Chancellor Merkel made it the cornerstone of her 2007 EU presidency. That attempt faltered as the crisis unfolded but the determination remains strong. In the meantime, the EU has had a very good run on trade policy. Even though it is a complex and slow-moving organisation, it has concluded a free trade agreement with South Korea and got it ratified faster than the US has been able to proceed with a similar package. It has also sealed a deal with Singapore and is close to the final accords in talks with Canada. It is the latter which clearly has a lot of impact on the thinking of US policymakers. The North American Free Trade Agreement (NAFTA) has shaped the American economy more than any other external factor. Canada is now one of the top destinations for US exports. If the EU concludes a free trade agreement with Canada, it will have landed in Washington's backyard.

The EU has traditionally been in a better position when it comes to its trade balance: it stood at a surplus of nearly US\$100 billion in 2011. The surplus fell

with the onset of the economic crisis in 2007-2008 but has grown again since 2010. Foreign Direct Investment (FDI) flows from the EU to China are consistently growing but, at €75 billion, are nowhere near the level of European investment in the United States. The scale of that transatlantic relationship dwarfs any other in the world. The EU imports three times more goods from the US (US\$286.1 billion in 2011) than China but exports twice as much as it does to China (US\$368 billion in 2011). It is also a balanced relationship in which the US runs a deficit in goods, a surplus in services and FDI flows are similar in size. About 15 million jobs have been created as a result, on both sides of the Atlantic.

Mutual benefits from a new comprehensive trade agreement are clear. The US Chamber of Commerce estimates that lowering remaining tariffs on goods from the current level of 5-7% to zero would increase transatlantic trade by more than US\$120 billion within five years with a related increase in GDP of about US\$180 billion. Eliminating tariffs would make US and EU companies more competitive, especially as more than one third of them are affiliates of the same companies. Removing regulatory barriers would also offer substantial gains, increasing EU GDP by 0.7% and US GDP by 0.3%, according to a study by ECORYS commissioned by the European Commission. Where Europe is concerned, the transatlantic deal could lead to the introduction of more flexibility into economic, investment and labour policies on the continent, helping the process of structural change.

Mutual sensitivities over issues such as EU restrictions on genetically modified organisms or US laws on airline ownership remain. They have sunk past attempts at free trade deals while new disagreements have emerged in areas such as internet privacy. Not everyone will be happy. The National Pork Producers' Council, for one, has already written to the US trade representative to express concern. The negotiations will be arduous and the list of issues to be covered is enormous, from service liberalisation and regulatory differences, to intellectual property and public procurement. Some early decisions will be of systemic importance. They include the choice of whether harmonisation or mutual recognition should be pursued in the regulatory context.

The prospects for the EU-US trade deal will benefit from the fact that both economies are relatively aligned on social, labour and environmental

standards, especially compared to other bilateral relationships. In the US, in an unprecedented move, trade unions and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) have come out in favour of the talks being launched. American people support closer trade ties with Europe – 58% have backed the idea (28% were against) in a 2010 Pew opinion poll. The deal may help demystify trade in the US domestic debate. It could also be an opportunity for President Obama to improve his relationship with businesses.

It remains to be confirmed within the political context whether negotiations should be comprehensive in character, spanning all policy areas or selective, hoping to generate momentum on a case-by-case basis. The former would be far more ambitious. It would, however, make the whole exercise vulnerable to single issues or interest groups, thus slowing the momentum of the process. Apart from being mutually beneficial, the EU-US trade agreement would have the added advantage of setting the standard for future trade negotiations with emerging countries on regulation, tariffs and investment rules.

3. Strategising economic dialogue

Apart from pursuing an aggressive trade and investment agenda, the transatlantic relationship will need to extricate itself from the fallout of the financial and economic crisis. The latter increased EU-US tensions after an initial period of smooth cooperation. In late 2012 and early 2013, governance in the EU and US converged with crisis legitimacy playing a big role on both sides of the Atlantic and brinkmanship being practiced with growing ease. As Thomas Kleine-Brockhoff has rightly observed, the US has europeanised its crisis response through the recourse to cliffs and deadlines and not seeking a comprehensive solution.

This may make it more likely for the EU and the US to agree to a regular strategic economic dialogue in order to better understand each other's perspectives on mutual challenges and more effectively coordinate macroeconomic policies. Such a dialogue is necessitated by the structural interdependence of the transatlantic economy, where sovereign debt issues or current account imbalances create problems which rapidly spread to the other side of the Atlantic. Annual

strategic economic dialogue could involve officials from the Federal Reserve, the ECB, the US Treasury, finance ministers from European Union Member States and relevant officials from the European Union. A regular peer review could be conducted of economic assumptions on both sides of the Atlantic, structural impediments to growth, policy goals and actions. It would also facilitate eventual transatlantic market integration.

4. Bridging the gap on energy and climate change

Some sectoral challenges have grown to become agenda items in their own right. Other important areas of dialogue include energy and climate change, as the US shale gas and oil revolution has changed the country's position entirely. The US is not far from becoming self-sufficient when it comes to its energy needs. It is likely to become an exporter of liquefied natural gas (LNG) which recent NERA studies have shown makes economic sense. Furthermore, the US is expected to become the world's largest producer of oil and LNG. The EU is nowhere near improving its energy position in similar terms, having pinned its hopes on the growth of the renewables' sector where no revolution comparable to that of shale gas has been forthcoming. However, the EU has benefited from developments in the US which have had a powerful impact on the world gas prices. That process is expected to continue if the US begins exporting LNG.

The second term of President Obama holds the promise of a renewed effort at EU-US consensus on climate change. The EU has remained faithful to its emissions trading scheme, even though the jury is still out as to whether appropriate carbon pricing in fact influences investor decisions. The US is unlikely to adopt cap-and-trade legislation and will rely on tax incentives and regulatory changes implemented by the Environmental Protection Agency. However, largely as a result of its switch to gas, the US achieved a 9% reduction in emissions between 2007 and 2011 – more than the EU recorded in the same period. One potentially rewarding approach focuses on research collaboration in major technologies across the energy mix. Creating a Transatlantic Innovation and Research Space and a joint EU-US Research Council with programmes in the field of energy would greatly help to bring new technologies to the market.

5. Towards a world of norms

The final issue of enormous significance for the future world order, including the role played by the transatlantic relationship, has to do with efforts to strengthen the normative framework for the international economic system. The closer the transatlantic community stays together on these issues, the more likely emerging powers will feel inclined to become responsible stakeholders in the system.

The flip side of the coin must be a level playing field. Assurances are necessary that in a more competitive environment countries will play by the rules and not attempt to bend them to their advantage. The multilateral process has been focused on the removal of tariff barriers to trade and it has not found sufficiently workable means to address non-tariff barriers, including protectionist regulations, mandatory technology transfers, sub-market subsidies or unfair joint venture requirements. International institutions and processes are currently not in a position to address these new types of barriers. In parallel, state capitalism is bearing heavily on the global playing field, given the advantages that state-owned and state-controlled enterprises tend to enjoy, including preferential funding arrangements and protection from competition.

Both the US and the EU are becoming increasingly active in fighting such abuses, whether in the form of illegal subsidies, forced technology transfers or violations of intellectual property rights. The level of their commitment to that process will become a crucial litmus test of their ability to work together in the multipolar world. Both the EU and the United States will need to actively elaborate policies to address these issues, examining the way in which the OECD-inspired principle of ‘competitive neutrality’ can be made operational in the international environment. From a wider international perspective, the single transatlantic rule book will be a manifesto of faith in the liberal economic order.

6. Recommendations – The best opportunity in a decade for the transatlantic economic project

Parallels to an ‘economic NATO’ have been drawn to reflect both the depth of a potential new transatlantic agreement which is expected to cover comprehensively trade in goods, services, investment and agriculture, and the powerful impact it would have on the outside world. The dynamic is indeed growing but it will require a lot of perseverance. The EU and the US have been down this path before. This time must be different.

Momentum should be built by seeking early agreement on the least sensitive part of the agenda while identifying, right from the start, elements which will require bigger bargaining within the most important dossiers. **The current agreement needs to be comprehensive in nature if it is to have a ground-breaking character.** Parties will have to move away from their pre-determined positions in order for a compromise to be found. This can be helped by engaging the opinion of independent experts and opening up extensive public debate on the substance of the agreement throughout the process of negotiation.

HOW CAN THE EU PROMOTE ITS ECONOMIC INTERESTS WITH CHINA?

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Summary

There are many areas in which the EU tries and wishes to promote its interests with a rising and increasingly powerful China. In the diplomatic field, for example, the EU has tried to include China on a number of fronts, with various degrees of success. Among these efforts are the EU's attempt to involve China further in the resolution of the Syrian conflict, or the EU's push for a firmer attitude from China on nuclear anti-proliferation, especially with regards to Iran and North Korea.

Nevertheless, as China and the EU grow increasingly dependent economically, economic interests have taken the lead, and are now central to EU action. At a time of economic hardship, especially in Europe, economic and financial issues matter more than ever, and Europe needs to redefine its strategy in order to promote its interests with China and ensure that both parties benefit from an increasingly close and diversified relationship.

1. The EU and China: Two mutually dependent economic partners

The EU and China's economies are closely associated, and economic ties between the two partners have grown tighter over the past few years. In 2011, Europe was China's main trade partner, and China was the EU's second trade

partner after the US. That same year, Europe was the second largest foreign investor in China after the US (excluding Hong Kong). Although the share of EU investments in total FDI towards China declined in 2012, due notably to the EU's debt crisis, the volumes of these investments remained significant. Moreover, China has rapidly increased its investments in the EU, and the EU has become, along with North America, one of the two main destinations for Chinese investments, globally speaking. Lastly, the two economies are linked in many other ways: for example, up to 25% of China's reserves are believed to be invested in EU bonds,¹ China's exchange rates are a decisive factor in EU competitiveness, and China's economic rise has sped up climate change – the country's carbon emissions were the highest in the world in 2012 – and brought China to the environmental discussion table.

The EU-Chinese economic relationship is also slowly evolving. From a somewhat complementary relationship – where China manufactured low value-added products, and the EU high value-added and technological goods – the two powers have moved towards a more economically competitive position. In fact, although relative trade links between the two partners have evolved in favour of the EU² over the past five years, “the future looks less positive”,³ as Europe is quickly losing its competitiveness. “Between 2000 and 2010, the complementary index for European exports and Chinese exports has dropped by 20 percent”, which means that today, the EU is in direct competition with China concerning 35% of 5,775 types of goods traded, compared to 15% in 2000.⁴ China is gaining competitiveness. Chinese companies have developed expertise in the production of higher value products such as household durables, high-tech components, and other technological products. This is an important issue for the EU, which so far retained a certain technological edge over China in many of those sectors (automobiles, aeronautics, chemicals, etc.). The EU and China may also increasingly compete in other economic areas – for resources, for

1. There is no way to know exactly how much of China's foreign reserves are invested in EU bonds, as neither China nor the EU keep an accurate and precise geographical account of those investments. Therefore, this number can only be taken as a rough estimation.

2. The EU's trade deficit with China decreased for the first time in 2011, and did again in 2012, while EU exports to China have increased steadily since 2007. As Jonathan Holstag (2011) explains, this has played in Europe's favour because the ratio of EU-to-China trade deficit over EU-China overall trade has decreased from 43% to 29%. This means that while EU exports to China have grown by 80% over the period, China's exports to the EU have ‘only’ grown by 29%. A UBS note relays this statement: “China-to-EU export growth has dramatically slowed since early 2012, indicating a rebalancing in the two partners' trade relations”. T. Wang, H. Hu and D. Weng, “China Economic Comment: The Good Old Exports and Credit”, *UBS Investment Research*, 15 October 2012.

3. Jonathan Holstag, “Assessing Sino-European Trade Relations”, Discussion note prepared for ISS Seminar, Paris, October 2012.

4. *Ibid.*

example. China's economic development will quickly increase its demand for energy and commodities, and the country will become a crucial participant in climate change talks.

Finally, since the start of the EU crisis, in the context of those increasing trade and investment ties, EU countries have been looking to China for financing and support. But China's contribution to solving the euro area crisis through bond purchases from indebted countries is believed to have been limited and not exactly game changing. At best, China has maintained its holdings in euros as a proportion of its total reserves, which induces a small increase in volume, but much less than was probably hoped for by some European countries. China did, nevertheless, participate indirectly to EU bailouts through its contribution to the IMF. Nonetheless, this emerging economic interdependence, whereby indebted developed countries turn to cash-rich China for financing, might induce a new dynamic for Sino-European relations, as the creation by China of a Central and Eastern European secretariat offering a package of soft loans for infrastructure and other deals can attest.

This context explains why economic interests and issues have come to the fore between China and the EU, and why the EU needs to deploy a coherent strategy to promote its economic interests with the world's second largest economy.

2. The EU needs to promote its economic interests with China as the relationship develops

Until recently, the EU's common economic interests with China derived mainly from trade relations. Godement explains that so far, "the European debate was polarised by the issues of anti-dumping and China's demand for a Market Economy Status".⁵ Thus, the EU's strategy to promote its economic interests with China was limited, mostly based on competition policy, and relied mainly on the EU's Directorate-General (DG) for trade and the WTO.

Nevertheless, now that EU-Chinese economic relations have taken a more diversified and intertwined turn, the interests at stake for the EU are themselves

5. François Godement, Jonas Parello-Plesner, Alice Richard, "The Scramble for Europe", *Brief 37*, ECFR, July 2011.

diversifying, and increasing. China's development means that Chinese companies now compete with EU companies on many more levels, including technology, investment, bids and public procurement. On those markets, China's unique economic system creates challenges for EU countries. Today, about 30% of the Chinese economy is public, but in fact, public influence runs much further than pure ownership. The Chinese government can influence and promote domestic companies through indirect ownership, policies, and financing schemes. This creates unfair competition for EU companies, which, although subsidised in a number of ways, do not receive significant and organised financial and policy support for their activities abroad, as do Chinese companies.

Besides, China's growing economy has altered the balance of power between the two partners. Firstly, China's development has diminished EU leverage on Chinese policymakers. Secondly, China's significant trade surplus, with the EU and the US notably, has led the country to accumulate huge foreign reserves – \$3.2 trillion as of 2012 – granting the country significant financial power, especially in relation to the distressed economies of certain EU Member States and developing countries. Lastly, the EU crisis has diminished the continent's economic influence, as well as its political coherence. The crisis has limited cooperation between EU members on certain important international matters, and made it harder for the EU as a whole to promote its interests.

In sum, China's growing economic power and the multiplying areas of interaction and competition between the two partners have meant that EU economic interests are increasingly linked to China. Thus, the EU needs to set up a clear strategy to make sure those interests are preserved and promoted.

As a first response to this pressing necessity, the EU has recently toughened its economic stance towards China. The EU's DG for Trade, led by Commissioner Karel de Gucht, has launched a series of realistic challenges to certain aspects of China's economic policy which affect matters of essential importance to the EU, such as the negotiation of a bilateral (EU-China) treaty on investments, demands for public procurement reciprocity measures with EU trade partners (not only China), and stepping up anti-dumping and anti-subsidy filings where the largest pending case is on solar panels.

These recent actions taken by the EU, though highly necessary, have greatly complicated Sino-EU relations, and caused China to retaliate. Notably, China has promised to set up a new public department to handle the country's international economic relations, and to develop its economic diplomacy. The country "intends to continue flexing its economic muscles to pursue its international goals".⁶ The China Investment Corporation (CIC) also announced that it would slow its investments in developed countries where China was not welcome. While this is a direct reaction to the governments of developed countries and institutions questioning the nature and content of Chinese investments, as well as their real contribution to these economies, a decline in Chinese investments in Europe – at a time when global FDI is slowing – may not be good news for the EU.

3. National vs. EU-wide strategy

As it stands, EU Member State strategies towards China are quite diverse, due to differing national circumstances and interests vis-à-vis China. EU Member States present very different economic models that make them more or less dependent on China than other EU countries. Some are highly export oriented, like Germany, and need international market access for their products. Some are much more EU oriented: while they do export goods, they are highly specialised in supplying the EU market. Thus, different incentives exist among EU countries that cause their individual relationships with China to differ from those of other countries.

Lastly, EU Member States have very diverse economies: some are less affected by the EU crisis – so far at least – and display better growth figures and trade strength. But others, notably Southern European economies, are highly distressed and lack financial resources, which China could provide. This puts them in a difficult position and can create a biased relationship with China, potentially making them renounce on EU priorities due to their need for Chinese capital.

6. Li Jing, "China sets up new department to flex economic muscles for global goals", *South China Morning Post*, 10 October 2012.

These discrepancies in interests and circumstances can lead to contradictory attitudes in Member States, who can alternatively speak in their name or that of the EU, and alternatively act in either their own interest or that of the EU. For example, the EU's DG for Trade filing on solar panels were somewhat undermined by statements made by Angela Merkel during her trip to China, showing little support for the case, probably to avoid retaliation from China against German exports. Another example is Poland, which, along with other Central and Eastern European countries, organised a separate regional summit with China to promote their economic interests.

This is rather typical of EU Member State attitudes towards China. Indeed, all European countries have a direct bilateral relationship with China, and most of them have signed bilateral 'strategic partnerships' with the People's Republic. This situation has created a very diverse set of 'Europe'-China relations. At the moment, strictly 'EU-China relations' do not exist; instead there are 28 relationships, based on very different interests, objectives and power balances. This situation can be used by China to its advantage, making it harder for the EU to promote its common economic interests.

4. What is a better EU approach?

The main objective for the EU today is to continue grounding the Sino-EU relationship on more realistic principles. China is a very powerful economic partner of the EU, and the EU should be careful not to let those ties deteriorate as the EU seeks to obtain more reciprocity from one of its main economic partners. In any case, the EU will not be able to promote its interests if it does not adopt a common position with China. EU countries may have diverging interests, but none of them have enough weight to successfully negotiate with China on a one-to-one basis. If anything, a single, concerted EU strategy is needed to promote the Union's economic interests, and EU members must be behind such an approach.

5. Recommendations

Below are a series of areas that we believe the EU could target to preserve and promote its economic interests:

- **What does Europe want from China?** The EU needs to clearly define European priorities in the strategic partnership, to match China's 'core interests' and consistent demands on the arms embargo, Market Economy status and the One-China policy. This debate has to be led by Catherine Ashton. The rotating presidency, however, can play a role in nudging on the debate among Member States as well as linking it specifically to the trade policy still run by the rotating presidencies. It requires a good team player and coordinator behind the scenes.
- **Connect the dots in the China strategy.** Internal EU policy changes have an impact on the overall China strategy. For example, agreeing on public procurement instruments which target third countries that close Europe out of their markets will have broader positive ramifications for negotiating with China. The same applies to climate change and energy.
- **Greet Chinese bond diplomacy with transparency and common messages.** Europe must learn to talk toughly with its banker as well. Stringent standards and reporting tools, like those in place at the US Treasury, should be implemented. Foreign country purchases of sovereign debt in Europe should be made public and regularly published so that opacity cannot be employed to enhance political influence. Joint European messages should be delivered at bilateral visits to ensure that purchases do not affect policy.
- **Incentivise reformers.** Europeans should follow debates inside China more closely and create a system of incentives for co-operating with reformers, just as China incentivises EU Member States. In other words, Europe needs to build links with reformers. For example, just as European companies do, private Chinese companies often complain about the dominance of the public sector and the lack of a level playing field. Even within the government, some officials are more inclined towards reform: for example, Premier Li Keqiang has expressed his desire to lead reform on

sustainable urbanisation, an area in which Europeans have expertise. Thus, the EU could leverage already existing insider calls for liberalisation to achieve its economic goals.

- **Welcome and leverage Chinese investment.** Foreign investment is a natural development for the world's second-largest economy and one that could contribute positively to growth and employment in Europe. The increase in Chinese investment in Europe comes at a time when many European countries and companies need capital inflows. Thus there is a new financial umbilical cord between China and Europe. But Europeans have concerns about national security and the lack of transparency in China's state-owned enterprises, which are hybrid animals that are politically guided but commercially driven. If these concerns are not properly addressed, they will fuel protectionism on the part of Europe.

Europe should therefore:

- **Be open to Chinese investment:** The EU should make a special effort to welcome private Chinese enterprises, which will also strengthen the position of Chinese private capital at home. Meanwhile, Europeans should be consistent in their demands for more transparency from state-owned enterprises (SOEs). Many ordinary Chinese citizens are demanding more information about how state funds are channelled into SOEs. Thus Europe must set high standards for transparent corporate governance based on OECD and other guidelines to ensure that opacity is not imported into the EU. Competition policy could also play a role in this.
- **Push for equal treatment and a 'second opening' of the Chinese economy:** Europe should encourage a 'second opening' of the Chinese economy, which would coincide with China's own objective of relying more on its domestic purchasing power and growth and on a global agenda to reduce economic imbalances. Company ownership and IPOs, intellectual property rights, the financial and service sectors, and public procurement are all areas of pressing interest for Europe in this context. The EU should work for better market access for European companies in China as a *quid pro quo* for better protection of Chinese investments in Europe, both of which could be enshrined in an investment treaty.

TOWARDS A COMMON EXTERNAL REPRESENTATION FOR THE EURO AREA?

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Summary

Since the introduction of the euro in 1999, the external representation of the euro area has been incrementally developed, but no formal amendments have been made. This Policy Paper discusses the case for a consolidated representation of the euro area in international economic fora, analyses the obstacles to achieving it, and puts forward proposals to solve some of the existing obstacles. It argues that there is a strong case for creating a single voice for the euro in the world in general and in the IMF in particular, especially after the global financial crisis and the emergence of the G20 as the main forum for global economic governance. However, some euro area countries are unwilling to give up sovereignty and transfer more power to Brussels. In addition, the functioning of the IMF, which is based on high majority voting, may induce major euro area countries not to give up their individual influence over IMF decisions. Nevertheless, the recently created European Stability Mechanism could act as a catalyst for solving some of these problems.

Introduction

Since the introduction of the euro in 1999, the external representation of the euro area has been incrementally developed, but no formal amendments have been made. The Maastricht Treaty sketched the general framework, but key questions on the representation of the euro area in international economic

organisations and its relationships with major strategic partners were left open. While the European Central Bank (ECB) represents the euro area in monetary affairs, external representation with regard to macroeconomic and financial matters remains fragmented between the Member States and the European Commission. The Treaty of Nice (2001) and the Treaty of Lisbon (2009) left the provisions for the external representation of the euro area unchanged. Article 138 of the TFEU¹ maintains the legal base for a consolidation of the euro area's external representation that has existed since its launch. This suggests that, although the currency union was primarily created for internal reasons, the EU's architects also had in mind that the single currency could become an important instrument in the Union's foreign economic policy.

This Policy Paper discusses the case for a consolidated representation of the euro area in international economic fora and analyses the obstacles on the way there. After a brief description of the changing global economic environment, it examines the potential benefits of establishing a single voice for the euro in the international arena and its main obstacles. The conclusion presents some specific proposals.

1. A changing global environment

Two recent changes in global economic and financial governance have emphasised the decline of European power in global economic and financial governance. In 2009, the G20 summit was launched to discuss the sources and consequences of the global crisis and potential international coordination efforts. In comparison to the previous top economic and financial summits, the G7 and later the G8, the EU's (just like the US) relative weight is far inferior. In the G8, four out of eight members, or 50%, were European. In the G20, they number four out of 20 and hence only 20% of the membership. Moreover, the EU's presence in the IMF has been relatively reduced. According to the decision of October 2010, European governments had to give up two of their eight seats on the Executive Board. In both reform events, the growing economic weight

1. Article 138.1 states that "In order to secure the euro's place in the international monetary system, the Council, on a proposal from the Commission, shall adopt a decision establishing common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences".

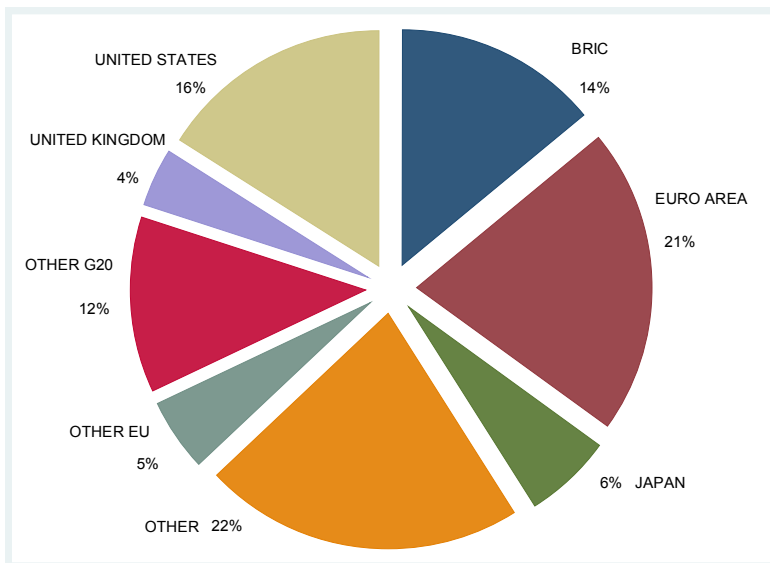
of new players on the global scene was a root cause for the change. The recent crisis has accelerated the loss of relative economic weight and weakened the EU politically, as several Member States have become recipient countries of IMF aid, accelerating the decline of Europe's normative power.

As the debt crisis has unfolded in the euro area, the discussion about a common representation in key international organisations with direct powers on global financial flows and the economy, such as the IMF, has intensified. The goal is to improve coordination and influence over decisions affecting the euro area as a whole, or, single Member States. For instance, IMF programmes currently run in three euro area Member States: Greece, Portugal and Ireland, with the application of conditions that affect national policies. The unification of euro area Member States' representation within international organisations can have strong economic, legal and political implications, in particular in terms of internal redistribution of powers among euro area Member States. However, as we will see below, some key players to date remain sceptical.

2. The euro area in the IMF

Only three euro area members are top 10 IMF countries and none of them are the top 3 (according to their voting share). The US has the biggest quota and voting share, resulting in a single concentrated power, able to influence the entire activity of the Fund. A different balance of powers would emerge if the voting shares of euro area countries were combined. The sum of their voting shares is roughly 21% of the IMF total quotas (see Figure 1 below), well above the US (around 16%). Some coordination among euro area members does already take place, but it rarely results in effective representation of the euro area.

Figure 1: Overall euro area voting share in the IMF compared to other members



Source: Giovannini, Valiante (2012) from IMF.

Note: after full implementation of 2010 quota reform.

3. Obstacles to unifying euro area external representation

There are essentially two reasons why governments are hesitant to opt for unified representation. Internal distrust among Member States emerges due to the absence of common rules on the political governance of the euro area, emphasised by the absence of common democratic institutions able to take this role and coordinate the common seat. Member States do not want to lose political control over their foreign and economic policies. The second factor that contributes to political distrust in a common representation is an exogenous one: the governance of the IMF. In effect, the organisation's voting system mainly relies on high majority voting (mostly 70% and 85%). As a result, every decision would require a consensus among all major countries. Due to its fragmentation in eight single memberships and 16 coalitions (188 members), a relatively medium-size country may also influence the outcome of a decision;

in effect, decisions are rarely taken without consensus. By holding the power to stop important initiatives, a country may not be interested in merging quotas simply because doing so may only reduce its control over the organisation's decision-making process. Therefore, this voting structure may persuade major euro area countries not to give up their individual influence over IMF decisions. Moreover, some countries argue that the euro area is actually more powerful with the *status quo* because euro area countries are over-represented on the Executive Board. In order to maximise influence, they must simply coordinate their positions.

Besides IMF decisions, on which euro area countries mostly vote together in the end, there are more conflicting issues. For instance, EU Member States do not have a common position in debates about the international monetary system, the euro's role as a reserve currency or global macroeconomic imbalances. Coordination is hence more difficult. Important tensions exist, for instance, between France and Germany. While the former prefers a lower exchange rate for the single currency, to promote exports, and ultimately wants the euro to challenge the dollar's hegemony, the latter sees exchange rate developments not as a matter of political choice but a result of competitiveness. It generally favours a strong currency to help control inflation and sees less benefits in the euro's internationalisation (international currencies tend to have more volatile exchange rates and their central banks can be forced act as international lenders of last resort in situations of panic).

In sum, there are domestic political aspects and external factors that complicate the assessment of benefits and costs of a unified representation. However, digging more into the details, this initial analysis may prove wrong for two reasons. We will explore these in the following section.

4. Arguments for consolidated representation

Firstly, the concentration of quotas among euro area Member States would increase the direct quotas of control and officially harmonise the actions of these countries at the IMF, thus reducing coordination problems that may

clash with the need to support euro area-wide decisions.² Second, the merging of quotas would reduce the total number of coalitions. Fewer coalitions means the possibility of exercising more influence over other coalitions or attracting a high number of satellite countries into a coalition led by the euro area – countries which are already in different coalitions with individual euro area countries. A merged quota would then provide fertile ground for new initiatives and formal power to block any decision without euro area approval.

There are also more general reasons that would justify a common seat at the IMF level. Firstly, common representation in international organisations would promote greater internal coordination on political governance of the whole region (EU). Secondly, it may stimulate international cooperation (e.g. trade agreements) which would benefit the whole region, because it reduces coordination issues and provides one access point for non-euro area countries. Thirdly, it makes representation at the global level more effective in terms of cumulative votes that can be exercised in the decision-making process. Fourthly, common representation in international financial organisations can provide a springboard for developing coordination in other important areas such as foreign policy.

A decline in economic weight, diminishing financial resources and the loss of normative power will weaken the EU's capacity to influence global governance and regulatory efforts. Europe will only be able to secure its place among the major players if it combines a sound economic base with an effective representation of its interests on a global scale. It will also have to retain stable alliances, in particular with the US, which itself wants the EU to improve the coherence of its external representation.

If all this is not followed through and if internal divergences grow further and increase political tensions, the euro area is likely to sell itself short. From a macroeconomic perspective, it is technically one economy as long as the single currency and the Single market exist. But it will only be perceived and treated as such if it manages to overcome internal economic and political tensions and translate internal economic unity into unified external political representation.

2. Differences of interest will remain among Member States, for instance dealing with global imbalances or certain aspects of the financial regulation debate in the G20 context, but the euro area will be forced to achieve a common position.

Recent economic trends increase the pressure on European governments to pool their strength and both informally and formally improve the external representation of the EU in international economic and financial fora.

5. The internal dimension of external representation

As a result of the current crisis, the EU has started reforming its internal economic governance mechanisms. A so far unexplored question is the extent to which internal governance reform holds consequences or opens up opportunities for a better external representation of interests.

Sketched in very broad terms, the EU's reaction to the financial and economic crisis has created a new impetus in five policy areas. First, EU financial market regulation is undergoing changes, with more supervisory power for the euro area and an attempt to create a single rule book. Second, budgetary policy coordination is being further strengthened with tougher rules and quicker sanctions at the European level, while national fiscal policy should underpin the jointly agreed objectives. Third, a new mechanism for macro-economic policy coordination has been introduced, including the 'Euro Plus Pact', a top-level attempt to get binding commitments from euro area heads of state and government to an annually-defined reform catalogue intended to help improve European competitiveness and prevent persistent current account imbalances within the euro area. Lastly, the euro area has equipped itself with a new permanent crisis resolution mechanism (the European Stability Mechanism (ESM)) to facilitate a joint intervention with the IMF in the event of a sovereign debt crises in the euro area.

An increased degree of internal policy coordination may, in the long run, harmonise economic developments and policy preferences to a certain extent. This could mean that Member State positions on global economic and finance issues are at least partially aligned. Recently, however, internal divergences have actually translated into contradictory positions on global governance issues.

Macroeconomic imbalances between euro area Member States are, for example, a pressing issue to tackle within the currency union, just as they are at the

global level.³ Over the past few years, for instance, China, Germany and oil and gas exporting countries in the Middle East have accumulated large trade surpluses while the US has experienced growing deficits. Such systemic macroeconomic imbalances can cause a misallocation of capital and financial bubbles, as they did in the euro area. This danger was revealed by the recent crisis, when large capital flows into the US drove down the cost of loans and thus contributed to the bubble in the housing sector.⁴ There is hence a need, both at the European and global level, to promote policy changes which address domestic and international distortions that are a key cause of imbalances.

While the current account of the European Union is more or less balanced, several EU member countries run large surpluses or deficits. Aside from creating differences between EU representatives in the G20 debates, it also hinders European governments from effectively leading negotiations to set up macroeconomic surveillance and coordination procedures in the EU.

In the G20, there seems to be agreement that the deficit countries cannot resolve their imbalances alone. The partners differ, however, on how to reduce global macroeconomic imbalances. In Pittsburgh, leaders agreed on a new 'Framework for Strong, Sustainable and Balanced Growth' under which they would review each other's national economic policies, supervised by the IMF. Numerical targets as well as enforcement mechanisms, such as penalties or sanctions, were left out of the agreement.⁵ The two largest Member States of the EU, France and Germany, disagreed over the proposal to include targets and sanctions. Paris first warmly greeted the idea of defining a limit for trade imbalances to GDP,⁶ which appeared in the debate before the Seoul summit. Meanwhile, Germany, shoulder-to-shoulder with China, wiped this idea off the table. The EU has managed to formulate a joint position. At the G20 summit in Seoul in late 2010, leaders agreed to work on indicators to measure the sustainability of imbalances. In February 2011, G20 ministers developed a set of indicators in order to focus on persistently large imbalances require policy actions. A goal has been set to establish indicative guidelines by the

3. Olivier J. Blanchard and Gian Maria Milesi-Ferretti, "Global Imbalances: In Midstream?", *CEPR Discussion Paper No. DP7693*, 2010.

4. Eric Helleiner, "Understanding the 2007-2009 Global Financial Crisis: Lessons for Scholars of International Political Economy," in: *Annual Review of Political Science*, 14, 2011, p. 67-87 (here: 77).

5. "G20 Leaders Statement: The Pittsburgh Summit", 24-25 September 2009.

6. "G20: EU Split over US Offensive against Global Imbalances", European Information Service, 25 October 2010.

next meeting in April, against which each of these indicators will be assessed.⁷ Such progress on the question of how to fight imbalances, however, does not eliminate the divergent views that exist concerning why imbalances should be fought at all.

6. How to move forward

As we have seen, there is a strong case for creating a single voice for the euro in the world, but some euro area countries are unwilling to give up sovereignty and transfer more power to Brussels.

Increasing coordination among Member States for the representation of the euro area within international organisations such as the IMF may be potentially pursued through two sets of actions.

The first option may not require any major institutional reform at the EU or IMF level; basically, it **would improve coordination in the use of voting rights currently allocated to euro area members** and split into two individual memberships and six different coalitions (with very limited coordination at EU level). It can be implemented in the form of a euro area committee, established within the current EU institutional framework (preferably the Eurogroup)⁸, which would coordinate the set of voting rights within the IMF and perhaps change the current set of coalitions into one or few. Memorandums of Understanding among Member States may need to be drafted to make sure that a clear set of rules is defined ex ante on how votes should be exercised. This option, in practice, would not require any IMF reform, but it would require strong political support within the euro area and perhaps the reshuffle of the current six coalitions within the IMF Executive Board.

The second option would involve the creation of a single membership for euro area countries. Membership would need to be officially handled by an institution that has control over budget and fiscal policies, since the voting

7. "Communiqué", Meeting of Finance Ministers and Central Bank Governors, Paris 18-19 February 2011.

8. See Alessandro Giovannini and Diego Valiante, "Unifying eurozone representation at the IMF: a two-step proposal", *Working Paper*, 2013, forthcoming ECPR.

rights are immediately linked to the effective quota held within the Fund. This institution could be represented by the European Stability Mechanism, which may increase its role in future economic governance in the euro area if it becomes central in the coordination of fiscal policies. An alternative would be a euro area economic government, if the EU embarks on a major treaty change. Regardless of which institution becomes central, this option may face two significant impediments. First, it requires a reform or at least a reinterpretation of IMF Articles of Agreement, since officially only ‘countries’ can be part of the IMF. A clear, international-level agreement would be needed to determine whether these countries can be federated into one institution representing them. The second impediment to such a proposal concerns the re-calculation of the formula. By removing intra-EU flows from the calculation of the quota, the euro area total quota may fall well below 21%, making the first option more attractive if no major reform of the formula is planned in the coming years.⁹ However, this option would make more sense (for the benefit of having an integrated framework of external representation) if the IMF modifies this formula and reduce the weight of euro area countries that are currently overrepresented.

⁹. *Ibid.*

STRENGTHENING EU PRESENCE IN GLOBAL FINANCIAL REGULATION REFORM

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Summary

The institutionalisation and legalisation of the European financial governance will undoubtedly enhance the implementation of agreed regulations and improve supervision; moreover, it has the potential to strengthen the EU's voice by promoting a more unified and coherent external representation of its positions. However, this potential may not be realised unless such changes take into account the institutional characteristics of global financial governance, composed of a variety of organisations that often transcend the traditional public-private dichotomy. The EU should build on its experience in international accounting harmonisation by turning its ad hoc governance initiative with the International Accounting Standards Board (IASB) into a full-blown strategy in all areas of financial regulation. The generalisation of this strategy involves extending the recently established European Supervisory Authorities (ESAs) as institutional platforms to coordinate and represent European views in global financial regulatory negotiations, adapting them to newly added governance structures – namely the European banking supervisory authority – as well as complementing them with appropriate governance structures where this is needed.

1. Regulatory reform before and after the financial crisis

The financial crisis exposed a number of problems in the areas of public policy and international finance. In response, extensive legislative initiatives were undertaken in many jurisdictions, most notably in the US and the EU, as well as at the international level. This was often accompanied by a revamping of existing institutions such as the Basel Committee of Banking Supervisors (BCBS) or the introduction of new organisations such as the Financial Stability Board (FSB). These initiatives notwithstanding, in contrast to previous major crises, current financial regulatory reform has not resulted in a major paradigm shift in the area of international finance; changes have tended to be incremental and primarily aimed at closing regulatory loopholes, without questioning more fundamental aspects of the global financial system. This limited agenda is not likely to change given the gradual recovery of the global financial system and the sovereign debt crisis in the euro area, which have shifted attention away from financial regulatory reform.

The Basel framework for banking supervision, perhaps the most important international financial regulatory framework, is a case in point. Between Basel I and Basel II the BCBS spent more than fifteen years trying to improve a prudential regime that eventually proved inadequate to protect both individual banking institutions and the financial system at large. The Basel framework was organised around the concept of value at risk, that is, the level of capital sufficient to limit the probability of collapse of an individual bank. However, the large number of banks that have experienced serious difficulties during the crisis demonstrates that banking risk was seriously underestimated by the Basel prudential framework.

Financial markets do not function efficiently during times of crisis. Consequently, it is important to define a regime specific to banking crises for which the rules of intervention of supervisors and public authorities are distinct from those prevailing in normal times. The only way of breaking the vicious circle of recurrent banking crises is to give regulatory agencies more powers to take charge of troubled banks before they really endanger the funds of their small depositors or the stability of the financial system. Prudential policy, on the other hand, should establish simple and verifiable criteria that would trigger the intervention of a supervisor. Solvency ratios, and, more

generally, regulatory indicators, need to be simplified. What is needed is a series of simple and easily verifiable indicators that will point to those institutions that may experience problems.

Basel III, while retaining the framework of Basel II, tries to incorporate elements of this approach, including new liquidity and leverage ratios. Internationally, however, delays in implementation and deviations in the form of national exceptions are increasing, raising concerns about its effectiveness. In Europe too, the European Commission, the European Parliament and the Council are engaged in tough negotiations for the incorporation of Basel III in European law; the final compromise is likely to be well below the standard agreed at the BCBS, undermining further the credibility of this flagship international reform initiative.

On the institutional side, Europe is finally addressing its financial fragmentation. The crisis prompted Europe to take steps towards a comprehensive Pan-European regulatory framework from early on, including the establishment of a European Systemic Risk Board (ESRB) and three new independent pan-European agencies: a European Banking Authority (EBA), a European Insurance and Occupational Pensions Authority and a European Securities Authority. This framework is now being complemented by the decision of euro area leaders at last October's summit to establish a Single Supervisory Mechanism (SSM) for banks. The process of setting up a fully-fledged banking union will take years to complete but the first steps have been agreed with the adoption of the Roadmap for the completion of EMU at the European Council meeting of 14 December 2012. The SSM will ultimately encompass all 6,000 euro area banks; there will be a common bank recapitalisation policy, a single resolution mechanism and increased harmonisation of deposit guarantee schemes. It is scheduled to be operational by 2014.

The institutionalisation and legalisation of European financial governance will undoubtedly enhance the implementation of agreed regulations and improve supervision; moreover, it also has the potential to strengthen the EU's voice by promoting a more unified and coherent external representation of its positions. However, this potential may not be realised unless their design take into account the institutional characteristics of global financial governance.

2. Global financial reform: a case of soft law governance

Recent international regulatory initiatives launched since 2008 constitute a process of institutional reform and legalisation that remains largely based on network forms of public and private governance, and international soft law standards and rules. Most of the new agreements on bank regulation and supervision, derivatives, hedge funds and so on remain non-binding, reinforce private regulation and provide flexibility in enforcement and implementation at national level without delegating authority to a third party.

In general terms, the choice of merely soft law arrangements expresses the preference of states and regulators to implement standards and practices generated at the international level through informal consultations and negotiations. The interest in favouring soft law arrangements as an optimal instrument of governance can be explained by the fact that softer commitments reduce transaction and sovereignty costs. Non-binding norms, as a prime tool of compromise and learning, facilitate political bargaining and improve information sharing. In fact, soft law agreements reduce systemic risk in the international financial system while promoting competitive equality amongst financial institutions. Moreover, soft law arrangements leave decision-making authority to national bodies and can be incorporated into national law in a manner that respects national sovereignty.

However, the severity of the global financial crisis has increased, to some degree, the legalisation process in the area of international financial supervision with new forms of institutionalised governance. For example, hedge funds and derivatives transactions, previously self-regulated, were brought under the public international regulatory umbrella. In the case of the FSB, there have been signs of adopting a more restrictive regulatory framework. The FSB centralises policymaking authority in a single regulatory and standard-setting body with wider membership, including the G20 countries and the European Commission. Despite all this, the FSB is in an ambiguous position, due, among other factors, to conflicting interests among participating countries. Otherwise, the renewed global regime is still based on the exchange of information, the cooperation of national regulators and the coordination of regulatory activities in order to supervise the transactional activities of banks

and other financial institutions. Therefore, international bodies have limited regulatory authority in general.

While the pace of interactions and changes in global financial governance is accelerating, the EU is called upon to act in these shifting circumstances. The challenge here is to develop reliable financial structures and instruments based on soft law and transnational governance within the highly formal institutional framework of European governance.

3. Regulatory coordination, bargaining and EU regulatory capacity

In terms of market power – business volume and sophistication – European financial markets are a major force in the global financial system. More specifically, the European Union is one of the two most important jurisdictions in global finance (along with the United States). This market power would normally put the EU into a privileged position to influence the regulatory shakeup of the global financial sector. However, while market power is a necessary condition for success in international regulatory negotiations, it is not always a sufficient one, particularly when there is a divergence of regulatory preferences among the great economic powers. In such cases, institutional power – the ability to indirectly influence the agenda and work of international institutions – becomes a crucial negotiating tool. Recent scholarship has shown that domestic institutional regulatory arrangements can be a significant source of institutional power. More specifically, a jurisdiction's regulatory capacity, as well as the institutional complementarity and compatibility of its domestic regulatory framework with the institutional framework of the global regulatory regime represent significant institutional resources that can prove valuable negotiating tools. Regulatory capacity involves regulatory expertise, (the ability to identify regulatory challenges, develop policy solutions, implement them, and provide comprehensive monitoring), coherence of regulatory authority in a policy domain and the statutory sanctioning authority of regulators. Institutional compatibility refers to the institutional correspondence of the structures of regulatory coordination at one level of aggregation (domestic or regional) with those at a higher level of aggregation (international). Thus, there is institutional compatibility in a jurisdiction when, for example, its regulatory

infrastructure includes a private standard-setting body which can participate in international standard-setting negotiations in an issue-area where regulatory coordination is dominated by a private organisation. Institutional complementarity on the other hand, denotes the institutional fit between domestic and international regulatory structures, that is, the degree to which specific institutional characteristics of domestic arrangements (e.g. hierarchical organisation with a single authoritative agency representing the national position) allow the efficient and effective participation of domestic regulatory agents in global negotiations. The latter two features are particularly important for private and other transnational, soft-law regulatory arrangements such as those that dominate the international financial regulatory landscape.

To a large degree, the EU's difficulties in influencing international regulatory negotiations stem from a lack of these institutional resources at the regional level. In most areas of finance, EU regulatory capacity is limited. This is because regulatory coherence is restricted as EU agencies must share regulatory authority with national regulators, which typically also retain implementation responsibility and sanctioning authority. The recently established European Supervisory Authorities (ESAs) are a case in point. The ESAs are part of a complex structural development in which a highly invasive regulatory approach is combined with a decentralised supervisory structure. The ESAs' legal status is less ambiguous than that of the Lamfalussy process, but still quite hazy. The three ESAs are independent advisory bodies acting as umbrella organisations in the financial supervision of banks, stock markets and insurance companies. They are endowed with legal personality¹ and dispose of administrative and financial autonomy. Their tasks include legally-binding mediation between national supervisors, the provision of high regulatory and supervisory standards as well as the oversight and coordination of colleges and networks of supervisors. Exceptionally, they may take binding decisions in relation to individual financial institutions and be given further tasks in EU financial market legislation. It is clear that while ESAs contribute to the improvement of EU legal and regulatory design, a good part of the regulatory tasks remain in the hands of the national regulators acting in networks.

1. On the basis of Article 114 TFEU.

This fragmentation has led to the emergence of a European financial regulatory landscape comprising numerous organisations and agencies, at both the national and supranational levels, characterised by institutional divergence and overlap. How does this situation affect the EU's regulatory capacity to act within its borders and vis-à-vis international fora? There are two main implications. First, in the majority of global standard-setting bodies, public or private, the leading role is played by the national supervisory authorities, but the status quo of the EU's external representation varies. The European Commission (or one of the new European agencies) is invited to either participate officially without voting rights, meaning that the final decision does not depend on the EU's consent, or it has only observer status, as is the case with the transnational regulatory network of the BCBS, or the International Organisation of Securities Commissions (IOSCO). Even when a supranational European agency enjoys full member status, this typically coincides with the separate representation of the national regulatory authorities of EU Member States; for example this is the case with the International Association of Insurance Supervisors (IAIS), and the FSB. This fragmentation of EU representation in the international arena leads EU Member States to approach international negotiations mainly with a national set of priorities.

Secondly, while EU administration has been developed with the aim of fostering financial cooperation between national authorities, the role of law enforcement agencies is still left to Member States' administrations. In this context, predominately national and regional preferences often generate weak political commitment on the part of EU Member States to financial convergence. Furthermore, decentralised European supervisory structures still based on national regulator networks complicate control over the implementation at the national level of regulatory standards designed at the global or European level.

Things become increasingly complicated with regard to the transnational organisations dominating various aspects of the global financial reform agenda: they are characterised by institutional differentiation and innovation and render most of the traditional national institutional channels obsolete. This situation in turn means that in most cases the EU lacks institutional compatibility and/or complementarity with international and/or transnational regulatory governance.

4. Strengthening EU bargaining power

To overcome these problems, this Policy Paper suggests that the EU builds on its experience in international accounting harmonisation. Divergent regulatory preferences and institutional legacies between the United States and Europe obstructed harmonisation in this issue-area despite more than three decades of efforts in a variety of international and transnational fora. The stalemate was resolved by the EU's decision to adopt the International Financial Reporting Standards (IFRSs), produced by the International Accounting Standards Board (IASB) – a private transnational organisation. The decision to adopt these standards was not a *chèque en blanc*; it was accompanied by the establishment of a new differentiated and innovative European accounting institutional framework, which allows the EU to participate in the workings of the IASB. Previously, the high regulatory capacity of the SEC, combined with the institutional compatibility between the private standard-setting process of the US Financial Accounting Standards Board (FASB) and the IASB, had allowed the US to play a dominant role in the shaping of the IASB's agenda and work. On the other hand, the EU's fragmented regulatory authority and lack of institutional compatibility with the IASB had effectively denied it any substantial role in negotiations over IFRSs. While the United States continues to disproportionately influence the work of the IASB, the EU's ability to participate in IASB workings and influence the standard-setting process has been upgraded substantially, as the new European governance structure includes the European Financial Reporting Advisory Group (EFRAG), a private sector organisation, which includes all interested parties (including standard setters) and provides the technical assessment of the proposed standards. Moreover, the new regulatory framework has given the EU the opportunity to employ new bargaining tools, such as the adoption of equivalency requirements for foreign jurisdictions (such as the United States).

The proposition put forward here is that the EU should turn this specific, ad hoc initiative into a full-blown strategy in all areas of financial regulation. The objectives of such a strategy would be: a) to strengthen regulatory authority and compliance within the EU, b) to improve information sharing and coordination among all relevant European actors, both public and private, and thus c) to ensure the EU's institutional compatibility and complementarity with transnational regulatory organisations in order to communicate effectively on agreed

positions and strengthen its bargaining power at the global level. Obviously, this is not an easy task. A replication of the IASB strategy would necessitate the concentration of significant regulatory authority within European agencies, a prospect fiercely resisted by national authorities in the past. However, as a first step, the second and third objectives could be given priority; they could probably be achieved without substantial transfer of regulatory authority from the national to the European level.

More specifically, in order to strengthen the EU's regulatory capacity and ensure institutional compatibility and complementarity with global financial regulatory fora we propose:

- To improve the EU's regulatory coherence and external representation, by using the newly established ESAs as institutional platforms to coordinate and represent European views in global financial regulatory negotiations once a coherent position has been formed.
- To ensure that the design of the new European banking supervisory authority based at the European Central Bank (ECB) takes into account both the dimension of EU external representation in global banking regulation as well as the new agency's relation to the EBA, thus avoiding further fragmentation in the European financial regulatory landscape.
- To complement the ESAs, where needed, by establishing appropriate governance structures compatible with the global financial regime, which is composed of a variety of organisations often transcending the traditional public-private dichotomy.

PART 2:

EU NATURAL RESOURCES: TOWARDS SUSTAINABLE AND STRATEGIC MANAGEMENT

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SYNTHESIS

Sustainable development has been at the forefront of the international agenda for the last decade, a trend that may endure despite the financial and economic crisis hitting EU Member States and slowing down the green transition of their economies. The EU's marked commitment – at least on paper – to its own sustainable development as well as that of the planet has become a pillar of EU discourse worldwide. Nonetheless the EU's internal policies in areas such as biodiversity, efficient use of resources, waste management, food and energy security and climate change, are far from being fully implemented and an external strategy addressing the latter challenges is still under development.

1. Major threats to sustainable development

Growing population and pressure on resources have become a hurdle to development. Faced with the worrying prospect of world population reaching 9 billion by 2050, and the resulting growing demand for food and fuel, the EU is exhorted to actively protect its own interests amidst increasing global competition over resources. Within this context ensuring food security remains a central issue – if this basic need is not satisfied, all other development and environmental aims (increasing investment, employment, productivity, education, pollution and overexploitation) will be compromised.

In this context, natural resources such as energy, biodiversity and other raw materials are being overexploited within and beyond EU borders, leading to scarcity and dependency on external sources. European primary energy resources are being depleted while energy demand is growing, exacerbating thus the EU's energy import dependency – set to continue growing in the near future. Increasing global competition for resources will also engender price volatility, and higher prices for resource supplies, which are bound to fuel uncertainty worldwide. If access to these resources is not managed, this could have serious implications for Europe's competitiveness and well-being at large.

Last but not least, the effects of climate change, if left unchecked, are identified by the EU and its Member States as a key global challenge as well as one of the greatest threats faced by humanity. South Asia, China and more specifically the Sahel and the Mediterranean region could be particularly affected, increasing instability in the EU neighbourhood. Europe and its residents will also suffer various direct consequences, including extreme weather and the spread of tropical diseases.

2. Ways ahead on the external dimension of the EU's approach to natural resources

Highly strategic interests are at stake as European quality of life and economic growth would be threatened if natural resources depletion and climate change are unsuccessfully managed. The competitiveness of the European economy and of its private sector, the cost for the public sector and the purchasing power of citizens are also at stake. These challenges are not only internal but global in nature. Thus, these would benefit from better coordination and coherence between their internal and external dimensions – contributing to defining a clearer and more profound European common strategy.

2.1. Gaining credibility at the global level by acting at home

Before all else, the EU absolutely needs to act at home. Whilst Europe has an obvious interest in cooperating, both internally and externally, on sustainable development goals, the implementation of a sustainable economy within EU

borders remains to be achieved. Particularly in the field of climate change, it is only by strengthening its own climate policy and showcasing the resulting environmental advantages as well as economic gains, that the EU will be able to effectively and coherently advance the climate change cause internationally. Indeed, the recent rounds of negotiations of post-Kyoto international summits on climate change have highlighted that commitment to fighting climate change in the near future is likely to remain based on countries' own internal voluntary engagement. Whilst the EU maintains its role as leading norm setter in the field, emerging countries exert ever more influence over the natural resources debate, an effort which must be matched by Europeans in order to remain relevant.

2.2. Empowering Europeans via collective rather than unilateral actions

When strategic areas of national sovereignty and security of supply are concerned, such as in the field of energy, Member States often prefer to defend their national interest through unilateral external policies. While often EU framework is in place, Member State implementation lags behind due to slow buy-in and a general lack of interest towards cooperation. The issue of food security in poor countries illustrates the potential added value of cooperation between Member States and EU action. Thanks to the work of the Commission, the EU now promotes better coordination and a complementary approach between donors. Joint multiannual programming is based on regional, national and thematic strategies and stresses the importance of implementing coordination not only in Brussels but at field level as well.

2.3. Avoiding the trap of a narrow Eurocentric vision

In the field of sustainable development, the EU needs to complement its top-down approach with bottom-up policies based on concrete projects formulated and designed in cooperation with external partners. The development of sustainable energy in the Southern Mediterranean through EU-Med cooperation is an example of good practice in this respect. The combination of the Mediterranean Solar Plan and the Directive 2009/28 together set a viable institutional framework for cross-border renewable energy flows and catalyses investment to advance specific projects. Nevertheless these efforts will be frustrated if the project's dimension as a potential driver for economic

development in the South is not significantly reinforced, otherwise the project risks assuming the traits of an exclusively EU-centric approach.

2.4. Improving the coherence between internal and external dimensions of EU policies

The European Commission should strengthen cooperation with the EU diplomatic service (EEAS) and together play an active role in better coordinating EU external action. This would be particularly useful to increase efficient capacity building and develop cross-cutting geographic approaches. Securing the access of European firms and citizens to strategic resources requires a more systematic, structured and coherent use of the set of foreign policy instruments (i.e. CFSP, trade, development, enlargement, and neighbourhood policies, etc.). Coherence between internal choices, policies, and EU external actions must be established in policy areas where Member States can concur on the long-term strategic interest possessed by the EU. One such case could be the incorporation of environmental externalities into the price of agri-food products: while the demand for a greener Common Agricultural Policy (CAP) and greener farming practices grows, European farmers and the agri-food industry must remain as competitive as its global counterparts.

2.5. Developing a systematic strategic approach for scarce natural resources

In order to develop a strategic approach for these resource challenges, a few guidelines could be systematically implemented, identifying the existing resources in Europe and assessing ways to preserve and develop these according to European needs. The EU has already identified several strategic resources such as raw materials, soils, water and energy. However, despite the growing global pressure on food demand and growing volatility of prices, paradoxically food security is not being granted the same level of attention – food-trade or the CAP are no longer perceived as necessary for the insurance of food security and reasonable pricing. Strategic thinking on this issue deserves more attention.

3. Ways ahead on specific concerns: energy, food, climate change and eco-efficiency

Without being exhaustive, the following components of the EU's sustainable development strategy need further attention and require coherent approaches at the EU level.

3.1. The external dimension of gas in the EU energy transition

Natural gas, the cleanest of all fossil fuels and a potential alternative to renewables, is expected to play an important role in the European transition towards a low-carbon economy by 2050. The future of EU gas policy has become a major long-term geopolitical, economic, environmental and social concern. Facing these challenges, it is crucial for the EU and its Member States to clarify the internal and external choices as regards its gas strategy.

Above all, Europeans must complete the creation of a competitive, interconnected and well-functioning internal energy market for gas. On the external dimension, the EU needs to remain committed to the process of concluding binding international agreements and energy partnerships with producer and transit countries, as well as with other key international actors for the diversification of its supply. Key projects include the Southern Corridor and the building of additional LNG terminals. The EU should also stand firm in applying its internal regulation to external operators active in the internal market for gas. Additionally, Europeans should define a clear regulatory framework for the development of shale gas so as to clarify future prospects for investors, and taking into account their impact on the environment and climate change. Finally, the EU should ensure that the increasing interest towards gas does not substitute renewable energies in the long term. (*S. Andoura, Notre Europe – Jacques Delors Institute & C. d'Oultremont, Egmont – p. 102*)

3.2. The promotion of low-carbon energy in Mediterranean Partner Countries: a mutually beneficial endeavour

Thanks to the Mediterranean Solar Plan, renewable energy sources have become a hallmark of both the EU's energy policy and the Union for the Mediterranean. EU regulation on renewable energy (Directive 2009/28)

explicitly envisages green electricity imports from third countries to help the EU meet 3x20 goals. Yet, in order for these projects to create a genuinely shared area of prosperity in the Euro-Mediterranean region, additional accompanying measures are required. Fostering investment, training, gradual delocalisation and technology transfer will allow not only to provide for the region's growing energy demand but also to create new economic opportunities, jobs and wealth.

Meanwhile, in order for Southern partners to reap the expected benefits, a significant upgrading of the institutional and infrastructure levels of Mediterranean partner countries is needed. These must be able to signal their will to provide an attractive ecosystem for investment, training and technology transfers. Such a comprehensive programme would constitute the first occasion in which energy is used as an instrument of development for the Mediterranean. (*G. Escribano, Elcano – p. 112*)

3.3. Meeting food security and environmental challenges in European agriculture

'Europe feeding the world' is an increasingly questionable objective; Europeans should rather focus their efforts on the use of a wide range of tools to help developing countries ensure their own food security. The CAP and the issue of agri-food trade also need serious strategic rethinking in order to effectively and efficiently meet European interests (food security, ecological concerns).

With regards to food security and the environmental challenges related to agriculture: the EU must be clearer on its scientific and technical choices, particularly on GMOs, in order to concentrate its finance on a small number of clearly identified and efficiently funded research projects for agricultural productivity. Finally, the EU would gain in encouraging small-scale projects and knowledge-based agriculture that take into account the diversity and complexity of agro-systems. (*N. Chambon, Notre Europe – Jacques Delors Institute – p. 121*)

3.4. Strengthening internal instruments to maintain external influence: saving emissions trading from irrelevance

The key issue related to climate change, needing to be urgently addressed by the EU, is the revision of its Emission Trading Scheme (ETS). The latter requires a combination of measures. On the one hand a sensible way forward would be for substantial allowances to be set aside as soon as possible, preventing carbon prices from collapsing. On the other hand the Commission should simultaneously propose the application of a price floor, a price ceiling and border tax adjustments, providing the market with the long-term certainty needed to attract investment in innovation and infrastructure, at reasonable capital cost.

The three European institutions should agree on the setting aside of allowances. The Commission should propose a Europe-wide price floor of €30 per tonne, and border tax adjustments with revenue returned to the country of origin. The Commission needs to make these proposals as soon as possible, so that the process of making the ETS a credible climate policy is not further delayed. (*S. Tindale, CER – p. 130*)

3.5. Towards a better management of internal and external markets

The EU must strive for eco-efficiency in its internal market. To do so it must ensure both resource efficiency and eco-innovation. The implementation of existing policies is thus key, the setting of mandatory targets for the Energy Efficiency Directive could be a step forward. Overconsumption and waste management remain an area where the EU can and should do more; recycling for instance possesses the potential for reducing the instability of EU energy supply, in turn mitigating the effects of price volatility on the economy. Furthermore, other than the completion of an EU energy market, the Union needs to concentrate its efforts on the creation of a functioning market for secondary raw materials, which is still missing.

With regards to the external market, EU policies should be targeted at granting green goods and services free access to global markets on fair terms. These policies must address transparency and fragmentation in global supply chains, resource nationalism, multilateral trade liberalisation and the creation

of credible incentives for resource efficiency. To do so the EU must engage with other influential powers, concretely it should support both bilaterally and within international trade fora, the Asia Pacific Economic Cooperation's (APEC) efforts towards increasing trade in environmentally friendly goods, as well as all similar initiatives. (*A. Ahtonen, EPC & A. Frontini, EPC – p. 93*)

MEETING EUROPE'S RESOURCE CHALLENGE WITHIN AND BEYOND EU BORDERS

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Summary

The European Union faces a serious resource challenge. It is dependent on external sources of energy and other raw materials, and this makes it vulnerable to resource availability and price fluctuations. If not managed, this could have serious implications for Europe and its competitiveness, for public and private sectors, for citizens and for overall European well-being.

The EU takes environmental challenges seriously, at least on paper, and has developed a number of internal policies and initiatives to tackle problems related to loss of biodiversity, inefficient use of resources and poor waste management. It is widely recognised that the EU should work together to tackle the energy challenge. At the same time, the EU has a two-fold approach to the external dimensions of resource challenges. Firstly, the EU has made sustainable development a fully-fledged component of its own narrative worldwide. Secondly, as do all actors, it has an interest in protecting its self-interests amidst increasing global competition over resources. However, in order to tackle the resource challenge effectively, the EU must both turn words into action within Europe and clarify its external strategy and the means to implement it.

1. Why does Europe have to take resource challenges seriously?

World population growth, and more specifically an increasing middle class, is putting enormous pressure on global resources such as energy, water, land, food and minerals. As a consequence, the environment is also under enormous pressure. Demand for food is growing. The world is losing its biodiversity. Waste keeps accumulating, not enough materials are recycled and, as a result, valuable materials are lost. In addition, as man-made greenhouse gas emissions levels continue to rise, climate change and associated extreme weather events will continue to increase, which will have further impacts on the availability of fertile land and fresh water and, consequently, on food and energy production. These changes are also coupled with environmental changes like increased soil erosion, deforestation and extraction of groundwater reserves.

Overexploitation of resources and environmental destruction can lead to resource scarcity, which can have far-reaching and unforeseeable economic, social, political and security implications and lead to unparalleled governance problems. It is important to remember that resources such as energy, food, water, minerals and ecosystems are closely interrelated, and changes in the supply and use of one resource can have serious implications on others. The effects of overexploitation of resources will seldom be limited to one region: spillover effects will also be felt in geographically distant markets and communities. As global competition for resources increases, prices rise and resource supplies become less secure. Price volatility will fuel even more uncertainty across the world.

Resource-dependent Europe is greatly affected by the global resource challenge and its implications. Raw materials, including energy imports, account for approximately 30% of EU imports, which in 2010 were worth €528 billion.¹ It is dependent on energy imports such as oil, gas and hard coal from few suppliers outside Europe – namely Russia. It relies on outside sources for raw materials for chemical, construction and other industrial sectors. For example, it needs rare earths from China for its high-tech and environmental industry. As a result, Europe's vulnerability to both price fluctuations and possible

1. European Commission, DG Trade, "A common international trade policy for the EU"

disruptions in the supply chain can also impact industrial competitiveness and the profitability of its businesses.

At the same time, Europe cannot escape the political, security and humanitarian implications of resource-driven crises outside its borders. Interstate disputes over resources in the Middle East region and the increasing impact of climate change on land, food and water availability in Central and Eastern Africa are rapidly turning into drivers for regional turmoil. Moreover, tensions and mistrust between Russia and its Central and Eastern European neighbours over energy flows continue to threaten security of supply in several EU countries. The melting of permafrost in the Arctic region, while representing in itself a major global concern, is also starting to strain relations between countries over access to either existing or presumed energy and mineral reserves. These developments can create geopolitical instability, a rise in migratory flows and even regional conflicts.²

Meeting the global resource challenge and tackling the negative economic and social consequences, such as low growth and energy poverty requires a two-fold strategy.

Firstly, change must start at home. It is essential for Europe to promote production and consumption paths based on maximising resource efficiency and environmental sustainability.³ Europe needs to promote eco-efficiency, which includes resource efficiency (using and reusing resources more efficiently throughout our economy) as well as eco-innovation (developing and using products, processes and other solutions that contribute to environmental protection or efficient use of resources).

Secondly, as the scale of the resource challenge can easily lead to intensified competition over resources and potentially even conflicts, while aiming to protect EU interests, it is important to promote cooperation and networking across the world. The EU must aim to address the ongoing economic (including competition and trade), politico-diplomatic and security challenges. In the process,

2. See for example European Union Institute for Security Studies (EU ISS), “Global Trends 2030 - Citizens in an Interconnected and Polycentric World”, March 2012, pp. 16-17.

3. For more in-depth analysis about the related benefits and needed actions, see Annika Ahtonen and Serban Chiorean-Sime, “Green Revolution: Making Eco-efficiency a Driver for Growth”, *EPC Issue Paper No.68*, 26.01.2012.

closer attention must be paid to improving the quality of global resource governance and strengthening those populations, ecosystems and economies that are most vulnerable to resource scarcity and the adverse impacts of climate change.

2. The EU's internal strategy awaits implementation and an external strategy is still under development

Europe has a strong incentive to co-operate in sustainable resource management, both internally and externally. A basic framework for this exists. The Treaty of Lisbon states that the Union shall work for a sustainable development of Europe and also help to “develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development”.⁴

In reality, however, the emphasis has been put on promoting a more sustainable economy *within* Europe. Resource efficiency became a flagship initiative under the ‘Europe 2020’ strategy, and the European Commission has published a number of other proposals that support these efforts and build on Member States’ existing commitments, including “Energy 2020: A strategy for competitive, sustainable and secure energy”, a “A Roadmap for moving to a competitive low-carbon economy in 2050”, a “White Paper Roadmap to a Single European Transport Area”, and the “EU biodiversity strategy to 2020”.

While there is a framework for action in Europe, its implementation has been slow due to Member States’ slow buy-in and lack of interest to co-operate. After decades of debate, the EU still does not have a functioning energy market. There is no proper market for secondary raw materials, and the prices of resources do not reflect the true cost of using them. Greater emphasis on recycling could help Europe to secure a sustainable supply of energy and other raw materials, and reduce the impact of volatile prices on its economy, but Member States and public and private actors must be convinced of these benefits. At the same time, the EU must build a bigger market for products and services that contribute to a greener economy.

⁴. European Union, “Treaty of Lisbon”, Chapter 1, Art. 10A (2f).

However, this internal strategy will be useless if it does not tackle the external dimensions of the resource challenge. The EU's flagship initiative recognises resource efficiency also as a global concern and highlights the importance of cooperation with key partners, including candidate countries and neighbours, in areas such as trade, research and development. It is acknowledged that cooperation could help create a level playing field for industry, encourage sustainable supply of raw materials, and promote sustainable development and poverty reduction in developing countries.⁵ Strategies, such as "Tackling the challenges in commodity markets and on raw materials", which sets out measures that are needed to secure and improve EU access to raw materials, are an important part of this process.

The EU's external action on meeting the resource challenge builds on two objectives, which are interlinked and should be pursued together: promoting sustainable development and securing EU access to key resources.

Firstly, sustainable development has become a significant component of the European narrative, promoted via international cooperation. As a result, the EU has tried to pursue a leading role, in international climate change conferences as well as at the 'Rio+20' negotiations. However, as long as Member States do not co-operate in meeting the resource challenge internally and the EU fails to demonstrate to the outside world the benefits of following a sustainable growth path, its attempts to parade itself as a world leader will be without effect.

This role is further undermined by the contradiction between EU priorities and actions, reflected, for example, in the dumping of both legal and illegal waste, including valuable materials, from Europe to developing countries. Until developing countries have the skills and technologies in place to turn waste into energy or to recycle the materials efficiently and safely, these exports and dumped waste will contribute to increasing global emissions and worsen environmental and health impacts outside the EU.

5. European Commission, *A Resource-Efficient Europe – Flagship Initiative under the Europe 2020 Strategy*, COM (2011) 21 final, 26.01.2011, pp. 8-9.

At the same time, possibly more by necessity than on purpose, EU development policy has embedded sustainable development in a number of projects. Support has been given to improve sanitation, fight hunger and encourage sustainable agriculture in a number of areas, notably Sub-Saharan Africa. However, the fulfilment of the EU's sustainable development goals, including resource management and efficiency, has been difficult, and not only because the recipients have tight control over where the money is spent. Development aid is also affected by budget constraints (due to the economic crisis) and misuse of the EU's operational and financial tools in the recipient countries, due to lack of transparency, poor involvement of civil society and corruption among local authorities. Internal rivalries and policy compartmentalisation in the EU institutions, especially between the Commission and the European External Action Service (EEAS) are adding another barrier to efficient use of funding.

Secondly, protecting and securing the EU's own interests with regard to resources – and products and services that can support a more eco-efficient economy – has become increasingly important as a consequence of the economic crisis, which has had a devastating impact on Europe's growth and global competitiveness. A good example is trade policy. Although the scope of this paper does not allow a thorough analysis of green trade, trading of products and services with lower environmental impact is an area with enormous market potential. Many European businesses operate on global markets and, to get the best products to scale, they need a level international playing field for their operations and investments. International agreements can help create more equal conditions for competition and spur international markets for green technologies, products and knowledge. While the work has started, the EU must continue to use available instruments, including trade policy, to create a functioning external market, where greener goods and services can get free and fair access to global markets. This would promote sustainable development across the world and benefit European industries too. At the same time, the EU must work to open up its markets and ensure that it does not limit access of foreign producers on a discriminatory basis.

The EU uses mainly legalistic means to secure its interests amidst increasing competition over resources. As reflected in a number of ongoing disputes, for example with China over rare earths, with Canada over tar sands, and with Russia's leading energy company Gazprom over supposed breaches of the EU's

anti-monopolistic energy regulations, the EU is fully committed to a rules-based multilateral system. However, when considering development of EU external strategy on resources, it could be questioned whether a purely legalistic attitude is always enough to pursue Europe's interests and values in the world, especially when dealing with rather assertive, non-Western emerging powers. As demonstrated by the persisting stalemate in WTO trade negotiations, which include a chapter on agricultural products and services, the EU's dominantly technical approach has been largely ineffective in tackling underlying political concerns in both developing and emerging countries. Coupling the legalistic approach with stronger politico-diplomatic sensitivity and flexibility is needed when multilateralism fails. Also, experiences with both Russia and countries in the Caspian region have demonstrated that policies should not be pursued in isolation. For example, EU foreign policy on energy should not neglect long-term interests, such as the development of an integrated and secure energy market within the EU and globally; or undermine core values, such as the promotion of human rights, democracy, sustainable growth and the rule of law, if it wishes to maintain legitimacy at home and credibility worldwide.⁶

A number of encouraging signals can nonetheless be spotted in EU foreign and security policy. The European Security Strategy (ESS) identifies competition for natural resources, aggravated by the effects of climate change, as a key global challenge over the next decades.⁷ Though less clear and concrete in its policy recommendations, by recognising competition over resources as a largely political and thus governance-related problem, the ESS creates the basis for tackling it through more active and coherent foreign and security policy. Such an approach is evident in the EEAS' and the Commission's combined efforts to strengthen the EU's voice on climate change issues with diplomacy and networking.⁸

The work has only started: the EU's internal strategy for eco-efficiency has yet to be implemented and Europe is still lacking an effective and coherent external strategy which would ensure that all relevant EU policies support

6. Rosa Balfour, with Alyson Baines and Megan Kenna, "The European External Action Service at work - How to improve EU foreign policy", *EPC Issue Paper no. 67*, 25.01.2012, pp. 34-42.

7. European Union, "A Secure Europe in a better world – European Security Strategy", December 2003.

8. European External Action Service and European Commission, "Joint reflection paper: Towards a renewed and strengthened EU climate diplomacy", 09.07.2011.

sustainable resource management worldwide and that resource-related concerns are considered in the daily conduct of EU foreign policy. Improving global governance, creating markets for resource efficiency and ensuring that the most vulnerable will not be forgotten in the process requires an active and coherent foreign policy which combines the promotion of sustainable development and protection of Europe's vital interests.

3. Recommendations for action

3.1. Change starts at home⁹

- Public and private investment in greener products and services must be increased. For example, the post-2014 EU budget, which includes the common agricultural policy, research and innovation, transport, energy and regional funding, should reflect the political priority given to green and smart growth under the Europe 2020 Strategy.
- The EU must ensure implementation of existing policies on eco-efficiency. For example, should Member States fail to implement the Energy Efficiency Directive by May/June 2014, the European Commission should set mandatory targets for energy efficiency.
- Leading by example would provide a model for others. The EU must convince others with its own success story that sustainability and growth can go hand-in-hand. This could also help create the international market and legal infrastructure which are needed for promoting eco-efficiency across the world.

3.2. Towards comprehensive and coherent external action

- Creation of an inter-service “*Task Force on the Resource Challenge*”, with representatives of the Council Secretariat, the EEAS, the European Commission and the European Parliament, under the leadership of the High Representative for Foreign Affairs and Security Policy of the European

⁹ For more information, see Annika Ahtonen and Serban Chiorean-Sime, *op. cit.*

Commission. Its main task should be to draft a Joint Position Paper that would take a holistic approach to the global and European resource challenge and consider what instruments and financial resources are needed to tackle it. The 2011 Joint Reflection Paper on EU climate change diplomacy could provide a useful basis. The results of the Task Force could feed into a strategy and guidelines on natural resources, and then be further developed in sub-strategies on specific resources.

- EU policies must also contribute to creating a functioning external market, where greener goods and services can get free access to global markets on fair terms and where the EU enjoys a stable supply of essential resources and raw materials. They must help tackle poor transparency and fragmentation in global supply chains, resource nationalism, weak progress in multilateral trade liberalisation and lack of incentives to increase resource efficiency, which have affected the proper functioning of global commodity chains. As concrete steps, the EU should support Asia Pacific Economic Cooperation (APEC) in its current efforts to boost trade in environmentally friendly goods, co-operate on promoting the use of renewable energies in the MENA region and help resume WTO negotiations in all resource related areas.

THE ROLE OF GAS IN THE EXTERNAL DIMENSION OF THE EU ENERGY TRANSITION

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Summary

As an economically attractive option for investors, a potential backup source for renewables and the cleanest fossil fuel, natural gas is expected to play an important role in the European transition towards a low-carbon economy by 2050. At a time when European primary energy resources are being depleted and energy demand is growing, the gas import dependency of the EU will continue to grow significantly in the coming years.

The EU is thus facing important challenges linked to its gas policy both internally, by attempting to create a competitive, interconnected and well-functioning internal market for gas; and externally, by struggling to develop a coherent and collective external strategy, which would allow it to both diversify and secure its gas supply from abroad. Meanwhile, new sources of unconventional gas could change the world's energy markets with potential consequences for the EU. However, many uncertainties remain regarding their development within the EU. In view of all these challenges, this Policy Paper concludes by laying out concrete recommendations on how the EU could strengthen its gas strategy both internally and externally.

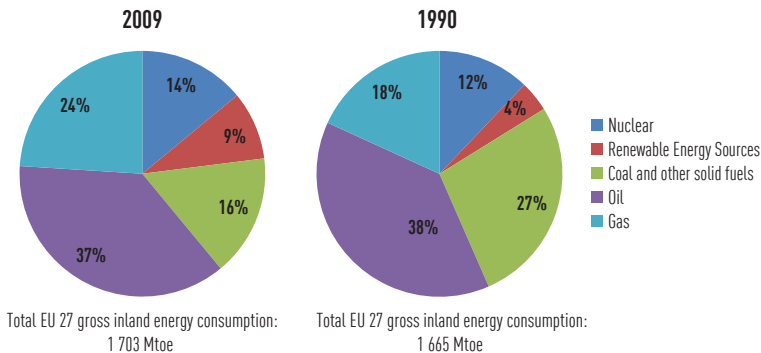
1. The role of gas in the European energy context

1.1. The fast changing share of gas in the EU energy mix

Gas is expected to become the only fossil fuel that will increase its share in the global energy demand in the forthcoming years. On a global scale, resources are spread over all continents and remain abundant. The recent boom in unconventional gas that has emerged in North America may well spread elsewhere, leading to a huge increase in global gas supplies.

In the EU, fossil fuels represent three quarters of the current EU energy mix and the share of gas accounts for some 24%. Between 1990 and 2009, gas consumption in the EU increased by 41%.

Figure 1: EU gross inland energy consumption by fuel in 1990 and 2009



Source: Eurostat May 2011.

The share of gas in the EU energy mix is still rising. It is projected that between 2009 and 2020 natural gas consumption in Europe will rise by around 17%. This tendency is expected to continue upward until at least 2030-40 to be progressively diverted downward in the longer term. Accordingly, in the Commission's Energy Roadmap 2050¹, gas is projected to account for between 22 and 25% of the EU energy mix by 2030 and between 19 and 26% by 2050.

1. European Commission, *Energy Roadmap 2050*, COM(2011) 885 final, 15.12.2011.

The major trend emerging from the EU Energy Roadmap 2050 is that EU gas consumption in absolute terms is set to decrease in the longer term due to an increase in renewable energy and improvements in energy efficiency. However, the decision of several Member States to phase out nuclear power after the Fukushima accident, the development of unconventional gas (see §3 below) and emerging technologies such as Carbon capture and storage (CCS) could increase the role of gas over a longer time frame. Such a scenario could undermine the development and deployment of renewable energy sources at the EU level. If Europe remains committed to reducing its carbon emissions by 80-95% below 1990 levels by 2050, the fact of gas turning into a long-term solution might become problematic. In this respect, gas should not be the technology bridge to gas.

1.2. An increasing reliance on external supply

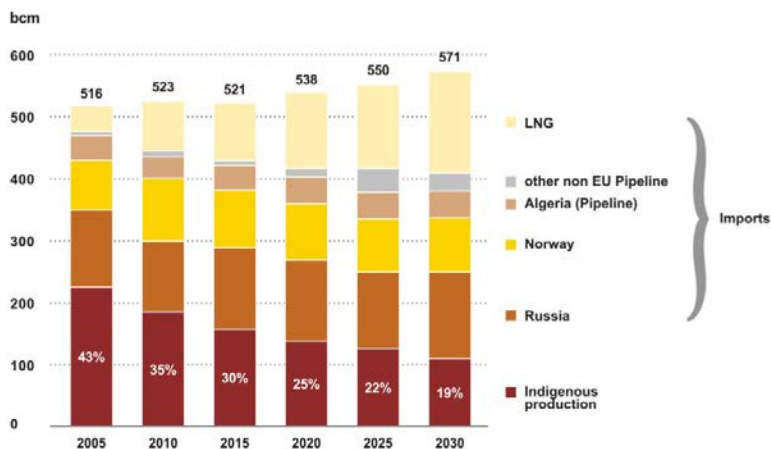
The external constraints that the EU faces for the security of its gas supply are expected to remain substantial in the years to come. This is due not only to increasing gas demands until at least 2030, but also to the depletion of natural gas resources in the EU. Between 2009 and 2020, the amount of gas produced in the EU is projected to fall by nearly 40%. Consequently, the gas import dependency of the EU will increase in the short and medium term. While in 2007, the EU already imported 53% of its energy consumption with natural gas accounting for 60% of these external needs, its energy import dependency should reach 59% in 2030 with natural gas dependency representing 83%.

About 79% of EU gas imports come from three major suppliers, namely Russia, Norway and Algeria. The EU and Russia are very important mutual trade partners as 36% of the EU's total gas imports originate from Russia and 70% of all Russian gas exports go to the EU. Most of this gas is delivered through pipelines and traded according to long-term contracts linked to the price of oil.

Around 15% of EU gas imports come through Liquefied natural gas (LNG), mainly shipped from North Africa, Qatar, and Nigeria. Despite the important costs of LNG, its share in overall EU imports is expected to grow with the aim of improving the security, diversity and reliability of EU gas supply. However,

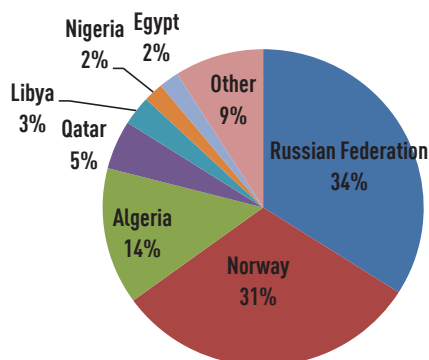
the EU will be in increasing competition for LNG supplies with the rest of the world, especially Asia.

Figure 2. Gas in the EU until 2030



Source: Eurostat May 2011.

Figure 3. EU imports of gas, by country of origin (2009)



Source: IHR CERA, October 2011.

2. Lack of a comprehensive EU strategy for gas

In the field of gas supply, the European Union faces both internal challenges and external constraints, the two being interlinked. The EU is committed to the completion of the Single market for gas and electricity by 2014. Although progress has been made in recent years, barely half of the work needed to create the single energy market for gas has been done. There is still a long way to go before the various national markets become parts of a homogeneous block.

One of the main reasons why the single energy market for gas is difficult to complete is the fact that energy policy is a shared competence between the EU and its Member States. European countries can thus make unilateral sovereign choices in the field of energy, especially regarding the external dimension of the policy. Initiatives launched at the EU level regarding the external dimension of gas policy remain mainly in the form of soft law, i.e. communications, statements of objectives and declaratory resolutions without binding commitments. As a consequence, the European Union struggles to develop a common strategy regarding its choices of energy resources. This prevents it from exerting its full economic, commercial and political weight in its relations with producer and transit countries.

Another key issue in the development of a competitive EU gas market is the lack of infrastructure, strategic interconnections and storage facilities both within and outside the EU. These are essential in ensuring the security and diversity of supply. In this context, Europe's strong sense of insecurity has drastically increased due to the successive gas disputes between Ukraine and Russia which directly affect its supplies.

Moreover, various competing and controversial projects for gas pipelines along diversified supply routes have emerged. For instance, the European "Nabucco" project, which aims to reduce the EU's dependence on Russia, is in competition with "South Stream", a project resulting from a consortium between Russia's Gazprom and Italy's ENI. Both projects intend to exploit the resources of the Caspian Sea. The politicisation of these gas corridors has been particularly damaging to the creation of a common European energy market.

The EU is clearly the main battlefield for gas pricing. Contrary to the US, the UK and Australia, where gas prices are established through competition, EU gas prices are mostly indexed on oil prices under long-term contracts with foreign suppliers. This uncoordinated and uncompetitive system is causing huge disparities amongst Member States regarding the price of their gas supply. This has also a direct impact on the global competitiveness of EU industry, facing a more expensive energy bill.

More recently, however, the EU has been making progress in strengthening the external dimension of its energy policy for gas, especially with regards to four aspects:

- Traded gas markets are slowly developing in the EU through hub-based gas trading. However, except for the UK, exchange trade is still marginal.
- Following the Russia-Ukraine gas crisis, the EU adopted new legislation related to security of supply and the issue of crisis management. The new regulation on the security of gas supply adopted in autumn 2010² aims at creating a genuine EU mechanism for rapid and coordinated management of external energy crises.
- The EU is trying to develop energy partnerships with its neighbouring regions, especially after the recent gas discoveries in the Eastern Mediterranean region.
- The EU has improved its negotiation position towards its main foreign suppliers due to a combination of factors, i.e. the arrival of shale gas competition, the financial crisis that reduced energy demand and the deregulation of European electricity prices. The oil-indexed, long-term, take-or-pay contracts are thus coming under enormous pressure. For instance, Russia's Gazprom has granted substantial retroactive cuts to several of its European customers, including Germany's E.ON and France's GDF Suez. Moreover, the European Commission together with some Member States is trying to

2. Regulation No 994/2010 of the European Parliament and the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC.

put pressure on Russia to renegotiate some of its long-term contracts with countries from Eastern and Central Europe.

Despite these efforts, the unilateral approach of the Member States to secure their energy supply continues to prevail over a coordinated EU approach.

3. The consequences of unconventional gas developments

New unconventional gas developments could radically change the global geo-energy stakes by improving global security of energy supplies. In 2011, the International Energy Agency (IEA) has explicitly wondered whether we are “entering a Golden Age of Gas”.

Unconventional gas differs from conventional gas in that it is difficult to access. It requires innovative drilling techniques to be extracted from the ground. Thanks to breakthrough technology in the US, operating costs have been reduced, leading to a real gas revolution in this country. If they are exploited, the important reserves of unconventional gas in politically stable locations could fundamentally shift the world’s energy market as well as current power relations.

Currently, only the US, Canada and Australia are exploiting their unconventional gas resources, especially shale gas. Unconventional gas production amounts to half of US gas production today and could reach 71% in 2035. In an optimistic scenario, the US, Canada, and Australia could, respectively, meet 5%, 4% and 19% of EU gas demand by 2035. This could further lead to a reduction of the price of oil-indexed gas.

In Europe, shale development is in its infancy. Although shale gas resources are thought to exist in many EU countries, the situation is very different than that in the US. The EU possesses lower reserves, a much smaller geographic area and a much greater density of population. Keen to break their dependence on Russian supplies, it is in Eastern Europe that the perspectives for shale gas development are the most optimistic, especially in Poland.

At the same time, numerous uncertainties remain surrounding shale gas development in the EU, making future investments far from certain. First of all, the volume of exploitable reserves within the EU is difficult to calculate. For instance, Polish estimates of recoverable resources are 10 times lower than initially thought. Also, public concerns about the negative environmental and climate impacts of extracting shale gas are rising. The main concerns are linked to water contamination, water resource depletion, earthquakes, degradation of biodiversity, land take and methane emissions. This last issue could have an impact on global warming. Following the publication of several reports on the risks of shale gas exploitation by the Commission, the European Parliament considers the current regulatory framework insufficient and calls for the Commission to propose new, more restrictive, legislation in 2013.

While the uncertainties regarding the environmental and climate impacts of unconventional gas exploitation can certainly not be ignored, the EU gas market might benefit from the development of unconventional gas resources. On the one hand, it will improve the diversity of supply thanks to increasing LNG supplies originally directed to the US that will become available on the EU market. On the other hand, although the potential exploitation of unconventional gas within the EU will not be a game changer, it could trigger investment in transport infrastructure and slightly reduce EU energy dependency. All in all, these new elements are expected to improve the negotiating position of the EU with respect to its foreign suppliers.

4. Recommendations: the need for a comprehensive EU strategy for gas

Facing all these challenges and constraints, it is crucial that the EU clarifies its strategy regarding its gas policy in the aim of improving its security of supply while remaining committed to tackling climate change. In order to do so, the EU should endorse the following recommendations.

- The EU should clarify its energy choices. Regarding the economic attractiveness of gas for investors, the potential shale gas developments and the decision of several Member States to phase out nuclear power after the Fukushima accident, the EU needs to ensure that the increasing interest

in gas does not substitute renewable energies in the long term. This could undermine the long-term strategy to tackle climate change, including the energy transition of the EU economy.

- The EU must complete the creation of a common energy market for gas. In this context, more competition, better supervision, adequate regulation and increased use of hub-traded gas volumes should lessen the domination of oil-indexed price contracts and reduce average wholesale gas prices. Moreover, the completion of the internal gas market is reliant on large investments in infrastructure, strategic interconnections and storage facilities both within and outside the EU in order to ensure the security and diversity of supply.
- LNG terminals should continue to play an important role in efforts to secure and diversify EU gas imports. However, it is important to keep in mind that a large contribution of LNG in gas imports could increase gas prices due to the important costs of LNG projects.
- The EU should define a clear regulatory framework for the development of shale gas so as to clarify the situation for investors.
- The EU needs to remain committed to the process of concluding binding international agreements and energy partnerships with producer and transit countries, as well as with other key international actors. Whereas the EU has engaged in opening its Southern Corridor to energy imports from the Caspian Sea and Central Asia, mainly through the building of the Nabucco gas pipeline, it now needs to conclude the necessary agreements and align its economic, technical and political means in order to finalise this project in due time.
- Beyond the simple inclusion of energy objectives in foreign relations, the EU needs to achieve a more systematic, structured and coherent use of the set of foreign policy instruments that could contribute to the development and strengthening of the Union's external relations in the field of energy (i.e. CFSP, trade agreements, development policy association treaties, the energy community with south eastern European countries, enlargement process, European Neighbourhood policy, strategic partnerships,

etc.). In this respect, the new diplomatic service, EEAS, together with the European Commission, should play an active role in better coordinating EU external action in the energy field, while ensuring the coherence of this external action (mainly security of supply and international relations at large) with internal development (internal market for gas). One way to achieve this would be to better structure and consolidate relations between the EEAS and the DG Energy, including the relations between the High Representative and the Energy Commissioner when acting both in Brussels and abroad.

- Europe and its Member States will only make themselves heard if they present a united front by speaking with a single voice abroad. Consequently, the EU should be in a position to question commercial deals at the national level when they are not in line with Europe's security of supply as a whole. Moreover, the EU should supervise the renegotiation of long-term contracts for gas with foreign suppliers (especially Russia) in its aim of applying the same range of gas prices everywhere within the EU. Last but not least, the EU should stand firm in applying its internal regulation to external operators as long as they are active in the internal market for gas. The antitrust case launched by the EU Commission against Gazprom is an illustration of this new trend.

In conclusion, the future of EU gas policy has become a major long-term geopolitical, economic, environmental and social concern. In the unstable energy landscape of the twenty-first century, it is therefore key that the EU and its Member States improve their cooperation in identifying and implementing clear priorities in external energy policy.

PROMOTING LOW-CARBON ENERGIES IN MEDITERRANEAN PARTNER COUNTRIES

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Summary

The exploitation of renewable energies remain marginal in the European neighbourhood, and their contribution to economic and human development is still largely unexplored. Directive 2009/28 on renewable energies explicitly contemplates green electricity imports from third countries, and the Mediterranean Solar Plan offers an economic and institutional framework for its deployment in the Southern neighbourhood. This Policy Paper addresses the question of whether these initiatives have the potential to become a driver for the development of the Southern neighbourhood or should instead be considered as an EU-centric project tailored to support European renewable industries and engineering firms. This Policy Paper argues that, in order to become drivers of economic development for the region, these initiatives should consider accompanying measures to foster investment, training, industrial delocalisation, and technology transfers.

Introduction

Renewable energy sources (RES) have become a hallmark of the EU's energy policy. The emphasis placed on renewable energies by the European Commission was supported by several Member States and their industries, helping to position the EU as a world leader in the sector. The European RES industry has positioned itself on the technological frontier, European utilities

and grid operators are among the most experienced in integrating renewable sources into energy systems, and Member States' regulatory frameworks usually serve as international benchmarks. However, apart from exceptions in some countries, the deployment of renewables has remained marginal in the European neighbourhood and its contribution to economic and human development in those countries remains largely unexplored. European RES investments have been concentrated in developed or emerging markets (mainly the EU itself and the US). RES imports to the EU are mostly limited to biofuels and RES-generated electricity from Norway and, occasionally, from Morocco.

This picture started to change with new technological developments. New transmission and solar technologies opened the way for an integrated Euro-Mediterranean RES market which will allow countries on the southern shore of the Mediterranean to export RES-generated 'green electricity'. Industrial initiatives such as Desertec and the European-led Mediterranean Solar Plan tried to offer an industrial, economic and institutional ground for its development. Finally, Article 9 of the Directive 2009/28 on renewable energies explicitly contemplates green electricity imports from third countries.

This Policy Paper analyses these two energy policy instruments, Directive 2009/28 and the Mediterranean Solar Plan, focusing on their development implications for Mediterranean Partner Countries (MPCs). The first section offers a brief overview of both instruments. The second section argues that RES promotion has the potential to become a driver of development in MPCs, briefly discussing under which conditions its impact would be maximised. The last section concludes with some policy recommendations regarding RES deployment patterns in MPCs.

1. Europeanising renewables in the Mediterranean

The challenge of integrating RES, particularly 'green electricity', in the Euro-Mediterranean energy space seems to follow the outward Europeanisation path so beloved to the EU in its relations with neighbours. The idea is that Europe's neighbours would get differentiated access to its RES market based

on compliance with EU norms. This market-access incentive would anchor RES-related policies and promote its deployment in the European neighbourhood.¹

Transnational RES deployment is a complex issue because renewables require support schemes that are difficult to implement, particularly across national borders. Member States only support locally-produced RES, and one of the goals of Directive 2009/28 is the facilitation of cross-border RES support without necessarily affecting national support systems. In order to do so, it introduces cooperation mechanisms among Member States. The flexibility measures contemplated by the Directive include statistical transfers, joint projects and, also, joint support mechanisms. Statistical transfers refer to the exchange of green certificates: for instance, the green certificates generated by solar or wind energy in Southern Europe (if they exceed the respective national objectives) can be accounted for in the objectives of a Northern EU Member State.

For ‘green electricity’ (electricity that is green certified) imported from third countries, the conditions are not so flexible. First, they do not include statistical transfers: only physical electricity transfers can be accounted for in Member States’ RES targets. Member States can implement joint projects with third countries, including in their national objectives the green electricity imported from the third country and consumed in the EU. In the absence of existing (but projected) operative interconnections, the Member State can include in its national objectives the green electricity transfers that have been agreed to that end with the third country until the needed infrastructure is in place. There is no obstacle to implementing joint support systems for joint projects with third countries. The only limitation, which also applies to intra-EU projects, is that in order to be included in the national objectives, the imported green electricity cannot benefit from support schemes in the third country, with the significant exception of investment support for the construction of installations.

In fact, even if statistical transfers with third countries are excluded by the Directive, *de facto* it offers the opportunity to such countries of including statistical transfers by joining the Energy Community Treaty (ECT). As the

1. For a critique of the naïve version of this approach, see Gonzalo Escribano, “Convergence towards Differentiation: The Case of Mediterranean Energy Corridors”, *Mediterranean Politics*, 15 (2), 2010.

Directive clearly states, contracting parties of the Energy Community Treaty could benefit from the same flexibility measures as EU Member States, if it was so decided. This is an open possibility for MPCs to enter the club of statistical transfers, widening the opportunities for RES deployment in the region to those countries which are Europeanising their energy norms. Few Mediterranean countries outside Europe are nowadays ready to adhere to the ECT, perhaps with the sole exception of Turkey, Israel and Morocco. Joining the ECT implies adopting the EU energy acquis, a difficult move in a region characterised by lack of competition and state-owned energy companies, some of them with significant hydrocarbon reserves, such as in countries like Algeria, Libya or Egypt. However, convergence towards RES-related EU acquis could be more easily achieved when compared with conventional energies, because RES are not a threat to significant vested interests, facilitating thus institutional innovation.

Under Directive 2009/28's institutional design for RES flows with third countries, the Mediterranean Solar Plan (MSP) proposes a road map to catalyse investment, industrial development and regulatory innovation to foster RES deployment in the Southern neighbourhood. It is one of six projects considered by the Union for the Mediterranean (UfM). Its goal is to deploy 20 Gigawatts of installed renewable energy capacity in the Mediterranean region by 2020 along with the necessary transmission capacities and cross-border interconnections, as well as fostering energy efficiency measures. The 2008 Paris Declaration that gave birth to the UfM stated that "market development as well as research and development of all alternative sources of energy are (...) a major priority in efforts towards assuring sustainable development." Despite the precision about the Solar Plan, the sense of the Declaration calls for the mobilisation of all alternative energies, including wind.

Its inclusion in the UfM came out of the French-German bargaining that led to the Paris Declaration, but its origins can be traced back to the Trans-Mediterranean Renewable Energy Cooperation Network (TREC) – a partnership between the Club of Rome, the Hamburg Climate Protection Foundation and the National Energy Research Centre of Jordan created in 2003. Together with the German Aerospace Centre (DLR), the TREC developed the Desertec project, an EU-MENA initiative based on solar thermal energy. With the support of the Greens and German industry, the German government supported

the Desertec initiative in its 2007 Presidency of the EU. A few months later, the Desertec White Book² was presented at the European Parliament, and began to receive increasing support in Brussels. At that time, French President Nicolas Sarkozy was proposing his Mediterranean Union, facing strong opposition from Germany. Finally, the Union for the Mediterranean was watered down to the UfM, which included the MSP as its flagship project.³

Tasked with the development of the projects, the UfM's Secretariat plays a central role in the MSP institutional framework. A delay in its operative constitution, followed by the resignation of its Secretary Generals, has not allowed it to invigorate the process thus far. This has been coupled with the financial crisis, which has dried up financial markets and decreased enthusiasm for renewables. But aside from financial and institutional problems (governance of the MSP, the role of the European Commission and the UfM Secretariat), the MSP has failed to provide a credible and recognisable framework mainly because it has been unable to take the preferences of MPCs into account. These preferences consist in profiting from their structural comparative advantages (insolation or wind, abundant space and labour force) and building dynamic ones like industrial clusters, innovative regulation and technical skills. The following section is devoted to the weaknesses of the current MSP approach as a driver for economic development in MPCs.

2. A driver for the development of whom?

Directive 2009/28 provides the framework for the integration of RES in the Euro-Mediterranean region and the functioning of the MSP. However, the MSP should also meet UfM objectives inherited from the Barcelona Process for achieving a shared space of peace and prosperity. This was reassessed by the Joint Communication from the Commission and the High Representative,⁴ which includes RES deployment as a channel for Euro-Mediterranean cooperation.

2. Desertec Foundation, "Clean Power from Deserts", *White Book*, 4th edition, 2008.

3. For a more detailed analysis, see Luigi Caraffa, "The Mediterranean Solar Plan through the Prism of External Governance", *EuroMeSCo*, Paper 5, 2011.

4. European Commission and the High Representative, *A partnership for democracy and shared prosperity with the southern Mediterranean*, Joint Communication, COM (2011) 200 final, 8.3.2011.

While the MSP has generated a lot of literature, little has been said on its human development impact for the European neighbourhood. A well-designed MSP should be conceived as a driver for economic development for MPCs in at least five aspects:

- To provide part of the energy required by the economic growth of MPCs;
- To contribute to the supply of modern energy services required for economic development;
- To contribute to eradicate energy poverty;
- To use solar and wind energy resources to generate new economic activities, new jobs and new incomes;
- To provide technical cooperation, training and technology transfers in order for MPCs to reap the benefits of RES deployment.

Taken together, all these elements form a consistent cooperation programme for sustainable Euro-Mediterranean energy development. Energy development consists in increasing the provision and use of energy services, and is a key driver of economic development. Energy development also determines the manner in which energy is generated and used, and has a direct impact on sustainable development. It is important to point out that such a comprehensive programme would constitute the first occasion in which energy is conceived as an instrument of development in the Mediterranean. The question is whether the MSP has the potential to become a driver for the development of MPCs or should instead be considered as an EU-centric project aimed at achieving its own environmental objectives together with the promotion of European industries and engineering firms. The answer to this question depends upon the conditions under which RES deployment is implemented.

A study on the impact of RES deployment in Morocco can help illustrate the complex policy choices involved in the process.⁵ The general conclusion is

5. See Rafael de Arce, Ramón Mahía, Eva Medina and Gonzalo Escribano, "A simulation of the economic impact of renewable energy development in Morocco", *Energy Policy*, 46: 335–345, 2012.

that RES deployment entails significant economic opportunities for Morocco in terms of GDP and employment. In the proposed scenarios, the figures for economic impact on GDP vary from +1.17% to +1.9% at the end of the period (2040), with employment figures showing the possible creation of between 267,000 and 482,000 full-time equivalent direct and indirect jobs. The article shows that policy decisions regarding exports and improving local capacities are crucial in maximising the opportunities RES offers to the country, a result that can be extrapolated to the rest of MPCs (with subtle differences from country to country). The best economic performance is attained with exports (virtual or physical) based upon improved local capacities. This is because in order to maximise economic gains, MPCs need to participate more fully in the industrial dimension of the initiative. This means improving absorption capacity at the industrial level, integrating the RES sector into a comprehensive industrial policy, as well as upgrading infrastructures and regulation. For the EU, it is important to highlight the significance of supporting the country's absorption capacity through technical cooperation programmes, including training, twinning, scientific exchanges, networking, etc. at every level related to RES deployment.

The Moroccan case clearly illustrates the argument for approaching MSPs as a comprehensive sustainable development strategy. In designing regulatory, trading and financing schemes, the focus should be on MPC development. If the benefits are not captured by EU companies and EU Mediterranean partners, several accompanying measures should be adopted. One of them is to focus on alleviating energy poverty in rural households, for the positive impact this has on sustainability and human development. This calls for supporting individual, decentralised photo-voltaic systems, but also delivering modern energy services not necessarily related with renewable energies (e.g. GPL). Another prerequisite is supporting the training of Moroccan manpower to attract investment. However, training should not be exclusively provided for the purposes of maintenance, which is the activity that generates less jobs and added value. Meaningful participation in the industrial, engineering and operation stages should be attained in the medium term. At the same time, the EU should establish a long-term mechanism for promoting technology transfers and enhancing local innovation capabilities.

3. Final remarks

Without such pre-requisites, the whole discussion on the Mediterranean Solar Plan may deviate from its main objective. As a project included in the UfM, it should aim to create a shared prosperity area in the Euro-Mediterranean region. This can only be achieved by accompanying MPC reform efforts and strengthening their economic opportunities, through green electricity exports, for example. Southern Mediterranean neighbours have shown their interest in renewable energies, but have also clearly pointed out the kind of European support they require: investment, training, gradual delocalisation of industrial stages, and technology transfers. Without the upgrading of MPC institutions, human capital and the rural energy poverty situation, the MSP may be reduced to an EU strategy to achieve the region's own environmental objectives together with promoting European renewable energy industries, energy companies and engineering firms. This scenario would contribute very little to MPC development. MPCs themselves should be aware that in order to reap the benefits of RES deployment, significant upgrading at the institutional and infrastructure levels is needed. They must signal their will to provide an attractive ecosystem for investment, training and technology transfers.

Regarding the consistency of EU policies in promoting RES, the MSP and Directive 2009/28 offer a coherent framework with complementary goals. The Directive establishes a viable institutional framework for cross-border RES flows, while the MSP should catalyse investment to advance specific projects. The problem seems to lie in the lack of traction of the UfM Secretariat, but the difficulties of the current financial crisis should not be forgotten. In any case, the MSP has not been able to translate into a comprehensive strategy to include MPC preferences such as job creation, economic growth and industrial development. The institutional structure is there, but the development component is not properly addressed. The Europeanisation strategy represented by the European Neighbourhood Policy and the ECT insists in regulatory aspects, without recognising the particularities of MPCs, some of which are important hydrocarbon producers for whom unbundling policies is very difficult to implement without compromising their traditional engine of growth. A differentiated RES-focused approach built upon the MSP and Directive 2009/28, together with specific provisions in ENP Advanced Status (for instance with Morocco and, in the future, Tunisia) could prove a better strategy in the short run.

Based on the arguments presented above, any agenda related to RES promotion in MPCs over the next 18 months would have to include:

1. A clear and comprehensive strategy that links RES deployment with economic development in MPCs;
2. Efforts to foster absorption capacities at both the industrial and regulatory levels;
3. Guarantees that some industrial processes will take place in MPCs and that RES deployment is increasingly accompanied by industrial delocalisation;
4. The fight against energy poverty on the MSP agenda;
5. A credible institutional framework for trans-Mediterranean green electricity flows that is attractive to both MPCs and European investors;
6. Clarification of the role of the UfM's Secretariat and the European Commission in advancing the MSP; the depoliticisation of the Secretariat for it to become an operational agency for RES projects.

AN EXTERNAL STRATEGY FOR EUROPEAN AGRICULTURE MEETING FOOD SECURITY AND ENVIRONMENTAL CHALLENGES

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Summary

The worrying prospect of having 9 billion inhabitants on earth in 2050 and the environmental challenges related to growing demands for food, fuel and fibre are placing agriculture under scrutiny at the global level. Agriculture must play a key role in poor countries to provide sufficient and affordable food for poor populations. At the same time, growing concerns have emerged regarding the serious consequences conventional farming systems may have on the planet's ability to satisfy basic needs in the medium term. This Policy Paper explores how the EU currently deals with two different major global challenges: insuring food security and the promotion of environmental commitments. This overview suggests that greater coherence between EU policies and actors would help Europeans develop a unified strategic approach to cope with these challenges more efficiently.

Introduction

For more than half a century, the spectrum of food shortages has been far removed from the minds of citizens, voters and political decision makers in the EU. The modernisation of agriculture after World War II and the success of the Common Agricultural Policy (CAP) – created in 1962 to end food dependency on the US – brought about this new era. A normal consequence of this unprecedented situation in human history is a downgrading of agricultural issues in the list of strategic priorities of European decision makers. However, the 2008-2009 food riots, which in part triggered the Arab revolutions, put those issues back at the top of the international agenda.

The worrying prospect of having 9 billion inhabitants on earth in 2050 and the environmental challenges related to growing demands for food, fuel and fibre (e.g. potential pollution, water shortages, gas emissions, desertification due to soil erosion, biodiversity losses, etc.) are placing agricultural issues under scrutiny.

Since the beginning of 2000s and particularly in the last four years, a U-turn in the international public debate about agriculture in developing countries has occurred. The burst of the Washington consensus once the economic crisis was triggered, helped discredit the agricultural policy recommendations of international organisations of the past 25 years—mainly of the World Bank and IMF, yet not of the FAO. According to these recommendations, agriculture and agricultural policies were useless for development. Today, to the contrary, international institutions underline the key role agriculture must play in poor countries in providing sufficient and affordable food for poor populations. At the same time, growing concerns have emerged regarding the serious consequences conventional farming systems may have on the planet's ability to satisfy basic needs in the medium term. Moreover, the effects of climate change threaten agricultural systems and will stress food security and food prices. What is the vision and action of the EU on those strategic issues?

Addressing the external dimension of European agriculture as such is quite unusual: habitually only single aspects of it (e.g. food aid) are studied. This overview suggests that greater coherence between EU policies and actors would help Europeans develop a unified strategic approach to cope with these challenges more efficiently.

1. Ensuring food security and promoting sustainable agricultural practices: two major global challenges for European agriculture

1.1. Climate change, demographic change and urbanisation: impending threats on food security and the environment

Three long-term trends are affecting agriculture and food security. First, the world population is expected to reach the famous peak of 9 billion towards

2050, meaning two billion more mouths to feed. Second, urbanisation and an increase in GDP *per capita* create changes in food patterns and a shift from vegetarian-based diets to meat-based ones. The production of one meat calorie consumes seven plant calories on average. The FAO estimates that if the energy value of produced meat were taken into consideration, the calories lost by feeding cereals to animals instead of using them for human food could meet the annual calorie needs of about 3.5 billion people. Third, climate change will have serious effects on living standards and the environment, by modifying the current world agricultural map, destroying current productive areas through desertification and by increasing the magnitude of floods and disasters. South Asia, China, the Sahel and the Mediterranean region could be particularly affected by these changes. Such long-term trends will obviously have an impact on food price volatility and the capacity of the poorest to afford food. In the mid-term, agricultural prices may remain high and place growing pressure on demand.

1.2. Food security and agriculture: central aspects of development aid policy

Food security in poor countries is related to human and economic development. As long as the basic need for food is not satisfied, increasing investment, employment, productivity and education are compromised. The 2012 FAO-UN State of Food Insecurity in the World report estimates that almost 870 million people were chronically undernourished in 2010-12, including 850 million people living in developing countries, i.e. 15% of the population. The areas concerned are Asia (536 million), Sub-Saharan Africa, (234 million), Latin America and the Caribbean (49 million), North Africa and the Middle East, along with developed countries (16 million). The UN Millennium Development Goals (MDGs) of 2000 aim to halve the number of undernourished people between 1990 and 2015.

Agriculture is a new tool for development strategies. Though 75% of the world's poor live in rural areas in developing countries,¹ only 4% of official development assistance went to agriculture before 2008. Paradoxically for the poorest, growth via agriculture is about four times more effective in raising the incomes of extremely poor people than GDP growth outside this sector. For

1. World Bank, *World Development Report: Agriculture for Development*, 2008.

this reason, institutions called for greater investment in agriculture in developing countries and view the sector as a strategic component of the development agenda for halving extreme poverty and hunger. One condition, however, is that investment returns go to labour and employment. Currently there are still 2.5 billion people whose basic livelihood depends on the production of food.

1.3. Promoting environmental commitments and ambition through agri-food trade

International trade, key to helping achieve food security for populations at world level, could also become a means of promoting greener agricultural practices. According to the WTO, Europe's share of the agricultural market – around 21% – is comparable with that of other regions (with the exception of Africa, which controls 7%).² In terms of food trade, regional trade weighs more heavily than in other sectors (57% versus 53% for other products). Intra-regional exports account for no less than 80% of Europe's total food exports, compared with Latin America's 18% and Africa's 20%.

In this area, Europe is usually torn apart by real differences between Member States. Globally in a negotiations basket with developing countries, agriculture is the only field of concessions that our partners may use in exchange of concessions in their own industry and services markets. In a 2005 report, a US Congress advisor said of proposals made by the EU: "Under pressure from France and 12 other EU countries (but not a qualified majority) not to improve its offers, (...) A major criticism of the EU's agricultural proposal is that its market access offer does not provide an inducement for developing countries like Brazil, Thailand, or other G-20 members to make concessions in non-agricultural market access or services".³ The Doha Round of multilateral negotiations as well as a significant number of bilateral trade negotiations are at a standstill, as is the EU. Mercosur, in reaction to the economic crisis, increased tariffs in a protectionist decision taken in 2011.

2. Jean-Christophe Debar, « Les échanges alimentaires mondiaux : essor de l'Asie et l'Amérique du Sud, marginalisation de l'Afrique », Note n°1, FARM, février 2012.

3. Charles Hanrahan and Randy Schnepf, *WTO Doha Round: Agricultural Negotiating Proposals*, CRS Report for Congress, 9.5.2005.

2. European strategy for the external challenges of agriculture: active, but discreet and incomplete

2.1. The coherence of EU food security policy

The EU provides 55% of all development aid,⁴ making it the world's foremost donor of development and food aid. The European Commission, via the European Consensus on Development, aims to improve the coordination and harmonisation of public aid from the EU or Member States. Among the EU's main development priorities – inspired by the Millennium Development Goals – are “the elimination of extreme poverty and hunger” and “(ensuring) environmental sustainability”. The EU, in particular under the work of Commissioner Andris Piebalgs, also promotes better coordination and a complementary approach between donors. Joint multiannual programming is based on regional, national and thematic strategies and stresses the importance of implementing this coordination not only in Brussels but at field level as well.

Since the early 1980s, the EU has financed the Technical Centre for Agricultural and Rural Cooperation (CTA), a joint international institution of the African, Caribbean and Pacific Group of States (ACP) and the EU, to work on food and nutritional security, increase prosperity and encourage sound natural resource management in ACP countries. More recently it created a Food Facility in 2008, for which the EU provided €1 billion in funding. In line with the G8 Aquila Food Security Initiative, the EU provided a further €3.8 billion until 2012 towards achieving global food security. It also supports long-term cooperation programmes to boost agriculture and food security and the Food Security Thematic Programme, which has a global, continental, regional and sometimes country-level focus (€250 million per year). In 2011-2012 the EU allocated “€250 million to support immediate recovery activities in the Horn of Africa and €160 million in development assistance to address the root causes of food insecurity in the Sahel”.⁵

4. European Commission, DG Environment, *Environment and Development*, 2012.

5. European Commission, DG Development and Cooperation Europeaid, “The EU's long-term action to tackle global hunger and under-nutrition”, 2012.

These figures show that EU development policy has changed in recent years. Efforts by European development actors to improve coherence seem to be effective, although a lack of coherence between this policy and other EU policies makes it difficult to address the issue of food security in a satisfactory manner. Where trade agreements are concerned, agriculture and the food security of EU partners may be somewhat overlooked from a development point of view. This is the opinion of the European Economic and Social Committee concerning the Eastern Partnership and the eastern dimension of EU policies.⁶ Or, to the contrary, bilateral agreements may be useful in promoting the development of agricultural production in developing countries – vegetable production in Morocco is one example. If trade-oriented agriculture (e.g. flowers, fruit) is necessary to help developing countries, it is only a part of the solution in the fight against food scarcity. Long-term pro-poor policies, support for the agricultural sector through investment, technology transfers and the promotion of local- and national-oriented agriculture (e.g. vegetables) are also necessary to provide food for local populations.

As to whether the CAP is coherent with development policy, the EU has been accused of harming agriculture in developing countries. European NGOs like OXFAM insist on the destructive consequences of European farming subsidies. Despite this loud criticism, experts and researchers admit that the effects of the CAP on developing countries nowadays are not as harmful as suggested: “The effects depend on the commodity composition of their trade, whether they are net importers or exporters of commodities protected by the CAP, and whether they have preferential access to the EU market and thus are able to share in some of the benefits of CAP protection.”⁷ It is also worth mentioning that Doha Round multilateral negotiations did not stall due to Europe’s position on agriculture as the EU has already carried out significant reform. Considering the current CAP reform one can notice the low but remaining export subsidies and the existence of remaining distortions on world markets considering the insufficient targeting of direct payments and phasing out of coupled payments.⁸

6. European Economic and Social Committee, “ESC Opinion: The Eastern Partnership and the eastern dimension of EU policies, with emphasis on agriculture”, CESE 1178/2011 - NAT/497, 13-14.07.2011.

7. Alan Matthews, “Post 2013 EU Common Agricultural Policy, Trade and Development: A Review of Legislative Proposals”, *Issue Paper No. 39*, ICTSD, October 2011.

8. A. Matthews, *ibid.*

Lastly, two of the most decisive issues for food security – food price volatility and better coordination on international markets – are being studied by Europeans in cooperation with the FAO following the October meeting of Commissioners Piebalgs, Ciolos and Damanaki with FAO Director General Graziano de Silva, but solutions are not easy to find.

2.2. The coherence of EU policies to promote sustainable agriculture at a global level

The EU is known as an advocate of high-level environmental standards. Under GATT Article XX, the WTO allows members to adopt policy measures which are inconsistent with GATT disciplines if they aim to protect human, animal or plant life or health, or conserve exhaustible natural resources. This raises the issue of how environmental standards are currently promoted in the framework of the CAP to encourage more sustainable farming practices and whether agri-food importers should be expected to adhere to the same environmental practices. The most commonly cited concerns are higher production costs due to these standards and, therefore, cheaper prices of non-European products. The question of incorporating environmental externalities into the price of agri-food products is particularly important in view of the growing demand for a greener CAP and greener farming practices. Coherence between this internal choice and our trade agreements must therefore be established.

The trade-off between internal choices and international trade has already been resolved where public health protection is concerned. Thanks to what is called the “three sisters” – the Codex Alimentarius Commission, the World Organisation for Animal Health and the Secretariat of the International Plant Protection Convention – public health is protected and disruption of international food trade is minimised. Since the Uruguay Round, the standards imposed by these organisations are recognised by international trade agreements. No such system or agreement exists which would allow international bodies to produce standards, guidelines and recommendations on environmental issues. Trade partners currently depend on private certification organisations that monitor practices, like the Roundtable on Sustainable Palm Oil (RSPO) does for palm oil producers. Environmental considerations must be included in food trade negotiations without delay in order for biodiversity,

climate change and natural resource challenges to be integrated into agricultural practices.

3. Can European external strategy on agricultural issues help Europeans cope with 21st century challenges?

3.1. Greater coherence between European policies

Considering the contradictions that exist between European policies, there is definitely space for improvement for the EEAS and the Commission's DGs to increase the coherence and ultimately the efficiency of their policies, developing an upholding global food security goals whatever the policy (CAP, development, trade, etc.). By taking clearer political and strategic action for sustainable agriculture and food security, Europeans are likely to strengthen their leadership on environmental issues.

3.2. CAP: Is 'Europe feeding the world' an appropriate objective?

Food security challenges give rise to declarations about a necessary intensification of European agriculture in order to help feed the growing number of mouths on earth. This approach is sometimes considered as the EU's main means of contributing to global food security. Even if this approach deserves some attention, Europeans should instead use a wide range of tools to help developing countries ensure their own food security. This is a lesson learned from the unsuccessful international recommendations made in the last 20 years regarding agriculture in developing countries.

3.3. Helping the world produce more with less

Achieving food security in a sustainable way might be possible thanks to improvements in agricultural productivity. Saving natural resources (water, raw materials, etc.) will involve important productivity challenges. Water conservation, for example, is commonly described as requiring "more crops per drops". Another challenge is technology: developments which could help farmers produce more with fewer inputs require major public and private

investments. In its next multiannual financial framework, the EU plans to support research programmes related to this issue. Along with this, however, the EU will also have to:

- Use the benefits of innovation to reinforce cooperation of the EU with partner countries and international organisations. That is why the EU must be clearer on its scientific and technical choices on GMOs: in order to concentrate on fewer efficiently-funded research objectives concerning agricultural productivity.
- Support a knowledge-based agriculture that will involve farmers, researchers and experts in addressing the complex issues of green farming systems.
- Encourage small-scale projects to take into account the diversity and complexity of agro-systems. Currently Leader projects financing local groups and small scale experiences for rural development could be used to boost local innovations to improve agricultural productivity according to agronomic diversity and complexity. The programming and financing rules of research and agriculture policies must also take into account the need to promote a knowledge-based-agriculture based on small scale projects.

3.4. Less production for more consumption

A huge amount of work is being carried out by Europeans to understand and avoid food waste in the food chain, as an estimated 30% of food in the EU is wasted from farm to fork. The knowledge of the EU could help promote efficient food production process models wherever this industry is under development.

Conclusion

Global food security and environmental challenges are closely related and must be tackled together. To create a unified strategy, a sectoral approach based on agriculture would be useful to eliminate existing contradictions between EU policies while simultaneously taking into account the business dimension of European agriculture. Such an approach would obviously reinforce the voice, influence and legitimacy of Europeans abroad and improve the coherence of its actions and positions outside its borders.

SAVING EMISSIONS TRADING FROM IRRELEVANCE

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Summary

Uncontrolled climate change is the greatest risk that humanity faces. The main burden will fall on developing countries, particularly in sub-Saharan Africa. But Europe and its residents will also be damaged in many ways, including extreme weather, heat waves, and the spread of tropical diseases.

Climate change is a quintessentially global challenge. If pollution shifts from one part of the world to another – from Europe to China, for example – the global climate is no better off.

The main EU climate policy, the Emissions Trading System, now stipulates such a low carbon price that it has become essentially irrelevant. The European Commission should propose a Europe-wide carbon price floor of €30 per tonne, high enough to influence investment decisions and encourage energy efficiency and low-carbon energy supply. The Commission should also propose border tax adjustments, with the revenue returned to the country of origin.

Introduction

The Durban Climate Change Conference set a timetable for agreeing new targets on greenhouse gas reductions. This was better than nothing – but not much. There is little prospect for significant global agreement on climate change. So the EU should focus on its internal climate policy.

Uncontrolled climate change is the greatest risk that humanity faces. A report commissioned by 20 governments and published in September 2012 estimates that it is already killing nearly 400,000 people each year. In addition to the

direct human cost, there is a high economic cost. The report calculates that climate change is already costing the global economy €930 billion each year.¹ These figures will get worse no matter what is done from now on, but without rapid reductions in greenhouse gas emissions, they will spiral out of control. The main burden will fall on developing countries, particularly in sub-Saharan Africa. But Europe and its residents will also be damaged in many ways, including extreme weather, heat waves, and the spread of tropical diseases.

The economic situation in Europe has reduced the attention and priority given to climate change. But insufficient attention to climate policy exacerbates economic risks. Using energy more efficiently will deliver immediate economic advantages, by creating employment through retrofitting programmes, for example. Expanding renewable energy will deliver economic advantages in the mid- and longer term. Well designed climate policies could contribute to EU economic recovery by increasing investment in energy efficiency and low-carbon energy.

Climate change is a quintessentially global challenge. If pollution shifts from one part of the world to another – from Europe to China, for example – the global climate is no better off.

1. Emissions trading

European climate policy has focused on the Emissions Trading System (ETS). The ETS was established in 2005 to reduce greenhouse gas emissions to a certain level and to provide a price signal that would lead to increased investment in energy efficiency and low-carbon energy. A further informal objective is to raise revenue for governments.

The ETS aims to control emissions from both power generation, district heating (above a certain size) and a number of energy intensive industries. When it was set up in 2005, the ETS was the world's first international emissions trading scheme. As such, phase I (2005-07) was explicitly a learning phase. Allowances were given to companies for free ('grandfathered') rather than

1. DARA group and Climate Vulnerable Forum, "Climate Vulnerability Monitor: A Guide to the Cold Calculus of A Hot Planet", September 2012.

being auctioned. In late 2005 and early 2006, the price of allowances was over €30 per tonne. This price was high enough to make companies act to reduce emissions (though also high enough to raise legitimate concerns about windfall profits). But too many allowances had been allocated by Member State governments, so large surpluses of allowances accumulated, predominantly in the iron, steel and cement sectors. Once the extent of the surpluses became widely known, the carbon price declined to almost zero.

Aware of the over-allocation that occurred in phase I, the Commission rejected many of the plans submitted by Member States for phase II (2008-12). Thus there was a tighter emissions cap Europe-wide. In 2008 carbon allowances were trading at above €20 per tonne, reaching a peak of over €30 per tonne in July 2008. However, despite the efforts of the Commission, over-allocation still occurred in phase II.

Due to the continuing problem of Member States over-allocating allowances, the Commission proposed that in phase III (2013-20), it should set a single, Europe-wide cap. This was agreed in a revised 'ETS directive' in 2009. The ETS cap was set so that emissions from ETS sectors would be 21% lower in 2020 than in 2005. The cap will decline 1.74% every year between 2013 and 2020, and this trajectory will continue each year after 2020, unless altered by an EU decision.

In order to end windfall profits for utilities, increase the financial signal represented by allowances, and increase revenue for governments, the 2009 directive also requires that allowances be auctioned to many sectors in phase III, including the power sector, which accounts for over half the total emissions covered by the ETS. (Member States were permitted to auction allowances in phase I – up to 5% – and phase II – up to 10% – but this approach has not been widely used.) In the EU-15, all allowances for some sectors, including the power sector, will be auctioned. EU-12 countries are permitted to continue giving free allowances, though the free allocations must be phased out during phase III.

However, the Commission failed to anticipate the scale of the economic recession (as, to be fair, most others did too). The 2013-2020 ETS cap was set against anticipated 'business as usual'. But business at present is anything but usual.

This has resulted in the ETS cap once again being set too high, and demand for allowances being low. Once this became widely understood, prices collapsed again. At the time of writing it is around €7 per tonne.

To what extent has the ETS delivered its objectives? The desired greenhouse gas reduction has been achieved. But the ETS contributed little to this achievement. The recession has been a major cause, and other EU policies, including the ‘eco-design directive’, fuel efficiency targets for vehicles and the promotion of renewables, have had a greater impact on emissions than has the ETS. The ETS has also had little impact on investment decisions.

If it is to deliver greater investment in energy efficiency and low-carbon energy, the ETS needs both a much higher carbon price and much greater price stability and predictability. Greater price stability would mean that this capital would be available at lower cost, because of reduced risk. But a low ETS price will not incentivise low carbon investment, even if it is entirely stable and predictable. To achieve this objective, a price considerably above €7 per tonne is required. The minimum allowance price that would deliver low carbon investment is unclear, since it depends in part on the prices of the alternative, high-carbon fossil fuels, which are uncertain and unstable. But the €30 per tonne price of mid-2008 was said by many companies and investors to be high enough to influence behaviour significantly.

Options for strengthening the ETS can be divided into two categories: those which lower the quantity of allowances and those which directly address the price. Quantity mechanisms might increase the carbon price – or at least prevent further decline – but would not deliver greater stability. Price mechanisms could deliver both a higher price and much greater stability.²

2. Quantity and price mechanisms

Were the 2020 greenhouse gas reduction target to be tightened, the ETS cap would have to be lowered to contribute to meeting the target. A 2030 greenhouse gas reduction target – which the Commission is considering – would also

2. Michael Grubb, “Strengthening the EU ETS”, *Climate Strategies*, March 2012.

require a lower ETS cap than the one already set under the annual reduction trajectory of 1.74%, which remains in force beyond 2020 unless altered by the EU institutions.

The EU could also tighten the ETS cap without increasing its 2020 greenhouse gas target. The cap could be tightened through a one-off reduction in the total amount of allowances, or an increase in the trajectory of annual reduction in allowance numbers, or both.

A tighter cap would, depending on how tight it was, either increase the price of allowances or stop further reductions. However, Europe's economic situation is so uncertain that a cap, however tight, would not introduce price predictability into the system.

Instead of lowering the cap, the EU could withdraw a number of allowances from the market. This could be linked to a specific policy, to reflect the impact of that policy on the carbon market. For example, a specific number of allowances could be withdrawn to reflect the agreement of the Energy Efficiency Directive: greater energy efficiency will mean that there are lower emissions, so without any set aside of allowances there would be a further fall in the carbon price.

If sufficient allowances were set aside, the ETS cap would effectively be lowered. This could prevent further price reductions but would not likely increase prices significantly. Nor would "set aside" increase the predictability and stability of the ETS. It could in fact make the system more unstable: market participants could legitimately say that as institutions had intervened in the market once, they might well choose to do so again.

However, set aside is the approach that has the best chance of being agreed quickly. The ETS is in urgent need of support if it is to avoid total irrelevance. So set aside is a necessary step to take. But it is far from sufficient.

European institutions could agree that no allowances would be sold at auction unless a bid above a certain level was received. This Europe-wide price floor would be the best way to provide price stability in the ETS. The price floor would not be setting a fixed price for allowances, so would not be turning the

ETS into a tax. (A European carbon tax has much to be said for it, but runs straight into subsidiarity objections about ‘European taxes’, as Jacques Delors found when he proposed one.) The price floor would set a *reserve* price and provide a backstop to the carbon market.

3. Carbon leakage

A higher ETS price would need to be accompanied by measures to safeguard energy-intensive, highly traded sectors. Without safeguards, a stronger ETS would lead to greater import of products like chemicals, cement and aluminium from countries with cheaper energy costs, such as China and India. This further shift in global manufacturing would do nothing to protect the global climate. Indeed it could worsen the impact of the manufacturing on the climate, since coal provides over 60% of China’s energy and over 40% of India’s. China has the world’s third largest coal reserves, and India the fourth largest. In the EU, less than 20% of energy comes from coal.

The world’s largest coal reserves are in the United States. The US gets around a quarter of its energy from coal. The fuel that is increasingly used in the US is not coal, however, but gas – much of it unconventional shale gas. Burning gas results in lower carbon emissions than burning coal does. But gas is not a low-carbon fuel. It produces around four times as much carbon dioxide per unit of electricity as nuclear power or coal (or gas) with carbon capture and storage, and around sixteen times as much as wind does.³ The extensive use of shale gas has reduced energy costs in the US. So, unless energy-intensive, highly traded sectors are safeguarded, a stronger ETS would lead to a shift of manufacturing from Europe to the US.

Not much of this so-called ‘carbon leakage’ has occurred so far. But that is because the ETS has not yet been effective and has not delivered a high carbon price. A high European carbon price could lead to substantial carbon leakage.

In its 2008 proposals for the reform of the ETS directive, the Commission suggested two possible approaches to protecting industrial sectors at risk from

3. UK Energy Research Centre, “Response to the Treasury consultation on carbon capture and storage”, London, 2006.

carbon leakage. One was to prolong the free allocation of permits to such sectors. The second was to introduce border tax adjustments so that importers were required to make payments when their goods were imported into the EU, to reflect the goods' carbon content. Following negotiations with Member State governments, border tax adjustments were dropped in favour of free allocations.

Since the inclusion of aviation in the ETS in January 2012, all airlines using European airports are required to hold ETS allowances to cover all emissions from all flights which use a European airport, including the portion of that flight that is not in European airspace. Commission officials have said on many public platforms that this is a de facto border tax adjustment. Non-EU governments have threatened to take the EU to the World Trade Organisation (WTO) over this issue, but the Commission's legal advice is that its inclusion of aviation in the ETS is not discriminatory and is WTO-compliant.

Calculating the emissions from aviation, however, is much simpler than calculating carbon emissions embodied in a manufactured product. This is not conceptually impossible: the charge for a tonne of cement manufactured in China, for example, could be calculated according to the average amount of energy used to make a tonne of cement in a Chinese factory combined with the average amount of emissions from that quantity of energy given the existing Chinese fuel mix.

Giving free allowances to sectors at risk from carbon leakage is preferable to simply allowing these sectors to become hopelessly uncompetitive and to move out of Europe. But this approach removes the incentive for energy-intensive industries to implement decarbonisation strategies such as carbon capture and storage. Nor does it encourage non-European economies such as China or the USA to develop cleaner energy sources and reduce their emissions. The Commission should therefore return to full consideration of border tax adjustments.

The revenue from border tax adjustments should be returned to the country of the product's origin, to be spent on energy efficiency programmes or investment in low-carbon energy. Developing countries already get revenue from the ETS: European companies are permitted to give money to the UN

Clean Development Mechanism in order to ‘offset’ emissions for which they do not have allowances. This money has to be spent on programmes which reduce emissions or help the developing country adapt to the unavoidable consequences of climate change. Revenue from border tax adjustments would – if combined with a carbon price floor – be substantially greater than revenue from Clean Development Mechanism money. But the Clean Development Mechanism does provide a model for how border tax adjustments could be implemented and revenue returned to countries outside Europe, thus reducing the risk of trade wars.

Conclusion

There is no single measure which could be implemented quickly enough to strengthen the ETS. A combination of measures is needed. A substantial set aside of allowances would prevent the price from collapsing totally. A Europe-wide price floor would provide the long-term market the certainty needed to attract investment at reasonable capital cost. A sensible way forward would therefore be for substantial allowances to be set aside as soon as possible, and for the Commission to propose a price floor, price ceiling and border tax adjustments.

A price floor would not be setting a fixed price for allowances, so would not be turning the ETS into a tax. They would be setting a reserve price and providing a backstop to supporting a viable liquid market. This would then support long-term investment in innovation and infrastructure. It would also provide a lower bound to auction revenue, which reduces income volatility for national governments.

The three European institutions should agree to include the setting aside of allowances. The Commission should propose a Europe-wide price floor of €30 per tonne, and border tax adjustments with the revenue returned to the country of origin. The Commission should make these proposals as soon as possible, so that the process of making the ETS a credible climate policy is not further delayed.

Once it has improved its internal climate policy and demonstrated that there are economic as well as climate advantages, the EU could then refocus on international negotiations.

PART 3: EU MIGRATION STRATEGY: FROM ZERO TO POSITIVE SUM

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SYNTHESIS

1. Multifaceted challenges

Over the last years, the world has changed in a manner which has had important effects on the movement of people. The economic downturn, the unrest in the Mediterranean region, the rise of emerging countries like Brazil, Russia, India, China, Turkey, Mexico, and Indonesia, all these elements have had an impact on people's migration. While some people are fleeing conflicting countries, such as Syria, others are leaving their country in order to improve their living conditions. These movements should be taken into account against the background of a deep transformation of the EU which is threefold.

Firstly, the EU is facing an unprecedented crisis whose effects on jobs destruction, in particular in southern states, are massive, and will continue to impact Europe's economy for a while. As a consequence, the EU is not a top destination area for migrant workers and EU citizens may wish to migrate towards other countries. **Secondly**, the economic situation has created the conditions for the development of populist and negative discourses about immigration and the integration of migrants in EU societies. **Thirdly**, both phenomena occur at a critical moment for the EU. It is starting to experience a decline in its demography which will modify the EU labour market and social model. Indeed,

demographic shrinking creates workforce shortages and is accompanied with an ageing society creating new needs. This raises the question as to whether migrant workers are needed to take care of elderly people, fill in labour shortages and preserve EU's social model. (*H. Martens, EPC – p. 146*)

To sum up, whereas current difficulties experienced within the Union tend to fuel 'drawback' reactions, various realities portray a very different picture, calling for more complex answers. Indeed, the preservation of the EU's labour market and social system, the duty to protect people fleeing for their lives, the recognition of the opposition between a shrinking and ageing Europe and its expanding, young and unemployed African neighbour, illustrate the level of complexity of the migration puzzle. It is a responsibility of the EU and its Member States to address this issue in order to properly manage movement of persons to, within and outside the EU.

2. Current situation

Policies developed so far are hardly appropriate for addressing forthcoming challenges.

2.1. Problems deriving from a narrow security-driven policy

The EU is 'trapped' in an imbalanced migration policy where 'security-driven' concerns obscure other problematics related to the movement of people. In concrete terms, the action at EU level has primarily been developed in the fields of external border management, visa and irregular migration. While the issue of refugees has been addressed within the framework of the Common European Asylum System, the latter is still not fully completed. Finally, issues related to admission and legal migration policies have been poorly addressed. These imbalances between irregular and legal migration policies are problematic. On the one hand, they are falling short of providing for appropriate answers to current and forthcoming challenges. There is no EU-wide strategy offering intra-EU mobility schemes to reallocate workforce across Member States in line with the asymmetrical effects of the crisis. Nor is there a long term strategy addressing the question of admission schemes within the perspective of

the EU's current demographic shrinking. On the other hand, these imbalances are reflected in external policy with two main consequences.

Firstly, the EU's external action has followed a narrow, restrictive approach with regards to migration. EU action has primarily been based on the conclusion of readmission agreements with third countries. So far, results of such a policy have been average. On the one hand, and according to the European Commission, European Readmission Agreements are not fully implemented by Member States. The latter prefer to rely on bilateral agreements. On the other hand, whereas 13 EU agreements have been signed, the EU is still struggling to conclude agreements with strategic countries such as Turkey, Morocco or Algeria. Moreover, third-countries have been successful in conditioning their commitment to the possibility of being granted counterparts such as EU visa facilitation or visa liberalisation agreements.

Secondly, the 'one-sided' approach has a legal impact on the EU's capacity to enact its external migration policies. More precisely, under EU law, the EU is competent to act in the external dimension in two specific situations; where the Treaty gives a competence or where the EU has adopted rules 'internally', i.e. in order to continue EU's internal action it is entitled to act in the external field. Given the limitative action in the field of legal migration, EU external action is limited as well. This legal obstacle has made the development of EU external policy intricate and somewhat inefficient.

Indeed, and because the EU has not developed any comprehensive legal migration policy, this issue remains in the remit of Member States. Hence, negotiations with third countries, which claim legal migration counterparts with respect to their involvement in security-driven issues, would normally imply the signature of a mixed agreement involving the EU, the Member States and third countries. Mixed agreements take a long time to be ratified and implemented. In order to overcome these difficulties, the external dimension is based on 'Mobility Partnerships'. But these partnerships present two main weaknesses; they are neither legally binding nor comprehensive as Member States are involved on a voluntary basis. In other words, Member States may choose to get involved or not. This does not help to have a unified and coherent approach. (*T. Maroukis & A. Triandafyllidou, Eliamep - p. 173*)

This intricate picture is portrayed in the main document dealing with the external dimension of EU migration policy under the name “Global Approach to Migration and Mobility”, published in 2011 by the European Commission.

2.2. The use of conditionality

The principle of conditionality has regained some extra space in the field, particularly so since the Arab Spring. According to this principle, third countries will receive economic support insofar as they are delivering properly in fields related to readmission and border control. The attempt to put in place this principle was supported by the UK in the early 2000’s but rejected by a strong group of Member States. It has now returned to the table and should in any case be dealt with the highest attention. Indeed, there is a risk that such a principle, where applied, could be extended to development policies, i.e. development aid would in this case be delivered according to results obtained in the field of migration. But, one should keep in mind that cuts in development aid will in no situation help to address migration issues, on the contrary. *(R. Gropas, Eliamep – p. 182)*

2.3. An unattractive EU

In the immediate aftermath of the Arab Spring, citizens from the southern shores of the Mediterranean Sea saw their newly regained freedom come up against an unfaltering EU external border. The picture of a European continent reluctant to welcome third country nationals may backfire when EU Member States will need to attract low, middle and highly skilled migrants to boost their economy, satisfy labour, skills shortages and structural needs deriving from demographic decline.

On the other hand, the absence of any comprehensive immigration policy, including common admission policies, and the development of negative discourses about immigration and integration at national level does not make the EU an attractive destination. More than that, the lack of ‘common EU policy’ in this field leads to the worst case scenario where Member States are competing against each other, in particular with respect to the ‘global war for talent’.

3. Which way(s) ahead?

3.1. Moving beyond Home Affairs diplomacy

This implies first of all a shift from a security-driven perspective to a more ‘mobility/admission mode’. ‘Home affairs’ shouldn’t be left alone to lead the process. Put differently, and as argued in the Paper, a foreign ministers’ approach could enable to unlock the debate and broaden it up to social, economic and environmental issues. In this regard, the role of the European External Action Service (EEAS) in the external dimension of migration policies should be further strengthened by increasing the service’s institutional capacities in this portfolio and revisiting the division of responsibilities between the EEAS and Commission departments such as DG Home and DG Development and Cooperation. The EEAS should act as prime interlocutor for the Dialogues vis-à-vis the North African states. (*S. Carrera & L. Den Hertog & J. Parkin, CEPS – p. 152*)

3.2. Mobility partnerships as transitional tools to support legal migration

Support to legal migration needs to be further developed. This process could be undertaken within the framework of Mobility Partnerships where groups of states, sharing a similar need for (highly) skilled workers and offering similar working, salary and living conditions, could cooperate more closely to put in place attractive and mutually-reinforcing policies for the recruitment of workers with the right profile (*A. Ette & R. Parkes, SWP & A. Sorroza & C. Gonzales Enriquez, Elcano – p. 162*). ‘Sponsor schemes’ could also be included in Mobility Partnerships. Under such schemes, implemented in Italy some years ago, a citizen could ‘sponsor’ a new migrant providing for accommodation, food, insurance until the migrant finds a job (*T. Maroukis & A. Triandafyllidou, Eliamep – p. 173*). As a general statement, mobility partnerships should be considered as opportunities to develop common and innovative actions. To arrive at the conclusion of a Mobility Partnership, the EU and the North African states should agree on a “Roadmap to Mobility” which would sequence the steps needed from both sides. To ensure an equal partner dialogue, this cannot be a rigid conditionality approach, but rather a way to build mutual trust by offering specific incentives on both sides. Mobility should not be ‘exchanged’ for measures stemming irregular migration flows, but should be used rather to encourage

reforms needed for safeguarding human rights, building independent courts and narrowing socio-economic differences (*R. Gropas, Eliamep – p. 182*). Finally, mobility partnership should not be used to circumvent a legally binding approach based on the conclusion of international agreements establishing rules regarding legal migration.

3.3. Improving existing legal migration schemes

The modification of existing directives is one path to scrutinise. This covers the Blue Card directive which should be modified as its harmonising capacity is rather low. Indeed, the Directive leaves wide margins of manoeuvre to the Member States when implementing it. As a consequence, the Directive does not create the conditions for an effective harmonisation of labour markets. On the other hand, providing incentives for qualified migrants to stay requires reinforcing the links between the student status and access to the labour market. Despite the existence of a solid Student directive, access to the labour market is left in the hands of discrepant Member States' national policies. Redrafting the Students and Researcher Directives in the light of the need for highly skilled migrants could also complement the Blue Card and increase the inclusiveness and attractiveness of EU's migration policy. (*A. Ette & R. Parkes, SWP & A. Sorroza & C. Gonzales Enriquez, Elcano – p. 162*)

3.4. Reinforcing mobility

Another path is to make mobility more of a reality. While the concept of circular migration remains somewhat vague, the development of circular migration programmes based on financial incentives upon the migrant's return to its country of origin, may be envisaged. Another way would be that of linking temporary immigration schemes with options for status changes. This would significantly increase the attractiveness of the EU as a destination in particular for highly-skilled migrants (*A. Ette & R. Parkes, SWP & A. Sorroza & C. Gonzales Enriquez, Elcano – p. 162*). The improvement of intra-EU mobility within the EU is also one option that deserves to be further developed. Currently, non EU-migrants face significant difficulties to move within the EU for employment purposes. This does not make the EU an attractive destination. Making intra-EU mobility more efficient would require removing legal, administrative and bureaucratic obstacles, providing for the portability of pension

rights and social entitlements, developing information sharing and establishing rules regarding recognition of qualifications.

3.5. Developing a comprehensive approach with other EU policies

Several EU policies can help to properly address migration issues in a more consistent manner, amongst which are, notably, development and cooperation policies. These may more specifically aid in developing anti-corruption initiatives and building well-functioning institutions. Indeed, efforts developed in this regard should help improve investment climate and consequently encourage remittances and diaspora investments. Keeping this in mind, the links between development and migration policies should be exempted from the conditionality logic. Engaging more dynamically in a constructive dialogue on avoiding brain drain in countries of origin remains a crucial point for the attractiveness of mobility policies. Platforms such as the Global Forum for Migration and Development (GFMD) can be useful in identifying innovative actors and best practices. Finally, the impact of EU policies such as trade, agriculture, fisheries and development, on (forced) migration should be further assessed. (*R. Gropas, Eliamep – p. 182*)

3.6. Improving integration policies

The development of policies aiming at opening legal channels of migration would fail to meet the expected result so far as these are not accompanied by integration policies aiming at fostering social inclusion of migrants into receiving societies. If common approaches are not possible, the existing system whereby EU Member States could learn from each other when it comes to best practices of integration should be further developed. (*H. Martens, EPC – p. 146*)

It is time to take a broad approach on the external dimension of migration issues. This implies the development of strong, reliable and mutually beneficial relationship between the EU, its Member States and third countries in order to address forthcoming challenges linked to movement of people worldwide.

MIGRATION: A NEGLECTED CHALLENGE FOR SAVING THE EUROPEAN WELFARE STATE

Hans Martens | *Chief Executive, European Policy Centre*

Summary

The consequences of the future demographics of Europe can have a deep impact on the ‘European way of life’ – in particular as the strains on financing the European welfare state occur as the large baby-boomer generation goes into retirement at the same time as the setting in of the lowest fertility rate experienced since the 1960s, meaning fewer people to pay into the system.

Reforms are needed, and the question that arises is whether migration can help address these issues. It can, but only if the European economies are capable of growing enough to create jobs, meaning that migrants can be integrated into the labour market and thus contribute to financing the welfare system. This will pose challenges as countries with a population surplus are also those countries which have revealed to be most difficult to integrate. This calls for a change – and a drastic improvement – in Europe’s integration policies, including not only a public debate about the benefits, or necessity, of migration and integration, but also a series of Europe-wide initiatives.

Introduction

Europe’s demographic future is well described and well known, but analyses of the consequences are imprecise and lack any real convergence between pinpointing essential consequences and necessary policies.

Some say the main issue will be a lack of people on the labour market. It is true that the number of working-age Europeans (aged 15 to 64) will be reduced in

absolute terms. It is also true that demand for certain services, including care for the dramatically growing number of elderly people in our societies, will certainly rise. But will we really eliminate unemployment and have a shortage of workers on labour markets in 20-40 years?

The answer depends on many things. Will economic growth, for example, return to levels seen in the good years, prior to the economic and financial crises? Will productivity grow more rapidly, with more work being done without human involvement? Will anybody – including the public sector – be able to pay for the extra care needed by the elderly, or will the latter be left with poorer care? What percentage of labour market reserves, including women in countries with low rates of female participation on the labour market, will we be able to mobilise, and how will that fit into the equation of labour market shortages? What role will migration play?¹

There are many unanswered questions, but the conclusion is simple: we are moving into a difficult demographic situation in terms of unemployment, and this will make things worse than they would otherwise have been.

1. Consequences for the European welfare state

The consequences may be most dramatic for the European way of life – for the European social model, or simply for European welfare states.

The large baby boomer generation born in Europe after the Second World War has made it possible to expand the welfare state considerably. This generation is better educated, has had better employment opportunities, and earned more money than any generation before it. As a result, baby boomers have been able to pay large amounts of taxes into the system.

Now baby boomers are either retired or close, and can look forward to a long period of retirement, as life expectancy has increased at an unprecedented rate. When pensions were introduced in Europe over 100 years ago, people

1. For a discussion of these issues, see Rainer Munz, "The future of Europe's labour force – with and without international migration", in *Moving Beyond Demographics*, Global Utmaning, November 2011.

were expected to live only a few years after reaching retirement age. Now we are approaching a life expectancy of 90 years.

At the same time, birth rates have dropped, leaving far fewer people to pay for public services, including public pensions, of course. This is reflected in so-called dependency rates, which classify the working population as those between the ages of 15 and 65. This may be problematic, as we cannot expect the majority of 15 year olds to be ready to enter the labour market, especially as we are expecting people to be better educated in the future.

Table 1 - Total age dependency ratio in some EU Member States (as a percentage)

	BELGIUM	GERMANY	GREECE	SPAIN	ITALY	POLAND	FRANCE	IRELAND	UK
2010	51.54	51.55	49.67	46.41	52.34	39.94	54.20	47.07	50.90
2060	72.87	81.94	80.46	82.66	81.36	90.63	74.26	72.89	70.35

Source: Eurostat, "Ageing characterises the demographic perspectives of the European societies", Statistics in focus 72/2008.

If dependency rates approach 100, the tax burden will be unbearable for most people, and might provide a strong incentive for some to emigrate from Europe, thus making the situation even worse. Clearly, reforms are needed, but which ones will work?

Possible solutions

Already built into the reform package on Euro governance, a first step would be to link retirement age to life expectancy. Obviously some people, whose jobs involved hard physical work, will not be able to work longer, but they will be a clear minority in our societies.

So people have to work longer, perhaps in a second career,² but will they then take jobs away from younger generations? This is what the majority of labour

2. EPC is currently working on a project with the Bertelsmann Foundation to develop the concept of Second Careers in Europe. Developments can be followed on the [EPC website](#).

theorists would say, but most economists have discarded that type of reasoning, and instead point to the fact that more elderly people will maintain an income of a certain level, which will enable them to spend more and therefore contribute more to the economy. At the same time, these seniors will reduce pressure on the younger generations, because they do not collect public pensions.

The main problem is that Europeans obviously do not want to reform their pension systems; there is a strong political barrier to overcome, and even if governments manage to introduce reforms, it may be costly in terms of political credit.

Productivity improvements in the public sector would help: if the same or a better service could be provided with a smaller input, more welfare services could be maintained. This would require a new look at the public sector – moving the focus from input (costs) to output (quality of services), and possibly also new wage systems where innovative behaviour is rewarded rather than pay scales being set according to the number of years someone has been in a job. Is this a politically feasible way forward? It's not an easy one, for sure.

2. Can migration help?

What about immigration? Immigration is often presented as *the* solution to our demographic problems, but as long as we concentrate on the economic issues and the future of the welfare state it is worth noting that immigration only helps if immigrants can be integrated into the labour market. This means that jobs must exist for immigrants, but also that European societies must be willing to relax their attitudes towards immigrants and be more tolerant where cultural integration is concerned.³ As integration is crucial, perhaps this would be a good time for Europeans to start learning from one another by establishing a benchmarking system at the European level in order to identify best practices. It is likely that no real good practices exist in Europe, but efforts could be launched to improve the practices, and – when the focus is on integration – perhaps also look to other systems to see if a well-developed points system for the selection of (economic) migrants would be useful. Another issue that should

3. See for example Alessandra Venturini, "Should Europe speed up integration strategies?", in *Moving Beyond Demographics*, Global Utmaning, November 2011.

be carefully considered is whether Europe is actually investing enough in the people who arrive here from abroad to best benefit from what they can offer – or even making it attractive for them to select Europe in the future.

3. Potential immigration sources

Table 2 – Countries with the largest population increase (2000-2050) (in millions)

Country	INDIA	PAKISTAN	NIGERIA	USA	CHINA	BANGLADESH	ETHIOPIA	DR CONGO	INDONESIA	UGANDA
Pop. growth	514.5	206.0	143.7	123.7	120.0	116.6	105.4	103.2	82.2	79.8

Source: United Nations, *World population to 2300*, New York, 2004.

These figures reflect not only population growth, but also population size. If seen from a relative perspective, other countries have the largest growth.

Table 3 – Countries with the largest population increase (2000-2050) (as a percentage)

Country	NIGER	YEMEN	SOMALIA	UGANDA	MALI	BURKINA FASO	PALESTINE	ANGOLA	GUINEA-BISSAU	LIBERIA
Pop. growth	3.19	3.09	3.03	2.96	2.70	2.54	2.50	2.50	2.48	2.41

Source: United Nations, *World population to 2300*, New York, 2004.

The good news is that there will be areas of the world with strong population growth and from where people would like to emigrate. The bad news is that these people will come from areas that are already creating integration problems in Europe: Africa, Muslim parts of Asia, the Middle East and North Africa. Can and will Europe accept a solution along those lines?

The logical answer is yes, if the question is about maintaining the European way of life that we love so much, but in reality, we may only discover the need for more massive immigration and a new approach to integration when it is too

late. There is a tendency to postpone decisions about ‘unpleasant’ choices as long as possible, in the world of politics. Paradoxically, however, Europeans are also generally unwilling to let immigrants into their welfare systems, despite the fact that in the longer run this is a way of preserving those very systems.

Obviously these problems are related to whether one focuses on the cost or the benefits of immigration. Many Europeans engage in short-term thinking and focus exclusively on the (short term) cost side. But surveys show that in general, Europeans don’t think their governments have done a good job handling integration, so if we want integration to play a bigger role in overcoming the problems caused by demography, we also need to learn quickly how to be better at integration.⁴

Possible solutions

There is no silver bullet that can solve all the problems caused by demographic developments, and no solution can stand alone. One thing is clear, however: Europeans will have to accept reforms in one or more areas. It is also clear that when it comes to the migration issue, the attitude of many Europeans, including some political parties, is not helpful in this respect.

Thus a debate which looks at migration in relation to current problems with our welfare states is necessary. That discussion should also have a European dimension. If there is no Europe-wide solution, resources and problems alike are certain to be misallocated. It would also be desirable to establish a system whereby EU Member States could exchange best practices for integration, so that if common approaches to integration are not possible, at least we can highlight the best practices and emulate them.

The EU will also be in a better position to negotiate strong and inclusive partnerships with third countries to manage migration. Such partnerships will work to prevent ‘brain drain’ and other undesired consequences while regulating migration flows and preventing Europeans from weakening their positions by competing with each other via different policies in third countries – amongst other things in the competition for talent.

⁴. *Ibid.*

EU MIGRATION POLICY AFTER THE ARAB SPRING: THE PITFALLS OF HOME AFFAIRS DIPLOMACY

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Summary

Following the outbreak of the Arab Spring, the EU declared its intention to strengthen its external migration policy by setting up ‘mutually beneficial’ partnerships with third countries in North Africa – the so-called ‘Dialogues for Migration, Mobility and Security’ – now placed at the centre of the EU’s renewed Global Approach to Migration and Mobility (GAMM). Yet, with negotiations on the establishment of Mobility Partnerships now well underway between the EU and certain Southern Mediterranean countries, the current contours of the EU’s external dimensions of migration policy continue to be primarily insecurity, (im)mobility and conditionality driven.

This Policy Paper seeks to explain the reasons behind the EU’s migration policy responses towards the Southern Mediterranean region from the perspective of the EU’s institutional setting: how do the key actors in this policy domain and their institutional relations drive and shape the EU’s external migration policies? It finds an institutional setting beset by struggles for autonomy and authority to control the policy agenda within the GAMM. Despite the application of the Lisbon Treaty and the creation of a European External Action Service (EEAS), an ever-expanding ‘Home Affairs diplomacy’, propounded

by the Commission's DG Home, certain EU agencies such as Frontex and the working structures of the Council, continue to dominate policy formulation on the external dimensions of EU migration policies.

Introduction

Following the outbreak of the Arab Spring, the EU declared its intention to strengthen its external migration policy by setting up 'mutually beneficial' partnerships with third countries in North Africa – the so-called 'Dialogues for Migration, Mobility and Security' – now placed at the centre of the EU's renewed Global Approach to Migration and Mobility (GAMM).

A growing body of academic attention is focusing on the GAMM, and whether this new policy framework covering the 'external dimensions of migration policy' in the EU (or the inclusion of migration into foreign affairs policies) can meet its stated goals of initiating a 'more strategic phase for the Global Approach with more emphasis on establishing regular channels of immigration, development promotion and immigrant rights'. The early consensus has not been particularly positive. Commentators have noted the 'business-as-usual' approach in EU external relations policy on human mobility, with its continued emphasis on control and surveillance of EU external borders and capacity building in third countries geared towards 'migration management' and the so-called 'fight against irregular immigration'.

This is particularly the case given the positioning of Mobility Partnerships as the principal tool for translating the GAMM into practice – an instrument which has been widely critiqued for its strong (Eurocentric) conditionality approach while allowing only restricted, temporary and highly selective forms of migration. Mobility Partnerships require third countries to adopt European security policy instruments: readmission agreements with the EU; working arrangements with Frontex; cooperation in joint surveillance operations in the Mediterranean sea; and capacity building in other aspects of integrated border management as the *sine qua non* to access highly provisional 'benefits' such as visa facilitation agreements and labour and circular migration schemes, flanked by capacity-building financial measures.

With negotiations on the establishment of Mobility Partnerships well underway between the EU and certain Southern Mediterranean countries (Tunisia, Morocco and potentially Jordan and Egypt), little attention has been given to ‘why’ the current contours of EU external migration policy continue to be primarily based on insecurity and (im)mobility and driven by conditionality. This Policy Paper draws on research conducted under the Seventh Framework Programme (FP7) research project MEDPRO (‘Mediterranean Prospects’) to understand and explain the EU migration policy approach in the Southern Mediterranean region in relation to the EU’s institutional framework: how do the key actors in this policy domain and their institutional relations drive and shape the EU’s external migration policies? Has the application of the Lisbon Treaty and the creation of a European External Action Service (EEAS) and ‘EU Foreign Minister’ in High Representative Ashton remedied or re-invigorated the ideological and institutional struggles around the implementation of the Global Approach? Who goes abroad to speak on the behalf of the EU in these Dialogues and what impact does this have on the GAMM?

1. Home Affairs diplomacy: A post-Lisbon AFSJ¹ foreign policy

We contend that in order to better understand the main drivers behind the EU’s governance strategy envisaged in the GAMM it is necessary to examine the institutional actors and agents that have shaped their preparation, negotiation and practical implementation. Over the past decade or so, the two main actors responsible for setting up EU Mobility Partnerships, as well as steering the GAMM, have been the European Commission’s Directorate-General for Home Affairs (DG Home) and the Council’s High Level Working Group on Migration and Asylum (HLWG). Both have played the part of ‘political entrepreneur’ in steering the formidable expansion of the external dimension of migration at European level.²

1. AFSJ stands for “Area of Freedom, Security and Justice”.

2. Sarah Wolff, “La dimension méditerranéenne de la politique Justice et Affaires intérieures”, *Cultures et Conflits*, Vol. 66, 2007, pp. 77-99; P. Pawlak, “The External Dimension of the Area of Freedom, Security and Justice: Hijacker or Hostage of Cross-Pillarisation?”, *Journal of European Integration*, Vol. 31, No. 3, 2009, pp. 25-44.

Interviews with relevant actors revealed that EU Home Affairs policymakers remain very much in the driver's seat of the EU external migration policy agenda. For instance, in 2011 DG Home took the lead ('Chef de file') in drafting the Dialogue Communication,³ while the EEAS was, to a large extent, sidelined in this decision-making process, despite having made substantive comments on the draft text aimed at steering the policy formulation of the dialogue into a less security-focused and conditionality-based engagement with North African states.

The predominance of a 'home affairs approach' and marginalisation of the EEAS runs through the institutional structures that frame the development and implementation of the EU Dialogues. The Council working configurations allow officials from Member State interior ministries to play a central role in the formulation of the Dialogues and Mobility Partnerships, as the primary platform for negotiations is found within the Council – the HLWG – the origins of which are primarily rooted in Justice and Home Affairs objectives.

DG Home Affairs has taken a leading role not only in the internal preparation of the Dialogues, but also in negotiations with third countries. It is DG Home and not the EEAS that has led the majority of diplomatic missions abroad to promote and discuss the content of Mobility Partnerships and the EU's 'insecurity approach' to migration in North Africa. Interviews with policymakers confirm that DG Home, and even the EU Border Agency, Frontex, appear to have enjoyed a surprising degree of autonomy and discretion from the EEAS and Foreign Affairs Council when conveying their views and agendas to third country authorities.

One would expect that with the entry into force of the Treaty of Lisbon, the EEAS would take the leading role in setting overall strategies and priorities for EU foreign affairs policy. What are the reasons for the continuing dominance of a 'Home Affairs' (interior ministry-like) approach within the post-Lisbon institutional framework of EU external action on migration policy cooperation? Three factors are at play: questions of competence and competition, the

3. European Commission, *A dialogue for migration, mobility and security with the Southern Mediterranean countries*, Communication, COM(2011) 292, 24.05.2011.

internal dynamics of DG Home Affairs and the role of ‘venue shopping’ in shaping the external dimension of migration.

1.1. Competence and competition

Ultimate responsibility for the external dimension of migration remains with DG Home. This is a challenge to the functioning of EEAS more generally. From the outset it was clear that the creation of the EEAS, and the complexity of its tasks, would entail a number of portfolio overlaps between the EEAS and the Commission. Despite the need for an effective *modus operandi*, none has been developed, leaving room for tension. The provisions on the EEAS in the Lisbon Treaty are minimal. This has paved the way for a multitude of turf sensitivities between the Commission and EEAS.⁴

1.2. DG Home Affairs’ expansion via foreign policy

A second institutional factor relates to the internal dynamics of DG Home. The external dimensions have offered new policy venues for this DG to advance its migration agenda and policy interests, via a route that does not threaten to directly encroach on national immigration systems.⁵ As Member States have shown increasing resistance to European-level attempts to harmonise elements of migration-related policies, DG Home may well have viewed ‘going abroad’ as an alternative means of extending its powers, discretion and competences. As a measure of its success, this DG has seen its institutional stake in ‘the external dimension’ of migration increase dramatically. Today, for the DG to cede full or partial responsibility on the GAMM to another institutional actor like the EEAS would be to strip this Commission service of a core competence; protecting and consolidating this area of responsibility therefore becomes a key strategic objective.

4. See Sergio Carrera, Leonhard den Hertog and Joanna Parkin, “EU Migration Policy in the wake of the Arab Spring, What prospects for EU-Southern Mediterranean Relations?”, MEDPRO Technical Report No. 15, August 2012; also Edith Drieskens and Louise Van Schaik (eds), “The European External Action Service: Preparing for Success”, Clingendael Paper No.1, Netherlands Institute of International Relations, The Hague, December 2010.

5. Sandra Lavenex, “Shifting up and out: The foreign policy of European immigration control”, *West European Politics*, Vol. 29, No. 2, 2006, pp. 329-350.

1.3. The GAMM as ‘venue-shopping’

A third factor takes into account the interests driving national policymakers. Member State representatives are not only known to use the EU to project their domestic interests, but political actors may also take the ‘Brussels route’ where they are less encumbered than in national settings by other institutions, governmental ministries and the judiciary, which can act as veto to policy initiatives.⁶ For example, in most Member States, national interior ministries cannot autonomously conduct and implement policy on ‘external dimensions’. Their actions in these domains would require checks and validation by foreign and international development ministries, seriously constraining their leeway. However, as the EU institutional framework does not yet have a strong ‘foreign ministry’ actor, these restraints are almost non-existent.

This search for autonomy and discretionary power is responsible for the highly fragmented character of the GAMM as different institutional actors and Member States have pursued separate policies and engaged in various disjointed initiatives on the external dimension of migration. Initiatives under the GAMM are highly piecemeal and presented in inconsistent policy frameworks in which current ‘dialogues’ with third countries are established. The challenges to accountability are therefore substantial.

2. EU Home vs. Foreign Affairs?

What is the likely impact of the institutional arrangements outlined in section three of the Dialogues for Migration, Mobility and Security with the Southern Mediterranean?

EU Home Affairs and national-level interior ministry officials tend to have different substantive interpretations, points of reference and priorities when formulating policy agendas than diplomats and foreign ministry officials. The latter tend to approach questions related to human mobility within a more integrated approach to broader social, economic and environmental policy

6. Virginie Guiraudon, “European Integration and Migration Policy: Vertical Policy-making as Venue Shopping”, *Journal of Common Market Studies*, Vol. 38, No. 2, 2000, pp. 251-271.

challenges, one that is informed by the wider negotiation agenda they undertake with third states. Within the perspective of the EU neighbourhood, this policy approach may be labelled ‘inclusive’ – rooted in a strategy that envisages, at least formally, closer integration with the countries of the EU neighbourhood so as to share the benefits of the internal market and four freedoms (including free circulation).

A ‘foreign ministry’ EEAS outlook on the GAMM would be expected to better support a more ‘global’ understanding and balancing of issues and interests in relations with North African countries. Within the overall framework of the European Neighbourhood Policy (ENP) and its bilateral Action Plans drawn up between the EU and third countries, migration issues are situated within the context of a wide range of priorities and measures designed to promote economic growth, employment and social cohesion, reduce poverty, and protect the environment. Ideally, migration-related policies and initiatives pursued by DG Home should aim to exploit synergies within this wider range of objectives.

However, DG Home’s outlook on migration from the Southern Mediterranean during the Arab Spring was summarised by one EU official as ‘thinking from Lampedusa’, perceiving migration through the narrow lens of its expected short-term effect on the security of EU Member States. The result is a restrictive stance on human mobility policy, in which the overriding concern is to stem irregular immigration. This is the policy framing of migration that DG Home takes abroad, without necessarily taking into account the broader sectoral issues at stake in the EU’s wider negotiations with third countries.

Reports from EEAS officials indicate that migration management activities and capacity building measures in third countries can often clash with wider foreign policy goals. For instance, ‘return and reintegration’ actions have been found to conflict with development goals in certain African countries; another example is the insertion of readmission clauses in Partnership and Cooperation Agreements (PCAs) which have reportedly made negotiations with third countries a ‘nightmare’. There is concern that the Home Affairs-centred Dialogues for Migration, Mobility and Security divert attention from the process of wider economic and political reform and obstruct constructive relations between the EU and Southern Mediterranean states.

The two policy processes could even stand in contradiction if the Dialogues encourage third states to enact border control-oriented migration policies that endanger human rights. The EU's 'more for more' approach under the renewed ENP focuses funding on democracy promotion and 'common values'. The EU states in its Partnership for Democracy and Shared Prosperity that this framework should be "rooted unambiguously in a joint commitment to common values" including democracy, human rights, good governance and rule of law. Thus caution must be taken with any parallel policy agenda that seeks to engage undemocratic third states or 'democracies in transition' in readmission agreements or that funds capacity-building in border controls and asylum which ultimately creates *incapacity* in human rights protection. To ignore the potential contradictions between these external policies carries the risk of undermining not only the very principles that underpin the ENP, but also the basis for cooperation with third countries as laid down in the Lisbon Treaty (Art. 8 TEU), which requires cooperative relations with the neighbourhood to be "founded on the values of the Union", including the respect of fundamental rights.

3. Conclusions and recommendations

The external dimensions of migration reveal the complex picture of an EU institutional setting riddled with struggles for autonomy and authority to control the policy agenda within the GAMM. The Lisbon Treaty has not halted the trend of an ever-expanding Home Affairs diplomacy, propounded by the Commission's DG Home, certain EU agencies such as Frontex and the working structures of the Council, which continue to dominate policy formulation on the external dimensions of EU migration policies. On the contrary, it appears to have been reinforced and diversified.

The main risk is that the GAMM will remain trapped in the logic of insecurity, short-termism, insularity and bilateralism. This would only contribute to a business-as-usual scenario in the Southern Mediterranean, where political reform and human rights are sidelined while issues such as containing migration continue to dominate the policy agenda. Worse still, the EU's failure to deliver substantive and credible commitments through the GAMM may undermine the EU's wider foreign policy goals and neglect the opportunity to

establish strong and mutually cooperative partnerships with the new regimes in North Africa.

The following recommendations are made to contribute to a re-framing of the Dialogues for Migration, Mobility and Security:

1. 'Home Affairs Diplomacy' should be replaced with a balanced, fully accountable framework that roots human mobility modalities into a broader agenda, one that complements wider foreign affairs objectives and in which non-Eurocentric understanding of international relations and mobility prevail. Were Member States to offer real and credible incentives for labour migration and visa facilitation under the GAMM's Dialogues, the Mobility Partnership could evolve into a powerful tool for EU external relations.
2. The role of the EEAS in the external dimension of migration policies should be further strengthened by increasing the service's institutional capacities in this portfolio and revisiting the division of responsibilities between the EEAS and Commission departments such as DG Home and DG Development and Cooperation. The EEAS should act as prime interlocutor for the Dialogues vis-à-vis the North African states. Respective responsibilities, once reassigned, should be clarified and laid down in a detailed set of internal guidelines.
3. Modifications could be made to the Council working structures to reflect the expanded remit of the Mobility Partnership and its potentially stronger role in the ENP. The extent to which the Council's High Level Working Group on Immigration and Asylum provides the appropriate forum for decision-making on this tool could be examined, along with ways to assign to the EEAS a stronger role in discussions and ensure increased engagement on the part of the Foreign Affairs Council.
4. The Dialogues should be re-focused on the central aim of opening and supporting legal channels of mobility, including for employment and education. Consideration should be given to allocating the EU greater capacity in this domain. The potential window opened by the recognition of EU competence to legislate on 'the internal dimension' of labour immigration policy in Art. 79.4 TFEU could be explored as a means for the EU to engage more actively

(on grounds of implied external competence) in the domain of labour immigration with third countries. The EU should make use of international agreements (similar to those used in the context of readmission) rather than Joint Declarations as the framework for cooperation with third countries. Mobility Partnerships should also be subject to regular, independent evaluations of their impacts and value-added.

5. To arrive at the conclusion of a Mobility Partnership, the EU and the North African states should agree on a 'Roadmap to Mobility' which would sequence the steps needed from both sides. To ensure an equal partner dialogue, this cannot be a rigid conditionality approach, but rather a way to build mutual trust by offering specific incentives on both sides. Mobility should not be 'exchanged' for measures to stem irregular migration flows, but should be used rather to encourage reforms needed to safeguard human rights, build independent courts and narrow socio-economic differences.

THE EU PERFORMANCE IN THE GLOBAL COMPETITION FOR HIGHLY-SKILLED MIGRANTS

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Summary

European efforts to attract highly-qualified immigration face several obstacles, from the non-existence of a true intra-European labour market to the difficulties resulting from the overly timid design of the Blue Card. It is still impossible to evaluate the Blue Card's effect but the changes that have taken place in the European migratory framework since its approval in 2009 should now allow the re-drafting of the Directive to offer a more attractive channel to qualified immigrants. During the past few years, several European countries have adopted new initiatives to attract this immigrant-type, bringing about a set of experiences over which a new common and more ambitious framework can be built. In this context, the Policy Paper presents several proposals such as enhanced cooperation amongst sub-sets of Member States with similar salary structures, the opening of the academic admissions gate, or measures to enhance intra-European labour mobility of both EU citizens and third country nationals.

Introduction

Innovation is the key to halting the progressive loss of markets for European products and services. That was clearly stated in the Lisbon Strategy for 2010, and repeated in the Europe 2020 Strategy. But innovation is the fortuitous result of two main elements: public and private investment in basic and applied research as well as the development of both technology and talent. Does Europe have enough investment and talented researchers and engineers to face the challenge of being more innovative than China or the US? It seems not: according to the World Intellectual Property Organization, Japan, the US, China and Korea are well ahead of the EU in terms of the number of registered patents. As for individual EU countries, only Germany, UK, France and Poland are among the top 20 producers of patents worldwide. Most people would agree that immigration is a means of boosting the numbers of innovative, high-qualified individuals in the population. But the data collected by the Organization for Economic and Development Cooperation¹ show that migrants from third countries living in European countries have a significantly lower level of education on average than those living in Canada or Australia (64% of migrants born in non-OECD countries and living in Canada have a university degree, compared with 30% in France or 10% in Italy). Of course, OECD data refer to stocks, i.e. the accumulated number of immigrants living in each country, including migrants who arrived in Europe in the 1950s and 1960s, usually with little education. Nevertheless, among the regions of origin for most migrants to the European Union – Turkey or North African countries for instance – a clear division appears between highly-skilled migrants (HSMs) who overwhelmingly look for a job in the New World, and low-skilled migrants who travel to Europe, now mostly through mechanisms of family reunification.

European migration policies have changed considerably in recent times, and the doors of many EU countries are now willingly opened only to highly-skilled immigrants. This policy is partly the consequence of shortages in domestic labour markets and partly the result of the European Commission's insistence upon the need to open those markets to highly-skilled immigrants. Following the Lisbon Agenda (2000), the European Commission encouraged Member States to discard the 'zero-immigration' policy followed by the majority since

1. OECD, *International Migration Outlook 2009*.

the mid-seventies, since these had failed both to prevent ‘unwanted’ immigration and to attract more desirable forms of labour. In 2001, it presented a proposal for a Directive to establish a common legal framework for migration to the EU, covering a full range of labour migration. It proved too much for the Member States, which blocked it. In response, the Commission proposed ‘segmented’ alternatives: it put forward individual measures for different types of migration. The so-called Blue Card Directive (2009), for highly-skilled immigrants, has been the first to achieve approval and Member States were obliged to transpose it by mid-2011. It is too soon to judge the real impact of this Directive, as states are not obliged to produce statistics on the use of Blue Cards until 2013. Still, the Directive is generally considered to have fallen short of its central goal. It does not give immigrants access to the whole European labour market, but only that of the first country they go to, allowing subsequent movement to a second state under strict conditions only. This only highlights the disparity between the EU and its main competitor, the US. For one thing, labour markets are bigger in the US and the migrant who begins working in Illinois can then move freely to California or Oregon, while in the EU he or she must usually begin another application process to migrate to other Member State. Secondly, even if they could move freely across Member States, the divisions in the ‘common’ European labour market would hinder their mobility, as it does that of EU citizens. Income disparities between EU states are the main reason for the refusal of some richer countries, like Germany, to accept the free movement of HSMs, as many could qualify for a permit in a poorer Member State – the national average salary is the main reference – and then move to a richer one.

1. The long-term agenda: tackling the absence of a European labour market

In the long term, Europe intends to tackle the challenges of labour-market shortages with a dual approach. One involves promoting intra-EU labour mobility, in a bid to increase the efficient distribution of labour between EU countries and channel national emigrants to the countries for which their skills will be most productive.² The second involves the attraction of migrants from outside the EU. Both issues are linked, since the lack of a genuine European

2. See Martin Kahanec and Klaus Zimmermann, “High Skilled Immigration Policy in Europe”, *Discussion Papers*, DIW Berlin, January 2011.

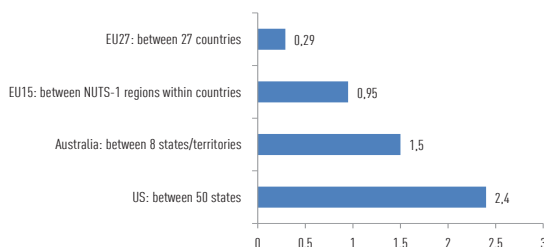
labour market to facilitate and promote intra-EU mobility will present the EU with serious difficulties in attracting skilled immigrants.

Of course, the two approaches are not wholly complementary, and each brings its own specific benefits and trade-offs. The mobility of EU citizens within Europe can, for instance, mitigate the negative effects of a brain drain from those European countries most affected by the financial and economic crisis (e.g. Spain, Portugal, Greece) if at least the highly qualified remain in EU countries rather than migrate elsewhere. Concentrating on HSMs from abroad, meanwhile, fosters the accrual of knowledge from non-European education systems.

It goes without saying that the free movement of labour is already a right afforded all EU citizens. The principle of the free movement of workers is enshrined in Art. 45 of the Treaty on the Functioning of the European Union (TFEU), and should allow them to move where they are best suited or where there are jobs. Over time this right was extended to all EU citizens, not just workers, under certain conditions. Despite the advances made in recent years, however, a number of serious limitations and obstacles to internal mobility remain within the EU for EU citizens.

Internal mobility inside the EU is very low, especially in comparison with the US, Canada or Australia. According to the OECD, only 3% of working-age EU citizens live in a Member State other than the one where they were born.³

Figure 1: Annual cross-border mobility % of total population, 2010



Source: OECD, *Economic Surveys – European Union 2012*.

3. OECD, *Economic Survey: European Union 2012*, p. 63.

It was only when eastern Europeans began to move in significant numbers to western countries, both legally and illegally, that the figures improved. The enlargements of 2004 and 2007 resulted in a regularisation of this previous mobility and promoted an increase in migration, although many EU15 countries applied transitional, restrictive arrangements. The stock of EU8 plus EU2 (new Member State) nationals residing in EU15 countries increased between 1997 and 2009 from 1.6 million to 4.8 million, a figure that represented 2% of the EU-15's working-age population. Since then, the financial crisis has negatively affected migration flows in the EU. As the OECD highlighted, intra-EU labour mobility has decreased alongside international migration to the worst-affected European countries.⁴

Table 1 – Annual net growth of stock of foreigners in the EU-15 countries by group of citizenship (in thousands)

CITIZENS FROM:	2004	2005	2006	2007	2008	2009	2010
EU-15	7	118	420	233	167	77	99
EU-10	84	260	429	360	124	18	295
EU-2	184	193	274	601	345	186	273
Non-EU-27 countries	1214	695	297	977	636	333	160

Source: European Commission, DG Employment, social affairs and inclusion, *Employment and Social Developments in Europe in 2011*.

The good news is that some indicators show an increasing participation of immigrants with tertiary degrees both among third country nationals (TCNs) and intra-EU migrants. In Germany, for instance, less than 1% of all TCNs migrants arriving in the late 1990s did so on a highly-skilled migration scheme – a number which increased to at least 11% in 2011. The data presented by the European Migration Network in 2011 also show a relevant increase of HSMs among TCNs in several other countries, like France, together with a higher increase in the amount of EU migrants with a tertiary degree.

Highly-skilled non-EU nationals living in the EU do not, however, even benefit from the free movement rights afforded to EU citizens. These TCNs thus suffer

4. OECD, *International Migration Outlook 2011*, SOPEMI.

all the problems that European citizens do when they decide to move from one European country to another, to which are added legal and bureaucratic difficulties associated with having to re-start the process for obtaining work and residence permits. In this sense, the relevant provisions of the Blue Card (Art. 18) do not facilitate intra-European mobility of HSMs from non-EU countries.

The lack of a genuine EU labour market and the reality of a space fragmented into 27 pieces, are one of the main obstacles to the mobility of both EU citizens and TCNs in the EU, and consequently diminish the EU's prospects of becoming a pole of attraction for HSMs. Over the long term, it is therefore essential to improve the processes so that a HSM from a third country who is already (legally) in the EU can easily move to another EU country.

Among the most significant obstacles to HSMs labour mobility within the EU, we include:

- Legal obstacles: a Blue Card holder and their family members may move to a different Member State, but they must present an application for a new Blue Card, including all the same documents for the second Member State. In addition, the second Member State may decide, in accordance with its domestic law, not to allow him or her to work until the application has been approved.
- Linguistic obstacles: despite the extension of the use of English as a working language, in daily and administrative lives, national languages (even regional languages) play a relevant role and could act as a disincentive.⁵
- Administrative obstacles: for example there is still no system providing mutual recognition of official documents.
- Pension rights are not always easily portable between EU countries.
- There is a lack of information about job vacancies in other EU Member States.
- Transaction costs in housing markets in Europe are very high.
- Migrants from third countries face important difficulties in obtaining recognition of their professional qualifications. EU citizens also must overcome several obstacles, despite the Directive on "Recognition of Professional Qualifications" that came into effect in 2007. Currently, degrees are only automatically recognised in seven cases (architects, doctors, dentists,

5. OECD, *Economic Survey: European Union 2012*, p. 64.

nurses, midwives, pharmacists and veterinarians). All other professional qualifications must pass long, complicated and uncertain processes to receive recognition. The Bologna Process, which should have facilitated automatic recognition, has not, in fact, dealt with this issue. Only in 2012 did promoters of the Process begin to think about it. This is one of the reasons behind the overqualification of many mobile workers and migrants from outside the EU. This is also a characteristic of the workers moving from one EU15 country to another, and especially for the workers from the EU12.

Some proposals for promoting EU intra-labour mobility

To this end, the most pressing issues seem to be to:

- Re-open the debate regarding the possibility of establishing a simplified process (some kind of fast track) to facilitate internal labour mobility for non-EU HSMs between Member States.
- Make progress in overcoming the many obstacles, especially administrative and bureaucratic, which hinder intra-EU labour mobility for European citizens as well as immigrants from third countries. The automatic recognition of degrees with only well-grounded exceptions (such as law degrees) would make a big contribution to the EU internal labour market.
- Shift from the heavy focus on temporary migration. The Green Paper, which guided the recent reform of Europe's labour migration policy, focuses first and foremost on temporary admission systems, and discussions are still focused on circular migration schemes. In the context of highly-skilled migration, however, linking temporary immigration schemes with options for status changes would significantly increase the attractiveness of the EU as a destination for highly-skilled migrants.

2. The medium-term agenda: completing the Blue Card

In light of the apparent unwillingness of governments to pool competencies and tackle these obstacles, it seems that the creation of an EU-wide labour market will be a laborious, long-term effort. In the short to medium term, meanwhile,

three prominent fault lines in the Blue Card Directive are likely to produce sub-optimal outcomes and require more immediate attention.

A first aspect concerns the fact that **the Blue Card is hardly holistic when it comes to the migration context.** As highlighted above, the Blue Card was adopted in relative isolation from other migration measures due to the way that the Commission reacted to the veto of its more comprehensive 2001 proposal. As a result, the EU has ignored the fluid distinctions between categories of migrants, and overestimated the utility of the Blue Card mechanisms – as opposed to, say, education or research policy – in attracting foreign workers.

The second is down to the nature of intergovernmental bargaining in Council, which meant that the Blue Card was not just lowest common denominator, but bore the influences of certain national regimes more than others, even if these were not easily applicable to the EU as a whole. Such outcomes are particularly problematic in a measure like the Blue Card, where the EU needs to adopt the most attractive practice available. That situation is particularly lamentable today, since, in their domestic efforts to attract HSMs, some Member States now provide international best practices of their own.

Third, governments initially aspired to emulate the US and use the EU-wide labour market to make the EU more attractive to third country nationals. It is not just because of the blockages to mobility explored above that they failed. **Member States simply do not have a sense of the collective benefits of together attracting immigrants.** Instead, and to a much greater degree, they feel in competition with one another. The Blue Card has, however, had an effect: it has stimulated individual domestic efforts. While this is no mean feat, of course (in 2007, only 10 members had programmes to attract HSMs), it is not the original goal of the exercise and has occurred in a rather uncoordinated manner.

All this shows, however, that any evaluation of the Blue Card's implementation should not concentrate solely on this; it should investigate existing dualist national admission systems spurred by the negotiation and the implementation of the Directive. The fact that the Directive does not affect the right of Member States to adopt or retain more favourable provisions has resulted in a situation

where many Member States now run a dual HSMs admission system in which the Blue Card offers only an additional channel of entry.

Besides the ‘classic’, long-term option of improving the attractiveness of the EU as a migrant destination by offering policies of scale along the lines of the US Green Card and H1B visa, there exists at least three alternatives to ‘complete’ the Blue Card. First, competition and differences between the Member States could be harnessed with some kind of ‘reinforced cooperation’ between different subsets of members offering beneficial packages amongst themselves. Second, the proliferation of parallel national admission schemes offers some inventive ideas to refine and advance the current system and to iron out some of the quirks in the current version. Lastly, the EU could take a more holistic approach, tapping other means of generating a highly-skilled workforce, for example by making greater use of the academic gate of immigration.

2.1. From competition to reinforced cooperation

In the short run and on the basis of the current Directive, different forms of enhanced cooperation amongst subsets of Member States might cure some of the Blue Card’s existing shortcomings. Within the external dimension of Europe’s migration policy, the Global Approach for Migration and Mobility underlined the importance of Mobility Partnerships and its tailor-made approach aiming for closer cooperation between a number of Member States and a selected third country. Through such targeted agreements with third countries, groupings of Member States with similar points of attraction would woo highly-skilled immigrants. For those EU Member States which share a similar need for highly-skilled labour and are able to offer similar working, salary and living conditions, it could make sense to work together to recruit foreign workers with the right profile whilst competing against other sub-groups. In recent years, many Member States have followed the lead of the European Immigration Portal and launched their individual recruitment campaigns, which could be effectively replaced by common efforts between Member States sharing similar interests.

2.2. From the lowest common denominator to the highest

As regards the medium-term perspective of recasting the Directive, the dualism of EU and national measures has been a welcome development for two reasons. First, it should allow for the harmonisation of highly-skilled migration schemes on a far higher level than the existing Directive does. The world of HSMS admission systems in Europe today looks very different compared to the situation in 2007 when the Directive was originally proposed, and Member States are more at ease with such policies. Second, the Directive has provided a wide range of national practices to emulate. Examples of successful national practices include the job seekers' visa, which was recently introduced in Austria and Germany. This instrument, originally included in the Draft Directive in 2001, introduces a residence permit for highly-skilled immigrants, allowing them to search for an equivalent job for up to six months, therefore significantly reducing the difficult matching process between employers and employees.

2.3. Taking a holistic approach by opening the academic admissions gate

As part of that medium-term reform, the Blue Card regime should be released from its segmented corset and aligned with other aspects that are usually part of a highly-skilled migration regime. In traditional immigration countries, one complementary strategy includes making use of foreign students and graduates, which have emerged as one of the key sources of highly-skilled migration. In Germany, for example, every fourth highly-skilled migrant is admitted today on the basis of graduating from a German University.

1. Despite the importance of the academic admission gate, the Students Directive from 2004 established only a first step towards harmonisation and the intention so far has not been to create incentives for foreign graduates to remain in the EU after the completion of their degrees. Even today, Member States regularly fail to utilise this potential source of well-qualified and integrated foreign labour, and this is something that should be addressed in the process of redrafting the Students and Researcher Directives. The negotiations will provide a welcome opportunity to develop this important part of the jigsaw of Europe's comprehensive highly-skilled immigration regime.

2. Although the Bologna Process will be long and drawn out, and truly international courses in English or other widely-spoken languages still constitute only a tiny minority in most Member States, this relatively recent shift in the systems of higher education in the EU has already made them more attractive to foreign students. Promoting the use of English as a vehicular language in more European universities would attract many foreign students who want to become fluent in English while they earn a degree.

MOBILITY PARTNERSHIPS: A CONVINCING TOOL FOR THE EU'S GLOBAL APPROACH TO MIGRATION?

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Summary

Mobility Partnerships constitute a key tool of the EU's GAMM (Global Approach to Migration and Mobility) aiming to facilitate and organise the legal mobility of Third Country Nationals, to address irregular migration under effective and humane measures and to reinforce the development outcomes of migration. Key actions in this respect are the introduction of visa facilitation agreements and readmission agreements with the partner countries. Circular and/or return migration schemes are other priorities around labour mobility that countries may wish to promote through Mobility Partnerships. This Policy Paper will critically assess the tool of Mobility Partnerships in the framework of the new EU GAMM in the light of recent data on legal migration channels between EU countries and actual and potential partner countries of the EU neighbourhood and the effectiveness of preventive and reactive measures against irregular migration.

Introduction

The proclaimed new EU Global Approach to Migration and Mobility (GAMM) presents important contradictions: while it seeks to facilitate and organise the legal mobility of third country nationals (TCNs) and to ensure that TCNs in need of international protection receive it, it also aims at strengthening border controls. At the same time, Member States implement highly restrictive labour migration policies in view of the current economic crisis and

rising unemployment. This Policy Paper assesses the usefulness of Mobility Partnerships (the main instrument for TCNs mobility within the EU) in the face of restrictive Member State labour migration policies. It also discusses the contradictions between strict border control, the effort to enforce readmissions and introduce visa facilitations for TCNs. The EU must take a bolder stance if the several competing aims in the new GAMM are to be achieved.

1. Mobility Partnerships and Labour Migration Management: Conflicting Objectives

Mobility Partnerships (MPs) form an integral part of the GAMM (European Commission 2007:4). They encompass a broad range of issues ranging from development aid to temporary entry visa facilitation, circular migration programmes¹ and the fight against unauthorised migration, including cooperation on readmission.² MPs have now been signed with Moldova (2008), Cape Verde (2008), Georgia (2009) and Armenia (2011). Negotiations with Senegal started in 2008, but stalled and have not progressed. Negotiations with Ghana have been ongoing since 2010, and Mobility Partnerships are also likely to be signed with Morocco, Egypt and Tunisia in the light of the Arab Spring.³ MPs are selective in that they are concluded with third countries once certain conditions are met, such as cooperation on illegal migration and the existence of “effective mechanisms for readmission”.⁴ The EU’s attempt to link MPs with cooperation on readmission reflects how this issue has become a central component of its immigration policy.⁵ So far, however, there is an imbalance identified between actions on legal labour migration and actions addressing the flows of irregular migration in existing MPs on both sides of the partnership.

1. A recommendation about “temporary and circular migration” first appeared in the Communication of the European Commission entitled *Migration and Development: Some Concrete Orientations* (COM(2005) 390), dated 1.9.2005. Further details were included in European Commission Communication on *The Global Approach to Migration One Year On: Towards a Comprehensive European Migration Policy*, COM(2006) 735 final dated 30.11.2006.

2. Jean-Pierre Cassarino, “Circular Migration and Securitized Temporariness”, in Anna Triandafyllidou (ed.), *Circular Migration between Europe and its Neighbourhood. Choice or Necessity?*, Oxford: Oxford University Press, 2013 forthcoming.

3. Natasja Reslow, “European Policy Debate: the Mobility Partnerships”, *Migration Policy Brief no.9*, Maastricht Graduate School of Governance, 2012

4. European Commission, *The Global Approach to Migration One Year On: Towards a Comprehensive European Migration Policy*, COM(2006) 735 final, 30.11.2006.

5. Jean-Pierre Cassarino, *op. cit.*

According to Reslow, this imbalance between actions on legal labour migration and mobility, and measures against irregular migration is partly a result of the current economic crisis in Europe, and partly a consequence of the division of competences within the EU.⁶ Labour migration is still a competence of Member States and most of them have been reluctant to open legal entry channels to labour migration. To the contrary, their efforts have concentrated on beefing up border controls (as we shall discuss later on in the paper) and narrowing considerably their existing legal migration channels. The economic crisis has exacerbated this reluctance on the part of Member States to open avenues for legal labour mobility. Notably, the CLANDESTINO research project, which studies the processes and policies that contribute to irregular migration in the wake of the current economic crisis, identified a lack of legal migration channels as well as a failure to make existing ones work in most EU countries.⁷

Austrian governments have markedly restricted legal opportunities for work-related and family-related migration from countries outside the EU and the European Economic Area (EEA) since the early 1990s. Long-term immigration is effectively limited to highly-skilled migrants and their family members while low-skilled migrants are admitted as seasonal migrants only, mainly in agriculture and tourism. Overall, legal admission of third country nationals for work purposes constitutes a marginal share of total immigration.⁸ In Germany the situation is similar. Immigration is allowed as an option, but a growing series of restrictions and conditions rendering it practically impossible have been added over the years. France and the Netherlands too discourage labour migration, with the exception of highly-skilled migrants. The most common forms of legal admission in France are tourist visas, permission to visit family, to study, or to conduct some professional business.⁹ The Dutch government may have simplified the visa procedure for highly-skilled migrants but discourages the flow of unskilled ones.¹⁰

6. Natasja Reslow, *op. cit.*

7. Franck Düvell, "Comparative Policy Brief: Pathways into Irregularity. The Social Construction of Irregular Migration", CLANDESTINO Research Project, 2009.

8. Albert Kraler and Christina Hollomey, "Austria: Irregular migration – a phenomenon in transition", in Anna Triandafyllidou (ed.), *Irregular Migration in Europe: Myths and Realities*, Farnham: Ashgate, 2010, pp. 41-70.

9. Catherine Wihlto de Wenden, "Irregular migration in France", in A. Triandafyllidou (ed.), *Irregular Migration...*, *op. cit.*, pp. 115-124.

10. Joanne van der Leun and Maria Ilies, "The Netherlands: Assessing the irregular population in a restrictive setting", in Anna Triandafyllidou (ed.), *Irregular Migration...*, *op. cit.*, pp. 187-206.

In Greece, there is practically no opportunity for prospective migrants to obtain long-term regular entry for the purpose of work. The existing quota system of inviting a foreign worker for seasonal work (*metaklisi*, in Greek) involves very small numbers employed mainly in agriculture.¹¹ Similarly in Spain, quotas for seasonal migration are restricted to temporary agricultural work concentrated in the south-western province of Huelva, with a minor presence in the south-eastern province of Almería and in the north-eastern province of Lleida. This represented around 1% of the total Moroccan immigrant population on Spanish soil in 2009 and 2010.¹² Interestingly, a channel to legality is offered via ordinary regularisation due to settlement or rootedness (*'arraigo'*) in Spain, giving the possibility to irregularly residing immigrants to obtain a yearly stay permit for the purpose of work after three years of illegal stay, provided they prove that they have bonds with the country (through the offer of a work contract or the demonstration of family ties with Spaniards or legally-staying foreigners).¹³

In Italy, misuse of the existing quota system tends to increase the chances of becoming a legal resident migrant for an undocumented migrant who is already in Italy, than for a potential migrant who is trying to gain legal access to the Italian labour market from abroad.¹⁴

Poland, Czech Republic and Slovakia offer few legal migration channels. No system of managing circular or temporary labour migration has been established in the Czech Republic. Irregular migration is a natural consequence of restrictive legal migration channels and work permit policies, highly liberal conditions for getting a trade license in an environment which tolerates undeclared work, and a lack of control over agencies which recruit foreign labour.¹⁵ Having experienced a dramatic outflow of approximately two million people since May 1st 2004, Poland, on the other hand, needs both skilled and unskilled foreign labour. However, government plans to attract low-skilled migrants

11. Thanos Maroukis and Eda Gemi, "Albanian Circular Migration in Greece: Beyond the State?", in Anna Triandafyllidou (ed.), *Circular Migration...*, op. cit., chp. 4.

12. Carmen González-Enríquez, "Circularity in a restrictive framework: Morocco and Spain", in Anna Triandafyllidou (ed.), *Circular Migration...*, op. cit., chp. 6.

13. *Ibid.*

14. Francesco Fasani, "The quest for la dolce vita? Undocumented migration in Italy", in Anna Triandafyllidou (ed.), *Irregular Migration...*, op. cit., pp. 167-186.

15. Dusan Drbohlav and Lenka Medová, "Czech Republic: irregular migration – 'old wine in new bottles'", in Anna Triandafyllidou (ed.), *Irregular Migration...*, op. cit., pp. 71-92.

from third countries were never executed since it was considered highly probable that those arriving in Poland would treat it as an opportunity to go further west. In fact, it has proven very difficult to satisfy the demand for workers while respecting the security measures implemented in December 2007 by the Schengen Convention in a country like Poland, where low wages do not attract immigrants.¹⁶ Poland's protective approach to local labour policy and liberal visa policy for eastern neighbours has led to a category of arrivals predominantly comprised of shuttle or circular migrants from the former Soviet Union (with Ukraine leading) who work in construction, agriculture and domestic/caretaking services – sectors in which undeclared work is common.¹⁷

2. Circular Migration: A Realistic Assessment

Temporary and circular legal migration schemes have featured high on the agendas of EU policymakers since the publication of the Communication on circular migration and mobility partnerships between the European Union and third countries¹⁸ in May 2007. However, the realities of circular migration explored under the METOIKOS research project¹⁹ show that the type of circular migration envisaged so far by the European circular migration policy framework is largely non-existent. There are very few highly-skilled migrants who engage in circular mobility and take back to their country of origin the skills they acquired in the EU. In reality, the only circular migration that is more or less regulated by the EU Member States studied (Italy, Spain, Greece, Hungary, Poland) is seasonal agricultural migration.²⁰ Circular migration usually occurs through informal channels and outside inter-state labour agreements. The migration policies of host and source countries (and possibly, partner countries) often remain trapped in a dichotomy of temporary versus permanent migration.

16. Krystyna Iglicka and Krystyna Gmaj, "Circular Migration Patterns between Ukraine and Poland", in Anna Triandafyllidou (ed.), *Circular Migration ...; op. cit.*, chp. 8.

17. *Ibid.*

18. European Commission, Communication on circular migration and mobility partnerships between the European Union and third countries, COM(2007) 248 final, 16.5.2007.

19. METOIKOS project, Circular migration patterns in Southern and Central Eastern Europe: Challenges and opportunities for migrants and policy makers.

20. Anna Triandafyllidou et al, *Circular Migration and Integration: a short guide for policy makers*, METOIKOS Project; 2011.

For example, the policy whereby foreign workers are accepted on a seasonal basis in Greece has unintentionally created a framework in which circular migration patterns occur. Statistical evidence points in this direction: nearly half of the 65,462 registered individuals that applied for a seasonal work permit during the period 2001 to 2011 have applied for such a permit more than once in Greek municipalities.²¹ Nevertheless, attesting to the spontaneous rather than the state-controlled character of circular migration is the fact that most circular migrants in Greece (mainly construction and service sector workers) are in possession of a two- or ten-year stay permit in the host country and adapt their work around the demands of their family life and periods of unemployment in either country. In Spain, there is a ‘six month clause’ included in the Implementation Rules of the 2000 Law on Foreigners which prevents regular immigrants from spending more than six months out of Spain, as they risk losing their permits. “This clause is the main obstacle to circular migration and it lacks justification in a phase of high unemployment”²².

Circular migration schemes constitute the EU’s primary means of promoting legal migration channels for non-EU workers through Mobility Partnerships. Evidence on the ground shows that legally resident migrants in Southern and Eastern Europe have been spontaneously developing circular migration strategies already in order to cope with rising unemployment in the host country.²³ Yet Member States policies have not been adapted accordingly.

Nevertheless, even if evidence pointed towards the willingness and/or capacity of EU Member States to promote circular or temporary migration schemes, commitments made by the third country and the EU country concerned exist and could stand in the way of a Mobility Partnership.²⁴ The most important commitment, the implementation of measures to prevent irregular migration and enforce readmission, overall has yielded poor results on both sides of external EU borders.

21. Thanos Maroukis and Eda Gemi, *op. cit.*

22. Carmen González-Enriquez, *op. cit.*

23. Anna Triandafyllidou (ed.), *Circular Migration...*, *op. cit.*

24. Europa Rapid, “Circular migration and mobility partnerships between the European Union and third countries”, MEMO/07/197, 16.5.2007.

to discard German language requirements for Turkish citizens applying for a family unification residence permit, the Turkish Minister of European Union Affairs Egemen Bağış characteristically stated *“they [EU Member States] are welcome to go ahead if they plan to carry out some sort of facilitation of the visa process. But what Turkey deserves is a visa exemption”*.²⁹ Although the external anchor of EU membership has functioned during most of the 2000s as a powerful incentive for Turkey to proceed with substantial political and economic reforms,³⁰ Turkey’s economic growth record so far has given ground to the “apparently paradoxical conclusion that whether Turkey becomes a member or not will not have such a dramatic impact on the quality of its economic performance and the nature of its democratic regime”.³¹

4. Recommendations

We believe that the new GAMM offers important tools and proposes a new political impetus for re-launching the EU approach to managing migration and asylum. However, a bolder approach to the management of legal migration and mobility is needed to make the carrot more appealing to third countries when the stick they are required to carry (readmissions, border management, reduced legal migration in the face of a European economic crisis) is quite heavy. We therefore suggest the following initiatives.

4.1. Promoting legal migration and mobility with flexible and attractive schemes:

- Create legal migration/mobility schemes that acknowledge the existence of migration networks. Take the example of the ‘sponsor’ scheme implemented in Italy in the late 1990s/early 2000s. (A legal resident or citizen can ‘sponsor’ a new migrant if he/she provides accommodation, food and insurance, until the new migrant finds a job. The initial permit is valid one year.) Such schemes bear fruit where there is a need for migrant workers and the offer and demand cannot be met otherwise.

29. See “Turkey insists on visa exemption versus visa facilitation”, *Today’s Zaman*, 24.04.2012.

30. Ziya Öniş, “Crises and transformations in Turkish political economy”, *Turkish Policy Quarterly*, Vol.9 (3), 2012, pp. 45-61.

31. Ziya Öniş and Caner Bakır, “Turkey’s Political Economy in the Age of Financial Globalization: The Significance of the EU Anchor”, *South European Society and Politics*, Vol.12(2), 2007, pp. 147-164.

- Promote circular migration programmes for highly-skilled migrants to spend a period working in the EU with an incentive to return: when they go back they will receive a top-up on their salary (see the Brain Gain programme implemented by the United Nations Development Programme (UNDP) in Albania).

4.2. Managing irregular migration and promoting readmission/return:

- Create and expand sustainable return programmes with countries of origin and countries of transit. Provide for training before departure from the EU and monitor settlement upon return to the country of origin.
- Provide visa facilitation or indeed visa exemption to countries with a key role in transit irregular migration, notably Turkey. Turkey's cooperation is key to the successful management of irregular migration in the wider southern and south-eastern regions of Europe.

THE MIGRATION-DEVELOPMENT NEXUS: TIME FOR A PARADIGM SHIFT

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Summary

The EU has long endorsed international discourse on migration as a ‘tool’ for development that aims at harnessing remittances and diasporas to maximise their positive impacts on development and poverty reduction. At the same time however, the external dimension of the EU’s migration policy has essentially been framed by a securitarian approach and a move towards minimum standards on internationally codified human-rights, especially regarding family reunification. The changing global environment and the EU’s radically changed neighbourhood have made it amply clear that this approach needs to be adapted to the new realities. The division of competences between the Community and the Member States on migration issues does not allow the EU to deliver on the declared pledge for a coherent and comprehensive approach to development and migration. It is time for a paradigm shift that will reshuffle priorities to make room for a rights-based, and not only a security-based, approach to migration, and one that will sit more comfortably on the migration-development nexus.

Introduction

Although migration has always been a core element in EU relations with most developing countries, and especially the African, Caribbean and Pacific countries (ACP), development cooperation has only been directly linked with migration policies in EU discourse since 2000. This has been reflected in EU policies since the adoption of the Global Approach to Migration in 2005, the European Consensus on Development in 2006, the EU Position for the UN High Level Dialogue on Migration and Development, and in the more recent Global Approach to Migration and Mobility. Through these documents and

declarations, the EU has consistently reiterated the importance of human rights for sustainable development and the need for a ‘genuine’ partnership with non-EU countries aimed at addressing migration and mobility in a comprehensive and balanced manner.

Even though the positive migration-development nexus has been acknowledged, little has actually been done to maximise the gains from migration for both sending and receiving countries. The focus has been on circular migration and mobility packages in order to facilitate legal migration (which has been a core concern and priority on the EU side) and to mitigate eventual brain drain challenges on the side of the third countries, and in particular Sub-Saharan Africa. The EU and its Member States have concentrated mainly on trying to curb labour migration and in particular to combat irregular migration. As such, EU Member States have focused on reinforcing stricter border controls, strengthening Frontex and readmission agreements, while in parallel also addressing the ‘root causes of flight’ – in other words, poverty, violence and instability in the source regions. Migration thus essentially continues to be approached from a security-driven and rather Eurocentric mind frame.

The changing global environment and radical changes in the EU’s immediate neighbourhood have made it amply clear, for a while now, that this approach needs to be adapted to new realities. It is time for a paradigm shift in the external dimension of EU migration policy, to:

- reshuffle priorities and make room for a rights-based, and not only a security-based, approach to migration;
- establish a policy that sits more comfortably on the migration-development nexus.

1. The background, in brief

The EU has supported, endorsed and contributed to the international discourse on the migration-development nexus, which considers migration as a ‘tool’ for development and aims at harnessing remittances and diasporas in order to maximise their positive impacts on development and poverty reduction. At the

same time however, the external dimension of EU migration policy has essentially been framed by a securitarian approach aimed at limiting the access of unwanted third country nationals to the Schengen area, increasing border control and restricting visa and asylum policies. There is also a move towards the adoption of minimum standards on some internationally codified human-rights, especially regarding family reunification.

Over the past two decades, the academic and political communities have been trying to shift the focus from the challenges that migration presents to the opportunities it offers. Significant resources have been invested in exploring the positive results migration may have for countries of origin. The importance of remittances and the crucial role of migrants and diaspora communities as agents of development and innovation have been underlined (most notably through the work of the World Bank and the International Organization for Migrations (IOM) on this subject). Remittances have contributed to reducing poverty and in some instances triggering development. According to World Bank data, in 2011 officially recorded remittances to developing countries reached \$372 billion and the inflow is expected to increase at a steady pace of 7-8% in the next two years, contrary to all other sources of funding (Foreign direct investment (FDI), Official development assistance (ODA), etc.). The challenge has been to formulate appropriate policies that will facilitate the leveraging of remittances for development. Studies have shown that policies aimed at channelling remittances to specific investments have had limited success. On the contrary, what seems more effective is to improve the overall investment climate in the country of origin and to encourage the use of banking channels (thereby enabling savings, investment and even access to credit based on remittance history). The role of the diaspora has also been at the core of much policy interest as the overall development potential of migrants can reach significant levels, involving areas such as business creation, trade links, investments, remittances, skills circulation, exchange of experiences and even impacts on social and cultural roles of men and women in the home society. Here too, the more favourable the political, social and economic conditions in the country of origin, the more likely diasporas will invest, start businesses, transfer finances and eventually maybe also return.

The ACP countries, especially Africa, have been at the heart of EU development cooperation policies. Migration unavoidably emerged as a general dimension

since the Lomé accords, but only as regards legally working migrants and the ACP countries' responsibilities to prevent illegal migration. With the Cotonou Convention and the 2000 Cairo Declaration, migration was incorporated into political dialogue (Art.8, Par.3) but overall, the focus was on illegal migration and the development challenges that countries of origins faced. The ways in which migration could contribute to development eventually made their way into the European Neighbourhood Policy (ENP) and its relations with African countries. Indeed, the migration-development nexus was reflected in the 2005 EU Strategy for Africa, but to a minor degree. A year later, in 2006, the shift became more evident as the Tripoli Declaration offered a joint approach on migration and development between the EU and the African continent. This was followed by the 7th Partnership on Migration, Development and Employment in the First Action Plan (2008-2010). There have been numerous opportunities since to take initiatives aimed at enhancing the development impact of migration, but the results have been extremely limited and, for many, disappointing.

As part of EU efforts to support the Millennium Development Goals, particularly since 2010, migration has been identified as one of the five core areas of the Policy Coherence for Development Work Programme.¹ This agenda recognises the need to include development cooperation objectives in non-development policies, minimise contradictions, and build synergies between policies (in areas other than development cooperation) that have an impact on developing countries. There is a general move towards partnerships that characterises the EU's external affairs particularly with its Eastern and Southern neighbours and a stated commitment to make cooperation on migration mutually beneficial.

Institutionally, these dimensions have been further consolidated through the work of the EU's High Representative for External Affairs and Security Policy in the Partnership for Democracy and Shared Prosperity that was published in May 2012.² In this revision of the ENP, the EU proposes Comprehensive Dialogues leading to Mobility Partnerships aimed at: strengthening cooperation on migration and mobility and human rights protection, reinforcing local Schengen cooperation, and implementing the EU Visa Code. These Mobility Partnerships offer

1. European Commission, *Policy Coherence for Development Work Programme 2010- 2013*, Staff working document, SEC(2010) 421 final, 21.4.2010.

2. European Commission/High Representative of the EU for foreign affairs and security policy, *Partnership for Democracy and Shared Prosperity: Report on activities in 2011 and Roadmap for future action*, Staff working document, SWD(2012) 121 final, 15.2.2012.

a framework for political dialogue and operational cooperation between the EU and the partner countries concerned. Indeed, visa liberalisation has already improved between the EU and the Republic of Moldova, Ukraine, Georgia and Cape Verde, while Mobility Partnerships have been established with Cape Verde, Georgia, Moldova and Armenia – admittedly rather easy cases all around.³

Although the instruments and the discourse are there, in practice, the ‘mutually beneficial’ dimension has not been made tangible. The EU thus has been consistently criticised for talking about ‘dialogues’ and ‘partnerships’ when in reality it engages more in a ‘paternalistic monologue’ and a conditionality-driven relationship with migration-sending or transit-migration countries. In effect, it has increasingly linked development aid to encouraging migrant return and readmission agreements, and most of its partnerships and relations with its neighbours include, as a condition, commitments to curb irregular migration pathways. This shift towards making aid conditional upon cooperation in illegal migration, along with the failure of the EU and the ACP to reach an agreement on migration in the revised Cotonou agreement in June 2010, suggests a gap between EU discourse and EU action towards the goal of ‘making migration work for development’.

The EU’s external migration policy falls short of expectations and much more importantly, it falls very short of being able to offer an effective global approach to migration or a coherent approach to development.

This has been made amply clear over the past year. The EU Commission recognised both that the EU was not fully equipped to help the Member States (such as Italy, Malta, Greece and Cyprus) most exposed to massive migratory movements provoked by the political developments in North Africa⁴ and that Europe had failed to respond to the humanitarian situation and address the needs of the fleeing refugees. The migration pressures that have resulted from the Arab Spring, and the tense political situation provoked by the unravelling euro area crisis, with many EU Member States entering their fifth consecutive year of economic recession, are indeed providing new stress tests for the EU in its foreign policy making and in its migration policies.

3. European Union, “EU bolsters its support to reformers in its Southern and Eastern neighbourhoods”, Press release, 15.5.2012.

4. European Commission, *Communication on migration*, COM(2011) 248 final, 4.5.2011.

2. Current challenges for the external dimension of EU migration policy

Against this background, the 2011 Global Approach to Migration and Mobility (GAMM) has been presented by the EU as an attempt at framing a ‘migrant-centred’ approach which maximises the development impact of migration and mobility while also responding to European internal labour needs and preventing irregular migration. The GAMM thus aims to serve as the EU’s overarching framework for external migration policy. As such, it has quite a challenging task ahead, as it is largely based on non-binding political declarations and involves reconciling opposing objectives and often conflicting priorities. The GAMM has been received with significant scepticism or even cynicism as it remains firmly set within a security-driven approach, and, most importantly, does not specify what it offers partners in return. If there is no incentive or meaningful benefit for the other countries, why would they engage in the partnerships and agreements the EU is offering through the GAMM?

There are undoubtedly many positive developments in this field, and migration features at all levels of the EU’s political and technical dialogue with third countries as well as in all its multilateral or bilateral cooperation and association agreements. The challenge at present is whether the legal and institutional framework in place, the reinvigorated GAMM, and the EU High Representative will be able to make a difference and effectively transform an area which has so far been restricted by a ‘security-driven’ mind set. Overall, issues of migration and mobility have been managed by Justice and Home Affairs officials, thus favouring migration control and containment issues (ranging from policing and border control to readmission agreements) over labour migration issues and rights protection schemes. This has even been the case in the Mobility Partnerships where traditional EU policy goals (readmission, improved border control and countering irregular migration) continue to take precedence over labour migration or similar opportunities for partner countries. The main difference is that these are just ‘packaged’ better in a more inclusive and partnership-driven discourse. Tellingly, efforts at launching dialogue on migration, mobility and security with Morocco and Tunisia have faced notable hurdles, while Egypt has turned down the EU offer for a Mobility Partnership, thus revealing a divergence of interests between the partners.

If indeed there is an interest to seek synergies and pursue a truly global approach to migration and mobility within the broader objectives of EU foreign policy and development cooperation policy, then the EU needs to show its partners that it does want to engage in a mutually beneficial partnership on matters relating to migration and also assume its role as a cooperation partner. This manifestly requires taking into consideration the changes that have occurred in the neighbourhood and defining policy goals which also respond to local demands. This is in part acknowledged in the GAMM's 'principle of differentiation' by which the EU will seek closer cooperation with partners that share interests with and are ready to make mutual commitments with the EU and its Member States.

The realities on the ground at present are rather challenging. European politicians are being called to respond in ambitious and even audacious ways to the protracted internal crisis the EU is facing, and the global and regional tectonic shifts that are fundamentally and rapidly changing its international environment. How they address migration and development issues will unquestionably affect the EU's global role going forward. For decades, the EU has been the world's largest donor of official development aid, and it has demonstrated a consistent commitment to supporting the efforts of developing countries to fight poverty and pursue inclusive and sustainable growth. In its declarations, the EU and its Member States have underlined their pledge to adopt a coherent and comprehensive approach to both its development policies and its migration policies. The strategy has been outlined but the division of competencies between the Community and Member States on migration issues does not allow the EU to deliver on it.

3. Proposals

The following points are therefore put forward:

- Examine institutional arrangements in terms of who actually sets the agenda and steers the Dialogues on Migration, Mobility and Security and on EU development policy, and encourage the more active involvement of the High Representative and the EEAS in both.

- Address the causes leading to irregular migration and irregular status while supporting legal migration channels. Recommending the establishment of more legal avenues for labour mobility in low-wage sectors and increasing regular channels for non-EU citizens to access less-skilled and lower-paid jobs outside of circular and temporary migration schemes could address the problem of overstaying. Moreover, partner countries could become more interested in the Dialogues and Mobility Partnerships if concrete measures are offered such as the recognition of qualifications and the portability of social security rights.
- Focus more on targeted funding for vocational training in countries of origin to improve the skills level of the labour force.
- Explore ways to move from a conditionality approach where mobility ‘carrots’ are offered in return for measures aimed at fighting irregular migration, to one where reforms are encouraged in the field of human rights standards.
- Ensure that cooperation with third countries on irregular migration and implementation of pre-frontier border controls does not undermine access to asylum and other human rights obligations.
- Reiterate the importance of international labour standards for all and position them at the core of EU migration policy in order to actively support the link between development, migration and decent work.
- Recognise that migration patterns are increasingly circular and settlement is more temporary than permanent; once this is factored into migration policies it will be easier to seek synergies with development potential in the countries of origin.
- Use development cooperation to improve the general investment climate in countries of origin through anti-corruption initiatives and the building of well-functioning institutions. This will encourage remittances and diaspora investment which are crucial for the development potential of countries of origin.

- Engage more dynamically in a constructive dialogue on how migrants – and especially diaspora communities – can unleash development potential in their countries of origin. A tool such as the GFMD can be useful in identifying innovative actors and best practices.
- Finally, use the opportunity that will be presented at the UN High-Level Dialogue on Migration and Development in 2013 to affirm the EU's commitment to linking migration policies and development in all aspects of its external relations.

PART 4: EU NEIGHBOURHOOD: A RENEWED OPPORTUNITY

Rapporteur:

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SYNTHESIS

The policies devised by the European Union to deal with its neighbourhood, and in particular the European Neighbourhood Policy (ENP), have been characterised by a **Euro-centric vision as well as a defensive attitude**. While the Arab Spring should have led EU policy-makers to substantially revise existing policies, the 2011 ENP revision resulted in a rather formalistic exercise, failing to significantly alter the paradigm governing EU action in the region. A strategic overview of the EU's relations with its neighbours instead calls for an authentic paradigm shift making up for the diminishing attractiveness of the EU model in the region and coupled with greater strategic engagement of other powers both within the region and beyond.

1. An ever less appealing EU

As a result of the conjunction between the euro area crisis and the Arab Spring, the EU's role as a model for candidate countries as well as for its neighbours, is rapidly being eroded. The collapse of the EU as a model for third countries is, possibly, most prominent amongst ENP countries that are not presented with a membership perspective. Viewing and dealing with Eastern and Southern neighbours through the lens of the EU model has so far not brought about significant results: the EU has applied enlargement-lite principles and instruments to its relations with neighbours rather than understanding and

effectively managing the expectations of its partners, most of whom are simply not interested in entering into this kind of a relationship with Brussels.

2. The quest for a new regional paradigm

Pursuing a policy of continuity, **the EU has limited itself to reinforcing the principles upon which the ENP has always been based, first amongst which, conditionality.** However, this mechanism, whilst resulting highly successful when applied to enlargement policy, has only worked to a limited extent in the case of neighbouring countries – with the main exception being Moldova. More so, this tendency has been reinforced as the EU has seen its appeal deteriorate among neighbouring countries. Besides, while the 2011 ENP revision called for a more rigorous implementation of both positive and negative conditionality (clear benchmarks of evaluation for partners' performance are yet to be disclosed), a more general reflection on conditionality points to the mechanism's unsuitability in regulating the EU's relations with its neighbours, and particularly so with respect to the Southern Mediterranean countries affected by the Arab Spring. In principle, conditionality can be best applied to countries that have experienced a regime change, or that are going through an endogenous process of reforms. However, in these same countries the awareness that the political change has been triggered from within and not from outside is likely to generate a negative reaction towards the application of conditionality. On the contrary, where authoritarian regimes continue to have the upper hand, like in Algeria or in the Gulf countries, the EU is either unable or unwilling to use (negative) conditionality. Negative conditionality (less-for-less) can be very useful in order to punish gross human rights violations but is unlikely to be of much benefit in order to incentivise specific reform initiatives, or even prevent a democracy reversal.

3. Strategic engagement of regional and external powers in the EU neighbourhood

The EU is also facing the **emergence or re-emergence of other regional and external powers in its vicinity**, most notably Turkey, Russia, the Gulf States and China. So far, the EU has tended to either attempt to compete with

or neglect the geopolitical impact of these powers in its neighbourhood. It is time for the EU to adopt a more proactive and cooperative strategy in its neighbourhood, aimed at seizing opportunities rather than defending itself from real or perceived threats. In particular, it should develop concrete and visible joint policies engaging not only governments but also businesses and non-governmental organisations (NGOs) in a dialogue with the EU.

The Turkish accession process needs to be revitalised. Yet beyond the current stalemate, it is imperative for the EU to explore areas in the neighbourhood where the EU and Turkey respectively have a comparative advantage, identifying thus opportunities for developing fruitful joint initiatives. The most solid foundation of Turkey's influence in the Arab world is the widespread sympathy it disposes of on the Arab street. A successful modernisation and democratisation (although still in progress), undertaken by a post-Islamist party, has created in the eyes of Arab societies an image of Turkey as a source of inspiration. The EU should turn this trust capital into a complementary tool to support reform in the Arab world. Turkey can also provide a model for modernisation in more than one business sector. In turn, the EU is to take the lead with regard to the involvement of civil society.

Cooperation with Russia is certainly more difficult, as the worldview of the two actors is very different, possessing divergent and even competing ideas regarding how their common neighbourhood should develop. However non-engagement is not an option. Looming problems such as the so-called frozen conflicts in Eastern Europe and the Caucasus may only be tackled through the involvement of all regional actors, amongst which Russia clearly plays a pivotal role. In addition, spaces for the cooperation of civil societies need to be explored. The most important task for the EU is to try to build trust with Russia, potentially by initiating joint small-scale projects in their shared neighbourhood.

4. Policy recommendations

The EU needs a new comprehensive and strategic approach for the ENP that is able to look beyond the short-term constraints imposed by the internal economic crisis and address its increasingly unstable neighbourhood more proactively. Simultaneously creating and reaping mutually beneficial

opportunities must be the guiding principle of a renewed EU strategy in the region as opposed to the mere tackling of security challenges stemming from the area.

Particularly in the Mediterranean, the Arab Spring has been disconnected from issues such as the Middle East peace process, reflecting a missed opportunity for the EU to re-think its approach to this and other regional issues. The potential for spillover is considerable and clinging onto old realities no longer makes sense in the new context. (*H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215*)

The EU should now concentrate on:

4.1. A full use of article 8 TEU

The compulsory and all-encompassing engagement of the Union in its neighbourhood, as foreseen in Article 8 TEU, should become much more prominent in political discourse, notably at the level of the Commission/HR initiatives. The Commission should produce (possibly jointly with the EEAS) a Communication highlighting the mandatory formulation of Article 8 TEU on the ENP, exposing thus the full potential of the article and informing discussion among institutional actors as to what the EU is expected to achieve through its neighbourhood competence. (*C. Hillion, SIEPS – p. 204*)

4.2. A strengthened coordination and cooperation between the ENP bodies and institutions to ensure coherence

A Commissioner for (Enlargement and) Neighbourhood that is also a deputy to High Representative for Foreign Affairs and Security Policy could be appointed in the next 2014 Commission. He/she would be assisted by the whole network of services in charge of the neighbourhood policy, including the relevant geographical Managing Directorates. (*C. Hillion, SIEPS – p. 204*)

4.3. A revision of conditionality

The prospect of the EU attempting to “shape” the emerging democracies in the Southern Mediterranean through leverage is inherently problematic and could

backfire if mismanaged. EU public diplomacy needs to become more forceful and direct, especially with countries like Jordan and Morocco which are most likely to listen. The implementation of benchmarks – concrete political and policy issues with measurable criteria the partners have to fulfil in order to become more deeply integrated with the Union – indeed represent one of the weakest achievements of the EU's policy towards the neighbours. Aiming at an effective leverage of mutually agreed principles of transparency, inclusiveness of the policy dialogue and democratic standards, the EU should not hesitate to use freezing of its funding as a stick; particularly in those partner countries lacking resources this strategy has already proved successful in a number of cases. (*L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225; H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215*)

4.4. Engaging with civil society

The economically struggling EU needs to concentrate its efforts on involvement with civil society – which is perceived by its partners to be its strongest point – focusing thus on a number of very narrowly defined objectives, notably freedom of speech. Encouraging elected leaders to engage in dialogue with non-state actors is exactly the niche in which the Union can and should do more to amplify the voice of non-state actors acting in the public interest. In its dialogue with partner governments, the EU should emphasise that support comes only for projects for which such groups have been previously consulted. (*H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215; L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225*)

4.5. Strategic cooperation with Turkey in the common neighbourhood and particularly in the Mediterranean

The EU should launch specific forms of cooperation with Turkey to achieve shared objectives in their common neighbourhood. While assertively engaging with both Brussels and Ankara to find a solution to the Cyprus problem, the EU and Turkey should strategically, and not only occasionally, converge their policies towards the region, with a special focus accorded to the post-Arab Spring Mediterranean countries (*M. Comelli, IAI – p. 197; A. Balcer, demosEUROPA*

– p. 136). The feasibility of a progressive opening of the EU-Turkey customs union to other neighbours could be investigated. The customs union is more limited than deep and comprehensive access to the EU's Single market, but as in the case of Turkey, it can more promptly play a decisive role in the economic transformation of the region and boost intra-regional trade. (*H. Amirah Fernández, Elcano & T. Behr, Notre Europe – Jacques Delors Institute – p. 215; A. Balcer, demosEUROPA – p.236*)

4.6. Engaging Russia

The engagement of Russia seems to be a more daunting task yet the EU has no other option. In particular, specific forms of cooperation should also be launched for the resolution of the frozen conflicts in Eastern Europe and the Caucasus. In addition, the Common Spaces dialogue should be revamped to serve as a forum for constructive exchange between officials and working groups of ministry officials from different levels of middle management; yet the official track has to be accompanied by a strengthened outreach to Russian society rather than being uniquely state-centred. The EU-Russia Civil Society Forum was a small step in a good direction, but much more can be done to build confidence and create networks. Partnerships between municipalities and schools, student exchanges and trilateral projects with East European partners perhaps will not be game changers in the short-term, but are a *conditio sine qua non* for the successful implementation of EU's goals in the East. In addition, the newly forged customs union between Russia, Belarus and Kazakhstan and its potential power of attraction should lead the EU to re-evaluate its policies in the region in the light of the apathy of Eastern neighbours towards the EU. (*M. Comelli, IAI – p. 197; L. Najšlová & V. Řiháčková, Europeum & O. Shumylo-Tapiola, Carnegie Europe – p. 225*)

POTENTIAL AND LIMITS OF EU POLICIES IN THE NEIGHBOURHOOD

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Summary

Contrary to the premises on which it was launched back in 2003, the European Neighbourhood Policy (ENP) has underperformed in many ways. While democratisation in Eastern Europe has lapsed, a number of Southern Mediterranean countries overthrew their ruling autocrats, but the EU had no role in that. The EU revised the ENP in 2011, but the revision looks unimpressive. In particular, conditionality appears unlikely to work in countries where reforms have been an endogenous product.

New challenges have also emerged from the new economic and strategic context. Internally, the crisis has absorbed significant energy and resources, plus Member States tend not only to bypass common external policies, but possibly stand in the way of implementing Lisbon Treaty foreign policy provisions. Externally, other actors have emerged in the EU neighbourhood, while neighbouring countries and their citizens no longer necessarily look at the EU as a model and final foreign policy goal.

The EU should adopt a political, not technocratic approach to its periphery, get Member States to support common policies, and seek ad hoc cooperation with new powers in the area, like Turkey. A strategic and proactive approach to the neighbourhood is needed, one that looks at the opportunities for the EU, and not just at the challenges and threats.

Introduction

When the European Neighbourhood Policy (ENP) was launched by the European Union in 2003 to provide a coherent and overall framework for

relations with all the countries in its periphery, the Union and its surroundings looked different. Internally, the historical Eastern enlargement of 2004 was soon to be finalised and a Convention on the future of Europe was drafting the text of a “Constitution for Europe”. Building on the positive experience of enlargement to the Central and Eastern European countries (CEECs), the EU wanted to extend the same method to all the countries at its eastern and southern borders. Externally, except for the strong presence of the United States in the Middle East, who were nonetheless facing problems in Iraq and Russia, no other major powers were active in the EU’s neighbourhood. As a result, the EU cultivated the idea that it was the only player in town. Less than 10 years on, the situation has completely changed. Internally EU Member States and citizens have been facing the most difficult crisis since its inception, a crisis that is not only economical but also political and institutional. Therefore, much political energy and many resources have been devoted to trying to cope with it, in a process that is far from completion. Externally, the ENP has not proved successful and, paradoxically, when Southern Mediterranean countries overthrew the autocrats, this was done without the help of the EU. On the contrary, the situation in the East has gravely deteriorated, particularly in a key country like Ukraine, which seems to be shifting from Brussel’s orbit into Moscow’s.

The Policy Paper will examine how the ENP, revised in 2011, has delivered so far and whether it is up to the manifold current challenges facing the EU in its neighbourhood, as a result of the new strategic context and its internal problems. Finally, some policy recommendations will be put forward on how the EU could improve its action in its periphery.

1. An overall evaluation of the ENP and of its 2011 revision

A thorough evaluation of the ENP is not a simple task, as this policy includes as many as 16 countries and covers a wide range of policy areas (political dialogue, values, governance and democracy, trade, economic cooperation, energy, transportation, culture, people-to-people contacts). According to the European Commission (now together with the European External Action Service, EEAS), which carries out on an almost yearly basis a detailed evaluation of how the ENP has scored with reference to different countries and sectors, the overall

result was positive. The latest of these documents,¹ released in May 2012, claimed that the EU has responded with determination to a fast-changing situation in its neighbourhood and notably increased funding for ENPI countries by more than €1 billion for the period 2011-2013. It also re-oriented assistance to these countries through new programmes: SPRING for the Southern Neighbourhood and EaPIC for the Eastern Neighbourhood.

The point is that this evaluation focused on input, while neglecting output. In fact, one might wonder: have the abovementioned additional funds been spent effectively? What was the result? The approach outlined in the 2011 ENP revision is not a radical departure from ENP principles, but rather a re-examination of them following the Arab Spring. Besides the commitment to a substantial rather than a formal concept of democracy when dealing with its neighbours, the EU set out to reinforce its approach based on conditionality (a term that, interestingly, never appears explicitly in EU documents, possibly to avoid accusations of political imperialism).² The stricter enforcement of both positive and negative conditionality also means a stronger differentiation between ENP countries, which in turn is likely to increase fragmentation, especially in Southern Mediterranean countries that are seemingly following very different political trajectories post-Arab Spring. Besides the practical problems of implementing conditionality, a political dilemma stands out: positive conditionality can only be applied to countries that have gone through a regime change, like Tunisia, or are experiencing an endogenous process of reform, like Morocco.³ However, in these same countries the awareness that the political change has been triggered from within and not from outside is likely to generate a negative reaction to the application of conditionality.⁴ On the contrary, where authoritarian regimes continue to have the upper hand, like in Algeria or the Gulf countries, the EU is either unable or unwilling to use (negative) conditionality;⁵ sanctions against Syria are the only notable exception throughout the EU neighbourhood.

1. European Commission and High Representative of the EU for Foreign Affairs and Security Policy, *Joint Communication on Delivering on a new European Neighbourhood Policy*, JOIN(2012) 14 final, Brussels, 15.5.2012.

2. European Commission and High Representative of the EU for Foreign Affairs and Security Policy, *Joint Communication on a New Response to a Changing Neighbourhood. A review of European Neighbourhood Policy*, Brussels, COM(2011) 303, 25.05.2011.

3. N. Tocci, "A Trilateral EU-US-Turkey Strategy for the Neighbourhood: The Urgency of Now", IAI Working Papers, 12 | 08 – March 2012, p. 12.

4. R. Balfour, "Changes and Continuities in EU-Mediterranean Relations After the Arab Spring", in S. Biscop, R. Balfour and M. Emerson (eds), *An Arab Springboard for EU Foreign Policy*, Gent, Academia Press, January 2012 (Egmont Papers No. 54).

5. N. Tocci, *cit.*, p.12.

If we shift our attention from the South to the East, the situation is different, but certainly not better. The recent parliamentary elections in Belarus, held on September 23rd 2012, were neither free nor fair, and resulted in an unsurprising landslide victory for the candidates supporting President Lukašenko. It is of little consolation that even without major rigging, Lukašenko's supporters would have won anyway. Elections in Georgia, held on September 30th 2012, were genuinely democratic and the opposition ousted the incumbent President Saakashvili after nine years in power. However, the overall picture of the Eastern neighbourhood is rather grim. Take Ukraine, for example: relations between the biggest and most important of Eastern neighbours and Brussels have recently "reached their lowest point yet",⁶ and may, following some possible new moves by Kiev, come to a "complete deadlock". Here, the former Prime Minister Yulia Tymoshenko is in jail as a result of a sentence that has clear political motivations. Ultimately, conditionality has not worked even with this country, which some years ago looked set to embark on a democratic process following its own Orange Revolution. The overall deterioration of the situation in the Eastern neighbourhood speaks to the difficulty for the EU to be effective by using its traditional enlargement-lite policy. Given this background, the 2011 revision of the ENP looks like a sort of rebalancing of the Eastern and Southern dimensions.⁷ Indeed, the offers that the EU had made to Southern Mediterranean countries following the Arab Spring were those already being offered to Eastern neighbours.

2. Internal and external challenges to EU action in its periphery

The revised ENP is now more balanced between the East and the South, and also more prone to bilateralism than multilateralism, but what about strategic considerations? What is its added value? As is usually the case in European foreign policy, forging a formally common policy or position is given priority over the effectiveness of such a policy/position. The ENP has had the merit of creating a single framework for relations between the EU and all its

6. O. Shumylo-Tapiola, "The EU's Plan B for Ukraine", *Commentary*, Carnegie Endowment for International Peace, 14.05.2012.

7. M. Comelli, "The Impact of the Changes in the Arab World on the Southern Dimension of the ENP", *International Issues & Slovak Foreign Policy Affairs*, Vol. XX, No. 2, 2011, pp. 54-70.

members, with the result that Northern EU Member States had to deal with the Mediterranean and Southern European States had to deal with Eastern Europe and the Caucasus. The flip side, however, is that the ENP has often come to represent only the minimum common denominator among the different positions taken by Member States. In fact – and this is particularly apparent in the Mediterranean – on the one hand there is the ENP, that is mainly dealt with in a technocratic way by the Commission/EEAS, and on the other are the Southern European States (Italy, Spain, but above all France), which have their own policies and can count on many resources.⁸ The tendency toward re-nationalisation is not limited to the ENP but constitutes a more general trend affecting all areas of European foreign policy. Enlargement has also been exposed to a “creeping nationalisation”⁹ and is characterised by a dual approach: on the one hand, official EU declarations reaffirm that the process continues, while on the other Member States stall the advancement of negotiations. This is exactly what happened in the case of Turkey’s accession negotiations. At least in the case of the western Balkan countries, divisions among EU Member States concern the “when” and “how”, not the “if”. In other words, while some Member States do have reservations about Turkey joining the EU, no EU country opposes the entry of western Balkan countries, although positions over the application of conditionality and the timing of the process largely differ.

This renationalisation of foreign policy and external relations in the post-Lisbon Treaty era appears paradoxical given that it is happening just as the long sought after Lisbon Treaty innovations have finally entered into force. It seems that European foreign policy after the Lisbon Treaty is like the young officer Drogo, the main character of Dino Buzzati’s masterpiece “The Tartar Steppe”: when the Tartar invaders, who he has waited for all his life, finally come, he is no longer able to fight them and must abandon the battlefield. Examples of non-use of the Lisbon foreign policy provisions abound. The United Kingdom has stubbornly objected to the full application of the treaty when it came to the rights of EU delegations to negotiate and represent the EU when the topic at hand is a shared competence. Spain refrained from facilitating the implementation of the foreign policy provisions of the Lisbon Treaty and behaved

8. N. Witney and A. Dworkin, “A Power Audit of EU-North Africa Relations”, *European Council for Foreign Relations*, September 2012.

9. C. Hillion, “The Creeping Nationalisation of the EU Enlargement Policy”, *Swedish Institute for European Policy Studies (SIEPS)*, 2010:6.

as if nothing had changed, convening important international meetings, while failing to make any reference to Mr. Van Rompuy, the newly elected President of the European Council.¹⁰ In particular, all the legal and institutional provisions aimed at ensuring more vertical coherence (between Member States and the EU) and horizontal coherence (between different EU institutions and notably between the intergovernmental Common Foreign and Security Policy (CFSP)/Common Security and Defence Policy (CSDP) and supranational external action), have been seriously neglected.

Both the EU and its Member States have devoted significant energy and resources to solving a euro area sovereign debt crisis that is far from over. For over two years, the euro area crisis has been given priority over all other issues, as evidenced by the agenda of the European Council summits over this period of time. A more introverted EU is not only less capable of performing well externally, it is also overlooked by other countries. Moreover, the well-known soft power of the EU, its model of democratic governance and generous welfare systems are indeed at risk. This has been clearly perceived outside of the EU, and citizens of candidate and neighbouring countries are becoming more and more critical towards this model. To put it bluntly, they wonder whether this crisis is on their own political and economic horizon and if it is worth carrying out EU-induced reforms if the end result is so poor. At the same time, new actors at the doorstep of the EU like Russia, Turkey and even China have become more active. For all its talk of strategic partnerships and all the elaborate legal and political frameworks regulating its relations with these countries, the EU has not yet developed a clear idea of how to deal with them within its common neighbourhood. The situation has changed a great deal since the early 2000s and the EU should take into account the potential benefits of its relationship with these countries. Of course, some stakeholders have a very different worldview of international relations than that of the EU and it will be difficult to deal with that. Thinking in terms of sphere of influence, as Russia does, is not in the EU's DNA, but specific cooperation should be attempted, notably so within the context of the unresolved conflicts in Eastern Europe and the Caucasus. Stronger chances of a fruitful cooperation in the common neighbourhood exist with Turkey, a country whose foreign policy tenets are more similar to those of the EU.

10. C. Gebhard, "Coherence", in C. Hill and M. E. Smith, *International Relations and the European Union*, Oxford: Oxford University Press, 2011.

3. Policy recommendations

In conclusion, in order to strengthen its neighbourhood policy, the EU should:

- Although the crisis has acquired central stage and absorbed many energies, the EU should develop a comprehensive and strategic approach to its neighbourhood, aimed at benefiting from its opportunities and not just facing the challenges stemming from the area;
- Follow a more political and less technocratic approach towards its neighbours: enlargement-lite strategies and conditionality have often underperformed and currently they are even less effective. Therefore, new concepts and practices of cooperation are needed;
- The bilateral relations of the EU with specific countries and regions in the neighbourhood should be made more coherent with each other in order to reinforce synergies;
- Launch specific forms of cooperation with other important actors in its neighbourhood, in particular with Turkey; beyond its borders the EU is not the only player in town. Both actors share the objectives of achieving stability, security and prosperity in their neighbourhood. Specific forms of cooperation should also be launched with Russia, in particular towards finding a solution to the so-called frozen conflicts in Eastern Europe and the Caucasus;
- Optimise the use of funds channelled through the European Neighbourhood and Partnership Instrument (ENPI) and the new programmes and make sure that the money reaches civil society organisations and is directed to economic and social development.

THE EU NEIGHBOURHOOD COMPETENCE UNDER ARTICLE 8 TEU

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Summary

Since the Treaty of Lisbon, the European Union is formally instructed to “develop a special relationship with neighbouring countries” (Article 8 TEU). While this express mandate partly codifies past EU engagement, particularly through the European Neighbourhood Policy, it introduces several noticeable novelties in the way in which the Union conceives of, and develops its policy towards its vicinity. Envisaged as a EU ‘neighbourhood competence’ with a value-promotion objective and a mandatory nature, it epitomises the EU as normative power.

Yet, despite the strong constitutional instruction of the TEU, and the profound changes in the region, the actual engagement of the Union (and its Member States) towards the vicinity has not profoundly changed. It is argued that the EU neighbourhood policy appears to be affected by the disadvantages of its constitutionalisation, and incapable of reaping the latter’s benefits in terms of compelling the EU institutions and Member States to act forcefully.

Introduction

Since the entry into force of the Lisbon Treaty, the European Union (EU) has been formally instructed to “develop a special relationship with neighbouring countries” (Article 8 TEU). While this explicit mandate partly codifies past EU engagement with its neighbours, particularly in the context of the European Neighbourhood Policy (ENP), it introduces several noticeable novelties in the way in which the EU conceives of, and develops its policy towards its vicinity. In particular, Article 8 establishes an express EU ‘neighbourhood competence’ which is formulated in mandatory terms.

Confirming its all-encompassing scope, the new Treaty provision also adjusts the purpose of the Union's neighbourhood policy and the methodology to attain it.

As it will be argued below, such innovations may contribute to the cohesion of the EU neighbourhood policy. At the same time, it will be suggested that, despite its general ambition to enhance the coherence of EU external action, the Treaty of Lisbon also appears to have disrupting effects on the institutional framework of EU external action in general, and on EU policy towards its neighbours, in particular.

1. The EU obligation to develop a “special relationship with neighbouring countries”

1.1. An EU express competence

The Treaty of Lisbon introduces a legal basis for the EU to develop “a special relationship” with its neighbours. While textually identical to Article I-57 of the Treaty establishing a Constitution for Europe (TCE) where it finds its origins, Article 8 TEU was placed in a very different section of the founding treaties. Article I-57 was included in Part I of the TCE containing all the fundamental provisions of the EU constitutional order, and was the sole article of a specific Title entitled “The Union and its Neighbours”, that preceded the Title on Union Membership (Title IX), to which it was thus related. By contrast, Article 8 TEU is inserted in the Common Provisions of the Treaty on European Union.¹ Hence, the new neighbourhood legal basis is no longer structurally related to the enlargement provision, still located in the Final Provisions of the TEU (Article 49 TEU). Nor is it formally included in the specific sections of the Treaties relating to the external action of the Union, namely Title V TEU, and Part V TFEU.

1. For an elaborate and insightful discussion on this point, see S. Blockmans, “Friend or Foe? Reviewing EU Relations with its Neighbours Post Lisbon”, in P. Koutrakos (ed.), *The European Union's External Relations A Year After Lisbon*, CLEER Working Papers 2011/3, 113.

Whether this relocation is an *accident de parcours* in the drafting of the Lisbon Treaty, or a deliberate choice of the 2007 IGC remains debatable. To be sure, its new home in the Common Provisions colours the meaning of the competence it encapsulates, the nature of the policy it envisages, as well as its function.

In particular, the inclusion of the specific legal basis in the TEU, yet outside the chapter on the Common Foreign and Security Policy, entails that the neighbourhood policy should not be affected by the pillar-politics deriving from the recurrent distinction between the CFSP and non-CFSP powers of the Union (cf. Article 40 TEU). It thereby consolidates the *comprehensive* character of the neighbourhood policy, as conceived and developed pre-Lisbon. In this sense, the 2004 strategic document of the European Commission emphasised that the ENP is “a comprehensive policy integrating related components from all three ‘pillars’ of the Union’s present structure”,² which offers “a means for an enhanced and more focused policy approach of the EU towards its neighbourhood, *bringing together the principal instruments at the disposal of the Union and its Member States*. It was also conceived to further advancing and supporting the EU’s foreign policy objectives” (emphasis added).³ To be sure, the Commission underscored the full accordance of the ENP with the goals of the 2003 European Security Strategy whereby the EU’s “task is to promote a ring of well-governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations”.⁴

Moreover, its location outside the Treaties provisions on “EU external action” suggests that the neighbourhood competence is conceived as a policy with both *internal and external* dimensions. Its all-encompassing character might indeed explain why it is not expressly set out in the catalogue of competence included in the TFEU. To be sure, its inclusion in the *Common Provisions* of the TEU means that the objective of the EU’s special relationship with its neighbours is mainstreamed into other policies of the EU. In practical terms, it entails that EU institutions ought to take account of neighbourhood policy aims when exercising Union competences, for instance in elaborating the Union’s transport,

2. European Commission, *Communication on the European Neighbourhood Policy – Strategy Paper*, COM(2004) 373 final, 12.05.2004, at 6.

3. *Ibid.*, at 8.

4. High Representative of CFSP, *A secure Europe in a better world – European Security Strategy*, 12.12.2003.

energy, environment policies, in the development of the internal market and, naturally, in the enlargement process. Such a constitutional integration of neighbourhood aims in the policy making of the Union, if effective, can significantly contribute to furthering the consistency of the EU's action in general, and towards its neighbours in particular.

1.2. A formal EU obligation to engage

Not only does Article 8 TEU formally provide an express competence to “develop a special relationship”, its *mandatory* formulation by the use of “shall” entails the Union is under an obligation to develop such a relationship.

In that, the exercise of the neighbourhood competence differs significantly from that of enlargement. The activation of the accession procedure enshrined in Article 49 TEU is wholly determined by the applicant state's compliance with a set of eligibility conditions, set out in Article 49 TEU and articulated in the so-called “Copenhagen criteria”. Indeed, the Union is not obliged to trigger the accession procedure, but may choose to do so if the applicant is deemed to fulfil EU conditions. In the case of the competence of Article 8 TEU by contrast, the decision to engage or not with neighbours is *not* subject to conditions (save the somewhat ambiguous requirement that the countries concerned must be a neighbour to the EU), but compulsory. Only the *modalities* of that engagement, i.e. of the actions undertaken, are a function of the behaviour of the country concerned. In that, the neighbourhood competence could be likened to common policies, such as agriculture, transport or the common commercial policy, which all involve a strong EU mandate to act.

As a legal basis establishing a mandate for an EU engagement with its neighbours, Article 8 TEU formally integrates the EU neighbourhood policy in the EU constitutional framework. While this may have positive consequences in terms of substantive coherence as suggested above, it may also entail a degree of formalism in policy-making that may challenge coordination between various institutional actors.

In particular, in constitutionalising the neighbourhood competence, the Treaty adds *constraints* on the development of a policy which, thus far, had been incremental and flexible, thanks notably to the fact that it was forged outside the

Treaty framework, on the basis of soft law instruments.⁵ As a new express competence, its exercise is more constrained in that it should fully comply with the structural and procedural principles of the Union's legal order, such as conferral, subsidiarity, proportionality, and consistency. In the same vein, the exercise of the EU neighbourhood competence might become subject to competence struggle among institutions, as we shall see below.

The flip side of the coin is that the neighbourhood competence is *more constraining* as a result of its inclusion in the institutional system of the EU, in as much as inaction on the part of the Union could lead to possible proceedings before the European Court of Justice, the way failures to develop common policies were, in the past, sanctioned by the Court. Moreover, the exercise of the EU neighbourhood competence requires from both institutions and Member States a higher degree of compliance with the measures thereby adopted, and a mutual duty of cooperation to ensure the fulfilment of the Union objectives thereof.

2. A special relationship with a *finalité*

Indeed, Article 8 TEU establishes a Union's neighbourhood competence with a *finalité*: the envisaged 'special relationship' is aimed at establishing "*an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation*". While partly resonating the objectives of the existing ENP, Article 8 TEU appears to refine the ultimate purpose of the Union's neighbourhood policy (§ 2.1.) by articulating the foundations of the area it is purported to establish. It also changes the methodology to achieve this aim (§ 2.2.).

2.1. A refined purpose

By including an explicit reference to "the values of the Union" as the foundation of the future area of good neighbourliness, Article 8 TEU is moving away from the language hitherto employed in most ENP strategic documents. The latter

5. See B. Van Vooren, "The European Neighbourhood Policy as a Case-Study for Soft Law in EU External Relations", *European Law Review*, Vol. 34, No. 5, October 2009, p. 696.

2.2. An adjusted methodology

That the EU engagement is conceived as mandatory indeed coincides with the strategic interest the Union has in a stable and prosperous neighbourhood, as conspicuously acknowledged in the 2003 European Security Strategy. As it has been suggested elsewhere,⁸ this neighbourhood-security nexus makes conditionality partly inappropriate inasmuch as the EU cannot passively wait that the states in its vicinity comply with political and economic conditions, before eventually engaging if its own security is at stake. Article 8 TEU points towards the development of an active *policy* of reform and transformation of the neighbouring states, in line with its own values and interests (Article 21 TEU). In that, Article 8 TEU is a *neighbouring state-building policy*, involving the whole array of EU instruments.

8. M. Cremona & C. Hillion, "L'Union fait la force ? Potential and limits of the European Neighbourhood Policy as an integrated EU foreign and security policy", European University Institute, *Law Working Paper*, No 39/2006.

Having said this, conditionality is not excluded from the neighbourhood policy based on Article 8 TEU. While engagement is conceived as compulsory, the way in which the EU engages with a particular neighbour is significantly coloured by the situation on the ground. Indeed, Article 8 TEU is remarkably unspecific as regards the actual form of the ‘special relationship’. The provision is thus formulated so as to accommodate the multiplicity of instruments that have so far been carved out, viz. unilateral initiatives (e.g. ENP, ENPI), bilateral (e.g. association or partnership agreements), multilateral (UfM, EaP), in view of the plurality of the neighbours concerned. It also accommodates the diversity of views as regards the ultimate purpose of the neighbourhood competence: viz. alternative or preparation for membership. Such an undefined character makes it possible to adapt the Union’s engagement to the particular circumstances of the country concerned, with a view to influencing its development, towards the ultimate political *finalité* of the policy, namely the establishment of an area of stability, based on the values of the Union.

3. An expectation-implementation gap?

In the light of the above, it may be suggested that in principle, Article 8 TEU has the potential to contribute to furthering consistency in EU policy towards its neighbours. In substantive terms at least, the competence conferred to the Union permits it to develop an all-encompassing policy, inasmuch as it is the first and only policy to be included in the Common Provisions of the TEU. In practice however, various elements suggest that the benefits of Article 8 TEU, in terms of providing a legal basis for pursuing a coherent policy towards EU neighbours, remain to be reaped.

In effect, the Treaty of Lisbon has had disrupting effects on the governance of EU external affairs in general, and of the ENP in particular. While the latter was essentially Commission-driven until the Lisbon Treaty, its development and management has thereafter been divided most notably between the Commission and the European External Action Service, without clear allocation of tasks between the two. The European Council and its President are also getting increasingly involved in the shaping of the Union’s relations with its neighbours, and so is the European Parliament, while the rotating presidency remains active.

Often presented as a template for cohesive and coherent EU external action, the ENP is thus less well-integrated post-Lisbon, than it was under the previous dispensation. In effect, new needs for inter-institutional coordination have surfaced since the Treaty entered into force. A potent illustration of the ensuing complexity in the governance of EU neighbourhood policy is the 2010 Council Decision on the functioning and organisation of the EEAS, and particularly Article 9(5), which envisages the involvement of both the Commission and the EEAS for the programming of ENP funds. Indeed, while the Commission includes a specific Commissioner for the neighbourhood, the latter has been deprived of his specific ‘neighbourhood’ staff, who, formerly based at the Commission’s DG RELEX, have been transferred to the EEAS.

New policy initiatives as regards the neighbourhood therefore require tight coordination, notably but not only, between the Commission and the EEAS, and so does the management of the policy on the ground, notably at the level of EU delegations. Coordination and cooperation appear all the more pressing given that the multiplicity of actors has led to diverging EU approaches to the neighbourhood. Hence, the European Council stresses the contribution of the ENP to fulfilling the Union’s economic interests,⁹ whereas the Commission points to further conditionality by reference to international standards while toning down the EU value promotion.¹⁰ At the same time, Member States have been pursuing their own agenda towards EU neighbours, particularly in the context of the Arab Spring, sometimes through military means. This diversity of approaches indicates that the benefits of the unified normative framework established by Article 8 TEU remains to be reaped.

To be sure, the institutional actors of the EU neighbourhood policy appear to underestimate – when they do not simply ignore – the new neighbourhood competence of the Union, and the objectives thereof. For instance, the May 2011 Joint Communication of the Commission and High Representative displays a failure to draw on the full potential of the new EU competence. In effect, and quite remarkably, Article 8 TEU, namely the constitutional foundation for the establishment and development of the policy, is hardly mentioned in the

9. European Council, *Conclusions*, 23-24 October 2011.

10. European Commission and HR, *A partnership for democracy and shared prosperity with the southern Mediterranean*, COM (2011) 303 final, 06.03.2011; European Commission and HR, *A new response to a changing Neighbourhood*, COM (2011) 303 final, 25.05.2011.

20-page document. It is only evoked once, yet not to articulate its potential, but as a way to include a harmless reference to Article 49 TEU in the document. Indeed, a growing discrepancy is appearing between the policy as conceived in Article 8 TEU, and as envisaged in the context of the ENP, notably in terms of its normative foundations and objectives (the same holds true for the Eastern Partnership and the Union for the Mediterranean). To put it simply, the objectives of Article 8 TEU are far more ambitious than those of the ENP as set out, for example, in the Joint Communication of May 2011. While the latter foresees increasing differentiation within the vicinity, and restraint in the approach, Article 8, as suggested above, establishes a robust transformative mandate.

Concluding remarks and recommendations

This Policy Paper has discussed the post-Lisbon constitutional framework within which the EU is to develop its policy towards the vicinity. It has exposed some of the potential benefits offered by the new legal basis in terms of its possible contribution to enhancing the coherence of the overall policy, and has shed light on some of its limitations, notably in terms of coordination among the institutional actors involved.

By constitutionalising it, the Lisbon Treaty has modified the *nature* of the Union's neighbourhood policy, particularly in view of the mandatory language it contains. By locating it in the Common Provisions of the TEU, the treaty drafters have given considerable prominence to the neighbourhood policy in the Union's action, confirming its all-encompassing dimension and endowing it with a bold *finalité* by reference to EU values.

However, the reality check is somewhat humbling. The actual commitment of the Union (and its Member States) following the entry into force of the Lisbon Treaty has remained circumspect, despite the strong constitutional mandate given by the TEU and the profound changes in the region, which both call for a new and ambitious engagement. In that, the policy appears to be affected by the disadvantages of its constitutionalisation (viz. less flexibility, and contamination by post-Lisbon institutional politics) without reaping the latter's benefits in terms of compelling EU institutions and Member States to act forcefully.

In the light of the above, the following recommendations could be considered:

- The Commission should produce (possibly jointly with the EEAS) a Communication exposing the full potential of Article 8 TEU, akin to what is often done when the EU is endowed with a new competence. Such a communication would inform the discussion among institutional actors as to what the EU is expected to achieve through its neighbourhood competence, not only in relation to ENP countries, but more generally in relation to bordering states. The overall coherence of EU action in its vicinity could thus be made more conspicuous and effective.
- The compulsory and all-encompassing engagement of the Union in its neighbourhood, as foreseen in Article 8 TEU, should also become much more prominent in political discourse, notably at the level of the Commission/HR initiatives. In practice, this means that the “special relationship” ought not to be reserved to those neighbours that meet EU conditions; it must also be developed in relation to those neighbours that fail to comply with EU values precisely in order to promote the latter. Thus, beyond sanctions, interactions with civil society should be further enhanced.
- *Mainstreaming* of the EU neighbourhood policy objectives should be actively practiced by the Commission (and, where relevant, by the HR/EEAS) as EU policy initiator, most notably in areas that have a direct bearing on EU interaction with its vicinity: namely energy, transport and environment.
- Action based on the EU neighbourhood competence ought to retain significant room for soft law instruments (e.g. strategic documents, action plans) to permit adaptability and flexibility of the policy, and to keep recurrent “pillar-politics” at bay.
- Coordination and cooperation among EU actors, notably between the EEAS and the Commission, should be strengthened to ensure better coherence in the overall approach, generally to frame the development of the neighbourhood policy, and more specifically to streamline the management of relevant programmes and to ensure consistent monitoring of the neighbours’ transformation. In the future, consideration could be given to appointing the Commissioner for Neighbourhood (and Enlargement) also as deputy

to the High Representative for Foreign Affairs and Security Policy. The double-hatted incumbent would thus head and be assisted by the whole network of services in charge of the neighbourhood policy, including the geographical Managing Directorates concerned. Such integration would beef up the EU's capacity to take initiative, in line with the strong mandate of Article 8 TEU.

THE MISSING SPRING IN THE EU'S MEDITERRANEAN POLICIES

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Summary

The changing political and social realities in North Africa and the Middle East, following the antiauthoritarian uprisings that started in Tunisia in late 2010, took Europe's institutions and governments by surprise. The fall of the wall of fear in Arab societies represents a major challenge, of unknown proportions for Europe, but also an unprecedented opportunity for building a new regional stability based on good governance, inclusive development and mutually beneficial exchanges.

The EU responded to these various challenges by launching a major revision of its neighbourhood policies. This represents a clear shift from the EU's previous policies that, deliberately or not, favoured "authoritarian stability". While this shift from authoritarian to sustainable stability does represent a long overdue course correction, the EU's strategic adjustment remains incomplete in many regards. The geopolitics of the Mediterranean region have been altered and the EU risks paying a hefty price in terms of security, influence and access in case it opts for a passive, wait-and-see approach.

1. The EU's *new* neighbours in the South

Since its creation, never before the so-called Arab Spring had the EU faced such a wide and profound bottom-up transformation in its southern neighbourhood as the one produced by the antiauthoritarian uprisings that started in

Tunisia in late 2010 and quickly spread across the Arab world. The new political and social realities in North Africa and the Middle East took Europe's institutions and governments by surprise and called into question their capacity to foresee, analyse and react to major challenges in the EU's immediate vicinity. Arguably, the fall of the wall of fear in Arab societies represents a major challenge of unknown proportions for Europe, but also an unprecedented opportunity for building a new regional stability based on good governance, inclusive development and mutually beneficial exchanges.

The deep demographic, economic and cultural changes witnessed in the Arab world in recent years are giving rise to multiple forms of social mobilisation against authoritarian rule, corruption and a lack of opportunities after decades of apparent resistance to change and deceptive stability. In a matter of a year and a half, four Arab autocrats who had been exercising almost absolute power were overthrown; democratic elections were held in different countries; at least two bloody civil wars broke out; two foreign military interventions took place; emergency constitutional reforms were made; some unpopular governments were reshuffled; and economic measures were taken to alleviate domestic pressure. Those developments are undeniably startling and they show a paradigm shift in a region linked to the EU by various partnership agreements and regional frameworks of cooperation.

The new context that has emerged around the Mediterranean following 2011 is accompanied by enormous uncertainties. The decades-long status quo that prevailed in the Arab world has revealed serious shortcomings and, with it, the stability of its political systems – both old and new ones – can no longer be taken for granted. Today it would be incautious to predict that any Arab country can remain unaffected by the regional wave of changes or, for that matter, to think that changing dynamics in different countries will inevitably follow similar paths.

The EU, among other international players, needs to adapt its policies towards the southern Mediterranean in order to deal with the new political systems. This includes building ties with recently formed governments that have a strong presence of parties with which Europe had not established relations in the past, as well as creating efficient channels of communication with emerging social movements, civil organisations and economic actors.

There is much at stake for European societies, both if the incipient transitions in Arab countries are thwarted (the resulting frustration due to unmet expectations could turn into radicalism and anarchy, easily spreading throughout the region), but also if they advance gradually towards more participatory systems with separation of powers and where economic and social development is inclusive. In the latter case, the opportunities that would arise for European economies in a more democratic and prosperous Mediterranean would be huge. These changes may translate into investment opportunities, greater trade, transfer of knowledge, joint projects and other economic advantages and complementarities.

2. The slow shift in the EU's vision

For years, the EU was criticised for the lack of consistency between its declared goals and actual policies in the southern Mediterranean. The failure to translate its pro-democracy and pro-human rights discourse into effective action, while at the same time supporting authoritarian and corrupt regimes, led to a growing disenchantment among Maghrebi and Middle Eastern societies. In Euro-Mediterranean relations, contradictions between short-term political calculations and the stated objectives of major regional initiatives have been a constant factor over the years. In the months that followed the fall of Ben Ali, Mubarak and Gaddafi, the EU and its Member States attempted to adapt to the new regional environment around the Mediterranean, combining expressions of support for the transitions already begun with the old policy of backing those autocracies still in place.

Western governments pursued stability in the Maghreb and Middle East almost at any cost. This implied uncritical support for repressive and internally delegitimised regimes in return for keeping their societies under control, allowing access to resources (chiefly energy) and trade and economic relations. On the other hand, Western policies towards the region have often been centred on fighting real or perceived threats such as terrorism and illegal immigration. This has allowed the Arab authoritarian regimes to restrict their populations' freedoms and political and social rights with almost complete impunity. Nobody can escape the fact that the West's excessive permissiveness towards the Arab lifelong dictators has helped widen the economic and emotional gaps between the two sides of the Mediterranean.

The problem is that this support, both from the EU and the US, did not translate into meaningful progress towards good governance and the rule of law. Nor did it help generate opportunities or create sufficient jobs in societies brimming with young people who aspire to have a decent standard of living and are increasingly in contact with the outside world. It is the sum of these elements of social malaise that triggered the widespread mobilisations against abuses of power in the region as a whole.

The socio-political transformations that have already started in some Arab countries – and those that may come next – will require that the EU reflects on its own policies in order to learn from past mistakes. Despite the difficulties, there is a need to realise that the more satisfied the inhabitants of the southern Mediterranean are with their own countries, the better off everyone will be on both shores. In this new context, the EU would be well advised to gauge the success of any initiative using a specific, simple criterion: whether or not it contributes clearly to increasing the opportunities for greater wellbeing for considerable sectors of societies south and north of the Mediterranean. Unless this takes place, the root causes of future instability will remain a menacing reality.

One thing is clear: the geopolitics of the Mediterranean region have been altered and the EU risks paying a hefty price in terms of security, influence and access if it opts for a passive, wait-and-see approach. Prudence is needed, given the bumpy road ahead of ongoing Arab transitions. However, there is a growing feeling that the EU is wasting precious time not acting decisively to help shape a more democratic future in its southern neighbourhood. European countries are the main trading partners and creditors of the Arab region. It would be incomprehensible for the EU not to play a central role in giving full support to the democratic aspirations of those who made immense sacrifices to rid themselves of dictatorship. The inability of the EU for over a year and a half to stop the bloodshed caused by the Assad regime in Syria is a case in point.

3. The EU's new strategic compass

The EU responded to these various challenges by launching a major revision of its neighbourhood policies. Although hesitant and divided at first, EU

policymakers rapidly cobbled together a new regional strategy as they grasped the strategic relevance and far-reaching consequences of the protests. The core tenets of this new approach were initially laid out in the Commission's 'Communication on a partnership for democracy and shared prosperity with the southern Mediterranean' in March 2011. This was followed by further communications on 'A new response to a changing neighbourhood' in May 2011 and on 'Delivering a new European Neighbourhood Policy' in May 2012, as well as a flurry of accompanying EU documents and communications.

Together, these documents sketch out a new set of strategic priorities for the EU's neighbourhood policy that builds broadly on the core demands of the protest movements. First amongst these is the creation of "deep democracy" that goes beyond formalistic electoral processes and respects fundamental liberal principles. Second comes the building of "people partnerships" that are able to foster pluralistic civil societies and engage with the diverse new spectrum of civilian actors in the Mediterranean. Finally, the EU has committed itself to promote "inclusive growth" that leads to sustainable development and greater socio-economic equality. Through these measures the EU seeks to foster "sustainable stability" and build closer ties between the EU and the new Arab democracies.

This represents a clear shift from the EU's previous policies, which, deliberately or not, favoured "authoritarian stability" based on the precept that political change could only flow from gradual social and economic transformations. While this shift from authoritarian to sustainable stability does represent a long overdue course correction, the EU's strategic adjustment remains incomplete in other regards.

First, the EU has largely failed to give some meaning to most of the new catch phrases that it so liberally deploys. The EU's democracy promotion concept remains fuzzy and definition of deep democracy vary throughout the speeches of EU officials, inadvertently raising suspicions of a hidden EU agenda. The EU has been more concrete when it comes to redefining its civil society engagement through a new Communication, but remains ambivalent about its relations with faith-based and traditional parts of civil society. The concept of inclusive growth, finally, has been treated largely as an addendum to the EU's development approach by adding a few social investment projects on top of

the EU's established agenda of market, trade liberalisation and regulatory adjustment.

Second, the revised ENP struggles to fully grasp the “failure of gravity” in the EU's relationship with the southern Mediterranean. The sagging attraction of the EU model and the new confidence of the young Arab democracies have meant that the EU-centric vision of a European Mediterranean has lost some of its appeal. While the EU has responded by introducing greater differentiation into its bilateral approach, it has barely started to consider the consequences of a more independent and diverse region. Instead, the needle of the EU's strategic compass remains firmly fixed in a northerly direction.

Finally, it is not enough for the EU to focus its attention exclusively on the ongoing political transition processes in Tunisia and Egypt. While the evolution of these countries is indeed pivotal, other problems linger. The EU urgently needs a new strategy for engaging countries, like Algeria, that are unlikely to follow the Tunisian model any time soon. Moreover, some of the more “traditional” regional challenges require the EU's immediate attention. The collapse of the Middle East peace process, the Iranian nuclear crisis, smouldering Sunni-Shia tensions, and mounting instability in the Sinai and the Sahel all have the potential of derailing ongoing transition processes. The EU, in other words, requires a strategy that considers the impact of the revolutions in their broader regional setting.

4. New tools, old toolbox

The EU's failure to embark on a more radical overhaul of its regional outlook has, unsurprisingly, limited the effectiveness of some of the new tools it has developed in response to the Arab Spring.

Prime amongst these is the use of EU conditionality. The adoption of the “more-for-more principle” in order to incentivise and support domestic reforms has been one of the key changes that emerged out of the ENP revisions. Based on Catherine Ashton's 3Ms of money, markets and mobility, EU conditionality was to become more objective and more effective. Arguably, neither goal has been met. The EU now wields an impressive bag of new incentives that include

amongst others its newly launched SPRING programme, Mobility Partnerships and so-called Deep and Comprehensive Free Trade Areas (DCFTAs). While these are mouth-watering rewards for countries eager to move closer to the EU, they may appear as poisonous fruit to some of the more independent Arab democracies and are likely to be outright unappealing to the remaining democracy laggards. The limited size of some of these rewards further diminishes their potential use as concrete leverage for reforms, especially in a situation where alternative sources of funding are available from the Gulf.

Moreover, despite all the talk of clear benchmarks and objective criteria, the EU appears to have dispensed these rewards in a somewhat random fashion. Regardless of serious questions remaining over the depth of political reforms in Jordan and Morocco, both countries have been amongst the winners of the EU's more-for-more bonanza. Somewhat surprisingly, the EU has also front-loaded a good deal of its incentives: Task Forces have been initiated, DCFTA negotiations launched, and Mobility Partnerships are being negotiated. Backtracking on commitments and suspending aid if reforms falter will be predictably difficult. The EU's paralysis following the Egyptian constitutional crisis stands testimony to this. In truth, much of the EU's more-for-more approach has been about channelling additional funding to specific issues and countries, not providing the EU with additional leverage.

More successful have been the EU's concrete measures to support elections and democratic institution building through training, technical assistance and help with judiciary reforms. The EU's willingness to employ sanctions – the unwritten less-for-less principle – has also been impressive compared with its previous record.¹ But even here some questions remain. While economic sanctions rightly remain the *ultima ratio* of EU action, this raises the question of how the EU should react to reform reversals or possible future cases where countries combine free elections with an illiberal domestic agenda.

Much of the EU's focus in this regard has been on developing a new strategy for engaging with civil society. To this end, the EU has adopted a new

1. The EU has enforced sanctions on individuals and companies connected to the old regimes during most of the public uprising as a tool to pressure the regimes. In the case of Syria, these sanctions have been much more comprehensive, including the crucial oil sector as well as an arms embargo and sanctions on certain financial products.

Communication on ‘The roots of democracy and sustainable development: Europe’s engagement with civil society in external relations’, has launched a new civil society facility and is preparing a European Endowment for Democracy. All of these promise to provide new tools and avenues for engagement. Still, there remains a certain danger that the EU’s open and outright support for liberal and western-style civil society organisations (CSOs) and its almost complete disregard for Islamic and traditional parts of civil society will only serve to widen the deepening social divide in some parts of the region and open the EU to accusations of partiality.

Finally, there remains the limited size of the support that a cash-strapped Europe is able and willing to muster – in terms of funding and other measures – in a time of fiscal austerity and political crisis. The consequences for the EU’s credibility and attractiveness, as variously discussed, have been severe.

All of this has meant that the ENP’s new tools remain dull and somewhat ineffective given the current situation. More worryingly perhaps, the EU is fundamentally still using the old toolbox of ENP measures, based on an “enlargement-light” approach that envisions an ever more tightly integrated Euro-Mediterranean region. The idea that the EU can use these outdated and rather limited tools in order to shape the ongoing transitions in line with its ill-defined ideas of western-style liberal democracy is ultimately self-defeating. Instead, the EU will have to part with its existing “donor mentality” and move towards real partnerships and people-to-people confidence building measures.

5. Recommendations

- **Conditionality:** The possibility that the EU attempts to “shape” the emerging democracies through leverage is inherently problematic. Negative conditionality (less-for-less) is very useful in order to send a clear political message – such as in the case of Syria – but is unlikely to be effective in incentivising specific reforms or to serve as a deterrent, as the case of Iran has shown. Instead, EU public diplomacy ought to become more forceful and direct when addressing its close partners, like Jordan and Morocco, which are most likely to listen. The space for positive conditionality (more-for-more), on the other hand, is rather limited, given dwindling resources

and the EU's sagging power of attraction. Perhaps the EU's best alternative is to focus the use of conditionality on very narrowly defined objectives, such as freedom of speech, by applying clear benchmarks and automatic triggers that lead to a reduction in funding.² Regardless, the EU will have little control over the direction of change.

- Civil society: The EU could do well to promote dialogue across the Mediterranean, but also amongst southern civil society organisations, in order to prevent the dangerous segmentation of southern civil society. Greater dialogue and cooperation with Islamic donors and NGOs is particularly important in this regard, in order to prevent a politicisation of civil society assistance and to break down mutual stereotypes and misperceptions. Moreover, while there are good reasons for the EU to emphasise the watchdog function of civil society, it should promote a cooperative and consensual style of state-society relations and avoid undermining the legitimacy of new state institutions. Finally, the EU should apply its civil society concept more flexibly and acknowledge the potential of counterpart traditions in promoting pluralism and democracy.³
- Inclusive Growth: In a time of tightening fiscal budgets, any substantial increase in ENPI funding for the region beyond the current Commission proposal appears unrealistic. However, there is much room for upgrading EU support when it comes to trade (especially agriculture products) and mobility.⁴ Greater progress on these issues would not only help the region but also have the potential of kick-starting growth in Europe. But rather than relying on lengthy and acrimonious negotiations of DCFTAs and mobility partnerships, more urgent action is required. The idea of extending the EU-Turkey customs union deserves serious consideration.⁵ Similarly, the EU could do more to foster regional trade and integration by

2. See Rosa Balfour, "EU Conditionality after the Arab Spring", *EuroMeSCo Working Paper*, 16.06.2012; Richard Youngs, "Funding Arab Reform?", GMF Mediterranean Programme, *Policy Brief*, August 2012.

3. See Timo Behr & Aaretti Siitonen, "Building Bridges or Digging Trenches: Civil Society Engagement after the Arab Spring", *FIIA Working Paper* 77, January 2013.

4. See Haizam Amirah-Fernández & Eduard Soler i Lecha, "Towards a Paradigm Shift in Euro-Mediterranean Relations", in Elvire Fryba (dir.), *Think Global - Act European (TGAE III)*, Notre Europe, June 2011.

5. See Iana Dreyer, "Trade Policy in the EU's Neighbourhood: Ways forward for the Deep and Comprehensive Free Trade Agreements", *Studies and Research No. 90*, Notre Europe, May 2012.

supporting the revival of the Arab Maghreb Union and other regional initiatives and by reassessing the EU-sponsored Agadir Process.

- Comprehensive regional strategy: While the Arab Spring has been disconnected from issues such as the Middle East peace process, the failure of the EU to re-think its approach to this and other regional issues is dangerous. The potential for spillover is considerable and clinging to old realities does not seem to make much sense in the new context. One way forward to encourage a more comprehensive strategy that goes beyond the “transitional paradigm” could be by reviewing the 2000 EU Common Strategy for the Mediterranean Region, which would enable a discussion on more strategic regional issues. This would also provide an opportunity for the EU to reconsider the future role of the Union for the Mediterranean and to rethink its relationship with “new” regional actors such as Qatar and Turkey and emerging external actors such as China.

THE EU IN THE EAST: TOO AMBITIOUS IN RHETORIC, TOO UNFOCUSED IN ACTION

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Summary

Although the EU is today mired in a number of uncertainties regarding the future of its own internal decision-making structures, it still is a source of inspiration for reform-minded groups and individuals in its Eastern neighbourhood. While strengthening of democratic institutions and improvement of governance are tasks that have to be desired and accomplished by Eastern neighbours themselves, the EU can contribute to the process by focusing on areas in which it has already a track-record.

Encouraging a multi-stakeholder dialogue and amplifying the voice of non-state actors acting in the public interest are key issues on which the Union should focus its assistance to the East. In its dialogue with partner governments, the EU should emphasize that it supports only projects for which such groups have been previously consulted. At the same time, those in charge of policy towards Eastern neighbours should follow more closely developments in Turkey's and Russia's neighbourhood policies towards the same countries.

Introduction

Eight years after launch of the European Neighbourhood Policy (ENP) and three years into the Eastern partnership (EaP), there are not many reasons to celebrate the EU's Eastern policy. In all this time, only Moldova has made significant steps towards closer integration with the EU. Ukraine is still a step

away from signing the Association Agreement, but even if that does happen (the process is deadlocked since the October 2012 parliamentary elections) it is clear that the country is still polarised with part of the elite reluctant regarding the EU track. Georgian and Armenian governments continue to formally express an interest in closer alignment with the EU while Belarus and Azerbaijan could not care less about the EU's 'transformative power' – doing business without talking about democracy and human rights is their preferred way of engaging with the Union.

Since the beginning of its Eastern engagement, the Union has been announcing a number of ambitious goals, including the partial replication of the success of the 2004 enlargement. Support for human rights and democracy featured prominently in the EU's neighbourhood policy documents, while resolution of the frozen conflicts in the neighbourhood was one of the priorities in the 2003 European Security Strategy.

Yet, few of the goals have been met. Moreover, a look at domestic governance standards in partner countries is not optimistic either – all Eastern partners except Moldova and Armenia rank lower on the free speech index.¹ Perceptions of corruption, public administrations that serve the elite more than citizens, limited dialogue options for free association and articulation of interests suggest that Eastern Europe has not been doing well lately. Of course, not all trends in the neighbourhood are negative – according to the UN Human Development Index (HDI),² which measures socio-economic development, including access to services such as education, five of the Eastern neighbours are considered countries with high levels of human development (Moldova ranks as medium) and their HDIs are steadily increasing. Thus although their civil liberties are in peril, the citizens of countries east of the EU are enjoying better living standards – regardless of their EU prospects.

What is it then that the EU is expected to deliver in the neighbourhood? Perhaps the key thing to be kept in mind when reflecting upon this question is that the EU will not be a driving force of progress or regress in the neighbourhood. Each

1. See Reporters without Borders, *Press freedom indices 2002-2012*.

2. United Nations Development Programme, *Human Development Index (HDI) Values*. Data for Moldova, Ukraine, Armenia, Belarus and Georgia available since 2005; for Azerbaijan since 2010.

Eastern European state has to tackle a long ‘to-do list’ of reforms, and as the experience of new EU Member States in Central Europe teaches us, external assistance can be efficient only if the necessary changes are demanded and internalised by domestic actors. The Union certainly can contribute to the process, but it should pay more attention to neighbours’ expectations and motivations. At the same time, it has to acknowledge that its policy towards Turkey and Russia has important repercussions for relations with the rest of Eastern Europe.

In general, the EU is not a remedy for Eastern Europe’s immediate problems. It requires an investment in terms of reforms, some of which can be economically and politically costly in the short and medium term. Moreover, the EU is currently redrafting the terms and conditions of its internal structure. The EU today is not as confident and attractive as it was a decade ago, when excited post-communist countries were becoming part of it. The internal EU debate on how the future of the common market should look is accompanied by revisiting earlier enlargements (especially in the Greek case); uncertainty regarding the future shape of the EU limits the incentives for some Eastern partners to sign up and become more deeply integrated in its structures.

Thirdly, and this is the case particularly for Azerbaijan and Belarus – while governing elites have improved some services for citizens (such as education or access to health care), this is not accompanied by a willingness to give up the perks of power and open the public sphere to competition. Thus, while there is an interest to trade with the EU and receive aid that will come via government channels, there is considerable resistance to implementing the human rights package included in the partnership.

Finally, the ENP and EaP frameworks are often incomprehensible to bureaucrats in the East, let alone citizens – except for the relevant ministries, only a handful of civil society organisations (CSOs) are occasionally let in to observe the practical dynamics of EU-partner country relations, while the effects on societies are still minimal.³ Unless the Union invests more effort into building

3. A. Duleba, V. Bilčík, V. (eds), “Taking Stock of Eastern Partnership”, RC SFPA: Bratislava, 2011; K. Wolczuk, “Perceptions of and Attitudes Towards the Eastern Partnership amongst the Eastern countries’ political elites”, Estonian Center of Eastern Partnership, *Eastern Partnership Review* No. 5, December 2011.

relations with societies rather than their governments, its declared goals in the neighbourhood are unlikely to be met.

The EU should not, however, give up its ambition to contribute to fundamental freedoms and good governance. Yet, with regard to economic issues, it should put more emphasis on engaging Eastern European governments on issues that have a direct impact on the quality of life of their citizens. In order to identify these issues, a multi-stakeholder dialogue is a must and this is exactly where more EU attention should be focused. Moldova and Ukraine have already started running ‘National conventions on the EU’ – a structured dialogue of government, opposition, regional administration, business, media and NGOs on concrete topics such as agriculture or regional development. With regard to motivating the governing elite towards deeper integration with the EU, Georgia would be the most obvious candidate for a similar platform. Whether it involves these types of platforms or other means, encouraging elected leaders to engage in dialogue with non-state actors is exactly the niche in which the Union can and should do more. In the end, supporting a multi-stakeholder dialogue on EU-partner country cooperation serves the Union’s interest in a better, lasting and more persuasive way than expensive PR and information campaigns.

1. Supporting human rights and democracy

The integration of Eastern Europe into EU structures is for many reasons not imaginable in the next few years. The EU should instead focus in-depth on the issues which make it most attractive to many in the East, notably contributing to amplifying the voice of non-state actors acting in the public interest. In other words, in its dialogue with partner governments, the EU should emphasise that support comes only for projects for which such groups have been previously consulted.

Conditionality has always been central to the EU’s approach to its close neighbours, with size and credibility of EU conditional incentives as key factors. With its Eastern neighbours the EU has quickly reached the limits of this tool. The obvious political disincentives offered to partner governments, for whom adopting democratic norms and liberal principles only leads to a loss of power,

could not be balanced by any tangible benefits. While economic incentives have been compromised by negotiations over DCFTAs (Deep and Comprehensive Free Trade Agreements), the EU is counting on support for bottom-up change via civil society yet the EU's insistence on developing an enabling environment for civil society in the partner countries is largely inconsistent. It also avoids linking important money trails (direct budget support) to effective involvement of civil society as part of the policy-making process.

The EU is not ready to balance the power costs of Eastern neighbour governments – the price would be too high; instead sticking to conditionality in an effort to reformulate dysfunctional policies towards its Eastern neighbours. These efforts have led to confusing results so far. The ENP Review published in May 2011 proposed to strengthen conditionality by introducing the 'more-for-more' principle with the 'less-for-less' principle to be used only in extreme scenarios. EU conditionality is mainly positive in that the EU offers and withholds carrots but does not carry a big stick. The EU's dubious ability to strengthen its leverage is obvious from a number of word games seen in recent foreign policy documents. One example is the 2011 Communication on 'Human rights and democracy at the heart of EU external action – towards a more effective approach',⁴ in which the EU Commission and the High Representative proposed a 'realistic' approach tailored to specific conditions and circumstances on the ground and a focus on areas where the EU can bring 'added value'. Yet it is not clear whether this added value means backing off from burning issues due to lack of political support or a smart piecemeal strategy.

The litmus test for the new conditionality in the making is the adoption of the legislation regulating EU external action financial instruments within the 2014-2020 Multiannual Financial Framework (MFF): initial observations are not very encouraging. For example, provisions on conditionality in the draft European Neighbourhood Instrument (ENI) Regulation constitute a step backwards. In the event of a violation of human rights or the rule of law, the possibility of redirecting assistance towards non-state actors is not mentioned in this version of the Regulation, whereas it was explicitly foreseen in the ENPI

4. European Commission, EU High Representative for Foreign Affairs and Security Policy, *Joint Communication to the European Parliament and the Council on Human Rights and Democracy at the Heart of EU External Action – Towards a More Effective Approach*, COM (2011) 886 final, 12.12. 2011.

Regulation that guided the instrument during the current (2007-2013) MFF. This wording is in sharp contrast to ideas floated by the Commission and the EEAS on the possibility of establishing a permanent mechanism allowing for redirecting assistance from partner country governments to civil society via a special clearing house.

Presently, the EU offers its Eastern partners the very same thing – integration into DCFTA and visa liberalisation as the major objectives, coupled with a standard set of assistance and capacity-building instruments. At the same time, it is clear that partner countries' relations with the EU are unlikely to progress unless human rights and democracy criteria are met. This can be illustrated in the case of Ukraine, regarding which EU Member States are reluctant to sign and ratify the DCFTA even though negotiations have been concluded. At the same time, what specific reforms each country has to undertake in order to be 'rewarded' or 'punished' is not clear. Benchmarks are a recurring and inconclusive issue in the ENP debate. The 2011 ENP Review proposed to define a new set of benchmarks in the areas of free elections, freedom of association, freedom of the press, rule of law and judicial independence, the fight against corruption and democratic control over the armed forces. Although the process should have been concluded in the second half of 2011, no results were publicly disclosed by the time of writing (Fall 2012).⁵ The benchmarks continue to be the policy's weakest element. Since no one seems to have an optimal methodology to follow, the issue keeps being postponed.

To make a long story short, the EU cannot decide whether to have one general set of benchmarks and, again, an implementation problem, or tailored sets of benchmarks either for selected regions or specific countries. For Eastern partners, the new benchmarks make sense only if acknowledged and internalised by both the EU and partner governments. Adoption of a common set of benchmarks would indeed provide a new impetus to the partnership. It would clarify and improve reform assessment and bring about a policy response from partner countries' governments. However, it is rather idealistic to believe that all Eastern neighbours are ready to adopt a new set of benchmarks – and Ukraine,

5. European Commission, EU High Representative for Foreign Affairs and Security Policy, *A Medium Term Programme for a renewed European Neighbourhood Policy (2011-2014)*, Joint Staff Working Paper, SEC (2011) 650, 25.05.2011.

for example, has already signalled it is not interested. Once again, there are limits to the EU's capacity to encourage reform in the neighbourhood.

So far, Belarus and Ukraine are the most notable examples of Eastern neighbours to which the EU has applied conditionality. In Belarus, EU sanctions were introduced following the presidential elections in December 2010, and in Ukraine, the finalisation of the Association Agreement was linked to the fairness of parliamentary elections in October 2012 which were called the "dirtiest [parliamentary] election in the history of independent Ukraine".⁶ Because manipulation was widespread, the EU put negotiations on hold. As to the efficiency of conditionality, only minor examples of success exist so far but there is some experience for the EU to build on. In Ukraine, for example, the EU stated in 2010 that it would not provide budget support for environmental reform unless the Ukrainian government allowed CSOs to contribute. The government responded and civil society recommendations were finally included in the Environmental strategy adopted in December 2010. Another example, also from Ukraine, is the freezing of budget support to a number of sectors in response to the adoption of laws on public procurement and civil service that contradicted principles of democracy and transparency. The response from the authorities came when the EU Delegation to Ukraine decided to disclose the information on the frozen accounts to the public. Unfortunately, there are few analogous examples; this is exactly the type of activity where the EU could do more.

2. Engaging Turkey, Russia and non-state actors

EU policy planning in the Eastern neighbourhood frequently underestimates the importance of other players who have their own plans in the neighbourhood.

Whether Turkey's policies in Eastern Europe will be in line with the EU's interests is to a large extent a factor of EU-Turkey relations. Turkey is currently deepening its ties with Eastern Europe in order to strengthen its position as a

6. Words of the deputy head of Ukraine's Central Electoral Commission Zhanna Usenko-Chernaia, in Andreas Umland, Iryna Solonenko, "EU-Ukraine Relations after the Ukrainian Parliamentary Elections: A new 'Plan B' for Brussels' policies toward Kiev", DGAP, 20.11.2012.

regional player and create more opportunities for its businesses. Ankara perceives diplomatic engagement and business contacts as two sides of the same coin – while a good economy generates resources for diplomacy, in turn diplomacy should be at the service of businessmen.⁷ Moreover, Turkey, an OECD member, is one of the biggest bilateral donors in Azerbaijan, Georgia, Moldova and Ukraine.⁸ Also, Turkey's visa-free policy to almost all of its neighbours makes it a far better facilitator of people-to-people and business-to-business contacts than the EU.

Turkey declares support for Southern Caucasus' integration into 'Euro-Atlantic Structures', although it could be argued that this support is strongly linked to Turkey's own EU ambitions. Should Turkey be eventually denied its EU membership or should it decide to withdraw, it is legitimate to ask whether it would gain or lose more from being outside the EU while the rest of Eastern Europe is inside. Thus, if the EU wants to deepen integration with its Eastern neighbours, it should use every opportunity to restart complete accession negotiations with Turkey. In addition to this, it should look for every opportunity for Turkey's partial integration into EU institutions. While there is much talk about 'strategic dialogue' between the EU and Turkey, to the EU's detriment there are still only limited opportunities in which Turkish and EU diplomats coordinate concrete policy options in the common neighbourhood.

Of special importance are non-state actors that cannot (in Turkey) benefit from the type of state-funded schemes for civil society that exist in EU Member States. In its March 2012 resolution on the 2011 Progress Report on Turkey, the European Parliament noted that 'participation of Turkish institutions and non-governmental organisations in ENP instruments would generate unique synergy effects'. This is certainly a victory after years of think-tank advocacy on closer alignment of Turkey's and EU's neighbourhood policies and should be duly reflected in the new Multiannual Financial Framework and European Neighbourhood Instrument.

7. For a brief summary of Turkey's foreign policy objectives, see A. Davutoglu, "Vision 2023: Turkey's Foreign Policy Objectives", Speech delivered at the Turkey Investor Conference organised by Goldman Sachs, London 22.11.2011.

8. TİKA, "2009 Kalkınma Yardımları Raporu", "2008 Kalkınma Yardımları Raporu".

Russia's suspicions regarding EU policy in the region and its continued perception of Eastern Europe as its sphere of influence are no secret. The recently announced Eurasian customs union, in which Russia is joined by Belarus and Kazakhstan, is seen by many in the EU as Moscow's way of extending influence into the post-Soviet space. Yet to understand Russia's East European policy, more factors need to be considered – chiefly Russia's quest for recognition by the West and for balancing against China.

All the former Soviet republics have been invited to join the customs union, yet it remains to be seen whether countries other than Kyrgyzstan and Tajikistan will accept. If it came into existence, the customs union would face a number of serious problems stemming from economic disparities, diverging goals among incumbent members, a lack of trust, and strong protectionism on the part of the three members. Moreover, there are exemptions from intra-union trade and other trade restrictions and a considerable lack of trust between members. Belarus and Kazakhstan will take time to complete the first integration step – it seems that the cost-benefit calculation has not yet been concluded in both Minsk and Astana. A key priority for the Russian leadership, however, is Ukraine, and Ukraine's acceptance of the deal would also bury the Eastern partnership project, since membership in the customs union is incompatible with the EU's DCFTA.

Although there are not many reasons to believe that a significant harmonisation of EU and Russian policies towards Eastern Europe will occur in the next year or two, non-engagement is not an option. The most important task for the EU is to try to build trust with Russia, possibly by initiating small-scale joint projects in the common neighbourhood. The Common Spaces format has to be reinvigorated and working groups of ministry officials from different levels of middle management should be convened. While this process will not necessarily bring immediate and tangible results, maintaining the status quo will most certainly not serve EU interests. Finally, dialogue with Russia should not be state-centred. Although the Putin administration has recently escalated its campaign against NGOs that receive foreign funding by forcing them to register as 'agents', the Union should continue to look for every possible way to forge dialogue with Russia's non-state actors. The EU-Russia Civil Society Forum,⁹

9. EU-Russia Civil Society Forum.

launched in 2010, is a welcome step in this direction, albeit minor. The Union is much less irritating for the Russian authorities than the United States, yet it fails to capitalise on this trust capital.

Conclusions and recommendations

The Union should be less ambitious in scope, more conscientious in depth, and more attentive to details with regard to its engagement. In drafting its policy towards neighbours, the EU must acknowledge that the success of the 2004 enlargement is not about to be repeated anytime soon. EU attractiveness for neighbours is lower given the crisis and what it currently offers to neighbouring countries. There are a number of areas in which the Union can realistically improve its performance and come closer to achieving its goals:

- In dialogue with Eastern partners, the Union has to utilise its capacity to encourage multi-stakeholder (state/civil society) dialogue more efficiently and make it clear to governments of Eastern neighbours that, with all due respect to state sovereignty, the EU integration process is in principle based on mutual intervention in domestic affairs. In other words, although the dialogue is labelled Eastern partnership, the European Union has to insist on the basic values enshrined in Article 2 of the Treaty on European Union. One of the ways to encourage internalisation of these values in systems of governance in Eastern partner countries is precisely by making the Eastern governments listen more to their own civil societies.
- The weakest part of the EU's neighbourhood policy remains the unclear definition of benchmarks – concrete political and policy issues with measurable criteria that partners must fulfil to become more deeply integrated into the Union. The fact that some neighbours – notably Azerbaijan and Belarus – dismiss any talk of 'EU-style' democracy and human rights should not stop the Union from applying these benchmarks, which are part of the general policy framework. For effective leverage of mutually-agreed principles of transparency, inclusiveness of policy dialogue and democratic standards, the EU should not hesitate to freeze funding as a stick; in partner countries which lack resources, it has already proved a successful strategy in several cases.

Relations with Turkey and Russia are part and parcel of the EU's Eastern policy matrix. The Turkish accession process needs to be revitalised and the Union should create more opportunities for concrete and visible joint policies in the neighbourhood. Not only the Turkish government but also businesses and NGOs should be engaged in the EU's dialogue with Eastern Europe. The EU should consider offering more incentives and simplified administrative procedures to support the participation of Turkish civil society organisations in EU-funded projects. Engaging Russia seems to be a more daunting task – and currently the only option. The Common Spaces dialogue should be revamped to serve as a forum for constructive exchange between officials. The official track has to be accompanied by strengthened outreach to Russian society, however. The EU-Russia Civil Society Forum has been a small step in the right direction, but much more can be done to build confidence and create networks. Partnerships between municipalities and schools, student exchanges and tri-lateral projects with Eastern European partners may not be game changers in the short-term, but are *sine qua non* conditions for the successful implementation of EU goals in the East.

THE EU AND TURKEY IN THE SOUTHERN NEIGHBOURHOOD: A NEW OPENING?

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Summary

Currently, the EU is facing two key challenges: internally, the euro crisis, and externally, the risk of a step back for the Arab Spring. Failure or success in dealing with these will determine the EU's position on the global stage in the very near future. It is profoundly in Europe's long-term interest, both economic and strategic, to see the Arab Spring succeed.

In this ambit, cooperation with Turkey is of key importance for the EU. Its significance derives from Turkey's rising leverage in the Arab world based on economic soft power, geopolitical clout and unprecedented popularity among Arab societies. The creation of the EU-Turkey strategic partnership would be considerably easier if EU Member States relaunched the Turkish accession process. A more positive stance of a new president of France on the Turkish accession process provides the EU with a window of opportunity to reinvigorate it in 2013.

Introduction

It is profoundly in Europe's long-term interest, both economic and strategic, to see the Arab Spring succeed. Its success would be facilitated substantially by the establishment of enhanced cooperation between Turkey and the EU in the Arab World. The creation of the EU-Turkey strategic partnership would be considerably easier if EU Member States relaunched the Turkish accession process. Signalling a more positive approach to Turkish accession, François Hollande, the new president of France, declared that France will not block the

Turkish accession negotiations, thus providing the EU with a window of opportunity to reinvigorate it in 2013.

Currently, the EU is facing two key challenges: internally, the euro crisis, and externally, the risk of a step back for the Arab Spring. Failure or success in dealing with these will determine the EU's position on the global stage in the very near future. In the case of the Arab Spring, cooperation with Turkey is of key importance for the EU. Its significance derives from Turkey's rising leverage in the Arab world based on economic soft power, geopolitical clout and unprecedented popularity among Arab societies. The Arab Spring has taken Turkey and the EU by surprise and shaken the organising concepts of their foreign policies: strategic depth and the ENP, respectively. As a result, a substantial convergence of agendas between Ankara and Brussels has emerged since 2011. Both sides adapted their foreign policy to new political circumstances by placing – at least in rhetoric – the democratisation agenda at the centre of their policy towards the Arab world (excluding the Gulf States).¹ The Arab Spring also brought serious common challenges for Brussels and Ankara, including turmoil in post-revolutionary states, civil war in Syria and Iran's policy aiming at regional domination. Last but not least, Brussels, Ankara and the majority of Arab countries consider that Turkey can be a source of inspiration for the democratisation and modernisation of the Arab world.

1. Deadlock in the accession process

Paradoxically, the unprecedented convergence in foreign policy between Ankara and Brussels is taking place at a time when Turkey's accession finds itself in a deadlock. This stalemate is regrettable considering that the accession process provides the EU with the optimal toolbox for the EU-Turkish strategic partnership in CFSP. Equally important, the accession process played a key role in democratisation in Turkey and its reinvigoration would contribute most probably to the reinforcement of Turkish democracy which is currently backtracking in certain spheres (i.e. media freedom). This scenario could

1. Probably the most symbolic expression of the emerging convergence of interests and values in the region between Turkey and the EU was the visit of Turkish Prime Minister Recep Erdogan to North Africa (September 2011). The main message directed towards the Arab revolutionaries during the visit was the need to build a secular democracy in association with free market reforms. "Başbakan Erdoğan: Laiklikten korkmayın", *Radikal*, 14.09.2011.

result in a permanent entrenchment of democratisation in the Turkish foreign policy agenda, which would lead to further convergence in foreign policy agendas between the EU and Turkey. Moreover, an indirect correlation exists between Turkey's democratisation and the transformation of the Arab world. On the other hand, in case of the strengthening of authoritarian policies of by Arab Islamist parties, the further deterioration of Turkish democracy would result in an exacerbated divergence of opinions between the EU and Turkey's policies towards them.

The recent impasse in negotiations results from the unresolved Cypriot problem and a negative attitude towards the accession of Turkey, particularly on the part of France under president Sarkozy. In response to the deadlock and the need for cooperation stemming from the Arab Spring, EU High Representative Catherine Ashton and Turkish Foreign Minister Ahmet Davutoğlu recently established regular talks, coupled with an annual four-way meeting between Ashton, Davutoğlu, EU Enlargement Commissioner Štefan Füle, and Turkish Minister for European Affairs Egemen Bağış. Davutoğlu has also occasionally participated in the EU's Gymnich meetings. In early October 2012 the EU delegation to Turkey, the Turkish Economy Ministry and the Union of Chambers and Commodity Exchanges of Turkey (TOBB) launched the EU-Turkey Global Business Bridges Initiative, a joint project for EU and Turkish firms to invest and trade in third countries, targeting Egypt, Tunisia and Palestine in the first stage. The Initiative aims to establish joint business ventures between the EU and Turkish companies in cooperation with local firms in these pilot countries. However, these initiatives are just small steps. An effective response to the tectonic shift underway in the southern neighbourhood requires a great leap, namely the establishment of comprehensive and institutionalised strategic cooperation between Turkey and the EU. Some experts suggest that cooperation of that kind can be established – despite deadlock of the Turkish accession process – because both sides, in light of common interests and challenges, simply cannot afford to shy away from it. The establishment of cooperation through backdoors seems highly unlikely, however, in situations where the CFSP constitutes an integral and important aspect of accession negotiations. Indeed, the 2012 Strategic Enlargement Paper published in November 2012 by the European Commission pointed out rightly that “the potential of the EU-Turkey relationship can be fully tapped only within the framework of an

active and credible accession process which respects the EU's commitments and the established conditionality".²

2. Turkish-French rapprochement

Nicolas Sarkozy, the former president of France was the most staunch opponent of Turkey's membership in the EU. By default, during Nicolas Sarkozy's term, both countries competed for primacy in the Arab World and their bilateral relations went from bad to worse. The most striking example of the rivalry in the Mediterranean was the unexpected visit of "supersonic" Sarkozy to Libya in September 2011 just before the arrival of Turkey's prime minister. Considering its geographic position and economic priorities, France could be the most important economic partner for Turkey. Unfortunately, French-Turkish economic cooperation is far below its potential due to the abovementioned tensions. Overlapping of positions on key issues in the region provides more evidence that tensions between France and Turkey were irrational. For instance, within NATO, Turkey and France are the keenest supporters of Syrian opposition forces and the independence of Palestine.

Both countries are the main outside stakeholders in the southern neighbourhood. Therefore, improving French-Turkish relations is an inevitable precondition for the enhancement of cooperation between Turkey and the EU. The year 2013 provides the EU with a window of opportunity to reinvigorate the accession process because François Hollande replaced Nicolas Sarkozy in May 2012. As far as the new presidential team is concerned, Laurent Fabius, the Minister of Foreign Affairs of France has stated several times very clearly that "we are set to take the negotiations forward on Turkey's accession in good faith, considering the past commitments without anticipating the future in all its details".³

2. European Commission, *Enlargement Strategy and Main Challenges 2012-2013*, October 2012, p. 16.

3. "Laurent Fabius, France and Turkey: New horizons for a long-standing relationship", *Hurriyet Turkish Daily News*, 11.12.2012.

3. Turkey as a stakeholder in the Arab world

The rise of Turkey in the Middle East and North Africa started well before the Arab Spring. Turkey's exports to Arab countries increased sevenfold between 2002 and 2010. In the same period the value of construction contracts awarded to Turkish companies in Arab countries reached a level of around 80 billion USD. Turkey gained the status of key economic partner for several Arab states (e.g. Iraq, Syria, Libya). Following the Arab Spring, Turkey lost its economic "assets" in Syria but boosted economic relations with Egypt (Turkish exports to the country nearly doubled between 2010 and 2012) and the Gulf states. In order to support economic recovery in the post-revolutionary environment, Ankara allocated almost 3 billion USD in low interest loans, grants and other forms of financial assistance for Egypt, Tunisia and Libya in 2011-2012. With regard to Libya, which is facing serious security challenges, Turkey contributed substantially to its stabilisation by providing its police, judiciary and armed forces with equipment, uniforms, training and pledges to restore their infrastructure (police stations). Turkey also plays a key role in the Syrian uprising as a main supporter of the insurgents. Since autumn 2011, Turkey has been sheltering the Free Syrian Army and offering the group bases of operation. Turkey has also provided the rebels with training, intelligence and military equipment. Almost 140,000 Syrian refugees have found a safe haven in Turkey. The war has confirmed that no country possesses a stronger influence in Syria among Sunni Arabs – the largest ethnic and religious community in the country (around 60% of the population) – than Turkey.

The most important outcome of the Arab Spring in geopolitical terms has been a spectacular rapprochement between Turkey and Egypt. Their relations are heading towards the establishment of a new axis in the region. The best indicator of a new era in Turkish-Egyptian relations is the fact that Ahmet Davutoğlu, the Turkish Minister of Foreign Affairs has visited Egypt ten times since February 2011. The most solid foundation of Turkey's influence in the Arab world is the widespread support it receives from the Arab population. According to many opinion polls, Turkey became extremely popular even before the Arab Spring, winning the battle for Arab hearts fought with other regional and global actors. A successful modernisation and democratisation undertaken by a post-Islamist party created an image of Turkey as a source of inspiration for Arab societies. The Turkish model won the largest following among

mainstream Islamists which emerged from the Arab Spring as key players in politics. However, even local Christians consider Turkey a substantially better model for their countries to follow than Iran or Saudi Arabia. Nevertheless, Turkey's geopolitical leverage in the region depends to a large degree on the course of events in Syria. The civil war in this country is partly responsible for an intensification of Kurdish guerrilla warfare in Turkey, incited by Damascus and Tehran, and a serious aggravation of relations between Turkey and the so-called Shia Axis comprising Iran, Syria, Maliki's government in Baghdad and Lebanon (Hezbollah).

4. Turkey: a bridge and a source of inspiration

Sharp cleavages between different political, religious, confessional and ethnic groups as well as discrimination against women are the most serious challenges facing the Arab world. Turkey's internal problems, though generally less severe than in other Middle Eastern states, are similar in nature. Turkey is a partly free state where women are still discriminated against in a patriarchal society, the rights of national minorities (Kurds) are still not fully respected, members of confessional and religious minorities (Alevi, Christians) feel like second-rank citizens in comparison with the Sunni majority, religious fundamentalism remains in some parts of the country a challenge and the political scene is deeply polarised. On the other hand, Turkey has achieved the most visible and tangible progress in coping with the abovementioned challenges in the Middle East. As far as Turkey's internal stability is concerned, as well as its aspirations to play an inspirational role for the Arabs, it is crucial for Ankara to stay on track towards full democratisation. It will allow Turkey to maintain predominance over other countries in the region. On the other hand, the substantial progress of democratisation in Arab countries can have a positive indirect impact on Turkey by stimulating reform (a healthy rivalry).

Similarities between the challenges in Turkey and in the Arab world and the rising leverage of Turkey in the region mean that a remedy found by Turkey would have a huge impact on the Arab World. The MENA region needs a "native" stakeholder to soften ethnic, religious and sectarian cleavages, especially between Shias and Sunnis. Turkey does not possess the capacity to achieve a permanent reconciliation between antagonistic fractions but it has

the largest potential to build bridges between them. The best example is Prime Minister Erdogan's visit to Iraq which took place at the end of March 2011 when he visited and prayed as the first Sunni leader to visit the most important Shia shrine in Najaf, Iraq. His speech in the Iraqi parliament, which underlined the necessity of friendship between Shias and Sunnis, met with a standing ovation from all the politicians. Unfortunately, the war in Syria is pushing Turkey into a sectarian zero-sum trap. Although Turkey supports the idea of reconciliation between antagonistic sectarian factions in Syrian opposition circles, the conflict is exposing shortcomings of Erdogan as a pious conservative Sunni Muslim who has attacked opponents using anti-Shia allusions and prejudices. Again, guaranteeing full equality to Alevis, a religious group whose members are Shia Muslims living in Turkey – one of the key preconditions of EU membership within the framework of the accession process – will make Turkish foreign policy immune from the instrumentalisation of religion by geopolitical interests.

5. How can the EU improve cooperation with Turkey in the southern neighbourhood?

- In 2013 the EU should seize the window of opportunity provided by France's new approach to the Turkish accession process and open new chapters particularly related to foreign policy and energy. The latter are blocked unilaterally by Cyprus therefore the EU Council will need to convince Nicosia to change its position on these chapters.
- Brussels and Turkey should engage assertively in finding a solution to the Cyprus problem (firstly, simultaneous implementation of mutual promises and obligations related to the widening of the customs union and the trade embargo against Northern Cyprus, then launching of informal EU-Turkey negotiations on unification). The negotiations conducted under the UN umbrella should be treated as an additional platform for talks between both parts of the island. Any EU Member States which are sceptical of Turkey's accession must recognise that the Cyprus issue hampers the establishment of tangible cooperation between Turkey and the EU in the Arab World; finding a solution to the problem will not deprive them of instruments to control the outcome of the accession process.

- Despite all its shortcomings and serious failures, the Union for the Mediterranean, as a basic concept, remains a good idea. The Union should be revitalised by engaging in as many regional projects as possible between Turkey, the EU and Arab states in such fields as infrastructure, higher education, research and business development and by organising more summits. It should become the most important consultation forum between Turkey, the EU and the Arab World. The Union's success requires clear leadership. It seems that Turkey, Egypt and France, due to their potential and actual leverage in the region, are natural candidates to assume the role of locomotives.
- A holistic approach to the Middle East and the Arab World is needed. Therefore, the EU should establish regular summits with the Arab League and the Gulf Cooperation Council and invite Turkey among others.
- Within the framework of the Union for the Mediterranean, Turkey, the EU and the Arab states should prepare a comprehensive plan for post-Assad Syria which will aim at establishing a new institutional framework, economic recovery and reconciliation between antagonistic fractions.
- Due to deepening political polarisation, Turkey and the EU should also start a mediation process between Egypt's main political forces.
- The rapprochement between Turkey and the EU should be placed in the wider Mediterranean context. The EU-Turkey customs union should not only be extended but also enlarged to include Arab states in the southern neighbourhood. The customs union is more limited than deep and comprehensive access to the EU's Single market, but as in the case of Turkey, it can more rapidly play a key role in the economic transformation of the region. The upgraded customs union could also provide Mediterranean states with the framework within which their intra-regional trade could most easily be beefed up.
- Turkey is currently conducting FTA negotiations with Libya and has launched initiatives to start similar talks with Algeria. In order to foster regional cooperation in the Arab world, the EU should encourage Turkey to launch negotiations on the FTA with the entire Arab Maghreb Union.

(Turkey has already signed or started the FTA talks with several regional organisations).

- The Global Business Bridges Initiative should be widened and deepened. In particular, the deepening of French-Turkish economic cooperation in a bilateral capacity and in third countries would be more than welcome because – it would cement the political rapprochement between Turkey and France.
- The EU members of the “5+5” forum – France, Italy, Malta, Portugal and Spain, along with the Arab Maghreb Union – should invite Turkey to join this platform, which is dedicated to addressing security challenges in the Mediterranean.

PART 5: EU DEFENCE: THE CAPABILITIES AND CREDIBILITY CONUNDRUM

Rapporteur:

Daniel Keohane | *Head of Strategic Affairs, FRIDE*

SYNTHESIS

After a few years of relative neglect, the EU's Common Security and Defence Policy (CSDP) started to show signs of revitalisation during 2012. Between 2003 and 2009, some 23 operations were initiated through CSDP, but only one new mission was organised between 2009 and 2011. This changed during 2012, with three new operations, and at least two more are in the pipeline for deployment during 2013. More importantly, in December 2013 a European Council summit, bringing together EU heads of government, will formally discuss CSDP for the first time since 2008. The prospect of this summit discussion offers a focal point for EU governments to develop their thinking on CSDP during 2013, and to re-consider why the EU needs the military option.

1. What strategic priorities?

Europe's neighbourhood is currently very turbulent: a civil war rages in Syria; Iran's nuclear programme is raising serious tensions; Libya is not yet stabilised; and there are on-going disputes in the Caucasus – amongst many other challenges. Based on recent evidence, the EU cannot be certain that key neighbours such as Algeria, Lebanon or Belarus will pursue stable paths. Besides, instability in the “neighbours of the neighbours” in the Sahel, the Gulf or Central Asia might also affect European security. Added together, the myriad

of current and potential security challenges in Europe's broad neighbourhood makes a heady mix.

In addition, the global strategic environment is changing. The US is re-balancing its military resources, away from Europe towards the Asia-Pacific. This move makes sense from a Washington perspective, but it does imply that Europeans should take much more responsibility for most of their immediate neighbourhood. Considering the American non-responses to the 2006 Lebanese-Israeli and 2008 Georgia-Russia wars, and initial reluctance to intervene in Libya in 2011, Washington would probably be happy to leave most future Eastern and Southern neighbourhood crises to the Europeans (East of Suez is a different matter). The key point for EU defence policy is that Europeans may have to increasingly act alone in the future. (*D. Keohane, FRIDE – p. 250*)

2. Defence as a form of statecraft

For many years politicians and officials have described the EU's main added value in international security as its ability to bring together a wide range of instruments, from diplomats to development and humanitarian projects to military activities (known as the "comprehensive approach" in EU jargon). However, this has rarely worked well in practice, albeit at least the EU is now increasingly trying to fit CSDP missions into broader regional strategies. For example, EUCAP Nestor – an operation to build maritime capacity around the Horn of Africa – is the third CSDP mission deployed alongside various development projects managed by the European Commission in that region. One challenge for the EU will be to further improve its ability to coordinate all its existing instruments, both in Brussels and in the field.

EU governments should also consider developing defence dialogues and military cooperation with strategic partners. For example, in July 2012 the EU agreed with China to set up a regular dialogue on defence and security, including training exchanges and sharing ideas on crisis management and tackling piracy. The two sides will hold a joint high-level conference during 2013 on security and defence issues. In time these EU-China military exchanges, alongside Chinese bilateral exchanges with EU Member States, might encourage Beijing to become more transparent about its military build-up. The EU

also started a similar defence policy dialogue with Brazil during 2012. These types of military exchanges could be extended to other partners, such as India, Russia, Japan and South Korea. The EU already discusses counter-terrorism, for instance, with India and Russia, and Moscow supplied helicopters to the EU peacekeeping mission in Chad in 2008. (*N. Witney, ECFR – p. 258*)

3. The use of force

In some ways, the real problem facing European defence policy is that EU governments do not agree on how or when armed force should be used. Roughly, the EU-27 can be split into three groups: activists, defenders and free-riders. Activists are prepared to use force abroad; defenders, partly because of austerity, prefer to focus on territorial defence; while free-riders spend little and do less. NATO's 2011 Libya operation is a case in point: only five EU countries (all from Western Europe) deployed fighter jets to bomb ground targets.

The hope is that the combination of austerity and the shift in US defence policy from Europe to Asia will spur EU governments to work harder at overcoming their differences on the use of force. If the US is busy elsewhere, future Libya-type scenarios in Europe's neighbourhood may require Europeans to deploy robust force without American help. The French military intervention in Mali in early 2013 reflects this emerging strategic trend; and it shows the political differences amongst the EU-27 over the use of force – France intervened alone while a Franco-German-Polish EU "battle group" remained on standby. (*J. Techau, Carnegie Europe – p. 267*)

4. The capabilities conundrum

Another key area is developing military capabilities. European shortages of adequate numbers of useful military capabilities have been long and widely documented. Despite deep budget cuts in some Member States, the 27 EU governments still spend around €190 billion on defence each year, which is some €40 billion more than the entire annual EU budget. But the European members of NATO struggled to sustain an air war for more than six months in 2011 against Libyan armed forces with a then-yearly budget of around \$2

billion. There is a plethora of plans to improve European military capabilities – through the EU, NATO, regional groupings, tri-laterally and bi-laterally – but only 20 per cent of European defence equipment acquisitions are in collaboration with others. If cuts in national budgets and capabilities continue on their current trends, most European armies will probably become little more than hollowed-out forces with few capabilities to offer in the future.

Europe's lack of useful military resources formed a major part of the inter-governmental discussion of the defence-related provisions of the Lisbon Treaty (which entered into force at the end of 2009) and Permanent Structured Cooperation (PESCO) would make it easier for a subset of EU countries to work together more closely on military matters. Those EU governments which meet a set of capability-based entry criteria can choose to cooperate more closely after securing a majority vote. This clause makes a lot of sense, since military capabilities and ambitions vary widely among EU members. Indeed, to be useful beyond “pooling and sharing”, PESCO implies forms of military integration – not only cooperation – between the participating governments. (*R. Kempin, SWP – p. 276*)

5. The defence industry

The European “pooling and sharing” debate has sometimes focused too much on equipment goals and not enough on other important aspects such as pooling and sharing production alongside procurement. There is tremendous waste in European defence spending. For instance, there are thirteen producers of aircraft, ten of missiles, nine of military vehicles and eight of ships; by contrast, the US – with double the market size – has twelve producers of aircraft, five of missiles, eight of military vehicles and just four of ships. The result of this national fragmentation is a duplication of development and production and different standards of equipment. This fragmentation also hinders the development of common logistic support systems and diminishes military interoperability.

The EU's comparative advantage in the defence capability area is that it can link military equipment goals and projects to European defence industrial policies. The European Commission already has a role policing the European

defence market, which has helped open up national procurement to Europe-wide competition. It has also made it easier to form cross-border defence companies by removing some barriers to intra-European transfers of military technology. During 2013, a European Commission task force (led by Commissioners Barnier and Tajani) will report on ways the Commission can help strengthen the competitiveness of the European defence industry in a time of severe national budget cuts. For example, although it is legally barred from spending on military projects, the Commission currently spends around €200 million a year on security research and technology, and some of these civilian projects could have useful military applications. (*J.-P. Darnis, IAI – p. 284*)

7. Defence is too important to be left to the Generals

All the analysts in this collection of essays have essentially called on EU governments to re-state the purpose of CSDP, for example by conducting a “European defence review”, which would outline the EU’s geo-strategic priorities, threats to European security, and the types of operational scenarios EU governments should prepare for. CSDP will not become a vehicle for great power military competition; but nor should the EU expect to be called upon to only deploy relatively-small peacekeeping operations. There is a number of potentially important tasks in-between, ranging from responding to major humanitarian crises to protecting maritime trade routes.

EU governments should consider how they intend to maintain and develop the military capabilities that would give them the agility and autonomy to respond to future crises and challenges. The political task for EU governments, therefore, is to more clearly define how they intend to use their military resources together, and in combination with their considerable diplomatic, development and humanitarian assets. At the European Council summit in December 2013, EU heads-of-government should explain why Europe needs the military option.

STRATEGIC PRIORITIES FOR EU DEFENCE POLICY

Daniel Keohane | *Head of Strategic Affairs, FRIDE*

Summary

If the EU is to have an effective foreign policy in the future, it will need a clear sense of its strategic priorities, and what it is prepared to do through its Common Security and Defence Policy (CSDP). The combination of a more turbulent neighbourhood, the US re-balance toward Asia, the shift in global military power and their own deep defence budget cuts should encourage EU governments to cooperate more closely on defence matters. However, assessing how global military power is changing, and how that may impact upon European security and foreign policy interests deserves much more attention from EU governments.

In the future, alongside a geographic focus on Europe's broad neighbourhood and helping to tackle some key threats to European security, CSDP should contribute to protecting vital European interests as well as projecting European values.

Introduction

The EU cannot cope with all the potential security threats and challenges facing the world, nor should it aspire to. As Frederick the Great told his generals: "to defend everything is to defend nothing". If the EU is to have an effective foreign policy in the future, it will need a clear sense of its strategic priorities, and what it is prepared to do through its Common Security and Defence Policy (CSDP). It is much easier to predict what the EU will not do. For example, the EU will not fight wars in East Asia.

Defence forms only one part of a much broader EU foreign and security policy which mobilises a wide range of players, from diplomats and development workers to judges and police, and, when necessary, soldiers. Since its first peacekeeping operation in 2003, the EU has initiated almost 30 CSDP missions (civilian operations for the most part). However, the EU has not yet carried out a military operation comparable, in scale or intensity, to the NATO operation in Afghanistan or the UN missions in Congo or Lebanon.

It may be that the EU does not need to carry out military operations similar in size and nature to the UN or NATO. Perhaps it will mainly remain concentrated for many years to come on smaller humanitarian and state-building operations, for which there is already considerable demand. Looking to the future, however, this assumption seems risky for at least two reasons. First, the world in and around Europe may well be a more dangerous place in the future. Second, the EU will increasingly have to assume roles previously played in and around Europe by the United States. The challenge for EU governments is to more clearly define how they intend to use their military resources in the future; resources which are much more costly to deploy, both politically and financially, than civilian assets.

1. Threats, Geography, Interests and Values

There are many ways to define strategic priorities, including assessing threats, geography, interests and values. Perhaps the most obvious official document to consult when trying to develop CSDP priorities is the European Security Strategy (ESS) of 2003 (and the 2008 review of its implementation). The ESS identified five threats to European security: the spread of weapons of mass destruction (WMDs), terrorism, regional conflicts, state failure and organised crime. The 2008 review added three further challenges: cyber security, energy security and climate change.

The ESS does not, however, clarify the precise role of CSDP in dealing with all these threats and challenges. It is difficult to prescribe what precise role military force in particular could have in countering some of these threats – cyber-crime, energy, climate change, and organised crime, for example. Moreover, in the cases of weapons of mass destruction, terrorism, regional conflicts and

state failure, for which a military role would be more plausible, the EU would not necessarily organise such tasks. Iran developing a nuclear weapon is one example.

Geographically speaking, the ESS is not short-sighted. It points out that security challenges in South and East Asia, such as North Korea's nuclear weapons programme, matter for Europe. But it adds that "even in an era of globalisation, geography is still important". The ESS further prioritises efforts to build security in Europe's neighbourhood, which is listed as one of three strategic objectives in the 2003 document, along with addressing the security threats listed above and supporting an international order based on "effective multilateralism" – perhaps the phrase the ESS is best known for. This is not simply a question of values and of upholding international law; it is also in the EU's interest to support the development of global governance and regional organisations. However the guidance contained in the 2003 ESS is weakest on how the EU should navigate a more multipolar world today, and on the geostrategic consequences of the rise of non-Western military powers for Europe.

2. The Rise of Asia

Everyone knows that economic power has been shifting from West to East over the last decade. Less frequently discussed is the simultaneous shift in military power from West to East – or more correctly from the European part of the West to the East. According to the International Institute for Strategic Studies (IISS), Asian defence spending already exceeded European expenditure in 2012. The IISS says that Asian countries increased their defence spending in 2011 by just over 3% (in real terms) on average, and China increased its defence budget by a whopping 6.8% in 2011.

Another think tank, SIPRI, says that Brazil, India, Saudi Arabia and Japan (along with China) are climbing up the defence spenders league, while Britain (4th), France (5th) and Germany (9th) are falling down the top ten list. Italy, 10th in 2010, fell off the list of top ten military spenders in 2011. Furthermore, SIPRI adds that Russian defence spending exceeded both that of France and Britain in 2011, pushing Moscow into third place. Despite plans to cut some \$489 billion from its defence budget over the next decade, the United States will

remain the world's top military spender for some time to come; but according to some projections, China's defence budget will surpass the collective spending of the European members of NATO by 2020.

Military spending alone does not paint the whole picture of geostrategic change in international security. In the East Asia region, for instance, a large number of potential conflicts exist, as evidenced in the summer of 2012 by growing tensions over territorial claims in the East and South China seas. The number of disputes in these seas has risen dramatically, from four in the 1980s to 28 between 2010 and 2012 alone. Apart from maritime disputes there are other major challenges, such as the status of Taiwan and North Korea's nuclear weapons programme.

This evolving strategic and military context explains the US military "pivot" to the Pacific. Europeans have nothing comparable to the already large (and growing) military presence and commitments of the United States in the Asia-Pacific region. But the EU does have an interest in East Asian security. Some 28% of EU external trade in 2010 was with East Asia, an impressive 5% more than the EU traded across the Atlantic the same year. Indeed, EU maritime trade with Asia accounts for more than a quarter of transcontinental container shipping traffic – the most important trade route on Earth. As an old proverb says, "He who is Lord of Malacca has his hand on the throat of Venice".

3. A More Dangerous Neighbourhood

Furthermore, rising military powers are increasingly active in Europe's neighbourhood. China's growing interest in African, Arctic and Middle Eastern security, for example, has been well documented. Economic growth in China and India will depend to a large degree on secure access to energy sources in Africa, the Middle East and elsewhere. This could trigger more intense competition between Beijing and Delhi (along with others) for energy supplies in Europe's neighbourhood. The EU already works closely with China and Russia (which are permanent members of the UN Security Council) on Iran's nuclear programme, and has operated with Chinese, Indian and Russian ships (in addition to American, Japanese and South Korean vessels, amongst others) in the Western Indian Ocean to counter pirates. Brussels should try to build on those

experiences to encourage cooperation with rising military powers on issues of joint concern in Europe's broad neighbourhood.

In the Southern neighbourhood, the 2011 conflict in Libya fuelled a separate outbreak of violence in Northern Mali, spreading instability across the Sahel from Algeria to Nigeria. The Horn of Africa is home to three of the most fragile states in the world – Somalia, Sudan and South Sudan – resulting in continued instability. In the Middle East, the current conflict in Syria could have dire consequences in the region if it spills over into neighbouring Lebanon, Iraq and Iran, not to mention Israel and Turkey. Similarly, any conflict stimulated by an Iranian nuclear weapons capability would greatly impact the Middle East, especially Gulf countries (and potentially blocking the Straits of Hormuz, through which passes about a third of global petroleum supplies transported by sea).

Looking eastwards, the Caucasus – the Nagorno-Karabakh region, for example – is the scene of on-going conflicts that have and could become wars. While Afghanistan remains a security concern for the stability of Central Asia, there are other strains too. Tensions between Tajikistan and Uzbekistan over water resources have the potential to turn into interstate conflict; while ethnic tensions in the Fergana Valley that is shared by Kyrgyzstan, Tajikistan and Uzbekistan might also heighten into conflict in the future. Added together, the myriad of current and potential security challenges in Europe's broad neighbourhood makes a heady mix.

4. A Changing US Military Posture

The 2003 ESS rightly praises the special role of the United States in European security: "The United States has played a critical role in European integration and European security, in particular through NATO. The end of the Cold War has left the United States in a dominant position as a military actor". The Pentagon's announcement in January 2012 that the US intends to re-balance some of its vast military resources away from Europe towards the Asia-Pacific caused much debate and discussion in Europe. But that debate has been almost entirely Europe-centric: would the US pivot to Asia-Pacific mean American

disengagement from European security? Would Europeans have to take on much more responsibility for security in their neighbourhood?

The US will almost certainly continue to cut its numbers in Europe and increase its presence in Asia in the coming decade. However, the reorganisation of American military resources will take many years, and its evolution will depend on future events. True, the Pentagon will not be interested in responding to every crisis in and around Europe; for example, it did not hide its initial reluctance to intervene in Libya in 2011. But the Obama administration is not leaving Europe, and re-balancing should not be confused with abandoning. In contrast to the global footprint of US defence policy, however, European defence planning is almost exclusively focused on Europe's neighbourhood. For example, all but two of 27 CSDP missions to date have been deployed in Europe's broad neighbourhood (the exceptions are Afghanistan and Aceh in Indonesia). Put simply, the US is an Asian military power, but Europe is not.

A key question, consequently, is how will Europeans cope with problems in their neighbourhood – with or without the US? One key factor may be the readiness of rising military powers such as China and India, along with Turkey and Russia, to play a greater role there. Sometimes the US may wish to take the lead, with or without Europeans (in Bahrain, for example, where the US fifth fleet is stationed). Sometimes, the US may be involved with Europeans (e.g. Libya or Iran). But sometimes, Europeans may have to act without the US: the UN force sent to the Israeli-Lebanese border in 2006 was primarily made up of Europeans. Similarly, although they didn't use military force, it was the EU-27 that led the international response to the Georgia crisis in 2008. The EU's current and planned operations in Niger and Mali to tackle the grave security crisis in the Sahel also reflect this emerging strategic trend.

This in turn raises the altogether thornier question of whether Europe would use robust military force when operating alone. At first glance this seems unlikely, based on past evidence and its lack of capabilities. But that said, in early 2011 the idea of France and Britain leading a military operation in Libya also seemed fanciful to many European observers, as did a French military intervention in Mali in the first days of 2013. While the US is not abandoning Europe, given the Pentagon's recent reluctance over Libya and Georgia, Washington would surely be happy to leave most future Balkan, Caucasian and

North African crises to the Europeans. The US, after all, has enough to worry about in the broader Middle East and Asia.

5. What Strategic Priorities for EU Defence Policy?

The lists of threats and challenges outlined in the 2003 ESS and the 2008 update remain valid. Regional conflicts and state failure have not disappeared (e.g. Mali or Syria), the spread of WMDs is still relevant (e.g. Iran) and the global challenges of climate change, energy security and cyber security continue to evolve. CSDP will continue to have a role in addressing aspects of these threats and challenges, especially regional conflicts and state failure (in particular peacekeeping and state-building tasks). In addition, although beyond the scope of this Policy Paper, the potential links between CSDP and EU internal security policies, such as responding to natural and man-made disasters or maritime border guard activities, may become increasingly prominent in the future.

The geographic focus of the ESS on Europe's neighbourhood also remains important, not least given the current turbulence in the region. The EU will play a low-profile and mainly non-military role in East Asian security. Yet from the Eastern Atlantic to the Western Indian Ocean, it needs to consider how to better share the security burden with the United States, and increasingly work with rising military powers such as China, India and Russia in that Atlantic-Indian Ocean axis.

Furthermore, if Europeans think they may need to use force autonomously in the future (especially in a robust manner), they should develop a clearer sense of their common external interests. One way to assess interests would be to draw up a list of priorities for EU foreign policy. These could include supporting international rule of law, free trade, energy security, a more democratic and stable neighbourhood, and a constructive working relationship with Turkey, Russia and the US – the key non-EU players in European security.

Concerning CSDP, defining shared foreign policy interests sets the context for identifying scenarios which may require Europeans to use force in the future (including in combination with civilian resources and other regional

or international organisations). These scenarios could be geographic (i.e. the neighbourhood or beyond), functional (keeping sea lanes open or protecting energy supplies) or existential (opposing major breaches of international law or old-fashioned self-defence – Iran’s nuclear programme could potentially apply in both ways here). Linked to this is the prickly question of the level of operational ambition for CSDP: should the EU be able to potentially carry out a robust Libya-style military operation in the future? The broad list of potential military tasks that EU governments have agreed to – sometimes referred to in EU jargon as the “Petersberg tasks” – implies that they should be able to deploy robust armed forces if it were really necessary.

None of this is to pretend that the EU is or will soon become a full-spectrum geostrategic military actor; nor does it assume that Europeans will always act through the EU. The 27 CSDP operations initiated so far have been mostly civilian and small relative to UN or NATO missions, and some have been little more than flag-planting exercises. As a result, the Union sometimes gives the impression that it is more interested in being perceived as a politically-correct power than a geopolitical one. In a rapidly changing world, geopolitics should not be ignored. Assessing how global military power is changing, and how that may impact upon European security and foreign policy interests deserves much more attention from EU governments.

Conclusion

CSDP should not be reduced to a form of armed social work; nor will it become a vehicle for military competition between great powers. But there are a number of potentially important tasks in between, and not only those carried out in response to major crises, such as NATO’s interventions in Kosovo or Libya. For example, 90% of European external trade is carried by sea, so maritime security and the protection of trade routes is essential for the EU. Naval operations, like the current EU mission to tackle piracy on the waters off Somalia – which was deployed in part because of the disruption to EU-Asia shipping – may become increasingly prominent missions for CSDP. In future, alongside a geographic focus on Europe’s broad neighbourhood and helping to tackle some key threats to European security, CSDP should contribute to protecting vital European interests as well as projecting European values.

WHERE DOES CSDP FIT IN EU FOREIGN POLICY?

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Summary

The Lisbon Treaty describes CSDP as ‘integral’ to Europe’s foreign policy. Yet European leaders’ actions belie any such belief. The EU has gone ‘missing in action’ in North Africa: ‘pooling and sharing’ is discussed but not practised. Governments aborted the BAE-EADS merger, for narrow national reasons.

This lack of seriousness about defence stems from intervention fatigue, and the absence of any direct military threat. But the hegemony of the West is finished; the US is pivoting to Asia; and Europe is being rapidly marginalised. It needs to exploit all its assets, including its armed forces, to continue to count in the world.

The missing understanding is how the military can be used as a tool of statecraft. Europe’s ability to offer assistance and training, intelligence and arms, should be a key conduit of influence – for example, with the new democracies of North Africa.

Europeans need to re-think the global strategic environment, and how their armed forces can support foreign policy. The European Council should commission a European Defence Review, to produce both a strategic re-assessment and proposals for major integrative projects.

Introduction

“The common security and defence policy”, declares Article 42 of the Lisbon Treaty, “shall be an integral part of the common foreign and security policy.” CSDP is to provide “an operational capacity drawing on civilian and military

assets”, which the Union can then use for crisis-management missions – and “shall include the progressive framing of a common Union defence policy.”

The most obvious meaning of “integral” in this context is “subordinate”. CSDP is intended to serve the wider aims of the EU’s foreign and security policy. This reflects how the relationship between defence and foreign policy is now conceived in all advanced democracies: the generals do their business at the behest of the politicians and diplomats.

But “integral” should also be understood to have a second implication – the close interconnection between defence and diplomatic activity. Some years of debate about the ‘comprehensive approach’ have left all Europeans vigorously agreeing with each other that few crisis management missions will succeed without a combination of civil and military means. ‘No security without development, no development without security’ is the new orthodoxy. Some would push the point further and argue that foreign policy without the ultimate backing of military power is simply deficient. As Frederick the Great expressed it, “diplomacy without arms is like music without instruments”.

So advocates of a more effective EU foreign policy can only despair as, like Alice’s Cheshire Cat, the CSDP fades into a disembodied grin.

1. CSDP: All Grin, No Cat

It was not meant to be like this. On the contrary, the Lisbon Treaty should have given the CSDP a shot in the arm. Better institutional arrangements for defining the Union’s strategic interests and conducting its foreign policy should have provided the context in which that ‘integral’ CSDP could be more effectively deployed. In practice, the Lisbon Treaty stopped CSDP in its tracks. Between 2003 and 2008, over 20 European crisis management operations were initiated. After the launch of the Atalanta anti-piracy operation in 2008, however, a three-year hiatus ensued during which only one new CSDP mission (training Somali forces in neighbouring Uganda) was authorised.

2012 has seen some tentative resumption of EU operational activity. Three new missions were launched (in Somalia, South Sudan and Niger). The EEAS

website¹ concludes that “the EU’s role as a security provider is rapidly expanding”. Yet it also reveals that the three new missions (all civilian) only involve some sixty personnel between them. Meanwhile, the prospect of an operation to help post-revolutionary Libya with controlling its borders has evidently run into the sand; and when Mali blew up in early 2013 the EU kept its head down, continued with its interminable planning for a mission to train the Malian army, and left the risky intervention to France. In sum, Europe’s performance as a contributor to global security and crisis management might be summed up with the ‘3 Ts’: timid, tardy, and tokenistic.

Similar dismal results characterise that other domain of the CSDP’s supposed activity, the provision of capabilities appropriate for crisis management missions. Even the more Atlanticist Member States have consistently supported this capability development ambition; there has been a broad consensus that, given the feebleness of the capabilities that Europeans could summon whether within the alliance or on their own account, then efforts could and should be made under the EU banner, as well as that of NATO, to improve the level of useful output achieved from European defence spending. The only Atlanticist provision was the need to ensure deconfliction with any relevant NATO activity.

In practice, the problem has not been one of conflict but of lack of progress under either banner. Under CSDP, the Helsinki Headline Goal for improved military capabilities was succeeded by Headline Goal 2010, whilst comparable targets for improving civilian crisis management capabilities were set out in 2008 and 2010. All these goals came and went; all were missed. From the European Capabilities Action Plan of the late 1990s to the Ghent Initiative of 2010, European defence ministers have repeatedly launched new plans of action to improve the situation, to little or no effect. The European Defence Agency was set up in 2004 to provide a focal point for the effort; it has managed to establish its role, and has done some useful work. But its results have been in no way commensurate with the job that needs to be done if the European defence enterprise is to start to realise its potential – or, indeed, if European taxpayers are to be given any sort of reasonable return on their defence euros.

1. EEAS website, accessed 30 November 2012.

With an entrenched economic crisis across Europe, and almost universally falling defence budgets, ‘pooling and sharing’ is now on everyone’s lips – echoed by NATO’s ‘Smart Defence’ initiative. Yet, away from the ministerial declaration and the conference hall, virtually nothing changes. As General Hakan Syren, chair of the European Union Military Committee, recently spelled it out: “The military capabilities of the EU Member States are on a steady downward slope... Looking a few years into the future, it is simple mathematics to predict that many Member States will be unable to sustain essential parts of their national forces, air forces being the prime example”.²

2. Why this Failure?

The theory of the CSDP is simply not being practised. Three questions arise: Why? Does it matter? And, if so, what can be done about it? Just as CSDP has two components – operations and capability development – two sorts of reasons account for the policy’s failure to perform. On operations, the ‘early, rapid, and when necessary, robust intervention’ called for in the 2003 European Security Strategy has simply fallen out of fashion. Europeans have had experience of comparable exercises under American leadership in Iraq and Afghanistan and have found them both to be immensely costly failures. One might, and should, argue that Europe has always aimed for more astute and politically-legitimate operations – but the damage has been done. It is clear that both elites and publics in Europe are, understandably, suffering from intervention fatigue.

There is much less excuse for Europe’s failure to make progress on the capability development front. Whilst talking the talk of pooling as the logical means to overcome their defence budget crises, national governments have in fact responded in an almost uniformly solipsistic fashion – cutting back on their national defence programmes without co-ordination or consultation, with no serious consideration of how greater collaboration with partners might limit the damage, and without regard to how the sum of individual national cutbacks would impact on the efficiency of the whole. It is hard to escape the conclusion that most European governments – indeed, to some extent all European governments – just do not take defence seriously.

2. Adrian Croft, “Some EU states may no longer afford air forces-general”, *Reuters report*, 19 September 2012.

This is not quite as irresponsible as it sounds. Despite the regular attempts of US administrations to galvanise Europeans with talk of ‘new threats’, whether global Jihadism, cyber attack or even energy cut-offs, Europeans have not missed the fact that they are, in the early years of the 21st century, safer than at any time in recorded history. This may change; it would be foolish to cancel the insurance policy. The Russia of Vladimir Putin needs watching; efforts to bring the Western Balkans out of the Middle Ages are still not sure of success; and, despite the generally hopeful context of the Arab Spring, revolutions and wars continue to boil around the southern edges of Europe. Yet the chances of European countries finding themselves subject to direct armed attack, or European citizens finding themselves conscripted by governments preparing for war, have quite literally never been lower.

In such circumstances, to cut defence spending even further would not be an irrational response (though as I argue below, it would be the wrong one). But vested interest – of the defence industries and of the military itself – acts as a strong brake on budget reductions. So it is unsurprising that governments should pay even more attention than usual to what else they can get out of their defence budgets apart from effective armed forces and, in other words, increasingly view defence spending as a means to support employment, or regional, or industrial policy, with the generation of actual defence capability relegated to a lower priority.

This basic lack of seriousness about defence is evident from the parlous fashion in which defence is managed in so many European countries. Any business in which investment lead times are so long obviously requires a systematic planning process, to match foreseen expenditures against foreseen resources a number of years ahead. Yet such processes in European defence ministries are the exception rather than the rule. Similarly, any government serious about maintaining public support for its armed forces – their existence, and periodically, their use – would take the trouble to think through and set out just what it sees as the point and purpose of those armed forces. What missions are envisaged for them? How do those missions relate to the nation’s wider foreign policy – to the government’s understanding of the global environment and its own country’s role and position in the world? How do these conceptions translate into plans for forces of a particular size and shape?

Few European governments trouble to ask themselves such questions. A recent survey of the strategic and defence publications of the 27 Member States uncovered a haphazard set of documentation, some of it as much as fifteen years out-of-date, which generally fails to cast light either on the fundamental strategic issues or on more prosaic matters such as budgeting, planning and management. It is hard not to conclude that the majority of European governments either simply do not have a clear picture of what their armed forces are for, or prefer to have their hands left free to spend their defence budgets year by year on whatever short-term (and often non-defence) objectives they see fit; or both.

A similarly myopic concern with jobs and narrow national interests evidently led to the scuppering of the most exciting initiative of the decade in European defence, the proposed BAE-EADS merger.

3. Does it Matter?

But – my second question – does any of this really matter? If Europeans are today unprecedentedly safe, perhaps it does not. Yet, even if Europeans are at little risk of direct conventional attack, they face a deeper strategic challenge which, though less immediate, is nonetheless existential. Simply put, the challenge is to continue to count in the world – to retain the ability to promote European values and interests, and to shape an international system which will give future generations of Europeans the chance of continued security and prosperity.

In the second half of the 20th century, when the West effectively ran the non-Communist world, Europeans were able to achieve these happy conditions on Uncle Sam's coat-tails. Too few European governments have realised how profoundly that situation has now changed. The end of Western hegemony and the rapid transfer of wealth to the south and east have re-worked the network of global power. The US has responded with its 'pivot to Asia' – revealing the extent to which US strategic interests are now diverging from those of Europeans. In the multi-polar world, the European and North American poles are likely to be each other's closest allies for as far ahead as anyone can see. But that has not prevented a US president who is almost revered in Europe

from working to reduce European representation on international bodies, or from cutting deals with China behind European backs to frustrate meaningful action against climate change.

In such a new world, Europe must use all the assets at its disposal to preserve what it can of its international power and influence – including effective armed forces. Though it prefers to talk about values, the European Union is not above acting self-interestedly. In matters of agricultural trade, for example, it behaves with a hard-headedness which verges on the unscrupulous. Yet this readiness to assert itself through economic means does not carry over into the domains of more traditional defence and foreign policies. Here, the EU likes to think of itself as a more herbivorous sort of power, preferring a narrative of CSDP, like the CFSP, which emphasises values over interests, and which is most comfortable portraying European military missions as a sort of armed charity work.

This is not only hypocritical; it is also hugely wasteful. For you do not have to go all the way with Frederick the Great to nonetheless accept that armed forces should be seen as instruments not just of a passive ‘defence’ but also of active statecraft – as tools of power and influence. In a recent paper³ I tried to set out how this can work in practice – not as some form of outdated ‘gunboat diplomacy’, but as a means of effective engagement with foreign leaders and governments who, outside Europe, tend to have military and security matters very much on their minds. If Europeans wish to induce the rest of the world to act in conformity with their preferences – that is, if they wish to exercise international power and influence – then they must be able to engage with the rest of the world on the issues that really matter to them, and to offer them things they really want. Arms, training, intelligence, and military advice are only some of the more obvious forms of defence assistance which Europeans should deploy, carefully but also actively, to promote both their values and their interests.

The Arab Spring provides a good example. Europeans want to support the new democratic governments – but find themselves, in their own economic crisis, able to do little on the economic side. Yet security is as much a concern to the new north African leaders as are jobs and growth; indeed, a new and welcome

3. Nick Whitney, “How to Stop the Demilitarisation of Europe”, *Policy Brief 40*, ECFR, November 2011.

regional cooperation is burgeoning on the back of shared anxieties over border control, and the growing lawlessness and extremism in the Sahel. If ever there were the ideal opportunity to make vigorous use of CSDP, this is it. Partly because instability south of the Sahara impacts on EU interests, but mainly because this is a perfect way to honour the EU's promise to 'support the democratic transitions' – especially if military-to-military relationships can be developed to a point where the EU is invited to help with the crucial internal processes of security sector reform that all the new democracies must undertake.

So the EU's failure to act in the Mali crisis of early 2013 was all the more shameful – especially when the situation was tailor-made for the deployment of one of its famous 'battlegroups'. Yet such an idea does not even seem to have occurred to Brussels. Thus does the idea that CSDP could have anything to do with 'hard power' become progressively less plausible.

4. What Can Be Done?

The answers to this final question are, I hope, implied by what has gone before. The evidence is now overwhelming: nothing of consequence happens on CSDP unless ordered 'top-down'. The standard operational model, whereby defence ministers 'invite the staff' to explore the possibilities of making some progress here or there, produces nothing but litanies of objection, and choruses of argument for proceeding, if at all, by baby steps. If anything significant is to change, Heads of State and Government must themselves engage, addressing first the fundamental questions of what European armed forces are now for, and how the full potential of CSDP can be realised. And then, taking some of the key decisions needed to achieve a step change in the degree of defence integration in Europe.

Such an attempt to combine renewed strategic vision with key managerial decisions sounds remarkably like what, in a national context, is termed a Defence Review – and what is now needed is a European Defence Review. A blue-ribbon commission should be charged by the European Council (which has already decided to put defence on its agenda in December 2013) to undertake the effort on its behalf – and come back to it with an analysis of how Europe's armed forces can best support the Union's external policies in today's transformed

strategic environment. Beyond that, the commission should be tasked to lay out a handful of proposals for major integrative projects – whether for coordinated forward planning of national defence budgets (on the lines of the new ‘European semester’ in the euro area), or for shared policing of European airspace, or...

There is no shortage of ideas for major steps which would transform European defence capabilities without a euro more being spent. All that is required is for Member State leaders, in the European Council and prompted by their Review Commission, to tell the bureaucracy not ‘we would like to do more together to remedy the deficiencies revealed in the Libya air campaign: what are the options?’, but rather ‘we want a European Strike Force: come back in twelve months with a costed plan for creating one’. As ever, it comes down in the end to political will – or, one might say, to seriousness about defence.

WILL EUROPEANS EVER AGREE ON THE USE OF MILITARY FORCE?

Jan Techau | *Director, Carnegie Europe*

Summary

Europeans are not per se unwilling to use force to achieve political goals. They only seem to be unwilling to do so in the framework of the EU. The perceived absence of a shared threat, the differences in strategic culture, the institutional weaknesses, the lack of resources, the lack of ambition and trust, and the fact that, with NATO, a better alternative is at hand for the management of Europe's hard power concerns, make it unlikely that the EU will become a relevant military operator any time soon. The structural, political impediments to more cohesive defense cooperation go so deep that economic pressure alone will not be enough of an incentive to unite their military activities within CSDP.

But if Member States want EU foreign policy to become more relevant, they can't forever dismiss hard power as a tool for the EU. A serious conversation is needed at the highest level about shared threats, interests, goals and means.

Introduction

The fact that the lack of unity has become the most recognisable trait of the European Union is one of the tragic ironies of the current debate about the integration process. Traditionally, foreign policy has been one of the areas most disputed among the 27 Member States. But even within this contested field, the Common Security and Defence Policy stands out as a particularly cumbersome bone of contention among Europe's nations. The issues here are manifold: shrinking defence budgets, lacklustre military assets, underdeveloped cooperation in the armaments sector and the notoriously dysfunctional

EU-NATO relationship. More fundamental even than these, however, is the question of whether Europeans share a common political understanding about the very purpose of their militaries: will Europeans ever agree on the use of military force?

1. Not from Venus, but need Martians to lead

In the more than two decades since the end of the Cold War, Europeans have gone to war rather frequently. They have intervened, alongside their American allies, in Bosnia, Kosovo, Afghanistan, Iraq, in the Horn of Africa, and in Libya, to name just the most well-known examples. This is why Robert Kagan's stipulation that Europeans are pacifists from Venus, as opposed to belligerent Americans from Mars, is missing the point. Europeans have proven again and again that they are not particularly pacifist. The real question is why they don't seem to be able to organise their security amongst themselves, in coordination with the US, but with a much higher degree of independence and self-reliance.

Europeans seem to require American leadership to discover their belligerent streak. Very rarely have they been active in robust ways within an exclusively European framework, i.e. without US support, and outside the NATO framework. And never have they planned and conducted such a mission collectively as the European Union. At a time when Europe's traditional protector and chief global security agent, the United States, is losing both military strength and political will to let Europeans free-ride on US security services, the obvious absence of unity in Europe on security affairs has become a major political and strategic problem.

2. No Threat, No Use

One of the reasons for this disunity lies in the fact that, by and large, Europeans do not feel that their security is much at risk. In a poll for the Eurobarometer in 2011, terrorism, named by a mere 7% of those asked in the EU-27, was the only external risk factor named in a list of the most important issues facing the

EU.¹ Economic and financial concerns, immigration and unemployment topped the list. In the same year, 33% of Americans stated that they were frequently or occasionally worried that they could become a victim of terrorism.² This is just one example of many. Similar polls have repeatedly found that the threat perception of Europeans is generally low. Unsurprisingly, low threat perception leads to a general rejection of military force as a useful tool to resolve problems. The German Marshall Fund's Transatlantic Trends revealed in 2012 that only 35% of Europeans from 12 selected EU countries³ believed that war was sometimes necessary to obtain justice. In the United States the number was 74%.⁴ In sum, a low threat perception and a rejection of the use of force as a useful tool for problem solving seem to indicate that Europeans, while not pacifists per se, strongly believe that they generally don't need and don't want to use military force. These are not good pre-conditions for developing a meaningful security and defence component within the European integration process.⁵

3. The EU is not the Place

Europeans, when they decide to go to war, seem to avoid the EU as the framework in which such operations should be conducted. The military operation to protect the anti-Gaddafi uprising in Libya is a case in point. When a military operation became a serious option in the spring of 2011, the EU was sidelined from the beginning as the organisation of choice, even though the United States had signalled early on that it did not want to be in a leadership position in the Libya case. Instead, the nations considering an intervention sought to multi-lateralise the operation by feeding it into the NATO framework. This was primarily for three reasons: First, NATO had all the operational procedures, including a functioning multinational command and control structure readily in place. The EU had no relevant capacity of that kind. Second, the

1. Eurobarometer 76, 2011.

2. AP/GfK poll, May 2011.

3. The countries are: Bulgaria, France, Germany, Italy, the Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Sweden and the United Kingdom.

4. Transatlantic Trends 2012.

5. In seeming contradiction to this, 65% of Europeans stated in 2011 that they thought defence and foreign affairs should be organised supra-nationally instead of nationally. However, this result did not indicate whether it was the EU or NATO, or any other collective body, that people deemed appropriate for that task. Also, results varied markedly among European nations, with solid majorities in Sweden, Finland and the UK believing that foreign and defence policies should be organised nationally. See Eurobarometer 76, 2011.

NATO framework allowed for considerable American military support during the operation. As became obvious very quickly, this turned out to be a key component of the mission. Third, and possibly most importantly, NATO provided a flexible political framework. It allowed for alliance unity in action despite considerable differences among the alliance's members concerning the usefulness of a military operation, and the readiness to participate in it. In the North Atlantic Council, where unanimity is required to authorise action, "constructive abstentions" by those allies who preferred to stay out enabled the alliance to move ahead nevertheless. Fifteen NATO members participated in the mission, 13 stayed out. Admittedly, the EU has similar provisions for flexibility in place, and has also used them in the Chad operation and in the deployment of the EULEX mission to Kosovo. But these were small, low-risk, limited-footprint missions. It is safe to assume that such flexibility would not have been possible within the EU framework in case of a massive and robust deployment of combat forces for a protracted period of time. NATO was able to create unity where there was none because it could address diversity in a constructive way. In addition, NATO managed to weave into the operation contributions from four non-NATO allies. Few observers or decision-makers today believe that the EU could pull off a similar achievement.

It is not surprising then that in the aftermath of Libya, consternation about the European Union's irrelevance in the matter was graspable. Numerous observers and European diplomats stated that after Libya, CSDP was "dead".⁶ High government officials from various Member States could be overheard saying that their countries' defence ambitions did not lie within CSDP, and that scarce resources should much rather be invested in NATO and its existing structures.

In the future, decreasing defence budgets will make European nations even more dependent on the existing assets NATO has on offer. Military deployment outside the NATO framework will become less and less of an option, even for nations with comparatively strong military capabilities. None of this makes military integration within the EU framework very likely in the foreseeable future.

6. For a good overview of EU reactions to the Libya experience, see Anand Menon, "European Defence Policy from Lisbon to Libya", *Survival*, vol. 53, no. 3, June-July 2011, pp. 75-90.

4. It's the Capabilities, Stupid! (Not the Framework)

In this also lies the answer to the much-asked question of what the Europeans should do if one day the US is unwilling to play the enabling role in a scenario similar to Libya. If the Europeans wish to conduct such operations independently, they must look primarily at their own capabilities, not at the framework in which to use them. It was not the absence of a credible EU framework that caused the difficulty in the Libya case. It was the absence of European military hardware, including ammunitions, air-to-air refuelling, reconnaissance, and command and control assets. The key to European defence lies in understanding that spending more wisely (and maybe, at some point, spending more) on defence will be good for both NATO and the Europeans alone.

5. Diverging Rationales

A key reason for the lack of more concerted military activities at the EU level is that players within the Union harbour fundamentally different strategic cultures. France and Britain cultivate the more traditional geopolitical attitudes of former great powers with extended erstwhile colonial possessions. The option of military interventions is not alien to their societies' foreign policy debates.⁷

Germany operates in the 21st century with a strategic culture stemming from the 1950s, when the newly-founded West German state tried to come to grips with historic cataclysms and the objective restraints of the day. Neither unification nor increased military activities have changed this deeply engrained culture. It can be characterised by restraint, the absence of geopolitical thinking and a widespread rejection of all things military.⁸ A strong desire to stay morally clear of military entanglements, combined with no notable threat perception, tops most considerations of alliance solidarity.

7. For a more detailed analysis of the diverging foreign policy cultures among the EU's three biggest Member States – the United Kingdom, Germany, and France, see: Stefan Lehne, "The Big Three in EU Foreign Policy", *The Carnegie Endowment for International Peace*, July 2012.

8. Jan Techau, "No Strategy Please, We're German", NATO Defence College, *NDC Forum Paper*, no. 18, May 2011, pp. 69-93.

In contrast to this are Eastern Europeans, whose primary security concern is Russia, a sentiment shared by few other EU Member States. For Southern Europeans, security thinking is primarily focused on illegal migrants passing through the Mediterranean and from the Balkans, neither of which can be successfully dealt with by military means.

With such strongly diverting rationales, hurdles are extremely high for a systematic, far-reaching, communalised approach to military deployments among EU members.

6. No Appetite for Cooperation

The economic crisis in the European Union constitutes a formidable incentive for closer cooperation among EU members, not least in the field of security and defence. However, most political leaders seem to demonstrate a profound disinterest in developing this policy field.⁹ Immense fiscal pressures have not even lead to closer coordination of military reform efforts (i.e. the shrinking of military capabilities) among Member States. British, French, German, and Dutch posture reviews and force reduction plans, among others, have been purely national endeavours. Consultations even within the established NATO planning structures were only conducted when the results of the planning process had already been determined at the national level. Even though many of these reforms happened during roughly the same time frame, no efforts to synchronise the planning and implementation were made.

It comes as no surprise, therefore, that the EU's Pooling and Sharing programme, designed to integrate individual national capabilities to save money and increase interoperability, has been largely ineffective.

Furthermore, EU Member States have for years been unwilling to open their closed-off armaments market for either real competition or meaningful cooperation.¹⁰ The failed merger of the two European armaments giants EADS and

9. Estonia's Defence Minister's Maart Laar has complained about the wasted opportunities in both NATO and the EU. See Maart Laar, "How austerity is deepening Europe's Defence Crisis", *Europe's World*, No. 21, Summer 2012.

10. Alessandro Giovannini, Giovanni Faleg, "Advice from a caterpillar: the conundrum of EU military spending in times of austerity", E-Sharp, April 2012.

BAE Systems was further proof that EU Member States (in this case Britain, Germany and France), have little trust in each other's reliability in the security and defence sector, nor can they easily overcome national caveats and jealousies in a strategically important policy field. That this was not even possible under the worst economic (budget restraints) and geo-strategic (the US pivot to Asia) conditions, is testament to the very slim prospects for defence cooperation in Europe. Worse, it is an indicator for the profound lack of ambition or strategic scope in the entire foreign policy field.¹¹

It is these demonstrations, alongside the many troubles of the EU's post-Lisbon Treaty foreign policy record, that have lead observers on both sides of the Atlantic to doubt whether there were any foreign policy aspirations left in Europe more generally. There is a wide-spread feeling now that crisis-ridden, post-modern, inward-looking Europe indeed wants very little of the world, and has given up any ambition to shape and improve it.¹²

The institutional setup that was designed in the Lisbon Treaty to bring more cohesion to EU foreign policy, has so far been unable to dispel such nagging doubt. EU foreign policy, including the security and defence field, was always intended to be an intergovernmental policy track. Its decision-making requires unanimity, giving veto powers to every single EU Member State, no matter how strong or weak. In other words, the nations of Europe never intended this policy field to be integrated. Instead, it is approached in a strictly instrumental manner, allowing CSDP to be relevant only on a case-by-case basis. The institutions designed to steer the EU foreign policy process, suffer from many structural defects and have generally been too weak to exercise leadership in the realm of foreign policy.¹³ This is doubly true for CSDP.

7. The Prospects

In light of the aforementioned factors, it seems highly unlikely that the European Union will be able to develop a more integrated approach to the use

11. Ulrike Guérat, "For EU, Peace Comes Without Strategy", *World Politics Review*, 15 October 2012.

12. Jan Techau, "A Farewell to Foreign Policy Relevance", *Judy Dempsey's Strategic Europe*, 18 September 2012.

13. Stefan Lehne, "More Action, Better Service. How to Strengthen the European External Action Service", *Carnegie Policy Outlook*, December 2011.

of military power. At best, Europe can expect to continue its military activities on a strictly case-by-case basis, with individual missions only being possible under the most ideal circumstances.

Europe's most successful military operation, the anti-piracy mission of "European Union Naval Force Somalia" (Operation Atalanta), launched in December 2008, indicates what these circumstances are: (1) a complete overlap of Member States' interest, (2) an at least seemingly clear moral case, (3) a narrow, non-complex military task, (4) a limited deployment of military personnel and equipment, (5) a low-risk scenario, (6) relatively limited costs, (7) low domestic visibility, (8) broad international acceptance, (9) clear founding in international law. This is hardly the stuff that geopolitical relevance is made of. That Atalanta, despite its noted success¹⁴, has not lead to a significant gain in prestige for the EU as a hard security player lies in the fact that it is essentially a fair-weather operation.

The fundamental factors that create disunity in Europe on the use of force, namely the perceived absence of a threat, the differences in strategic culture, the institutional weaknesses, the lack of resources, the lack of ambition and trust, and the fact that, with NATO, a better alternative is at hand for the management of Europe's hard power concerns, make it unlikely that the EU will become a relevant military operator. The structural, political impediments to more cohesive defence cooperation go so deep that economic pressure alone will not be enough of an incentive for Member States to unite their military activities anytime soon. Instead, Europeans will continue to use NATO as the primary forum for debating, planning, and conducting military activities in the foreseeable future.

For the EU, this is an ambiguous development. On the one hand, removing, with few exceptions, military cooperation from the agenda, means one contentious and unthankful policy field less in the already tedious daily grind of EU foreign policy. On the other hand, writing off military cooperation altogether amounts to admitting that EU foreign policy will never be more than an add-on to the Union's core integration projects. For no foreign policy can be entirely effective and complete without the hard power muscle to back up diplomatic

14. The House of Lords, EU Committee for External Affairs, *Turning the Tide on Piracy, Building Somalia's Future*, 21 August 2012.

efforts. In short: under both the best and worst of circumstances, the question of EU military cohesiveness will remain a source of disappointment about and criticism of the European Union.

8. Recommendations

There are two things the Member States of the EU should do to deal with this dilemma.

1. In order to address the issues of lack of trust and lack of ambition, the heads of state and government need to instigate a real conversation about the strategic military and security needs of Europe and the EU in the 21st century. The simple fact that we, as import- and export-dependent countries, have global security interests that we are unable to protect ourselves should be the starting point of the debate. To what extent must we enable ourselves to protect them? To what extent must we help those who protect them for us? No such conversation exists at the pan-European level. Government action across Europe is testament to this. Ideally, such a conversation will create a shared strategic assessment and common political will on security matters, at least in select fields. This would be the pre-requisite for then doing more together. Which leads to the second recommendation.
2. Europeans must finally get serious about pooling and sharing, despite the obvious difficulties attached to it. Just because this case has been made with tiresome repetitiveness, this does not make it any less true. Overall, Europeans still spend enormous amounts of money on defence. It gives them very little military clout, and very few options to do relevant things with their forces when needed. This borders on the scandalous. Much better capabilities are within reach even without spending more.

HOW TO MAINTAIN HARD CAPABILITIES IN TIMES OF BUDGET CUTS?

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Summary

In times of financial crises and strained public budgets, many countries have decided to cut their defence spending. In order to maintain their hard capabilities despite this process, EU Member States should pool their resources and strive for closer cooperation on military and civilian matters. At this point in time, however, states seek their salvation in bilateral rather than European initiatives, as the Franco-British example shows. Strategic ambivalences and a lack of strategic clarity are the main reason for the CSDP not living up to its objectives. To overcome these obstacles, Member States must agree to substantially deepen their military and civilian collaboration. Most importantly, the EU must enter into a new strategising process to reformulate the scope and reach of cooperation on security and defence matters.

Initiating this development and leading Member States towards a new reform agenda should be a top priority for the 2013 European Council.

Introduction

At the end of the Cold War, Europe as well as individual Member States were militarily powerful: The UK Armed Forces comprised 320,000 military personnel; France had 550,000 soldiers, and Germany nearly 500,000. Each of these countries spent an average of 3.7% of GDP on defence. A decade later, in 1999, European Union Member States decided to combine their strength to make the EU a powerful actor, capable of shaping world security policy. At

this moment in time, EU Member States seemed capable of winning any war. At the end of 2012, the chances of the EU becoming a global actor have turned sour. The number of armed forces has been halved. Even though the EU-27 has half a million more armed soldiers than the US, only 4% of this personnel can be deployed, compared to 16% of US forces.¹ In 2010, average defence spending in the EU fell to 1.6% of GDP.² Military operations – from Afghanistan to Libya – have revealed major shortfalls in key strategic areas. Year in, year out, the European Defence Agency implores EU Member States to promptly tackle the lack of intelligence surveillance and reconnaissance, to increase the availability of helicopters and to significantly improve the management of strategic and tactical airlift. However, its requests remain unheard, as do Member States pleas to apply the Lisbon Treaty's Protocol on Permanent Structured Cooperation (PESCO) and to pool and share (P&S) capabilities.

1. Advantages of Permanent Structured Cooperation and Pooling and Sharing

As a first official EU document, the Lisbon Treaty endorses the possibility of proceeding more intensively with capability development. It allows Member States to proceed towards integration in security and defence policies. However, in order to take part in PESCO, Member States should (a) agree on objectives for the level of investment in defence equipment; (b) “bring their defence apparatus into line with each other as far as possible”, by harmonising military needs, pooling, and specialisation; (c) enhance the availability, interoperability, flexibility and deployability of their forces, notably by setting “common objectives regarding the commitment of forces”; (d) address the shortfalls identified by the Capability Development Mechanism (CDM), including multinational approaches; and (e) take part in equipment programmes in the context of the European Defence Agency (EDA).

As it soon became apparent that Member States currently lack the political will to significantly move forward on security and defence policy integration,

1. Tomas Valasek, “Surviving Austerity: The case for a new approach to EU military collaboration”, Centre for European Reform, April 2011, pp. 11-12.

2. European Defence Agency, *Defence Data: EDA Participating States in 2010*, p. 4.

pooling and sharing were introduced into the EU's strategic thinking in November 2010, when Germany and Sweden released a "food for thought" paper on intensifying military cooperation. The European Council adopted this concept in December 2010, declaring P&S to be *the* solution for saving money and increasing the military efficiency of their resources. In the light of the current financial constraints and the upcoming December 2013 European Council Summit, the Foreign Affairs Council of November 2012, reiterated the need to strengthen European cooperation in order to fill critical capability gaps. In the conceptual framework of P&S, capabilities are *shared* when one or more countries provide the partners with a capability or equipment or undertake a task for another country. If this provision takes place on a permanent basis, it enables the partners to cut this capability and save on costs. In contrast, *pooling* is providing national capabilities to other countries. Pooling can occur in the development, procurement or subsequent operation of shared equipment. It enables countries to either obtain a higher number of units or to co-acquire a capability not affordable for one state alone.³

2. Reasons for the Limited Success of Permanent Structured Cooperation and Pooling and Sharing

Surprisingly, the cost saving incentives of both mechanisms have hardly been used by the 27 Member States. So far, PESCO has not been applied at all. Member States still shy away from fulfilling the entry criteria listed in the Lisbon Treaty. As defence integration is still not at the top of Member States' political agendas, the prospects for PESCO seem bleak. But also, the comparatively low threshold of P&S has, so far, not gathered momentum. Currently, there are around 100 such projects created by the EU or NATO (where the concept of "Smart Defence" was introduced in May 2012). About 20% of these projects involve bilateral cooperation; in 60% of cases, up to five partners agreed on a common endeavour.

There are four arguments that help to understand why individual Member States are still not willing to overcome the idiosyncrasy of managing, equipping

3. Christian Mölling, "Pooling and Sharing in the EU and NATO: European Defence Needs Political Commitment rather than Technocratic Solutions", *SWP Comments* 2012/C 18, June 2012, p. 1.

and commanding 27 militaries and subsidising unviable national defence companies in order to profit from P&S. The first reason for the ambiguous performance of P&S is that States have different ideas about which equipment and services can be subject to pooling and sharing. The second explanation is the fear of not being able to deploy shared units, especially if the partner objects to the deployment for political reasons or because he worries about the costs. Indeed, because some collaborative projects have produced too little in the way of savings, appetite for P&S has waned. Thirdly, EU governments seemingly want to retain the right to decide where and when to deploy their forces. They are only ready to subject themselves to integration when the case for such co-operation is overwhelming. Last, but not least, national capitals continue to buy nearly 80% of their national defence equipment from domestic suppliers and refuse to take advantage of economies of scale, especially in terms of salaries, maintenance of equipment and operating different bases for the same type of forces.⁴

3. Franco-British Cooperation: A Positive Way of Surviving the Debt Crisis?

There are, however, some positive examples of intensified defence cooperation among Member States: The Nordic countries have made great progress, as have the Benelux countries. The most prominent example of two countries willing to make use of the overwhelming prospects of cooperation benefits are France and the UK. At their 2010 summit meeting, they committed themselves to extending cooperation between their armed forces and to the joint development of their nuclear weapons technologies. Within the framework of two legally binding treaties, numerous concrete measures to further this intensified cooperation were agreed.⁵ Numerous arguments have been found to explain the success of this bilateral cooperation: undoubtedly, the strategic cultures of both countries are very similar; Paris and London indeed share a similar risk-taking, expeditionary mentality. Furthermore, both countries' militaries are of similar size and quality. More important, however, seems to

4. Tomas Valasek, "Surviving Austerity. The case for a new approach to EU military collaboration", *Centre for European Reform*, April 2011, pp. 8, 20-21.

5. For details of the Franco-British agreements, see Ronja Kempin, Jocelyn Mawdsley, Stefan Steinicke, "Turning Away from CSDP? Franco-British Bilateralism in Security and Defence Policy", *SWP Comments 2010/C 30*, November 2010, pp. 1-2.

be the fact that both partners are willing to level the playing field for defence companies and have reached a certain level of clarity as to why they cooperate. The attempt to merge EADS and BAE Systems, as well as the French decision to leave the multilateral Talarion drone project and instead take part in a Franco-British programme, illustrate how prepared both countries are to opt for the best value-for-money solutions. Still more important, however, seems to be the fact that British and French positions on global threats and challenges, and the security and defence capabilities required to address them, strategically coincide to a high degree. This conformity is the result of an extensive exchange of the key strategic documents of both countries. Since 2006, representatives from the British Ministry of Defence were consulted in the preparation of the French *Livre blanc* (White Paper) “Defence and National Security” and the Military Planning Law for 2009-2014, which sets out the State’s defence plans and budget. This is again the case for its 2012/2013 review and similarly, French military officials cooperated in the formulation of both the British national security strategy “A Strong Britain in an Age of Uncertainty” and the Strategic Defence and Security Review (SDSR), which was published a few days later.

4. A Need for Strategic Clarity in the EU

If we examine whether the Franco-British cooperation could be similarly successful at the EU level, we quickly notice that the EU-27 lacks all the ingredients to even start a fruitful cooperation project. Among the 27 EU Member States, there is neither strategic agreement nor a common understanding of the means for cooperation. Quite to the contrary, CSDP has always been characterised by a high degree of strategic ambivalence in terms of security policy issues. This ambivalence allowed all Member States – with the exception of Denmark, which has an opt-out from CSDP – to take part in the joint project despite substantial differences in their national security policies. Therefore, strategic ambivalence in the security and defence policy was initially a definite “strength” which considerably advanced the development of this policy area. In the meantime, however, it has become a burden – and even a risk – for progress in CSDP because early promises on capability development or international security policy could not be fulfilled due to severe and consistent differences in strategic preferences between groups of Member States. Thus, the

EU and its Member States will only be able to maintain their hard military capabilities despite declining defence expenditures if they overcome the strategic ambivalences and reach strategic clarity. For this to happen, EU Member States must agree to substantially deepen security and defence policy co-operation within the context of CSDP.⁶ They would need to create a European security and defence strategy, dedicate themselves to greater integration in the areas of military (and civilian) capabilities and commit themselves to expanding the joint financing of CSDP missions and operations. The development of a comprehensive strategic framework for CSDP would require EU partners to reach consensus on the scope of civilian and military forces the EU should be able to collectively provide for crisis management. Member States would also need to reach an agreement on how these forces would work together in specific situations, what sorts of operations they should conduct simultaneously, and which geographic or functional aspects should take priority. The objective of this process would therefore not only be to reformulate the ESS, but rather to achieve real strategic direction in terms of scope and reach comparable to that outlined in security and defence policy documents like France's *Livre Blanc*. This sort of comprehensive White Paper would address political and military as well as civilian and institutional reforms. These reforms would in turn be geared towards establishing tight and credible links between strategic objectives on the one hand, and the military and civilian capabilities provided by EU Member States on the other. Essential to this process would be better dovetailing in the development of civilian and military capabilities. The process of improving, coupling and integrating Member States' military and civilian capabilities would be organised within EU structures, whereby the focus of coordination would be located in Brussels and run in a "top-down" manner. Accordingly, the civilian and military capability objectives of EU Member States would not only be jointly defined within CSDP structures. Moreover, the process would include detailed milestones which would be assessed on an annual basis. This approach could be further developed into a common defence planning process in a step-by-step fashion. Larger capability gaps would be addressed in multinational programmes. A "top-down" process of this sort, with regular evaluations and management by EU structures, would carry a

6. For an earlier and detailed version of these three scenarios see Ronja Kempin, Nicolai von Ondarza, Marco Overhaus, "Overcoming Strategic Ambivalence: Options for the Future Development of the Common Security and Defence Policy", in: Annegret Bendiek, Barbara Lippert, Daniela Schwarzer (eds.), "State of Play in European Integration", *SWP Research Paper RP 12*, December 2011, pp. 21-27.

considerably greater degree of political commitment without limiting national sovereignty, particularly on the question of whether and how to actually deploy capacities in operations. The CSDP's operative component would be strengthened if EU Member States could also agree on joint financing for military operations. To date, the CSDP has followed the principle of "costs lie where they fall" in terms of financing, according to which Member States have to cover the costs of their military forces themselves. Only a very limited level of "shared costs" for military operations – generally around 10% of total costs – is defrayed by all Member States via the so-called Athena mechanism. The one-sided burden on commitment-ready Member States paves the way for freeloaders and in particular limits the actual operational readiness of bodies like the EU Battlegroups.⁷ A substantial expansion of shared financing that is possible without a change to the EU treaties would cause all Member States to fully share the political and financial responsibilities of CSDP operations.

If Member States could agree on these substantial advances, P&S (and perhaps even PESCO) within the EU might be more promising than NATO's Smart Defence project, which so far includes neither a civilian component nor a link to the defence industry. The end of 2012 was marked by a positive note for CSDP as the European Defence Agency (EDA) members adopted a P&S code of conduct, and an air-tanker agreement was signed by ten European governments. However, at present, even the most optimistic observers of the EU's security and defence policy can hardly see the momentum for such an ambitious CSDP-reform agenda. German Foreign Minister Guido Westerwelle was left alone by his partners when he suggested moving towards the creation of a European Army. But even the success of a second, less demanding reform agenda, at present seems questionable. In order to maintain their hard capabilities, Member States must still be willing to continue and intensify existing initiatives to develop capabilities and strategic priorities within the framework of CSDP, albeit with an increased element of flexibility within EU structures. The "bottom-up" processes of P&S and PESCO would be kept alive, albeit with limited and slow progress. This approach needs to be embedded by Member States into a process of strategic prioritisation of EU foreign, security and defence policy. Following great difficulties in reaching an agreement, even with regard to the very limited Report on the Implementation of the European

7. Gustav Lindstrom, "Enter the EU Battlegroups", *Chaillot Paper* 97, EUISS, Paris, February 2007.

Security Strategy in 2008, the Union has pursued a step-by-step development of strategies on individual topics. In this manner, for example, the EU set the priorities for dealing with its strategic partners and drafted guidelines for reforming the security sector in non-EU states and for the disarmament, demobilisation and reintegration of combatants in conflict areas. The next item on the agenda would be the formulation of corresponding guidelines for CSDP, particularly in respect to objectives and capability development.

5. Recommendations

Different initiatives – the recommendations of the Future of Europe Group or the European Global Strategy process – recommend starting a new reflection process on the EU’s security strategy. These steps are encouraging. The 2013 European Council should vigorously support a new strategy process and lead Member States in the direction of the second reform agenda discussed above. Without a decisive move in the direction of this minimalistic reform scenario, CSDP, as well as the military capabilities of its Member States, will continue to deteriorate. We would most likely enter into a period of increased bilateral and multilateral security and defence policy cooperation outside the EU framework. Member States like France and Great Britain seem to prefer this sort of development because it enables a faster and potentially more effective action in certain situations. In the short and medium term, this sort of process would not spell the end of CSDP, as the EU will be able to execute further smaller and/or time-limited crisis management operations. In the long term, however, a new political thrust is necessary, if the objectives defined in the EU Treaty are not to disappear out of sight. There is a real risk of the CSDP falling apart. Maintaining the status quo will not lead to a successive convergence, but rather to a drifting apart of EU Member States over security and defence policy issues.

THE EUROPEAN DEFENCE INDUSTRY'S FUTURE: HOW EUROPEAN?

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Summary

The contraction of domestic markets, with cuts and delays in military expenditure in both the EUMS and the USA represents the main constraint for the defence industry in Europe. On the demand side, the global framework of budget diminution underlines a clear trend towards pooling of capacities. On the supply side the rationale is to maintain production capabilities and revenue. There is a quest for better opportunities in non-EU markets, along with the continuing issue of bolstering EU-wide exports. Meanwhile, the Commission attempts to shape the current landscape of the European defence industry via a number of directives. Yet, defence industries are not only pure “suppliers”. The fact that some states are shareholders of defence companies reflects the complex legacy of this sector, a mix of the sovereign state concept of production together with the protection of workers and specific constituencies. The latter is a key issue in industry governance, as revealed by Germany’s refusal of the BAE-EADS merger.

Introduction

The recent BAE-EADS merger project attracted much attention, launching some speculative scenarios about the future of Europe’s defence industry.

The contraction of domestic markets, with cuts and delays in military expenditure in both EU Member States and the US, represents the main constraint

for the industry. It weakens the position of companies which, in a somewhat typically post-monopolistic fashion, traditionally rely on domestic markets. Shrinking margins and investment capabilities make it increasingly difficult to maintain the logic of nationally-based production for a national market. If cutting-edge technological capabilities are to be maintained – keeping in mind that technical capabilities are synonymous with strategic assets – a critical mass of investment must be reached.

This issue of critical mass is a factor that favours further consolidation in the European sector. It was also a driving force behind the BAE-EADS merger, a project that offered significant industrial advantages.

Another way to compensate for the weakening of domestic markets is to increase exports, exploiting the potentialities of emerging markets (growing economic areas with strong needs in terms of defence technology such as the Middle East, Asia and South America). Yet here again, size plays a role, and competition between European companies is common. Rafale/Eurofighter rivalry is an emblematic example in that respect.

Let's recall the main developments on the demand side. In the global framework of budget cuts, there is a clear trend towards pooling of capacities. Both the EU and NATO (via its smart defence initiative) propose pooling and sharing as a solution to cope with the problem of maintaining capabilities.

In that respect, the 2011 Libyan intervention illustrates what is working and what is not. France and the UK undoubtedly played a central role, showing European leadership and taking political responsibility for the mission – a rather new phenomenon. Key capabilities, however, were provided by the US, while the non-participation of Germany in the mission created problems, including a lack of availability of AWACS aircraft. Two problematic aspects can be identified: a technical gap (between intelligence and telecommunications technologies) due to which Europeans still rely on the US, and a problem with coalition resources if one or several partners chooses not to participate in a context of shared capabilities.

1. What Future do Stakeholders Foresee for the Industry?

On the supply side, from an industrial, prime contractor “business” point of view, the rationale is to maintain production capabilities and revenue. A decrease in “domestic” demand can create pressure to subcontract, something which can potentially destroy technical know-how and capabilities if companies are pushed out of the market by shrinking revenues. The issue of exports is also a parameter in this framework. There is a quest for better opportunities in non-EU markets, but there is also the issue of EU-wide exports, with the Commission acting through its defence directives (on defence equipment transfers and defence procurement) with the aim of fostering a more open defence market in Europe. The defence directives represent an interesting tool for this market, a process which is slowly taking place among EU Member States and should start to produce effects in 2013.

There is a strong push for efficiency and value for money, implying a higher level of competition and strategies aimed at specialisation, which could force some companies to exit the market. Another important factor is the business mix between defence and civilian applications, both from a blurred, dual-use technological point of view and a market point of view (where it can be beneficial to take advantage of the different market cycles in the defence and civilian industries).

Furthermore, defence industries are not only pure “suppliers”. The fact that the French, Italian and Spanish states are shareholders in defence companies reflects the complex legacy of this sector, a mix of the sovereign state model of production together with the protection of workers and specific constituencies.

This is a key issue in industry governance, as shown by the German refusal of the BAE-EADS merger, partly due to a need to defend national production capabilities.

On the demand side, European departments of defence express a rather clear need: to maintain continuity and security of supply, to maintain and develop cutting-edge technologies at a better price, to get better value for money, and to mediate between monopolistic, nationally-embedded production and a more “open”, competitive EU market. This is a generic and rather theoretical

statement which shall be complemented by an analysis of ongoing procurement in several sectors. What scenarios exist for Future Air Systems, taking into consideration the current Rafale/Typhoon/Gripen/F-35 production, and numerous UAV and UCAV programmes? Is the helicopter rationalised through a duo in Europe (Eurocopter/AgustaWestland)? What about transport aircraft (Airbus Military/US production)? Is it realistic to rationalise the armoured vehicle sector and should a joint programme be launched to set up a cooperation framework? Can cooperation in vessel construction be reinforced? What about submarines? Is further consolidation needed for defence electronics? In space, paths diverge: pooling occurs in the case of some programmes, while other technologies, such as intelligence, are developed on a national basis. All these issues involve separate scenarios.

Specific attention should certainly be paid to future capabilities, such as the future of air support. Recently, Claude-France Arnould, Chief Executive of the European Defence Agency, warned Europeans of the urgent need for concerted action for Future Air Systems (FAS). Ideally, Europe should avoid repeating the mistakes made with the last generation of planes (Rafale versus Eurofighter), meaning that rationalisation should be pursued in the field of combat aircraft.

A BAE-EADS merger could have illustrated a new paradigm of mergers and acquisitions after the first wave of the 1990s. The idea of merging the two companies was a potential response to several of the constraints described above and would have put the new company in a leading position for all future programmes. The creation of the world's leading aerospace company would have been a sign of supremacy even if it engendered monopolistic effects within the European market. The rationale behind an BAE-EADS merger rested on the success of the EADS model and the relative failure of the BAE model, based on a specialisation in defence that has been penalised by the cyclical reduction of defence budgets.

2. After the “No-Go” of the BAE-EADS Merger, What Could Be the Next Move on the Supply Side?

The failure of the two groups to merge certainly decreases the pressure on other European players (Thales, Dassault, Finmeccanica, Saab, Safran) who

were expressing concerns about potential side effects, fearing they would become too small to compete. All the big players in Europe currently maintain strong businesses but the BAE-EADS merger project warned all concerned of the need for rationalisation. Existing companies will go on. The arrival of a non-European company on the European scene is possible. BAE, which already does half its business in the US, could find a “natural” alliance with a US company. Among the top US defence companies, however, no one seems really interested in wedding the jilted bride: Boeing could be the perfect match (complementarity between the civilian and defence portfolio) but seems more focused on developing civilian activities; Lockheed Martin is concentrated on its F-35 programme; Raytheon has expressed doubts about such a merger; Northrop Grumman is in a restructuring phase with apparently no resources to absorb such a company; General Dynamics could face some competition issues with BAE and has recently expressed a commitment to maintaining its balanced civilian/defence portfolio. Second-tier consolidation with players such as Rockwell Collins, L-3 Communications, SAIC, ITT Exelis and Harris Corp seems more likely to happen, but would be more of a “US market” operation than a European one.

First-tier European players (EADS, BAE, Thales, Safran, Finmeccanica, Saab, Dassault Aviation) will pursue their rationalisation strategy but at a slower speed. Reductions in defence revenue will have a different impact on these companies. BAE is on the front lines and must react to this changing context, while EADS, with 75% of its revenue coming from civilian activities, seems safe for the time being. This is also the case for Finmeccanica despite a recent poor economic performance which pushed it to sell non-strategic assets such as transport to compensate losses.

EADS can remain a pole of attraction and development for a more globalised European industry. The BAE-EADS merger attempt has left a mark, producing effects in terms of re-thinking the perimeter of the company. This work won’t go to waste and it remains in the nature of EADS to expand.

The question of defence electronics also arises. Thales and Finmeccanica have held lengthy negotiations about merging these activities and talks are apparently open again. At least some type of cooperation framework could be established.

Two opportunities were missed as a result of the BAE-EADS merger collapse: the rationalisation of MBDA (the missile production company shared between BAE, EADS and Finmeccanica) and the rationalisation of Eurofighter combat aircraft production (shared between BAE, EADS and Finmeccanica).

We can observe two types of logic in this merger game: a political logic and a business logic, which although not exhaustive, can help to describe future scenarios.

On the political side, one key issue is certainly the evolution of the French and the Italian positions. These two countries still have a mainly state-oriented defence model, with the state acting both as an industrial stakeholder and a customer. A shift within French and Italian companies to include a system of golden shares and strict laws to protect national security interests would foster the evolution of the sector. During the BAE-EADS merger talks, the French government showed some flexibility, accepting to transform its shares in a new group. This is an important indicator for future rationalisation in the sector. Now that the BAE-EADS deal has fallen through, some in Paris are launching the idea of a reinforced French solution in the form of a Thales-EADS merger, for example. Another option could be the creation of a French national aerospace champion by merging Dassault Aviation, Thales, Safran and possibly Zodiac (this “grand policy” was rejected by Zodiac when Safran launched a takeover of the company). Furthermore, Dassault seems to be less protected by the Hollande Presidency than the former government. The failure of the BAE-EADS deal might also accelerate changes for EADS shareholders. Lagardère has declared its intention to exit EADS in 2013, leaving a stake that could be bought by the French state. On the German side, Daimler too will probably exit EADS; the German state should take over this stake. Furthermore, the Emirate of Qatar has expressed an interest in investing in EADS. This “Middle East paradigm” can also be observed in the key role played by Saudi Arabia (until now as a customer) for BAE.

Such political and strategic constructions are, however, often not realistic from a business or industrial point of view. The BAE-EADS merger was very logical in a business sense as it would have allowed the rationalisation of MBDA and Eurofighter activities. If we look at other scenarios, Dassault, 46.3% of which is owned by EADS, produces a rival jet, the Rafale, for which Thales is a key

partner in electronics and avionics. Industrially speaking, a merger between Dassault and Thales is therefore plausible. If we take into consideration the future of Cassidian, the defence division of EADS, and keeping in mind the need to rationalise MBDA and the Eurofighter programmes, the alternative partner to BAE is Finmeccanica: Eurofighter avionics are produced by its Selex subsidiary and the Eurofighter is built by Alenia Aermacchi, Finmeccanica's military aircraft division. An alternative alliance with Finmeccanica could achieve EADS goals and put BAE in a corner.

This scenario does not, however, seem to be the main alternative. The "Italian" solution is often considered a fantasy from a French point of view; even on the Italian side, the expressed interest for a Finmeccanica (Selex)/Thales union illustrates a strategic vision more than a real industrial one. Following the same logic, though, a rationalisation between BAE and Finmeccanica could be pursued (based on MBDA and Eurofighter and the presence of Finmeccanica in the UK), even if this scenario is never mentioned by analysts.

Again, the French position is a central issue, as is Dassault Aviation. The Rafale worked well during the Libyan campaign, but remains a considerable investment for one country which has, furthermore, divided Europe. All things considered, it is fair to say that this rift, if it continues, is a threat to the future generation of air systems. The NEURON programme has already set up a cooperative framework between Dassault and BAE. The BAE-EADS merger would have brought EADS back into the game of future UCAVs.

The fact that Germany caused the BAE-EADS merger to fall through could influence the future of Cassidian, and indicates the country's unwillingness, given its rather pacifist constituency, to support a shift by EADS toward military production. Certainly, within Cassidian, MBDA will keep its integrity. Also, the development of a service-based/security business in emerging countries apparently has potential, but the Eurofighter, largely based in Germany, could lose ground.

The BAE-EADS merger is an interesting scenario which has sparked debate on the reorganisation of Europe's industrial defence sector. The defence industry is, however, not limited to aerospace.

Other sectors are also affected by rationalisation efforts. As far as land production is concerned, there is a high level of fragmentation on the supply side. Rheinmetall and Krauss Maffei Wegmann are the heavyweights in this sector in Europe. Renault Trucks Defence (RTD), a subsidiary of the AB Volvo group, recently took control of Panhard and Acmat and could be interested in further acquisitions. Nexter is certainly the French chip in this panorama, as it is fully owned by the state.

On the naval side, the BAE-EADS merger would also have strengthened BAE vessel production capabilities. Here again, the European sector is shared by multiple competitors like DCNS, TKM, Finmeccanica and Navantia. Mergers between these different actors have been suggested but until now, none have occurred. It seems reasonable to imagine at least one merger taking place at some point in order to better compete on a global scale. Nevertheless, these companies are still nationally based and nationally managed, and will try to maximise this position as long as possible.

3. Recommendations

The EU directives on defence and security procurement and transfers of defence-related products are crucial to the development of market efficiency in Europe. Their implementation within Member States is often slow, and this agenda has to remain a priority.

In areas where there is a high level of market dispersion, joint programmes with common requirements should be undertaken to promote industrial cooperation and rationalisation in Europe.

Supply chains are a key issue. Mapping the defence and security supply chain has somehow proven impossible. Nevertheless, efforts to strengthen the supply chain shall be pursued.

Governments have a key role to play and should consider shareholding in big groups as a dynamic tool rather than a matter of static sovereignty.

Lastly, the distinction between “civilian”, “security” and “defence” technologies is a catalyst for flexibility in the context of the European Commission’s research programme. “Security research” has already opened the way for military forces to use “civilian” dual-use technologies. This could be further developed in order to ensure that the EU can finance the “civilian” and “dual-use” component of “military” systems development, for example.

THINK TANKS AND AUTHORS



- Paris -

Notre Europe – Jacques Delors Institute (www.notre-europe.eu) is the European think tank founded by Jacques Delors in 1996. Its aim is to produce analyses and proposals targeting European decision-makers as well as a wider audience, and to contribute to the debate on the European Union. Its work is inspired by the work and ideas of Jacques Delors and guided by the general principles set out in the Charter adopted by our board of directors. The Charter is structured around three main axes: “European Union and citizens” – covering political, institutional and civic issues; “Competition, cooperation, solidarity” – dealing with economic, social and regional issues; “European external action” – research on the international dimension of the European Union.

The president of *Notre Europe – Jacques Delors Institute* is António Vitorino, former European Commissioner and Portuguese minister. He succeeded Tommaso Padoa-Schioppa, Pascal Lamy and Jacques Delors. The director, Yves Bertoncini, leads an international team of around 15 members.

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The Cyprus Center for European and International Affairs (CCEIA) (www.cceia.unic.ac.cy) has established itself as a pioneering and innovative think tank and research institution through the quality of its work and its contribution to society and public debate in Cyprus and beyond. The Research Center – Intercollege was founded in March 1993 as an independent, non-profit making institution and was renamed Cyprus Center for European and International Affairs (CCEIA) in September 2007. The Center seeks to advance academic and policy-oriented research and to contribute to the study and analysis of important economic, political and social issues revolving around Cyprus, the Eastern Mediterranean and the broader region, the EU and the international environment.

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THINK GLOBAL – ACT EUROPEAN (TGAE)



Think Global – Act European (TGAE) is a collective project, directed by Elvire Fabry at *Notre Europe – Jacques Delors Institute*, which mobilises since 2008, a unique group of European think tanks with the objective of confronting their policy recommendations within the scope of the TGAE report, outlining both challenges and agenda priorities once every 18 months.

Before the 2013 edition, dedicated to the EU's external action, the first three editions of the report (2008, 2010 and 2011) have focused on the agenda of the successive EU trio presidencies.

Previous editions

THINK GLOBAL – ACT EUROPEAN III (TGAE III).

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Elvire Fabry (dir.), *Notre Europe*, June 2011

THINK GLOBAL – ACT EUROPEAN II (TGAE II).

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THINK GLOBAL – ACT EUROPEAN I (TGAE I).

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Notre Europe*, May 2008

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Within the context of reinforced global interdependence, the European Union needs to develop more strategic thinking in order to react to the tectonic changes occurring on the international scene. To anticipate the negative spillover of the euro crisis on the EU's international influence and avoid the progressive marginalisation of Europeans on the global scene, the EU needs to equip itself with an integrated strategy for the European external action.

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These proposals, from over 40 experts from all over Europe, call for the EU to address its coordination problems and solicit the need for a new paradigm for EU's external action based on a strategic rethinking of the EU's interests, its means, and ultimately its *raison d'être*.



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