

# Why the EU fails

*Learning from past experiences  
to succeed better next time*

Toby Archer, Timo Behr, Tuulia Nieminen (editors)



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# Introduction

Contemplating the reasons for “EU failure” might appear odd at the current moment of time. If anything, the European Union finally seems to be putting its house in order. The ratification of the Lisbon Treaty has ended the EU’s decade long institutional impasse. For the first time in its history, the EU has appointed a President of the European Council and a powerful new High Representative for its Foreign and Security Policy. EU member states are in the process of creating a European External Action Service (EEAS) to represent their common interests abroad. And the list of countries knocking on the EU’s doors seems to grow longer by the day. In light of these recent developments, as well as given the EU’s historical success as a “peace project”, there seem to be few apparent reasons to ponder EU failure. Doing so, to some, might even appear counterproductive.

But Lisbon’s success has been short-lived. Greece’s budgetary crisis and the EU’s delayed response are tearing at the very foundations of the European Monetary Union. The election of Barack Obama and the rapid rise of the emerging powers have further accentuated the EU’s impotence as an international player. And Europe’s failure during the climate talks in Copenhagen seems to have deprived the EU of one of its last remaining claims to global leadership. Most importantly, perhaps, the EU seems to have lost the trust and support of its own citizens, with opinion polls showing support for the Union at a historic low. These developments, once again, have made EU “failure” more palpable.

Avoiding the question of EU failure contributes little to our assessment of the EU and its current problems. Indeed, as the EU is opening a new chapter in its turbulent history, understanding where and why it has failed in the past is not only instructive, but indispensable. The EU has survived a good number of crises in its stormy fifty year history, only to emerge strengthened and more determined. Investigating the reasons for EU failure does not necessarily belittle the EU’s considerable past successes or feed a growing European cynicism and self-flagellation. Rather, it represents a necessary exercise in self-reflection that is unavoidable to allow the EU to succeed in the future. In this vein, this report aims to come to a more systematic understanding of the nature and reasons for the



EU's multiple failures and to learn the lessons that they hold for the future.

Much of the analysis contained in this report draws on the proceedings of an international conference convened by the Finnish Institute of International Affairs in Helsinki in December 2009 that brought together a number of European academics, politicians and business leaders to consider the question of EU failure. The report combines some of the contributions to this conference with a selected number of additional assessments to provide a snapshot picture of EU failure in three areas: institutions and public opinion; the EU as a global actor; and the environment and economic governance.

The first section of the report considers the failure of EU institutions and the reasons for the EU's declining public support. In his contribution **Anand Menon** develops a three-tiered explanation for the failure of the EU institutions. First, he identifies a "transcendental temptation" amongst national leaders to exaggerate expectations in the EU. Second, he points to the tendency of national politicians to dump intractable problems on the Union. And third, he laments the failure of EU member states to uphold their EU commitments. Menon concludes that the problems of the EU, therefore, reside in the member states, not in Brussels. **Paweł Świeboda** concurs that the member states, especially the larger ones, carry a large part of the blame for the current state of the Union. The multipolar world has rekindled their "fantasy of independent foreign policy," while Europe's decline has made them turn inwards. The result has been a lack of leadership and a loss of perspective, most evident in the case of Germany. Future leadership, therefore, has to come from elsewhere – coalitions of new and old member states and the newly appointed top EU officials. In her contribution **Teija Tiilikainen** considers the reasons for the failure of the constitutional project. According to her, the Constitution's failure did not indicate a growing disconnect between the European elite and the public, but rather a failure of European democracy. Tiilikainen explains that it is the weakness of EU-level democracy that has resulted in a disproportionate strengthening of national governments that has sidelined the growing rights of European citizens. While EU referenda might offer a solution, Tiilikainen argues that completing the mechanisms of EU level democracy would be a more promising option.

The second section of the report gathers contributions dealing with the EU's failure as a global actor. In his consideration of EU-Russia relations **Hiski Haukkala** argues that beyond the EU's own "amorphous actorness", there have been two essential reasons that the EU has failed to influence Russia. On the one hand, Russia neither wanted nor needed integration with the EU due to its character as a "natural state." On the other hand, the EU's "post-sovereign approach" to international affairs is being increasingly challenged by the gradual decline of western liberalism. To regain its relevance and influence, Haukkala suggests that the EU has to first put its own house in order. This assessment is seconded by **Mark Leonard**. Leonard argues that the EU has suffered from its own "20 years crisis" that is rooted in the events of 1989 and the achievements of EU Enlargement. The success of its own model has blinded the EU to external changes, leading to a decline of the liberal agenda and a loss of its own attractiveness. The solution, Leonard suggests, is that the EU needs to wake up to the current reality and develop a "global power" identity that is befitting the new multipolar world. In his account of the EU's Middle East policy, **Timo Behr** takes a slightly different angle. Considering the different explanations for the failure of successive EU initiatives in the region, Behr concludes that the EU's greatest problem has been a "failure of vision." While the EU has made various attempts to adjust its policies to a changing regional and international context, reformed its institutions and committed greater resources, these attempts have lacked common purpose and determination. To allow for greater progress, Behr argues that the EU will first have to resolve its internal divisions on the region and develop a more comprehensive vision for the future of the Middle East.

The final part of this report reviews the EU's performance concerning the environment and economic governance. In his review of EU climate change policy, **Thomas Spencer** argues that the EU did not fail when it comes to climate policy. Whilst the EU's failure in Copenhagen was of a strategic and systemic nature, the EU continues to lead when it comes to its domestic actions on climate change. To maintain this leadership role, however, Spencer argues that the EU will need to take a number of ambitious steps and re-conceive its climate policy within the framework of a more integrated common energy policy; only then will the EU be able to maintain

its international leadership. **Jorma Ollila**, in his contribution on the future economic challenges of the EU, identifies three different categories of problems facing the European economy: the immediate problems resulting from the economic crisis, including excessive debt and a brittle banking system; the problems resulting from a new global reality, *inter alia* a shift of power towards the East and a resurgence of protectionism; and finally structural challenges, such as the greying of society. In order to overcome these challenges and preserve its affluence, Ollila argues that more not less Europe will be needed. **Erkki Liikanen**, finally, defines the conditions for EU action on economic governance and reform to be successful. Drawing on his own experiences, Liikanen argues that a combination of the community-method and strong political support from the top are the most conducive conditions for economic reforms. Without either of the two, success will be elusive. According to Liikanen, it was especially the absence of strong political support combined with weak review mechanisms that explain the past failure of the EU's Lisbon Agenda.

Together, these different contributions indicate that there are four distinct categories of "EU failure". Some of the contributions suggest that the EU fails as a result of its incomplete or ineffective institutional architecture – most notably the weakness of the EU institutions, a lack of resources, and its division of competences with the member states – that continues to hamper the EU's ability to act cohesively and purposefully. Another group of contributions locate the reason for the EU's failure more firmly with the member states that have changed their attitude towards the European project as a result of generational, geopolitical, and socio-economic changes. The result has been a lack of leadership impeding the EU from taking strategic action and opening new internal divisions. A third group of explanations seems to suggest that neither the EU, nor the member states are to blame for the EU failures; rather it has been the outside world that has prevented the EU from succeeding – as might have been the case in Copenhagen or concerning its relations with Russia. Finally, a last group of explanations suggest that the EU's failure has been an analytical problem in that the EU has pursued the wrong recipes and initiatives preventing its policies from succeeding or creating suboptimal results.

Ultimately, the prominence we give to each of these different explanations will determine our response. Of course, the different categories of EU failure are not mutually exclusive; nor do the contributions to this report suggest that they are of the same magnitude in the different cases considered. If anything, this snapshot overview of different EU failures indicates that there are a number of areas in which greater attention and change will be needed in order to enable the EU to succeed in the future. When, how and in what way European countries choose to address these different issues will determine the shape and course of the EU for years to come.

In one of his famous quips, Winston Churchill suggested that “success is going from failure to failure without losing enthusiasm.” Lacking enthusiasm, the EU surely is doomed to fail. But for the EU, failure is not a fixed concept. Rather it is reflective of our grown expectations of the EU. Our ideas of both success and failure have to be ever expanding to reflect the changing demands on the European project. For Europeans of Churchill’s era EU success was the continent not lapsing back into devastating war – and by that reckoning the EU has been a success. But that is no longer enough. Today, the EU aspires to defend and promote the European social model of balancing social justice for the citizens with a world-leading, thriving and innovative wealth-creating private sector. In its external relations the EU desires to be a reference point for the rest of the world and to promote peace and stability in its neighbourhood. More recently, the EU’s aspirations have expanded even further to include economic growth that is also carbon-neutral.

When aspirations are so high, it is perhaps unsurprising that the reality consistently falls short; but those failures must not stop the EU from continuing to strive for that ever expanding view of a better future. To do this, Europeans need to accept their failures and objectively study them. This volume seeks to be part of that process.



# EU institutions and public opinion



# Does the European Union fail?

Anand Menon

There is much talk about a “crisis of European integration”. The list of tasks in which the EU has supposedly “failed” grows ever longer – it failed to get a deal at Copenhagen, it has failed to endow itself with a functional institutional system, it has failed to rescue Greece, and it failed to do enough to rescue Haiti. Failure, though, implies we should have expected otherwise when, in fact, there was no reason to do so. The Union is an international organization largely dominated by its member states. The latter carefully control the areas over which the EU exercises any authority, and prevent it acting when they feel such action might be detrimental to them. In actual fact, given its nature, it is little short of remarkable that the Union has achieved what it has, and functions as well as it currently does.

There is no need to reinvent the wheel when it comes to considering the Union from the perspective of ‘failure’. Dan Kelemen has already carried out a detailed assessment of ‘failure’ scenarios based on the broader political science literature dealing with the stability of federal systems.<sup>1</sup> This literature reveals that most federal systems have collapsed either via implosion – whereby they become centralized into a unitary state – or explosion – meaning that centrifugal forces have pulled them apart.

In the case of the Union itself, the weakness of the EU institutional structure, the lack of material resources available to these institutions and the fact that it is the member states which remain the object of the primary loyalty of their citizens conspire to render the risk of implosion highly remote. The myth of an impending European superstate, in other words, remains just that.

In terms of threats to the overall stability of the Union, explosion remains by far the most likely prospect. This is not to suggest that the EU is about to descend into civil war, as many federations have, but rather that the growing tension between the need for member states to act collectively and their reluctance to allow the Union to

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<sup>1</sup> Kelemen, R.D. (2007) ‘Built to Last? The Durability of EU Federalism’. In Meunier, S. and McNamara, K.R. (eds.) *Making History: European Integration and Institutional Change at Fifty* (Oxford: Oxford University Press).



ensure effective collective action results in a gradual decline in EU effectiveness.

How likely is such an outcome? A retrospective glance suggests that European integration has regularly experienced severe crises, ranging from the recent farcical process of treaty reform (extending from the Laeken summit to the second Irish referendum) to the so-called 'Euro-sclerosis' of the 1970s and early 1980s, which led *The Economist* to publish a cover picture of a tombstone bearing the words 'EC RIP'. The inability of the Union to influence global politics, moves towards protectionism on the part of several member states, and a fiscal crisis in Greece that seems to some to have called the very survival of the euro into question are all cited as evidence of a contemporary crisis.

Rather than revealing the inherent fragility of the EC/EU, however, perceptions of impending collapse are more often than not simply a reflection of the unrealistically high expectations that plague it. Any political system which generates such expectations will struggle to fulfil the hopes invested in it. And the European Union suffers more than most.

I have referred elsewhere to the 'transcendental temptation' that leads national political leaders to invest initiatives at the European level with greater significance than they merit.<sup>2</sup> The overcoming of Franco-German animosity symbolized by the creation of the European Coal and Steel Community hardly lacked resonance in its own right. Yet European leaders felt the lure of transcendentalism: the Schuman Declaration proclaimed that the Community would 'lay the first concrete foundation for a European Federation'. The French Foreign Minister set a trend. Successive generations of political leaders have subsequently competed to invest European integration with more significance than its practical achievements merited or its structures were capable of. Talk of 'political union', of the possibility of a 'common defence' or of the Union as some kind of putative superpower have served merely to increase exponentially – and unrealistically – the demands made on it.

More recent examples abound, not least the ambitious objective of the December 2001 Laeken Declaration to make the EU more democratic, more transparent and more efficient. We all know what

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<sup>2</sup> Anand Menon, *Europe: The State of the Union*, Atlantic Books, 2008.

followed this outburst of unguarded naivety – years of negotiations in the Convention followed by in camera intergovernmental negotiations and then, to top it all, three failed referenda and one retaken vote. Hardly surprising that many now feel the Union has failed to deliver the results it (or rather national leaders) promised.

A second, and related problem that dogs the EU is the tendency of these same political leaders to dump intractable national policy problems on Brussels. Doing so achieves two desirable short-term objectives. On the one hand, it removes responsibility from the national administration. On the other, it means that the Union can be blamed for subsequent failures. How the EU, with its weak institutions, limited budget, and severely limited authority was to transform Europe into the ‘world’s leading knowledge-based economy’ within a decade is anyone’s guess.

Finally, whilst fostering expectations and dumping impossible tasks, member-state governments also help undermine the Union by impeding its ability to impose even those rules to which they have previously agreed. The sad demise of the original Stability and Growth Pact in November 2003 provides a chilling example of the way in which commitments can be ignored and then rewritten by member states happy to talk the language of Europe, but reluctant to let the rules of collective action take precedence over national policy priorities.

The more sensitive the policy area concerned, the less member states will agree to allow Brussels to wield any authority. Whatever the functional basis for giving competence to the Union, if the perceived political costs of constraints on national autonomy are too high, member states will renege on their commitments and, as a consequence, undermine the effectiveness of the Union. Heady rhetoric about the need to enhance European military capabilities, along with the creation of a toothless European Defence Agency provide a nice example of the way in which the Union’s institutions fall short of the competence or authority necessary to achieve the objectives member states set them in highly sensitive areas of policy.

The ailments of the EU, therefore, reside largely in 27 national capitals and not in Brussels. No wonder populations across Europe struggle to come up with realistic expectations for the Union when

they are systematically misled by their politicians about its nature and potential.

All the while, those same member states continue to undermine the EU system. Debates about the new Barroso Commission revealed the extent to which Commissioners are now seen as representatives of their home state. Trade-offs over the high-profile jobs created by the Lisbon Treaty served merely to illustrate the fact that national governments care more about seeming to win in Brussels than about allowing Brussels to work as effectively as possible on their behalf.

Indeed, the terms of the Treaty itself seem to undermine the notion of an independent Commission. Through no fault of her own, Catherine Ashton has taken up a position that casts doubt on the very nature of the Commission. Her time will be split between the task of Commissioner for External Relations, and that of representative of the member states in foreign and security affairs. The two are incompatible. Members of the first Barroso College solemnly undertook 'to be completely independent in the performance of [their] duties, in the general interest of the Communities; in the performance of these duties, neither to seek nor to take instructions from any government or from any other body'. How, in all honesty, could Baroness Ashton make such a pronouncement?

The appointment of a member-state representative as a member of the Commission is a direct blow to the principle of supranational independence that has been its defining feature. It is like appointing a referee who is simultaneously spokesman of the players' union. One way or another, he will disappoint one of his constituencies, and it is a fair bet that the number of yellow and red cards issued will fall drastically.

A neutral, supranational Commission has been central to the effectiveness of European integration. It has provided the institutional lubrication in a system that could all too easily be gridlocked by clashes between narrow national interests. By proposing legislation, it prevents individual member states from forcing their preferences on others. By monitoring the national application of EU laws, it ensures faith in the system and allows for the operation of the market. Once the Commission comes to be suspected of bias, however, why should national governments continue to trust it? And without trust, what would it have left?

Meanwhile, whilst undermining those institutions most important for ensuring an effective Union, Heads of State and Government continue, at their regular summit meetings, to issue ambitious declarations of objectives that even a properly functioning EU system would struggle to achieve. The infamous Lisbon Agenda was a case in point. Ambitious goals without the institutional means to achieve them may serve to generate impressive headlines for a day, but they also undermine faith in the Union over the longer term.

There is, in other words, an increasing disjuncture between national politicians and the Union. Whilst the former continue to exercise significant control over what the latter does, they fail to take responsibility for their – or its – actions, choosing rather to blame it for policy failures whilst entrusting it with ever more unrealistic tasks.

Of all the numerous institutional innovations brought in under the Lisbon Treaty, only one seems in any way intended to address this disjuncture. The ‘yellow card’ procedure at least provides some grounds for hope. The creation of an organic link between EU action and national parliamentarians would make it more difficult for the latter to attack the Union with impunity. And if they felt the need to be bitter about the outcome of such votes, their bile should logically (not a guarantee of anything in politics, admittedly) be targeted at their counterparts in other member states, and not the Union itself.

It is only when member states treat the Union with the care and respect it deserves that a balance will be struck between its capabilities and our expectations of it. And, lest we forget, European integration has been far more successful than we ever had the right to expect. Take one example. For many years, the European Commission was largely ignored by governments, which openly flouted rules intended to create a common and then a single market between them. To the point where British Prime Minister Jim Callaghan was able to reassure the General Secretary of the Labour Party that EC membership was no constraint on the government’s ability to provide aid to industry – even if such measures were illegal under the Treaty. How this has changed! Governments now check with Brussels before doling out funds to industry. In many cases, the Commission rules such interventions illegal, and hence prevents them. In others, it imposes conditions.

In its own core areas of competence, in other words (rather than in far more politically sensitive areas like defence, or fiscal policy) the EU has managed, despite being a weak and under-resourced international organization, to forge the world's largest single market. The real threat of failure now is not some kind of dramatic explosion – when, after all, was the last time the words 'EU' and 'dramatic' could reasonably be used together? Rather, it is the short-term populism on the part of national political leaders that led them to undermine this fragile system still further, to place short-term political considerations before an appreciation of what European integration has achieved over the decades and continues to achieve to this day. In so doing, they could conceivably provoke the gradual atrophy of the market as its rules are no longer complied with and governments fail to agree on the regulatory framework most suitable for it. It is not the EU that is in danger of failing. It is the member states who risk failing it.

# Legitimization by staying relevant

Paweł Świeboda

“Fudge is the necessary condition of progress in Europe” – this was the way that one BBC commentator characterized what had taken place at a European Council session more than ten years ago. Little has changed since then. The special November 2009 European Council, convened to decide on the nominations for the top European positions, elevated this fudge to a whole new level. It almost seems that after the project to bring Europe closer to its citizens was abandoned as a result of the failure of the Constitutional Treaty, the political elites have made the assumption that they are now the masters of ceremonies in the EU. The citizens had their chance. They did not take advantage of the opportunity, so too bad for them.

Are the elites right in making this assumption? They would appear to think so because they see the EU as the perfect vehicle for a technocratic problem – being resolved in an age whose complexity does not yield easily to detailed exposition and explanation. It was the apolitical European Central Bank that emerged victorious from the economic crisis, having pretty much made the right decisions at the right time. The elites also believe that it is better for them to have a free hand on issues which will top the agenda in the future, from foreign policy to internal security.

Needless to say, the picture is not entirely bleak. The EU is an unprecedented success. It is the biggest economy in the world, bringing together very diverse countries for the purpose of a common agenda. It is pretty clear what the Union needs to do, however. Revamping the governance of the eurozone, building a common energy policy, and correcting the social model are just a few issues that should top the agenda.

Yet gloom is not the sole preserve of the European Union. The former French Prime Minister, Jean-Pierre Raffarin, spoke three years ago about three categories of “*declinologues*” in France, rightly pointing out that the movement is “transpartisan and adaptable to each side of the political spectrum”.<sup>3</sup> For the *declinologues* on the

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<sup>3</sup>Closing lecture, Masters of Public Affairs of the Institut d’Etudes Politiques de Paris, 30 May 2006, [http://mpa.sciences-po.fr/docs/raffarin\\_lecture\\_gb.pdf](http://mpa.sciences-po.fr/docs/raffarin_lecture_gb.pdf)

right, France was better “before” when it lived “crouched behind our borders”. There are *declinologues* who have a problem with the market economy and imagine “another world”. And there are centrist *declinologues* who believe that all that is wrong with France can be attributed to its institutions. Raffarin drew the right conclusion when he said: “The real threat that France must face is not in opening up but in withdrawing into itself”. The same is true of the EU.

In the absence of an overarching vision, Freud’s “narcissism of minor differences” rules. It is immediately visible in the field of foreign policy, where every potential opening leads to blockages. The EU would not be capable of pursuing the type of policy review on Burma, for example, which the US has undertaken with the option of very careful and considerate engagement being pursued.

### *How did we get into this situation?*

It was never going to be easy. The EU has a systemic problem with legitimacy because it is not a state and there is no European Demos. In the best-case scenario, there is a European Demos in the making. Some of us have not realized the extent to which the world has changed and the EU along with it. All too often the pre-enlargement yardsticks are applied, yet the EU is now a completely different animal altogether. It is neither better nor worse, it is simply different, and more attuned to the requirements of globalization. The multi-polar world is also to blame because, as far as the bigger member states are concerned, it prolongs what Javier Solana termed in a 2009 *Financial Times* interview “a fantasy of independent foreign policy”.

The EU has also committed the sin of political over-ambition. It burnt its fingers trying to become a constitutional utopia and discouraged many people by being out of touch with reality. The wind of history happens to be blowing in the opposite direction at the moment. Five years ago it seemed that the “European dream” could easily appeal to hearts and minds elsewhere in the world, while the prevailing view now is that the state once more provides an unrivalled form of political organization. One should not forget, however, that the European dream continues to have an impact, albeit in a “genetically modified” form, as evidenced in the recent

proposal by the Japanese prime minister to start East Asian economic integration. Europe is in decline and the EU is unable to prevent it. Any mechanism for cushioning the harsh reality cannot be expected to generate much genuine enthusiasm.

The big states utterly failed to lead the EU and turned out to be trying to outperform each other in reforming the system to suit their own ends. Germany is the key issue. European integration and the German national interest are no longer seen by Berlin as two sides of the same coin. What Ulrich Beck describes as Germany's fusion between national interest and Europe no longer exists. The EU became too difficult to manage and too expensive for Germany.

One should not underestimate the impact of generational change. The younger Europeans have not been properly educated about Europe. Fifty-one per cent of 19-year-old Germans believe that Erich Honecker was the second German Chancellor after Konrad Adenauer, while two-thirds would not call the former GDR a totalitarian regime.<sup>4</sup> The EU has not found a way to address the concerns of those Europeans who have been strongly affected by the socio-economic processes of recent years. The Globalization Adjustment Fund was from the beginning a token gesture destined to have little or no impact. On the contrary, from the point of view of the citizen, the EU symbolized insecurity and the rapid pace of change.

### *Is there a bright side of the moon?*

The EU doesn't get dismal marks everywhere. Countries for which the EU became a turning point in their history, like Spain and Portugal or Poland and most of the other member states from the last enlargement, generally view European integration positively. Perhaps the new European narrative should be built more around the historical turning points to which the EU contributed, such as the consolidation of democracy in Southern and Central Europe rather than the historical events that it grew out of. This suggests that the national political realms are the key to understanding how to bridge the gap between expectations and reality.

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<sup>4</sup> Studie BM Wissenschaft & Bildung zu DDR-Kenntnissen in Schulen, cited in Ulrike Guerot, "Germany unbound?"



## *What is the solution?*

It is no longer a question of output legitimacy. The legitimacy of the EU will depend on whether or not it stays relevant. While at the Brookings Institution, Jeremy Shapiro was adamant after speaking to Democrats during a discussion in Brussels that while European integration is desirable, it is not necessarily going to happen, “so let’s not waste a lot of political capital on it”.

The EU needs to tackle issues which are essential for its political, economic and social future. It also has to avoid “no-go” areas. This means addressing the question of macroeconomic governance in the EU in those areas where it is pretty clear what needs to be done. Monitoring and surveillance have to be extended to current account balances. Spain looked healthy before the crisis based on the budget deficit and inflation criteria, but the country’s growing current account deficit was not probed. Secondly, the euro bond question has to be addressed. Thirdly, the enlargement of the eurozone should be speeded up, not least by revising the outdated accession criteria which are no longer relevant in today’s situation. Who should instigate that process? Clearly, Germany is best placed to do so, but would need to look at its longer-term interest when the reform of the Stability Pact pays off. The European Commission must also take on the mantle of leadership.

The EU needs to have a serious discussion about the European social model. Although there are different national approaches to the social model, it remains a uniquely European way of achieving competitiveness and social cohesion at the same time. The EU is the right forum to define a European response to globalization. There has to be a continued normative dialogue on ways of integrating openness, competitiveness, cohesion and solidarity. It is only in this context that the EU can look for its new “blue oceans” such as climate change.

New ways of exercising leadership will be necessary. Leadership not only on the part of individual member states and groups of member states, but also from the new strengthened positions such as those of the Euro-group president. We saw what that could mean when Juncker sent a secret letter in early December 2010 to the Greek government on reshaping their economy. The new mechanisms of the Lisbon Treaty will play a role in giving the EU a much-needed shot

in the arm. Differentiated integration will play a part in areas such as defence, where it is clear that the EU cannot achieve progress with all twenty-seven members. The strengthened role of the national parliaments can help to bring EU policy-making closer to the national political elites.

The politicization argument needs to be refashioned. It is dead in its classical form as there is very little appetite in the EU for partisanship and the introduction of “majoritarianism” in the traditionally consensual processes.<sup>5</sup> However, everything the EU does is highly political and politicization will be developed, albeit along more unconventional lines. The EU hybrid will become even more complex in that respect with party-political, national and sectoral interests interplaying with each other.

“Shock tactics ensured that the Schuman Plan was not strangled at birth” – that was the way the British Ambassador to Paris described the democratic debate on the key document for the EU integration process. The Plan was mentioned by Schuman in passing at the Council of Ministers on 3 May 1950, and put forward for discussion on 9 May when only the PM and two ministers took the floor because no one else knew what was going on. In the evening of the same day, Schuman announced the creation of the Plan in Salon de l’Horloge of Quai d’Orsay and the industrialists were amazed that they had not been able to sniff out anything in advance. At least we have improved on democracy since then.

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<sup>5</sup> See Olaf Cramme, “EU integration at a crossroads: closing the expectation-reality gap” in “Rescuing the European project: EU legitimacy, governance and security”, Policy Network, 2009.

# Did the constitutional project or democracy fail in the EU?

Teija Tiilikainen

The constitutional project has been counted among the major failures of the EU. The project, which was officially launched with the Laeken Declaration in 2001, was intended to make the Union more fit for the coming enlargements. In addition, there were great expectations that the constitutional project would simplify the EU's legal and political system, enhance its popular legitimacy and, finally, reinforce the Union's actorness in the international arena.

When the Constitutional Treaty faced domestic difficulties in many member states – and was finally torpedoed by the French and Dutch referenda – the treaty was accused of having been too ambitious. It was seen to deepen European integration to an extent to which European people were not prepared to accept. Its constitutional wording was argued to imply too strong federalist connotations. On the other hand, the treaty was criticized for being too market-liberal and too vague in terms of the Union's social dimension.

It has been argued that the fate of the Constitutional Treaty attests to the fact that the gap between the European elites and the European people has grown wider. While the European leadership is dreaming of a United States of Europe, its people are still firmly committed to the nation state project. The arduous road from the Constitutional Treaty to the new Reform Treaty and finally to its approval as the Lisbon Treaty, which could only enter into force after a double referendum in Ireland, seems to justify this argument.

The Constitutional Treaty might have been over-ambitious and it might have included some incorrect policy prescriptions from the point of view of some European audiences. But if that is the case, it reflects a failure which is much more comprehensive and far-reaching than the failure of the constitutional project. In my view the failure of the constitutional project must be perceived above all as a failure of European democracy. The lesson to be learned from it relates to the weakness of democratic processes and to the deficient construction of democratic accountability in the European polity. If this issue is not addressed properly, the EU will risk losing its capacity to self-

reform, that is its ability to adjust to changing conditions. Second, a malfunctioning democratic machinery will seriously challenge the development of the entire European project.

### *The challenges of the EU's legal foundation*

The far-reaching political and economic union and its treaty foundation have been evoking concerns about weak compatibility for some time. When it comes to most of its power structures, the EU has distanced itself from the direct and sovereign guidance of its member states. In the Union's policy-making, the member states are represented only through one of the institutions (namely the Council), while the ever-strengthening dimension of European parliamentarianism has gradually reinforced the contours and representation of the European people.

Political subjectivity around European citizenship has been strengthened, too. European law has always had direct applicability in the member states, making both European citizens and the member states its subjects. More recently, European citizens have started to appear in a more constitutional role as their legal rights and liberties as subjects of European law have been made more explicit in the EU treaties. A third element of the strengthened citizenship dimension can be perceived in all those new citizen-centred policies which have been added to the Union's competences particularly since the Amsterdam Treaty.

The incompatibility between the power structures of the economic and political Union and its treaty basis culminates in the firmly intergovernmental mode of amending the EU's constitution, namely its constitutive treaties. This competence has been vehemently defended by the governing elites of the member states, who treat their power over the treaties as the ultimate protection of their key role. This competence produces an awkward combination where the member states regulate in a sovereign manner the powers of the Union, which to a growing extent are related to the role and rights of European citizens.

As a result, demands for a more democratic way of amending the constitutive treaties have been strengthening. This has primarily led

to the approval of the European Parliament as an observer of the intergovernmental conferences. When the EU was preparing the most comprehensive treaty change in its history, the Constitutional Treaty, it was obvious that the political mechanism should differ from the traditional way of changing treaties. The Convention on the Future of Europe was set up as a broad-based body bringing together the representatives of the governments (in their unofficial capacity), national parliaments, the Commission and the European Parliament.

The challenges of the EU's constitution-making were addressed in the convention in many ways. First, the convention tried to delimit the material content of the EU's constitution by separating non-constitutional norms from the bulk of the EU's constitution. Second, it made an effort to subordinate these two parts to different modes of amending them. And third, the convention proposed its own mechanism, the convention mechanism, to be used when the constitutional part of the treaties was amended.

The convention was only partly successful with this project. First, the separation of the constitutive treaties into clearly differentiated parts, to which different mechanisms for amendment would apply, did not reach the planned level of distinction in its final proposal. And second, when the structure of the Constitutional Treaty had to be abandoned in the Lisbon Treaty, the role of this change became highly ambiguous. But through its own example, the constitutional project has shown that there is another dimension to this incompatibility as well.

### *The challenges of the EU's democratic system*

The other dimension of the aforementioned incompatibility deals with the major deficiencies in the European democratic system: the lack of a common European political arena and weak realization of political accountability. If these deficiencies are not resolved, they are likely to seriously condition the possibilities to democratize the Union's constitution-making.

The EU's democratic system comprises two levels, the European one and that of the member states. In an ideal situation, these

two frameworks of democracy would complement each other in a constructive manner. In the national framework, the governmental policy of member states is subordinated to the scrutiny of national democracy mechanisms, like the control of a national parliament and civil society. In the European framework, the political arena should be constructed by European-level cleavages which would influence the shape of the European political sphere, including its actor-setting. Political accountabilities would be divided between the two frameworks of democracy.

It can readily be pointed out that the lack of a party government at the EU-level leads to major problems in the realization of political accountability. There is no incentive for EU-level political parties to go to EP elections with a fully-fledged electoral programme as neither the political composition of the EU's government (namely the Commission), nor its working programme will predominantly reflect the results of the elections. The lack of real political programmes contributes to the heterogeneous character of EU-level parties as well as of all those European political actors that are willing to compete for power in EP elections. The lack of a party-government constrains the construction of a true European-level political arena around cleavages and actor-setting of its own.

One implication of the above-mentioned weaknesses of EU-level democracy is the role of national governments being strengthened beyond the role they have in the formal division of power through the Council. The weaker the European-level actors remain in policy processes, the more the national governments will be able to influence these. Another implication – and the real concern in this short paper – is the distortion of democratic accountability.

The convention was far from an ideal example of enhancing the construction of a European political space. It was, however, the best effort made thus far in the Union's context. Due to the all-encompassing agenda of the constitutional project, a number of cleavages emerged along with a variety of actors – from party-political groupings to more or less informal and ad hoc transnational civil society groups focused on single issues. The openness of all main meetings and documents supported a broader participation and media attention for the project than had ever been the case with intergovernmental conferences.

Even with its weaknesses – the less transparent preparation of institutional issues and somewhat questionable leadership structure – the convention can be seen to have provided a satisfactory preparation of the major elements of the Constitutional Treaty from the democracy point of view. The pros and cons of the new treaty structure as well as the ways of presenting the Union’s competences and the Union’s decision-making processes and instruments among other things were thoroughly deliberated. The time span allowed a careful consideration of issues in the national contexts and the presentation of concerns of various grades and types was possible.

In the Union’s democratic setting the European political arena is, however, in some crucial respects inferior – and not complementary – to the national frameworks. This was reflected in a painful way during the later stages of the constitutional process. When the final approval of the constitutional treaty had to take place in the domestic arena, the change of democratic context and actor-setting drove many actors to act in a way that was contradictory to their goals and actions in the European arena. More often than not this implied that the constructive attitudes adopted in the European arena were replaced by more overt criticism in the national arena when the policy was re-constructed from the point of view of cleavages and the actor constellation of the latter.

The relationship between the two democracy frameworks ultimately originates from differences in constructing political accountability. As many EU-level actors are not directly democratically accountable, the role and accountability of national governments becomes emphasized. This difference in accountability will remain and the dominant role of the member states will not disappear from the Union’s constitutional processes in the foreseeable future.

A stronger European political arena, including a better fulfilment of political accountability would, however, safeguard the strength of the European-level actors throughout the Union’s democratic process and consequently give a stronger role and legitimacy to the European perspective alongside national ones. What is the use of European-level political arguments and commitment to the common good of the European Union if their political justification is solved in the national context very much through national political lenses? At the same time, European-level arguments that would have to

derive their justification from elections would be much more firmly anchored in the national context as well.

## *Conclusions*

It can be contested that the EU's constitutional project failed due to the growing gap between European elites and the European people. As long as there are no proper mechanisms for measuring the justification of European arguments, it will not be possible to say whether there is a gap at all. In fact, it is more evident that a gap exists in the democratic system of the European Union which leaves the final decision about constitutional issues in the Union to be taken in the national frameworks of democracy only. The more the preparation of constitutional issues takes place in the European arena with emerging European-level actors and political cleavages, the wider the gap will become.

One solution that has been proposed to bridge this gap is the use of a European referendum as a mechanism for approving treaty changes. This could either take place in parallel with national mechanisms or as an alternative to them. Replacing the deficient mechanisms of indirect democracy at the European level with the use of direct democracy presents challenges of its own. The completion of the mechanisms of parliamentary democracy would still constitute a better option.





# The EU as a global actor



# Why has the EU failed in its Russia policy?

Hiski Haukkala<sup>6</sup>

It seems that for the European Union its relationship with Russia is fraught with bitter frustrations. If we take the optimistic rhetoric of the 1990s at face value, then the relationship and later strategic partnership with Russia was to result in a substantial degree of convergence and cooperation between the parties. In the words of the Union's Common Strategy on Russia of 1999, the aim was nothing less than:

*A stable, democratic and prosperous Russia, firmly anchored in a united Europe free of new dividing lines ... [and] a stable, open and pluralistic democracy in Russia, governed by the rule of law and underpinning a prosperous market economy benefiting alike all the people of Russia and of the European Union.*

The course of events in Russia has shown that none of the Union's strategic objectives have, in fact, been met: Russia has not become democratic and the basis of its current stability is debatable as well. The rule of law is as shaky as ever with endemic corruption as well as the global financial and economic crisis threatening to undo most of the economic gains made during the years of exceptionally high oil prices. Added to this, the Russian market economy is a unique variant of state capitalism with increasing protectionist tendencies. What is more, Russia is increasingly belligerent towards the Union's normative agenda in the so-called 'common neighbourhood', and is beginning to challenge the applicability of EU principles as the cornerstones of wider international order as well, as exemplified by the military conflict with Georgia in August 2008. In short, the Union has failed to reach practically any of its original objectives with Russia.

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<sup>6</sup> Note: The statements of fact and opinion expressed in this essay are those of the author and do not necessarily imply endorsement by the Government of Finland.

But what accounts for this apparent failure on the part of the Union? Usually, it is the EU and especially its lack of robust international actorness that is seen as the main culprit. To be sure, on the EU side, the amorphousness of its actorness is the key and it seems that a good deal of the EU's power has indeed been 'lost in translation'.<sup>7</sup> In this respect, it is easy to agree with Anand Menon's last sentence in his essay in this volume. That said, this short article would nevertheless like to provide a more nuanced picture by arguing that the EU had very little chance of making its relationship with Russia succeed from the start. This is so because the EU always had relatively little influence over two crucial factors: the choices Russia has made, and the nature of the wider evolving world order.

### *Explaining Russia's aversion to EU integration*

Russia has played a crucial role in the failure of the EU in two paradoxical respects. First, Russia's tough negotiation stance during the negotiations for the Partnership and Cooperation Agreement (PCA) in 1992-94 resulted in the parties adopting a much more ambitious and binding agreement than was initially envisaged by either party. Interestingly, it was Russia – and not the EU – that was pressing hard for the integrationist agenda, with the EC/EU being much less willing to fully embrace Russia, viewing the country as largely unintegratable at least in the medium term. In fact, it was only after protracted negotiations and Russia's continued insistence that it be granted the same economic relationship as the former Soviet satellites in Central and Eastern Europe that the EU reluctantly acquiesced to these demands in the eventual PCA.<sup>8</sup> As a result, Russia's thirst for treatment on a par with its former satellites raised the bar and consequent expectations far higher in the relationship than the EU ever envisaged.

Second, Russia's choices since then have resulted in a situation where the country has increasingly reneged on its earlier promises,

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<sup>7</sup> See Hiski Haukkala, 'Lost in Translation? Why the EU has Failed to Influence Russia's Development', *Europe-Asia Studies*, 61(10), 2009: 1757-1775.

<sup>8</sup> See Hiski Haukkala, *The EU-Russia Strategic Partnership: The Limits of Post-Sovereignty in International Relations*. London & New York: Routledge, 2010, Ch. 5.

entailing a somewhat paradoxical situation where the EU has been left insisting on an agenda it did not fully believe in the first place. Yet the EU – and especially the European Commission – is a slow moving and legalistic entity: once a relationship has been locked onto a certain contractual trajectory, it is not easy for the EU to change course.

But why then has Russia decided to opt out of integration with Europe after all? Two answers spring immediately to mind. First, because Russia does not really need integration with Europe. Although Europe remains Russia's most important economic partner, the bulk of Russian exports consist of oil and gas as well as other raw materials that are already traded largely toll free. Taken together, the basic commodity sector accounts for nearly four-fifths of Russia's export revenues.<sup>9</sup> For the most part, Russia's industries are outdated, inefficient and lack competitiveness in the global market. It is doubtful whether most of them could survive in open competition with western rivals. Therefore it is hardly a surprise that Russian economists usually argue that the actual short-term benefits of economic integration would be meagre, while the potential costs for domestic manufacturers could be prohibitively high. Taken together, the short-term benefits override the long-term prospects, lessening Russia's willingness to abide by its earlier commitments.

The second answer stems from the fact that Russia does not really want integration with Europe. Currently, economic integration and the normative convergence it would entail are seen to detract from Russia's own sovereignty, a topic that is very sensitive for Russians and one they hold dear.<sup>10</sup> The essential interdependence of all the main players in Europe is not fully grasped, nor are the Union's assurances concerning the beneficial win-win logic of integration accepted. This line of thinking is evident in most Russian actions

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<sup>9</sup> Pekka Sutela, 'How strong is Russia's economic foundation?' CER Policy Brief, October 2009. London: Centre for European Reform, available at [http://www.cer.org.uk/pdf/pb\\_sutela\\_russia\\_29oct09.pdf](http://www.cer.org.uk/pdf/pb_sutela_russia_29oct09.pdf), last accessed 31 March 2010.

<sup>10</sup> This idea comes through very clearly in the Russian writings in Ivan Krastev, Mark Leonard, & Andrew Wilson (eds), *What Does Russia Think?* London: European Council on Foreign Relations, available at [http://ecfr.3cdn.net/578c6da80e7f242659\\_6fm6b0ltd.pdf](http://ecfr.3cdn.net/578c6da80e7f242659_6fm6b0ltd.pdf), last accessed 3 February 2010.

ranging from the country's own economic policies to its political relations with Europe. To take just a few examples:

- Instead of allowing foreign companies to fully invest in, penetrate and modernize its market, Russia has done its best to cordon off several strategic sectors that are to remain under the stewardship of the Russian state.
- Instead of building successful partnerships with its neighbours to transfer its oil and gas through existing infrastructure, Russia has used and is still planning to use astronomical amounts of money to build alternative port and pipeline facilities that would free it from relying on intermediaries.
- Instead of accepting that the EU's political interest in the so-called common neighbourhood between the two is of a benign nature and that the potential stabilization that the EU is interested in would be in the interests of both parties, Russia has reacted against the EU's growing presence with suspicion and even hostility and it has only intensified its attempts at gaining increased leverage over its neighbours in the CIS.

But here we are faced with an apparent paradox. Despite these actions and reactions, the Russian leadership continues to insist in public that Russia is bent on integration with the rest of the world and that it is seeking thorough-going modernization that can only be achieved in partnership with the West, particularly the EU. President Medvedev in particular has made these issues the lynchpin of his presidency. Putin has also made similar remarks many times during his career, although perhaps less so during his time as Prime Minister.

To better understand Russia's current fence-sitting, we should keep in mind that the country is essentially what North et al. have called a natural state.<sup>11</sup> Natural states are essentially limited access orders that are based on a close fusion of economics and politics, patron-client relationships and rent-seeking. By contrast, open access orders separate economic and political interests to a large degree and are contractual and rule-governed, while allowing mass

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<sup>11</sup>Douglass C. North, John Joseph Wallis, & Barry R. Weingast, *Violence and Social Orders. A Conceptual Framework for Interpreting Recorded Human History*. Cambridge: Cambridge University Press, 2009.

access to rents. In essence, the EU is propagating open- access solutions to a still predominantly closed Russian order. Responsible Russian elites, too, acknowledge this conundrum and would, in fact, prefer Russia to move towards a more open order, as exemplified by Medvedev's repeated public tirades against his own country. But, importantly, the path-dependence of the present system makes it almost overwhelmingly difficult to move forward in the desired direction. Indeed, historically, periods of modernization have been fraught with danger, upheaval and collapse in Russia. Wary of this experience, the current Russian elites now loathe repeating the experiment and seem to prefer stability instead. It is the desire for this stability that precludes Russia from consummating its earlier professed European choice.

### *The nature of the wider evolving world order*

The second factor accounting for the EU's apparent failure stems from the nature of the wider and constantly evolving world order. On an earlier occasion I have suggested that one way of thinking about the EU's Russia policy is to envisage it as a process where the EU has attempted to devise post-sovereign practices that would tie Russia closer to Europe.<sup>12</sup> Yet these attempts have been affected and mainly hampered by the existence of a still largely and, perhaps, even increasingly sovereignty-based world order around it. The persistently strong standing of the sovereignty principle has helped Russia resist the EU's attempts to encroach on its sovereignty.

It seems clear that the problems in the Union's application of post-sovereign principles stem increasingly from the wider constitution of the international society. Two trends merit discussion in this respect. First, we may note the rather uneven and selective application and enforcement of liberal principles globally. Mendelson has traced the lack of international responses to the systematic human rights violations in recent years. According to her, these failings have resulted in a situation where certain actors – Russia included – have felt increasingly empowered to adopt 'a hyper-sovereign' mode,

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<sup>12</sup> See Hiski Haukkala, *The EU-Russia Strategic Partnership: The Limits of Post-Sovereignty in International Relations*. London & New York: Routledge, 2010.



rejecting any criticism of breaches of liberal values as unwarranted encroachments on national sovereignty.<sup>13</sup>

Second, and partially following on from the first point, we must also take note of the essential ‘Westphalianness’ of the current constitution of the international society. In his magisterial overview of institutional change in world politics, Holsti has come to the conclusion that all the talk about ‘erosion of sovereignty’ and that we live in a ‘post-Westphalian world’ is not backed up by empirical evidence. For him, the reverse seems to be true as a ‘good deal of the contemporary institutional context within which states pursue and defend their interests is recognizable in late seventeenth- and early eighteenth-century antecedents’.<sup>14</sup> Although this is perhaps too strong a statement, the trend nevertheless seems clear: sovereignty has not been eroded as successfully as some hoped (or feared) in the 1990s. What is more, one may also ask whether the possibilities of establishing post-sovereign institutions will actually diminish and not increase in the future. The recent and still emerging debate concerning the rise of economically successful but politically authoritarian powers seems to indicate that we might be witnessing an era where the hegemony of western liberalism is eroding beyond repair. The severe financial and economic crisis that peaked in 2008–2009 would appear only to have accelerated the trend of power and influence haemorrhaging away from the West to a more sovereignty-focused China and wider Asia.

Should this be the case, then the EU could be in danger of becoming increasingly marginalized with its post-sovereign approach to international relations. In fact, the conclusion to be drawn from this discussion could be that, in the future, Russia will have the option of approaching power centres and normative agendas other than the ones represented by the EU. In this respect, Russia would seem to have the possibility of using the yet again increasingly sovereignty-abiding international society as a source of legitimacy when seeking to circumscribe and even subvert the Union’s post-sovereign practices. Should this be the case, then the EU’s failure

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<sup>13</sup> Sarah E. Mendelson, ‘Anatomy of Ambivalence: The International Community and Human Rights Abuse in the North Caucasus’, *Problems of Post-Communism*, 53 (6), 2006: 3–15, p. 13.

<sup>14</sup> K. J. Holsti, *Taming the Sovereigns: Institutional Change in World Politics*. Cambridge: Cambridge University Press, 2004, p. 302.

with Russia could merely be a harbinger of a wider failure in the battle for the future constitution of the international society.

Yet the EU has refused to give up the fight or give up on Russia, and rightly so. The most recent twist in the tale seems to be that any pretensions to genuinely shared values and normative agendas have been abandoned by Brussels whilst increased importance has been put on the existing contractual obligations that Russia had previously entered into. But a frank appraisal of the current EU talk of obligations when it comes to Russia suggests an air of defeatism. The history of international relations is filled with examples of what happens to agreements and other pieces of paper once the power of the strong is no longer there to back them up. The EU should also bear in mind that its values have never been an object of desire and emulation for their own sake. Instead, it has been the relative success of these values that has engendered admiration from others, Russia included. Once the EU starts to lose the aura of success, the appeal of its values and ideals will also start to wane. Neither is the EU capable of, nor necessarily even willing to coerce Russia into honouring its commitments; rather the EU's strength stems from its capacity to attract.<sup>15</sup> In this respect, the EU's success with Russia, and indeed as a global player in general, begins at home. The EU needs to return to a trajectory of sustainable growth economically and show that its values and principles bring real benefits to its own people. If the EU can ensure this, then the rest, including the ever-elusive success with Russia, will follow.

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<sup>15</sup> For a recent, although perhaps overly optimistic statement in this vein, see Andrew Moravcsik, 'Europe, the Second Superpower', *Current History*, 109 (725), 2010: 91-98

# The EU's Middle East failure

Timo Behr

## *Dashed illusions*

“Europe’s future is in the South!” With these words France’s ebullient President Nicolas Sarkozy announced his plans for a sweeping new European initiative towards the Middle East in October 2007. His Union for the Mediterranean (UfM) was intended to be a grand civilizational project that would address the central problems of the region and grant the EU a more prominent role in regional affairs. Just like Europe’s Coal and Steel Community, Sarkozy’s Union was to promote cooperation on a limited number of concrete issues to overcome the region’s ancient rivalries and turn the Mediterranean into a laboratory of co-development policies. But rhetoric rarely matches reality when it comes to the EU’s temperamental relationship with the Middle East. Nearly three years on, much of the gloss has disappeared from Sarkozy’s “dream of civilizations”. The Gaza War, the glitch in the peace process, Obama’s election and a good dose of collective mismanagement have all meant that, once again, the EU’s efforts in the Middle East are faltering.

Of course, Nicolas Sarkozy is not the first European statesman to lose his bearings in the maze of Middle Eastern politics; nor is his Union for the Mediterranean the first EU initiative to have been shipwrecked on the rocks of Arab-Israeli belligerence. Sadly, the history of EU engagement in the Middle East has been littered with unfulfilled promises and lost opportunities. Ever since the end of the colonial era, European countries have been scrambling to find a new role that could match their substantial interests and historical responsibilities in this enigmatic region. At times, their contribution has had a ground-breaking effect on regional developments. The EEC’s Venice Declaration of 1980 paved the way for the PLO’s inclusion in the Middle East peace talks. More recently, EU-3 negotiations with Iran and the EU’s promotion of the Roadmap for Middle East Peace filled the gaping hole left by the failure of US leadership during the Bush era.

More often, however, the EU has failed to make its mark and European strategies and initiatives have enjoyed an auspiciously short shelf-life. The Euro-Arab dialogue of the late 1970s, Europe's first collective performance on the Middle Eastern stage, had little impact on regional affairs and was soon suspended on account of intra-Arab differences. The EU's celebrated Barcelona Process – lauded for its optimistic and ambitious vision and multilateral approach – similarly failed to steer regional developments into a more positive direction. Inaugurated with much fanfare in the aftermath of the Oslo Accords, the Barcelona Process proved unable to withstand the collapse of the peace process and failed to turn Middle Eastern countries towards a path of sustainable economic development and political reforms. And while the EU's Neighbourhood Policy and Sarkozy's Union for the Mediterranean have allowed a forging of closer economic and political ties between the EU and a selected number of Middle Eastern countries, they have equally failed to chart a more positive course for the future of the region.

The EU has fared no better when it comes to addressing the Middle East's various frozen conflicts and regular crises. In the case of the Israeli-Palestinian conflict, the EU has been reduced to the role of a paymaster for the Palestinian side, but has been excluded from peace negotiations; a task that is still reserved for the United States. Despite occasional efforts at crisis mediation, its support for Palestinian state-building, regular diplomatic *démarches* and its role in the Middle East Quartet, the EU has had little influence over developments on the ground. A similar situation applies when it comes to the Western Sahara conflict – the key to a more integrated and stable Maghreb – on which the EU has failed to make any visible contribution. Whether it comes to Iran, Iraq, Yemen, Somalia or Sudan, the picture always remains the same. In most cases, the EU has sought to make a positive contribution to international crisis management efforts. But rarely has it taken the lead. As a result, the EU's engagement is too often limited to doling out palliatives, rather than seeking a panacea for the various problems of the region.

Compared with the Union's rhetorical commitment to create a more peaceful, prosperous and stable Middle East, EU policies have therefore failed in several respects. EU trade agreements and support for economic reforms have failed to create a more prosperous Middle East able to provide economic security for its growing population. EU

crisis management efforts have been ineffective in overcoming the region's multiple conflicts and creating a more stable regional order. Similarly, the EU has done little to tackle the region's democratic deficit, which is commonly seen as one of the most important sources of Middle Eastern radicalism and instability. Finally, the EU's influence in the Middle East itself seems to be waning, given renewed US leadership under Barack Obama and increasing competition with the emerging powers – above all China. But what are the reasons for the EU's multiple failings in its crucial southern neighbourhood?

### *The anatomy of failure*

There are a number of reasons that are routinely advanced in order to explain the EU's various failings in the Middle East. Some focus on the nature of the EU as an international player, emphasizing its institutional shortcomings and internal divisions. Others tend to point to the character and structure of Middle Eastern politics and highlight the futility of all outside attempts to shape the region. As is often the case, a multivariate explanation for the failure of EU policies is likely to be the most revealing.

One reasoning that has often been advanced is that the EU's failure in the Middle East is primarily a *failure of resources*. According to this explanation, the EU is unable or unwilling to invest the quantity and quality of resources in the Middle East that would enable its policies to succeed. EU economic and political incentives are considered to be too low to convince Middle Eastern governments to embark on difficult domestic reforms. Similarly, when it comes to crisis management, the EU's failure is often explained by the fact that the Union lacks the required military muscle. On its own, the EU is simply unable to extend credible security guarantees to Iran or offer military reassurances to Israel. Nor is the EU able to muster the solid military forces needed in order to keep the peace or threaten punitive action. However, without these hard power resources, the EU is seen as counting for little in the unforgiving game of Middle Eastern politics. The EU's weakness and lack of resources is further compounded by the fact that it increasingly competes with a number of other actors whose aid comes with few strings attached and

that tend to be less squeamish about the use of military force. The conclusion this reasoning leads to is that the EU needs to finally shape up and “put its money where its mouth is” if it wants to retain some relevance in the Middle East.

Another set of arguments challenges the notion that the EU’s fundamental problem in the region is a lack of resources, insisting that it is a *failure of implementation*. According to this explanation, while the EU possesses all the necessary resources to obtain its principal strategic goals, it tends to employ these resources in a suboptimal way. One example of this has been the EU’s Barcelona Process, whose multilateral structure prevented much progress following the failure of the peace process. Similarly, EU aid and incentives are often considered to be unfocused and mismanaged and the EU has been criticized for the gradualism and inefficiency of its reform strategy for the region. In other words, the EU’s failure is a failure of the EU as an institution. What the EU needs therefore are more institutional reforms, greater control, more professional staff and greater co-ownership of the process amongst Middle Eastern countries. This reasoning has informed the creation of the Union for the Mediterranean and the European External Action Service.

Yet another set of arguments focuses primarily on the structure of regional politics and developments in order to explain the EU’s failure. According to this explanation, the real problem is not a matter of resources or implementation, but rather that the EU pursues unrealistic goals in the region, resulting in a *failure of objectives*. Here the argument is that the EU’s ideas about creating a more prosperous, stable and democratic Middle East are hopelessly naïve. The current regional climate simply does not favour the EU’s normative ideas and methods, which have been tried and tested in Eastern Europe. The peace process has approached a dead end with none of the conflicting parties willing to give way. Democratic reforms which made some limited progress in the mid-2000s are in the process of being rolled back, due to a change in US policies, rising oil prices and the growing influence of China and other emerging countries. Liberal economic reforms, finally, have been discredited everywhere as a result of the financial crisis. What is needed therefore is a good dose of realism and a change in the EU’s idealistic objectives.

A final set of arguments suggests that, above all, the EU’s failure in the region results from a *failure of vision*. In other words, the

problem is not that the EU has adopted misguided objectives, or that it has failed to implement these objectives in a coherent manner or with inappropriate resources, but rather that European countries do not share a common vision and goals for the region to start with. The high-flying and idealistic rhetoric of the EU institutions aside, European countries still do not agree on a common approach for the region. Divisions remain over a number of difficult questions, including the Arab-Israeli conflict, the character of Political Islam, the importance of democratic reforms, the role of the US and even the geographic focus of EU engagement. National preferences in conjunction with the EU's consensual decision-making culture have forced EU policies to congregate around the lowest common denominator on many of these issues. This has hampered the development of a genuine European vision and strategy for the region that is based on a combination of the Union's collective interests and a realistic evaluation of developments on the ground. Instead, EU policies tend to be driven by intra-European developments or obediently follow the lead of the US. The result has been a reactive and timid foreign policy that has little connection with the circumstances of the region or the nature of European interests. Instead of working as a power multiplier for European countries in the Middle East, the EU has diluted their influence in regional affairs.

### *Drawing the right lessons*

What lessons can be drawn from the EU's past failures in the Middle East? Are all of the above explanations for the failure of EU policies of equal relevance? Of course, there is nothing surprising in suggesting that the EU needs to devote greater resources to the region, reform its ineffective implementation mechanisms, or attune its policies more carefully to regional developments. In fact, much of this has already been tried. The EU's Neighbourhood Policy and the recently introduced lure of an "advanced status" have been attempts to tackle the EU's failure of resources. Sarkozy's Union for the Mediterranean, similarly, was meant to address the EU's problems of implementation and objectives. And yet, the EU seems to have come no closer to realizing its goals in the region.

While it is possible to debate the minute details of these recent EU initiatives, or lament their inauspicious timing or ineffective implementation, the real problem is likely to lie elsewhere. Spending a little more money on development projects and economic reforms, dispatching a few additional soldiers for training or border control missions, or reforming EU aid and implementation mechanisms are no doubt all sensible measures. But on their own, they are unlikely to help EU policies in the Middle East turn into a success. For this to happen, the EU will first have to develop its own vision for the region. What kind of a Middle East does the EU want in the future and what future role does it conceive for itself in the region? Simply stating that the EU would like to see a more stable, prosperous and democratic Middle East falls short in serving as a realistic basis for EU policies.

What is the point of spending more money on good governance and democracy promotion measures when the EU remains undecided about whether and when it would like to see more democracy in the region? What meaning do EU statements on the Middle East Peace Process or the Western Sahara have if they are not followed by concrete actions? And what sense is there in promoting civil society dialogue when the EU continues to waver from engaging with Islamic groups? Without giving any concrete answers to these and a number of other questions, EU policies will inevitably continue to lack direction and purpose. In the meantime, throwing more money at the problem or tweaking the EU's implementation mechanisms will make little difference.

To conquer its failure of vision, the EU will have to overcome its internal divisions and develop a set of policies that are driven by regional developments, rather than intra-European dynamics or transatlantic commitments. In order to get there, the EU will have to start assessing its policies based on their effectiveness in addressing regional issues and promoting European interests, rather than their salability to the domestic and international audiences. Becoming a global power demands a global vision. The EU is not there yet.



# Overcoming Europe's 20-year crisis

Mark Leonard

Is Europe doomed to fail? The EU is said to be failing or have failed with its citizens, as an economic actor, and as a foreign policy actor. During the last few years the debate in Europe has focused on institutional problems but the real problem is intellectual: European leaders remain in thrall to outmoded ways of thinking.

In 1939 the English historian EH Carr wrote *The Twenty Years' Crisis*, a seminal text which showed how the liberal powers squandered their victory in 1918 by failing to adapt to a changing world. Today's EU is suffering a 20-year crisis of its own.

Of course, 2009 is not 1939. There is no prospect of war in Europe, and the financial crisis has not wreaked the havoc of the Great Depression. But I think the analogy of the 20 years does function in a fundamental way: the victors of 1919 believed that the centre of the world would be defined by democratic liberal states. They never thought there would be such a resurgence of authoritarianism and that economic trends wouldn't be on our side. And they had neither the intellectual curiosity to understand others nor the wisdom to adapt international institutions to preserve a liberal bias. That is true today, and to some extent the lack of reform of international institutions, from the UN to the IMF, looks like a mini Versailles Treaty.

The roots of today's crisis for Europe can be found in the events of 1989 and their aftermath – events which, paradoxically, helped make the 1990s an extremely successful decade for European countries. Germany was reunited, NATO and the EU expanded, the single market and single currency completed, and Europeans seemed to be setting the global rules for governance with the Kyoto Protocol, the International Criminal Court, and the concept of “Responsibility to Protect”. But the triumphs of the 1990s are coming back to haunt us today. Russia is punishing us for its supposed “humiliation”; the opening up of the global economy has led to an eastward shift of economic power; the reunification of Germany has turned the country that had previously provided the political and financial impetus for European integration into a “normal” state which treats the EU as a vehicle for pursuing its own national interests.

But the brutal reality is that 20 years after the fall of the Berlin Wall, the EU has done less to rethink its grand strategy than any of the other great powers. President Obama is reconceptualising American foreign policy for what his secretary of state has called a “multi-partner world”. China is coming to terms with its new status as a financial giant and a political superpower. Russia is defining and redefining a “Putin consensus”. Even Turkey – which Europeans never tire of lecturing – is pursuing strategic depth through a “neo-Ottoman” foreign policy. But the EU is still imprisoned by the triumph of the European model in 1989.

To succeed in this geopolitical environment, the EU needs more than new institutions. It needs more than political will. It needs to end the intellectual sclerosis that has been holding it back over the last decade. I think our core goal is to define the challenge after Lisbon as defining Europe’s power identity for a multipolar-world. This should be the next Grand Project.

In order to do this, EU governments must rethink their approach to four overlapping but distinct dimensions of power: Europe’s capacity to marshal resources behind a common foreign policy, its ability to express power regionally, its global influence, and finally its ability to set rules and principles for global policy: its normative power. I will address each of the four dimensions in turn.

### *EU capacity*

The EU has an economy the size of America’s and China’s combined, considerable military assets – its 27 member states spend ten times as much on defence as Russia – and an extensive global network of embassies and development agencies. Yet it continues to punch under its weight on the global stage – unable to leverage its economic power towards political ends, and struggling to exploit its military and civilian assets to deal with problems outside its own borders. While Beijing and Washington are able to unite their economic, political and defence policies around coherent objectives, the EU’s power is fragmented between its different policy areas – such as trade, development and foreign policy – and uncoordinated national governments. So, for example, the Egyptian or Uzbek governments

can find themselves dealing with different parts of the EU machinery, delivering different messages, depending on whether they are discussing human rights, development or trade. Hopefully this can be resolved through the design of the EAS.

And in the crucial areas of European defence and crisis management, the need for unanimity and treaty-based integration has meant that the most reluctant member states have dictated the pace of progress – thereby hampering the EU’s ability to deal with global crises or help rebuild failed states. The passage of the Lisbon Treaty will, with luck, allow the EU to enter a new phase, with integration increasingly driven by groups of member states committing resources to common European policies rather than new treaties signed by all member states. This process could help build capacity in defence, diplomacy and crisis management. There is a great opportunity to revitalize the European Security and Defence Policy (ESDP), and EU leaders should make use of the provisions in the Lisbon Treaty for “permanent structured co-operation” (PESCO) to create a series of specialized collaborative “pioneer groups” in defence in areas such as R&D and capability development.

### *Regional power*

The EU’s unipolar moment came in the early 1990s, at least in its own neighbourhood. Russia descended into chaos, the countries of the eastern bloc began their long slow journey towards EU accession and the liberal European model was the only one on offer. Enlargement has been the EU’s most successful foreign policy ever, but its very success is preventing the EU from developing fresh thinking for the challenges of the 21st century. Enlargement in the 1990s was based on three assumptions: that we are the only pole of attraction, that countries want to join us, and that we have lots of time to bring about the slow and long-term changes. But beyond the Western Balkans and Turkey, none of these assumptions hold true. Today’s neighbourhood is a site for competition between an activist Russia that is developing tools of soft and hard power to bring countries into its sphere of influence, and an EU that is keen to spread democracy, stability and the rule of law. While the new neighbours are attracted

by the European market, they want to choose European benefits ‘à la carte’ rather than embark on the wholesale transformation of their societies. They see the European Union as a way of increasing their leverage against Russia. What is more, the long-term processes of change are liable to be upset by short-term political crises – not least because Russia’s current foreign policy seems to be based partly on provoking crises in the neighbourhood. On top of the joint national action plans created under the new Eastern Partnership, the EU should launch a politically-led strategy to help counteract Russian pressure in the countries in its eastern neighbourhood.

Europe’s failure to deal with the new Russia stems in part from the weakness of its own energy policy. In the face of a serious and growing problem of energy security and a Russia that treats its gas exports as political as well as commercial assets, European states continue with a 1990’s vintage approach designed to produce national champions by exploiting continental markets. Winter gas crises have become an almost annual event. EU leaders regularly pay lip service to the idea of a single European market for gas – the only mechanism that could effectively decouple European countries’ political attitudes towards Russia from their commercial relationships – but years of earnest speeches and Commission directives do not seem to have brought this goal any closer.

The new Commission should launch a major initiative to help member states review their gas security situations, with three components: a 5-year action plan designed to ensure that each member state can withstand gas cut-offs of up to four weeks; a peer-review process by which member states exchange best practice and assess one another’s national plans; and a financial instrument under the EU budget to pay for necessary infrastructure.

### *Global power*

The EU is even more confused when it comes to dealing with the great powers – America and China. On a huge range of global issues – including but not limited to climate change, Iran’s nuclear programme and the non-proliferation regime, Afghanistan and terrorism – the EU will only be able to make progress with the help of Beijing and

Washington. Yet once again, in its relationship with these great powers the EU clings to paradigms that history has left behind. When they look at China, European leaders see a developing country that will organically liberalize and democratize under the guiding influence of European engagement – an image completely out of kilter with the superpower China has become. But even more damaging to Europeans has been their approach to the transatlantic relationship. Over the past half century, Europeans have been infantilized by America – whether in the form of Atlanticism or anti-Americanism. Rather than developing their own responses to global issues, the tendency has been to pass a running commentary on American policy. But now, in a “post-American world”, the problem is not how to deal with an excess of American power but how to respond to the way that America is dealing with what it perceives to be its own relative decline. Today’s Washington is less focused on Europe and forges its own policies with other powers, which may not always be in tune with European interests.

The question of whether Europeans remain relevant is largely in their own hands. Many Europeans think that the way to conduct diplomacy with great powers, whether friendly or hostile, is to convince them of the error of their ways. Lots of time is wasted by European diplomats telling their American and Chinese counterparts that they are acting against their real interests. But to be relevant and not be taken for granted, the EU needs to be in a position where it can either be genuinely helpful or really unhelpful. To do either, it needs to be more united.

The European Council should launch a major policy review of the EU’s relations with the US and China – with a view to identifying those areas in which member states undercut one another’s national interests.

In its relationship with China, the EU should begin moving towards a policy of “reciprocal engagement” appropriate to the superpower China has become – using incentives and leverage to adjust Chinese behaviour in a limited number of policy areas most relevant to the EU, such as climate change and trade.

Europeans must recalibrate their expectations of and behaviour towards America. Member states need to speak and act together in transatlantic relations, rather than relying on illusory bilateral “special” relationships – an approach that undermines the collective

European effort. To start with, the Spanish EU Presidency should sponsor a series of intra-EU debates on specific policy areas in preparation for next year's EU-US summit.

### *Normative power*

The EU has an impressive record of contributing to the setting of global standards, in areas from conflict prevention to climate change. However, the principles that have been most central to European foreign policy in the last 20 years are the support of human rights and democracy overseas. For many Europeans, 1989 genuinely seemed to mark the end of history – as western ideas of liberal democracy appeared destined to spread around the world. But in the future the spread of ideas appears likely to be a multipolar phenomenon, with competition among a range of political, economic and cultural models. The free market “Washington consensus” will increasingly be challenged by the state-centred “Beijing consensus”; the European penchant for liberal democracy will need to compete with the Russian model of “sovereign democracy” in our common neighbourhood; and a battle will continue to rage within the Middle East between different strands of Islamism. The success of EU enlargement has hidden this fact from EU members – but today, as many countries outside Europe deliberately turn against western models and competing powers like Russia and China devote increasing attention to their soft power, the continent that thought of itself as a setter of universal norms suddenly looks like a power that proclaims its own exceptionalism. Nowhere is this clearer than at the United Nations, where support for European positions on human rights votes in the General Assembly fell from 72% in 1997-98 to 48% over the subsequent decade.

The EU's approach to normative power is based on the idea that other people want to become like us. The political reality is that they are turning against us. We therefore need to develop a new rationale for support of political reform overseas, moving away from the idea of exporting “democracy” and we also need to use conditionality in a more effective way. A key part of this is to develop a new strategy in international institutions such as the UN by building flexible

new coalitions on human rights issues with potential allies in Latin America and Africa.

So is this likely to happen? I think there is a powerful symbolic logic to Catherine Ashton's appointment as High Representative. As trade commissioner she has spoken with the authority of the 27 member states in the one area of global policy where sovereignty has been pooled. But just as Ashton will need to learn to switch from growing Europe's market to wielding political influence, the EU needs to make the accumulation of geopolitical power into its next big project.

People have long known that the EU's problem has been the fragmentation of its power. It is not just divisions between member states but the fact that EU institutions have worked in silos. One of Ashton's first big jobs will be to try to integrate the different strands of European power – building a new kind of diplomatic service that can deploy the full spectrum of this power behind common objectives. In order to do that she will need to force member states to rethink Europe's place in the world.

In the Cold War era, under the protection of the American security umbrella, Europeans were able to survive without a global strategy of their own. But today the US has other concerns, and no one is going to stick up for Europe other than Europeans themselves. That is why Europe's leaders and citizens need to stop talking down their new High Representative, and start focusing on Europe's next "grand project": the development of its global power.

# Environment & economic governance





# Centripetal force? Surveying EU climate policy

Thomas Spencer

Before Copenhagen, the EU's leadership on climate change was not seriously in question. The EU has put in place the world's largest market for greenhouse gases (GHGs), and looks likely – according to the Commission – to achieve its ambitious renewable energy targets for 2020. Despite the recession, Europe, the Middle East and Africa continued to lead in investments in clean technology in 2009, at \$45.3 billion for the region as a whole, with the EU carrying the lion's share. None of these indicators should be discounted; indeed, some have even argued that the *success* of the EU's climate policy is a Pyrrhic victory, as its declining share of global emissions reduces its relevance to international climate policy.<sup>16</sup>

However, the failure of Copenhagen to live up to the EU's ambitions sparked an intense period of self-reflection, largely focused on the perceived shortcomings of the EU's foreign policy on climate change. But the world is moving on from Copenhagen. The focus is shifting from international negotiation to domestic implementation, and countries are pushing ahead domestically despite the lack of a global deal. Hence, this article is structured as follows: first, it briefly surveys the debate around the EU's experience in Copenhagen and the foreign policy aspects of its climate policy. Second, it makes the argument that, despite Copenhagen, momentum remains in the development of EU internal climate policy (and indeed in other countries), and it surveys some of the challenges ahead for the EU in this regard.

## *Copenhagen: The be all and end all?*

Fundamentally, the EU was not to blame for the result in Copenhagen. At the heart of the impasse lie the USA and China; the EU's actual sphere of influence is delineated by the political reality they

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<sup>16</sup> Noriko Fujiwara, "Reinvigorating the EU's Role in the post-Copenhagen Landscape", The Centre for European Policy Studies, 2010.

continue to define. The USA was, and is still, limited in what it can commit to internationally. In the absence of domestic legislation on which to base its commitments, the US walked a difficult tightrope between domestic and international pressures. China and other major developing countries are not yet willing to commit to binding emissions targets, due fundamentally to the fear of limiting their economic growth. China also has its own domestic pressures and audience, which shaped its hard-line position at Copenhagen; internationally, it also adopted a role as a defender of developing country interests.

Hence, neither China nor the US were willing to commit to the kind of single, legally-binding agreement the EU advocated. As described elsewhere,<sup>17</sup> the EU's support for a single legal outcome to replace the Kyoto Protocol was a crucial cause of its isolation in Copenhagen. It was unacceptable to the USA and China, and it alienated other developing countries, to whom it seemed that the EU was backing out of its own commitments under the Kyoto Protocol, while demanding a strengthening of theirs. Given all this, a more pragmatic approach may be to continue the Kyoto Protocol and progressively develop a new, softer legal instrument for the US and developing countries (the so-called "two-track outcome"). But the EU failed to recognize and react to the inflexibility of the US and China, and underestimated the implacability with which developing countries would defend the Kyoto Protocol.

This was due in part to the huge expectations that built up around Copenhagen, which made it difficult for the EU – a normative leader – to adjust towards a more pragmatic position on what could be achieved at the meeting, and what could realistically be expected from the USA and China. In addition, the clumsiness of internal coordination and the strong role of member states in foreign policy made it hard for the EU to conduct effective climate diplomacy – building alliances, adjusting its position quickly, and linking external issues to the climate negotiations. In sum: the EU was not to blame for Copenhagen, which was defined largely by the interests of China and the US. However, within the ambit of what was politically possible, the EU's effectiveness was hampered by its incoherent

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<sup>17</sup> See Thomas Spencer, Kristian Tangen, and Anna Korppoo, "The EU and the Global Climate Regime: Getting Backing in the Game", UPI Briefing Paper 55, 2010.

position on what should come out of Copenhagen; by its ponderous and unreactive internal coordination, and its inability to conduct an effective external diplomacy.

### *The world moves on*

But the world moves on from Copenhagen. A recent report by the Deutsche Bank tracking global climate policies noted that despite the lack of a global deal, “...the ‘race is on’ for countries to achieve a green economy”.<sup>18</sup> For its part, the Commission has recently placed a stronger emphasis on accelerating internal economic transformation in the EU, founded on a colder calculus of long-term economic self-interest rather than international leadership and bargaining. Recent studies have also highlighted the effects of the recession in lowering EU emissions, hence making the 20% emissions reduction target relatively easier (figure 1). Pressure thus remains on the EU to continue to develop its internal policy, and a raft of climate and energy initiatives are expected this year. Hence it is timely to assess the EU’s internal climate policy, duly placing its external climate diplomacy in that context.

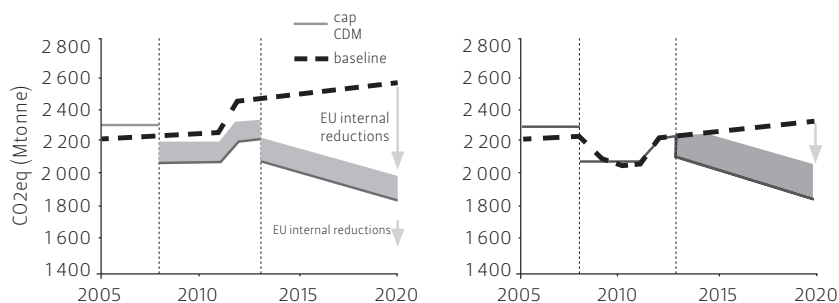


Figure 1: Comparison of the EU ETS Emissions Cap Relative to Baseline Emissions, before (left) and after the recession (right).<sup>19</sup>

<sup>18</sup> Deutsche Bank, “Global Climate Change Policy Tracker: The Green Economy, the Race is On”, 2010.

<sup>19</sup> Ecofys, “EU climate policy impact in 2020”, June 2009.

### *The internal EU climate policy: Necessarily fragmented*

The EU's climate policy follows the contours of its political landscape. Crucially, the EU has only a shared competence in energy policy. The Treaty on the Functioning of the European Union (TFEU) contains a separate title on Union energy policy (Article 194), according to which the EU's energy policy shall aim to i) ensure the functioning of the energy market; ii) ensure security of supply in the Union; iii) promote energy efficiency and energy saving and the development of new and renewable sources of energy; and iv) promote the interconnection of energy networks.

However, Article 194 (2) also affirms a "Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply". The result is thus a continuation of an awkward compromise between the growing need for a coordinated, purposeful EU energy policy, and member states' desire to retain sovereignty over this sphere. Environment (especially climate) and the internal market consequently remain the primary competences via which an EU energy policy can be shaped. Limited in this way, the result has been a suboptimal combination of initiatives; a lack of long-term vision; inadequate allocation of resources; and often poor implementation.

There is clearly a balance to be found between the principle of subsidiarity and the need for central coordination of EU energy policy. However, given the challenges with which the EU is faced, it is likely that there will be an increasing need for a more coordinated, better resourced climate and energy policy.

### *The need for coordinated action in three key areas*

The October 2009 Council conclusions supported "an EU objective, in the context of necessary reductions according to the IPCC by developed countries as a group, to reduce emissions by 80-95% by 2050 compared to 1990 levels". This is no mean feat and would require an immediate acceleration of the decarbonisation process, given inevitable limitations to the feasible rate of expansion in low-carbon industries and the risk of "locking-in" high carbon infrastructure through pending investments. Most importantly,

enhanced action in three key areas is vital: energy market integration, particularly the enhancement of interstate infrastructure; research and development including carbon capture and storage roll-out; and energy efficiency.

A European internal market for energy is an essential pillar for decarbonising the electricity sector, as well as ensuring the energy security of member states. Larger-scale renewable integration will require a far wider, more integrated, more flexible grid. The Third Energy Internal Market Package (2009) is an important step towards the development of an integrated EU grid, establishing a coordination platform, the Agency for the Cooperation of Energy Regulators (ACER), to have oversight over transmission system operators (TSOs). Recent studies have emphasized that the current tariff and regulatory arrangements, focused largely at the level of the nation-state, may be insufficient to establish favourable market conditions for the expansion and integration of the energy grid. It remains to be seen whether the ACER can oversee the necessary integration and expansion of EU energy infrastructure, given the fact that it does not have decisional authority.

Carbon capture and storage (CCS) is an indispensable technology for decarbonising the electricity sector as well as heavy emitting industries. However, few states have the capacity to undertake R&D, especially poorer CEE countries with a high coal use in the primary energy mix, or with large coal reserves. The set-aside of 300 million EUAs (emissions allowances under the ETS) from the new entrants' reserve is the primary EU-level mechanism for financing CCS demonstration projects, valued at ca. €4.5 billion, depending on the selling price; €1.05 billion was allocated under the European Energy Programme for Recovery. But the resources allocated to CCS demonstration are likely to be insufficient to achieve the EU's aim of establishing 12 large-scale demonstration projects by 2015. A recent study by the Joint Research Commission emphasized the low priority given to public R&D in energy (0.02% of GDP in 2007, compared with 0.11% in Japan), as well as the lack of coordination between member states in the field of public energy R&D.<sup>20</sup>

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<sup>20</sup> See Tobias Wiesenthal et al, "R&D Investment in the Priority Technologies of the European Strategic Energy Plan", Joint Research Commission, 2009.

Energy efficiency provides a triple financial dividend: it not only reduces fuel costs, but also mitigates the need for investing in extra generation, and in higher cost abatement options to green that additional capacity. Recent studies suggest a significant gap in achieving the EU's energy saving target. There is a strong case to be made for converting the non-binding target for 20% energy savings into binding targets for member states, allowing flexibility in how they are achieved.<sup>21</sup> The foregone benefits of achieving this target would be significant. The gap between current policy and a 20% energy saving target equates to €71 billion annually in net savings for energy consumers; achieving the target would reduce import dependency on fossil fuels by 16% by 2020.<sup>22</sup>

### *Overcoming internal differences*

If, as foreshadowed by the Commission communication of March 2010, the EU is to unilaterally accelerate its economic transformation towards a low-carbon society, differences between the member states will need to be overcome, particularly between old and new. Despite the effort sharing agreement of the 2008 Climate Action and Renewable Energy package (2008), there is significant scope for enhanced cooperation and resources for the *implementation* of allocated targets.

Indeed, if the EU is to increase its 2020 reduction target beyond 20%, addressing issues outside the narrower ambit of specific climate policy, such as energy security and economic modernization, may be necessary to win new member state support. As expressed by Dröge et al., “particular attention should be paid to the synergy effects of coordinated action in the policy fields of climate protection, energy security, energy efficiency and market integration”.<sup>23</sup>

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<sup>21</sup> The European Climate Foundation, “Roadmap 2050: Practical Guide to a Prosperous Low-Carbon Europe, Volume 2, Policy Report”, 2010, p. 22.

<sup>22</sup> Bart Wesselink et al, “The Feasibility of Binding Energy Saving Targets in the EU”, Part 1, Ecofys, forthcoming, pp. 53 & 57.

<sup>23</sup> Susanna Dröge, Oliver Geden, Kirstin Westphal, “Internationale Energie- und Klimapolitik: Spielräume für Akzentsetzungen der Bundesregierung”, SWP-Aktuell 59, 2009.

## *Conclusions*

To sum up: the EU is not failing on climate. The outcome of Copenhagen was largely defined by the US and China. Both countries remain at least several years away from acceding to the kind of binding, international regime the EU was advocating. As Purvis and Stevenson note, the EU must hence approach the post-Copenhagen challenge with “new openness to alternative international approaches and with more realistic expectations about how long it may take for some key countries, including the United States, to catch up”.<sup>24</sup> The EU’s failings were largely strategic, in proposing an untenable single legal outcome. Systemic factors, including the division of competences between member states and the Commission, as well as internal differences among member states, also contributed to the unwieldy and unreactive process of developing EU positions in the run-up to Copenhagen.

Concerning its internal policy implementation, the EU is currently at least a decade ahead of other developed countries in many areas. Nonetheless, there is momentum to continue to develop the EU’s climate policy, given the impact of the recession on its emissions and the need to chart a feasible path to the daunting mid-century goals supported by the 2009 October Council. A colder calculus of longer-term economic self-interest is also playing an increasing role, not just in the EU but also in China and the US.

Both the debate around the EU’s external strategy post-Copenhagen, as well as the upcoming internal policy challenges sketched here, demonstrate the drive towards further integration that the energy and climate challenges pose. The EU’s internal policy and its external diplomacy seem to be approaching the limits of what can be achieved under the current arrangement. If the EU is to accelerate its low-carbon economic transformation, it will need to overcome internal differences and coalesce around a more coordinated, better resourced climate and energy policy. “Speaking with one voice” externally may follow.

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<sup>24</sup> Nigel Purvis and Andrew Stevenson, “Rethinking Climate Diplomacy: New ideas for transatlantic cooperation post-Copenhagen”, The German Marshall Fund, 2010.



# Europe's economic challenges<sup>25</sup>

Jorma Ollila

On the other side of the Atlantic, the National Intelligence Council envisaged a failing Europe. In its Global Trends 2025 report, the sub-chapter on the EU is entitled: "Europe: Losing clout in 2025". It states that "(...) continued failure to convince sceptical publics of the benefits of deeper economic, political, and social integration and to grasp the nettle of a shrinking and aging population by enacting painful reforms could leave the EU a hobbled giant distracted by internal bickering and competing national agendas, and less able to translate its economic clout into global influence."<sup>26</sup>

What should Europe do in order to avoid this becoming a self-fulfilling prophesy? The question we need to ask ourselves is: do we want the EU to be in a leading position and a strong and influential global player?

In my view Europe does need strong leadership. The Lisbon Treaty with its new actors has entered into force. We have a President of the European Council and an EU High Representative for Foreign Affairs and Security Policy. After the appointments there was a lot of discussion in the media as to whether these new European leaders will become strong actors filling the vacuum and forming a unified EU leadership. Jacques Delors was a guest at the EU Reflection Group of which I am a member. He observed that the discussion on these appointments was assuming that the EU was a federal state, which it is not.

Will the new EU President and the new EU High Representative take their places at the EU leaders' and foreign ministers' tables, and then do the same in the international arena? Or will they be just two more faces added to the EU 'family pictures'? This remains to be seen. However, we should give them the benefit of the doubt.

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<sup>25</sup> Note: This article is based on a speech delivered by Jorma Ollila at the Conference "Why the EU Fails: Learning from past experiences to succeed better next time", 3-4 December 2009, Helsinki.

<sup>26</sup> National Intelligence Council, "Global Trends 2025: A Transformed World", 2009.

For the sake of Europe, I hope that the EU has strengthened its leadership and that we can leave institutional changes and discussions behind. Europe needs to concentrate on substantive issues now like solving the financial and economic crisis. This was the intention when the European Council confirmed the mandate for the Reflection Group.

The EU's international role is not only a European matter. It will also be defined by the future global set-up, where power is shifting from West to East. Europeans are at their best in a multilateral order based on common rules. But the question is: are the Asian giants and other emerging economies equally willing and able to operate in the same international set-up?

In the current financial and economic crisis the G20 has become an important player. The G20 does not have long traditions, a clear set-up or rules. Still it has been able to show its usefulness and strength only because the political leaders gave it that role. This is an important point for the EU to note.

Even if there is a lot of discussion on the future of the US, it remains a fact that the US will continue to be a key international actor for years to come. Therefore, investing in the EU-US relationship is ever more important. The EU and the US need to find common ground and a common approach in international situations and crises.

### *The EU's toolbox*

A globally active and influential EU needs a strong internal agenda. The EU will be able to respond to future challenges only if it pursues a strong and unified set of policies. Only such policies can have influence outside the Union. Already Europe has a good set of unified policies covering many areas; it should not be too modest about its strengths.

The EU has wide-ranging and effective instruments at its disposal. Whether we call it a smart power or something else is not important. Rather, what matters is that the EU has a toolbox of economic, military, political, legal and cultural instruments. The EU is rich when it comes to economic and legal instruments, but weaker on

the political, military and cultural fronts. It is important to develop and strengthen them all simultaneously.

Enlargement is a tool that the other powers do not possess. By using its attraction, the EU has been able to transform a major part of the European continent into a stable, democratic and wealthy area. This policy has elements that the EU could develop and extend further to all its neighbours. The European Neighbourhood Policy in particular has the potential to become a real and effective instrument. Economic integration and trade relations with third countries are also important tools for the Union.

Europe's security architecture cannot be developed in isolation. It requires cooperation and a wise division of labour between the EU and NATO. Europe's security depends also on how the Union manages its relations and cooperation with Russia. The EU has not been very good at formulating its policy with Russia and has not been able to create a toolbox of efficient instruments in that area.

Of the economic tools the most important and efficient is the Single Market which has still not been developed to its full potential. The Single Market is the cornerstone of the European Union and a project that requires renewed political determination.

The services market is still underdeveloped in the European context. Financial services, next generation digital services, services to promote energy efficiency, and health and learning services are all good examples of great future potential. Growth in the services market will drive GDP growth in the future. Europe should be able to become a leader in the new service businesses.

Human capital is the EU's most valuable future asset and therefore warrants investment. Europe must maintain the human capital it has and attract more from outside, as this provides the basis for innovation and increased productivity, thereby creating wealth in Europe. It is therefore necessary to improve public investment in education and skills. Europe has good education and school systems on all levels and a lot of high-quality research. There are a number of European universities that are among the world's best. However, Europe does not match the US in exporting and capitalising on innovations. Here Europe can improve its performance.

## *Key economic challenges for Europe*

The financial and economic crisis has absorbed much energy and efforts. Achieving a sustainable recovery will be a major test for Europe. Before looking beyond what is in today's newspapers, and how Europe can strengthen its competitiveness and wealth creation in the longer term, there are a few aspects of the crisis that merit attention.

It is important to understand how the macroeconomic imbalances helped to disrupt the system. Europe has built up large debts that are even higher than in the US. In the Eurozone, the total debt over GDP ratio rose to 294 % in 2008 (third quarter), while for the US the corresponding figure was 283%. Debt in Western Europe has grown faster due to the activities of financial institutions and businesses. These factors played a part in causing the collapse of GDP growth in Europe.

Europe's challenges can be grouped into three categories, and they all require determined actions. The first group concerns immediate matters requiring swift but nuanced responses, such as a need to correct imbalances associated with excessive leverage, whilst ensuring we do not slide into deflation. Careful government interventions were needed to fix the banking system. The very different examples of Finland, Sweden and Japan in the 1990s show the importance of this. Governments also need to make thoughtful use of monetary policy and fiscal stimulus together with automatic stabilisers. It must be emphasised that the financial crisis is not over, but needs continued actions to alleviate it.

The second set of challenges for Europe are just as important and in the longer term could matter even more. These are the fundamental, enduring changes that the crisis has brought about or accelerated. The changes are such that they disrupt what we call normal and are creating what we could call a "new normal". There are five identifiable areas in this "new normal". First, in future, we might see a different financial system emerging. We do not know its exact form yet, but there will be elements of new regulatory approaches and institutional structures. This is still a work in progress. Secondly, global demand might come from a wider variety of sources meaning that the US consumer will not necessarily remain the driving force behind global demand. The third area is a trend that we can already see: the shift

in power from West to East. The dynamism of emerging markets like China and India will continue and make them progressively stronger. These regions are promising new markets for western companies, but European and US industries are also seeing new competitors. A fourth area that should cause concern is growing government debt. The picture was bleak even before the crisis, but the crisis has further increased the burden on social systems whilst reducing tax revenues. The IMF has projected that the debt ratio of the G20 could increase by 50 % by 2030. Finally the crisis has also given a boost to campaigns for re-regulation and greater protectionism. Here we have a challenge to develop smarter regulation that prevents future crises, but avoids the trap of over-regulation, which could limit competition and hamper growth.

The third group of challenges that require determined actions are structural changes that are happening in Europe, such as the demographic shift and in particular the aging population. These will put an extra strain on growth and compound problems should the economic and financial crisis continue. The greying of society could put a significant limit on growth cutting up to 10 % off GDP per capita. There will be an imbalance between the working and non-working populations, great pressure on public finances; especially through health care and pensions, and skill shortages as the experienced workforce retires. Immigration cannot solve all the problems of the future labour supply.

Europe will also face the challenge of increases in commodity prices and the economics of natural resources. Oil prices will rise, water is becoming a scarce resource and the food price shocks have led to permanently higher prices.

These are some of the key challenges Europe faces in the future. But which potential remedies deserve EU leaders' consideration? For Europe to preserve its way of life it will need to embrace change and reform.

Europe's competitiveness and economic growth depend on labour productivity, labour participation rates and the terms of trade; that is the price of imported resources.

When it comes to productivity Europe's performance is mixed. In the post-war years Europe was successful in narrowing the productivity gap with the US and created wealth that made the

European way of life possible. However, since 1995, productivity rates have diverged and fallen in Europe relative to the US.

Lower productivity makes European goods and services less competitive. In the public sector it leads to wasted resources and diminished growth rates and it undermines the protection of social safety nets. Europe needs to turn its productivity gap into an opportunity and a lever to boost economic performance.

Europe needs to engage both men and women in labour markets. Europe's labour market participation is the lowest in the world. Any incremental growth in the workforce could deliver a double dividend by driving up GDP per capita whilst creating a better environment for sustainable social policies.

The third factor is that European leaders must reflect on energy prices in the terms of trade and capitalise on decreasing access to fossil fuels. Access to reliable and cheap energy is critical for Europe's competitiveness and future in the next ten to twenty years. By 2030 it is estimated that Europe will be disadvantaged in its energy supply compared to other regions. Energy demand will grow once the economy picks up but domestic energy supply is declining leaving Europe increasingly dependent on high priced imports of oil, gas and coal from politically volatile countries.

Fulfilling the EU's climate-change aspirations for 2050 will require a carbon revolution, with a massive effort to orient our societies towards a low carbon economy. There are four critical areas where Europe must succeed to reach this goal:

First, the EU needs to double its energy efficiency. The EU should start with the "low-hanging fruit" where it can get results relatively quickly. Europe should raise its energy efficiency target from 20% in 2020 to 50% in 2030. This can be realised by setting country-specific targets and giving stronger incentives for utilities to reduce the energy demand of their clients. Innovative public-private partnerships are needed to encourage investments in energy-efficiency.

Second is sustainable power generation and grids. Europe needs vast investments in sustainable smart energy grids that can handle future power sources and minimise power losses. Support for renewables requires a consistent approach and clear policies across the Union. Carbon capture and storage, including a programme with appropriate subsidies, legal framework and a roadmap, needs decisions today in order to be operational in the near future. Nuclear

power is a sensitive issue in Europe, but it is needed as part of the energy mix.

Third is to reduce dependency on energy imports. Europe should support and grow domestic oil and gas production by opening up new frontiers of potential oil and gas resources. Development of unconventional gas and oil sources in Europe such as tight, shale gas and oil should be encouraged. The gas supply can be diversified by creating an alternative pipeline and LNG infrastructure that enable access to various sources across the globe. One important issue is to increase the security of Russian gas imports by reinforcing positive interdependence in the EU-Russia relationship.

The fourth element is that Europe should maintain and capitalise on its leadership on climate change issues. The EU should be in the driving seat in orchestrating the globe to crack the difficult dossiers by contributing to the global deal and the subsequent roadmap for implementation.

Energy and climate change are interlinked with food and water. Mark Twain laid out the challenge well: “Whisky is for drinking, but water is for fighting over”. This poses a challenge to the EU in several policy areas, including agriculture, development and security policies.

Energy production requires water. Food production in turn requires both water and energy. Agriculture is a major CO<sub>2</sub> emitter while global warming is estimated to decrease potential food production. This is a vicious circle that we need to break. Growing populations and the creation of wealth requires significant increases in the supply of food and water globally. It is estimated that in 2030 we will use 40 % more water than today. This requires urgent policy actions and major investments. In the interest of finding a global solution, the EU needs to rethink its own agricultural policy.

Above I have outlined some of the great challenges facing Europe in the near future. It is high time to turn away from institutional discussions and focus all of our efforts on developing policies and concrete actions to make Europe better equipped to face the future challenges in the areas of foreign policy, financial and economic policies as well as energy and climate change. The EU leaders need to act today in order to avoid the scenario of “Europe losing clout in 2025” and to be able to contribute to and strengthen the wealth creation in Europe.

# The EU and the challenge of economic reforms

Erkki Liikanen

There are two ways to approach the question of why the EU fails. One can either conceptualize the problem or think about it in concrete terms. The former approach is not only easier but also more exciting as one can merely point to the existing problems without providing solutions. The latter approach is more difficult because of its concrete focus on policies. Here, despite its more complex nature, I will adopt the latter approach, discussing the question of the EU's failure in the light of my experience in the Commission and the European Central Bank (ECB). I will focus in particular on the Lisbon Strategy and the recent financial crisis. I want to reflect on the failures and, more optimistically, the successes in the Union's approaches to them.

## *The Lisbon Strategy: Success and failure*

To begin with, our experience has taught us that the EU succeeds when it employs the community method. In brief, this means (i) Commission initiative; (ii) joint decision-making by the Council and the Parliament; (iii) implementation by member states; (iv) strict surveillance using the principal procedures of the Commission; and if necessary, (v) conflict resolution by the European Court of Justice.

I strongly believe that the community method is the key to success for the EU. Without it, success can never be guaranteed because actions – decision-making and implementation – are inconsistent, commitment is lacking and coordination is weak. The community method allows us to act swiftly and to make permanent changes to the European regulatory framework, which is necessary for enabling growth and improving productivity. This has been demonstrated in the past.

To properly assess the EU's performance, we must first revisit the period when the Lisbon Strategy was created. In 1999–2000 we were living in the middle of the so-called “dot-com boom”. Even the Lisbon Summit was called the Dot-Com Summit. It was



widely understood that we needed to do something about electronic communication. It was, of course, fashionable to talk about electronic communication, but there was also a sober realization that to be truly competitive, we need to use enabling technologies and to be able to share data at a distance.

Consequently, we set out to remove obstacles to electronic communication. As we had monopolies everywhere, the first thing we did was to simply unbundle the local loop.

This technical solution was the key condition for promoting broadband. Broadband was, after all, almost non-existent in Europe in March 2000. With the aim of opening the telecommunication market in Europe, we proposed swift reforms. We knew that the normal procedure of Commission proposal, followed by deliberations of the Council and the Parliament and a two-year period of implementation by the member states would take too long, forcing the EU to face an inevitable drop-out from global competition. Following the normal procedure, the best-case scenario would have been to have something done by 2004.

But we knew that something had to be done quickly and thus went to the Summit in February and proposed a new regulation, a directly applicable law. During the Summit, we pledged with the European Council to support this regulation and to make a commitment to adopt it without delay. The proposal was included in the Summit conclusions and after going through the Council and the Parliament it was adopted within two months. In summer 2000 the proposal was a directly applicable law.

While this may sound like an insignificant issue, it determined the future of broadband in the European Union. It was also understood at the time that convergence in electronic communications is necessary, meaning that the same data must be accessible by any technology or terminal. Today, all of this is of course a reality, but at the time, ten years ago, it was all theoretical. Be it cable, wireless, ADSL or a mobile phone, launch pad or computer, they all need to be convergent.

Consequently, we initiated a number of reforms, from technology-specific legislation to convergent legislation on electronic communication. We proposed a swift overhaul of all electronic communication legislation and urged the Council and the Parliament to commit to these measures.

Again, having moved extremely fast, we were able to adopt legislation that remains the best benchmark in the world. This was only possible because of the community method of decision-making and a strong commitment from the European Council. Even when using the community method, a proposal can stay in the pipeline for 20 years. A strong commitment is thus as important as the community method because it allows for a sense of urgency and focus – in other words, strong political leadership. To conclude, if the Commission adopts the community method and has strong political support in the European Council, it can and will succeed.

When it comes to benchmarking – or the method of coordination – there are both successes and failures. One of the successes was that when we decided about the unbundling of local loops, which created more competition in the electronic communication field, we also proposed that member states should adopt a strategy on broadband. The idea was to achieve broadband coverage for all member states, employing different solutions to realize this strategic goal. All of the member states committed to the strategy, mainly for two reasons. First, it was fashionable; and second, they faced considerable pressure from the bottom. A young generation of internet users wanted to guarantee internet services everywhere. With a commitment at the top and pressure from the bottom, the soft method – benchmarking – worked. The fact that today broadband is widely available throughout Europe demonstrates the success of this strategy.

Another example of the successful use of benchmarking is entrepreneurship in Europe. In Lisbon, we all agreed that it was very difficult to establish a new enterprise in Europe. In addition, there were very few people who were willing to try. The main problem was that there were countries where registering a new company took up to 18 months. One would have to be a very persistent entrepreneur to go through the whole process. We proposed a benchmark of one week. After all, Danes were able to accomplish it in three days, while for Spaniards it took 18 months. After publishing the country-specific figures, member states were forced to act. It was a success which led to a European environment which was more conducive to entrepreneurship and innovation.

In the long run, there were two major failures. First, our strategy of publishing the long lists of indicators and benchmarks – in effect, “naming and shaming” – was after a while abandoned by the Council.

It was not an effective stick in the absence of strong political backing and a binding regulation. Second, soon after commencing the practice of benchmarking, all of the Commissioners wanted to have their own benchmarks. As a result, they started to create numerous new benchmarks. As the Finnish Prime Minister in the European Council, Paavo Lipponen, noted at the time: “I am now convinced that the Lisbon Strategy has created a lot of jobs for statisticians. But whether we have any other new jobs is still an open question.”

The Commission lost its focus and as a result destroyed part of the whole exercise. That unfortunate failure was a serious one. To conclude, with the community method and a sense of urgency and commitment at the top, the Commission can succeed. Even without the community method but with strong political commitment from the top, some pressure from the bottom and a sense of urgency, the EU can succeed. Without either, the EU is too weak, prone to too much talk and too few outcomes.

### *The financial crisis: Lessons learned?*

The financial crisis emerged in August 2007. At the time, however, we regarded it as mere “disturbances”. It was only in autumn 2008 that it turned out to be a real crisis. Having relocated to Brussels in the early 1990s, I still have a vivid memory of the crisis of 1992: exchange rates fluctuated and prices varied considerably, resulting in farmers blocking the borders between France and Italy and France and Spain. Fears were rife that the whole internal market might collapse. An internal market, as we know, cannot function without stability.

In the end, we were able to survive the crisis, but it is highly questionable whether we would have been able to do so without the eurozone. Because we had the European Central Bank (ECB), we were able to act swiftly when liquidity was urgently needed. Consequently, the liquidity crisis never became too severe. That was highly important in 2007. With the benefit of hindsight, we can argue that the ECB was performing well at the peak of the crisis. With the ECB, a common currency and monetary union, the EU was well prepared to act.

European governments should also be commended for their swift and determined action. Nicolas Sarkozy, for example, acted admirably on national, European and global levels at the same time. When in autumn 2008 the whole financial system was on the verge of a complete meltdown, EU leaders acted with extreme urgency and efficiency. EU governments had to take extremely strong actions. Both the ECB and EU governments were needed as only a central bank can create money and only a national government has a monopoly to collect taxes.

To balance the problem of European versus national financial supervisors, new solutions have been created. To supervise systemic risks that can have an imminent impact on the whole financial system, a committee has been set up within the ECB. There will also be three bodies to supervise individual institutions. National authorities form a Europe-wide supervisory authority that can settle a conflict in which an agent can have an impact over its national borders. These innovations provide reason for some optimism in Europe.

When it comes to other supervisory mechanisms, there must be a global solution. We cannot possibly have very different capital requirements in Europe and the United States; otherwise banking practices would be completely arbitrary. International cooperation is crucial. Rating agencies, for example, need to be registered and supervised. Incentives should never be based on short-term profits, but on the long-term profitability of companies. There is still work to be done, but supervision is very much the key. It must be emphasized that regulatory solutions must be pursued on both a European and a global level. While there has been considerable progress on the institutional side of financial regulation, monetary and fiscal policies continue to face huge challenges and GDP will not return to pre-crisis levels for many years.

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# Why the EU fails

*Learning from past experiences  
to succeed better next time*

Toby Archer, Timo Behr, Tuulia Nieminen (editors)

As the European Union opens a new chapter in its turbulent history, considering where and why the Union has failed in the past is crucial. To this end, the FIIA convened a high-level conference in Helsinki in December 2009 entitled *Why the EU fails*. This report combines a selection of contributions to the conference with additional articles, which together provide a snapshot of EU failure in different areas.

In their contributions, the writers suggest that the reasons for EU failure are discernible at a number of different levels including: the EU's incomplete and ineffective institutional structure; the faltering commitment of the member states to the European project; the pursuit of misguided and suboptimal policies as a result of the EU's lowest common denominator approach; and an unfavourable international environment.

Together, these contributions provide a valuable overview of the complex nature of EU failure and offer some tentative recommendations for future improvements. Ultimately, continuous self-reflection and a more thorough analysis of the failures suggested in this report will be necessary if the European project is to go forward.

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