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EDITORIAL

by Antonio Missiroli

States of the Union

What's in a name – one wonders, after listening to some reactions to the “State of the Union” speech delivered by Commission President Barroso at the European Parliament in Strasbourg on 7 September. The intuitive, subliminal association with the American tradition of the US President's annual “State of the Union” address to Congress, in fact, triggered a wave of reactions and comparisons that, in turn, dwelt more on the form than the substance of the message sent to the elected representatives of the European citizens.

Let us set the record straight. The speech built on existing practice (i.e. the President of the Commission reporting to the EP on the College's work programme) but took also into account both the entry into force of the Lisbon Treaty – including the reinforced accountability of the President to the assembly – and the recent inter-institutional agreement between the two institutions, which explicitly mentions holding such an event at the first plenary after the summer break (or recess, if one wants to borrow again from

American politics). Moreover, resorting to the “State of the Union” formula is nothing new: it was used a few years ago to qualify debates introduced by the then EP President (Klaus Hänsch) with the participation of Commission President Jacques Santer.

For his part, and for some time, High Representative Javier Solana gave a regular “State of the Union” speech focused on foreign policy at the annual conference of the EU Institute for Security Studies in Paris. And many civil society debates all across the EU have used the expression to try and assess progress or deadlock in the European integration process.

Last but certainly not least, the comparison with the US is understandable but somewhat inappropriate: loosely enshrined in the American Constitution (and originally modelled after the Queen's Speech to Parliament in the UK), the President's “address” to Congress on the State of the Union has been delivered in different ways throughout the centuries.

The term was first used by Franklin D. Roosevelt in 1934 and has become generally accepted practice since the end of World War II. The established tradition now entails a long speech to a joint session of the

US Congress held in the House premises on Capitol Hill at the beginning of the year, in which the President not only reports on the condition of the nation but also articulates policy priorities and outlines his legislative agenda. Such an address, however, is not followed by a plenary debate – as opposed to what happened in the EP earlier this month.

Back to the future

This said, President Barroso did exactly that: he gave his assessment of where we stand – in September 2010 – and illustrated plans and proposals for the months ahead, looking both back and forth.

Accordingly, the current state of the European Union is solid, despite (or maybe also thanks to) the severe test it was confronted with earlier this year during the sovereign debt crisis. Indeed, while the founding fathers of EMU thought that potential imbalances would be primarily internal and supply-driven, the actual shocks eventually came from outside and were essentially demand-driven. On top of that, a combination of specific national crises with different causes concurred to triggering the closest thing we have ever had to a systemic crisis.

In the end, however, unity of purpose, solidarity and determination prevailed, and the eye of the financial storm went by without breaking either the euro zone or the EU as a whole. We are not out of the woods yet – as the President himself made very clear – but we are now laying the foundations for completing Maastricht's unfinished business and opening a new phase of economic integration.

The present state of the Union, however, is also fluid. The implementation of the Lisbon Treaty has just started and will arguably remain a work in progress until the end of this institutional term. The overarching goal for everybody should be the development of a more effective EU, capable of delivering tangible results for its citizens, both internally and externally, and of creating synergies with national governments. This is also what President Barroso meant with his call to “think European” and overcome narrow calculations and petty disputes.

The Red Queen

Yet the EU's condition is fluid also because the sovereign debt crisis has further reinforced the need for internal reforms. There are no laurels to rest on. Like the Red Queen in Lewis Carroll's *Alice in Wonderland*, Europe must move fast forward in order to remain where it stands: economically, socially and politically.

In this respect, “Europe 2020” is not simply a strategy for the Commission's own policies. It is also a potential script for all, so to speak. Indeed, if the Member States adopted the same rationale and frontloaded the same priorities, the “multiplier” effect on the continent's structural fabric would be quite significant – especially in times of cash-strapped public policies – and would provide a shared compass to navigate difficult international waters on the boat we are all in.

The debate in the EP plenary demonstrated fairly well the need to engage in a frank public discussion on the state of our Union – well beyond Strasbourg or Brussels. It is indeed telling that, roughly during the same week, two distinct opinion polls (Eurobarometer and Transatlantic Trends, both conducted in the late spring) conveyed a similar picture of the prevailing mood among European citizens: namely, one of disenchantment coupled with pragmatism. A growing number of interviewees, especially in the older Member States, are sceptical about belonging to the EU or about the euro. An equally growing number of them, however, are also convinced that the only way to address effectively the challenges we are all confronted with is through the EU. Indeed, in Barroso's words, we are bound to “swim together, or sink separately”.

This issue of BEPA Monthly aims at developing more in-depth some elements of both the speech and the ensuing debate, and to indicate some possible ways ahead.

1 New avenues for the EU budget

By Vasco Cal*

Over the next two years the EU budget will undergo a major review. The Lisbon Treaty has significantly changed the procedures for the adoption of the multiannual financial framework (MFF) and the annual budget proper. Furthermore, already the last negotiations on the MFF, in 2005, ended with a strong recommendation from the European Council and the European Parliament to the Commission to “undertake a full, wide ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report on in 2008/9” (Inter-Institutional Agreement, IIA, May 2006)

The time frame

During the IIA negotiations, in fact, some participants proposed that the mid-term review should allow for changes to the ceilings included in the Multiannual Financial Framework (MFF) to be adopted for 2007-2013. This suggestion was supported with two different arguments: a call for a five-year term for the MFF (instead of the seven proposed by the Commission), and the possibility to consult the new European Parliament to be elected in 2009.

While it is now clear that the agreed MFF ceilings will stay for the seven years, the question of the duration of the next financial framework remains open and will be addressed through the review.

The EP insists for a direct link between the duration of parliamentary mandates and that of the MFF. But the process of preparation, negotiation and decision for the financial framework is a very long one: its average duration in the last two rounds – from the initial preparation of proposals by the Commission to the final agreement – has been nearly four years, almost two of which for negotiations only.

It is therefore evident that the period of execution of the financial framework cannot be mechanically grafted onto the period of the

political mandate, or else – paradoxically – each Commission and EP would execute a financial framework prepared and decided by others while preparing, negotiating and (hopefully) agreeing on a financial framework to be executed by others.

So the real question that needs to be addressed is how to give a positive answer to a legitimate request, while taking also into account that the new Treaty only refers to a “at least five-year period”.

In his speech on the State of the Union, the President of the Commission came up with an innovative approach: “I know that one issue of interest to this Parliament is the duration of the next budget. Various options exist. I would like to look at a 10-year framework, with a mid-term review of the financial dimension after five years – a “five plus five” option. This will give us longer term planning and a clearer link with the mandates of both our institutions.”

This approach can contribute to reconciling the EP request for ownership and accountability with the need for long term investments that characterises EU structural policies. Nevertheless, the question remains: when would the financial framework begin and end?

A pragmatic solution would be to take the present situation and calendar as a given: this Commission will present its proposals in 2011; negotiations will be finalised and agreement reached in time for the new MFF to be in place at the beginning of 2014. The next EP and Commission mandates will start in the course of 2014 and will therefore execute the agreed budget.

The leverage effect

In the same speech, President Barroso also referred to the need to explore new sources of financing and to increase the leverage effect of the European budget, the EU project bonds.

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In recent EU history, at least three different proposals have been put forward to this effect:

- 1) former President Jacques Delors suggested that the Commission tap into capital markets issuing bonds to finance investments of “European interest”;
- 2) Eurogroup President Jean-Claude Juncker proposed that bonds be issued in common by euro zone members to address funding problems;
- 3) and notably the EU “project bonds” now floated by President Barroso.

The novelty in the last proposal is that such “project bonds” would be issued by the European Investment Bank: “We should also explore new sources of financing for major European infrastructure projects. For instance, I will propose the establishment of EU project bonds, together with the European Investment Bank”.

Accordingly, the EIB would increase its operations, albeit with an important constraint, i.e. keeping the “triple A” rating it currently enjoys. To this end, the participation of the EU and national budgets will be decisive: depending on the ambition of the projects, the EIB should increase its capital; at the same time, the EU budget should earmark the amounts needed to either co-finance the projects and/or guarantee the EIB loans – something that is already being done but on a much smaller scale.

What role for the Commission?

In a context of strong restrictions to national budgets, the European Commission could develop a slightly different role concerning these projects.

The Commission could indeed:

- a) identify (building on the knowledge of its services and with the help of the Member States) the most important projects to develop at EU level regarding the infrastructures needed for the new smart, greener and inclusive economy;
- b) it could establish the overall framework for the areas concerned, addressing issues of compatibility, network integrity, need for complementary interventions (e.g. regulation), and missing links;

c) the Commission could also evaluate and assess the technical and financial feasibility of the relevant projects; and

d) it could negotiate with the different stakeholders and the EIB the adequate financial engineering for future returns – including the possibility of issuing EU “project bonds”.

The financing solutions should be tailored to each case and to the specific capacities of the Member States involved. They should also take into account the market signals that issuing bonds may send. Priority should be given to projects with sound economic and financial feasibility.

Reactions from and involvement of the private sector and capital markets should equally constitute determinant factors for the “go ahead”. This would also help avoid the “wait and see” attitude from the most directly interested partners that recently obliged public intervention to replace the lack of interest from the private sector.

With this new approach, not only will the EU contribute to stimulating cross-border demand but it will also turn this into a strategic opportunity to 1) upgrade and modernise key infrastructures and 2) to guarantee the integrity of nets and grids as well as the compatibility of technologies.

A “project by project” approach and a tailor-made financial engineering will also avoid the “one size fits all” approaches of the past. And a decisive role for the private sector will avoid building ever more “cathedrals in the desert”.

As the President of the Commission concludes; “Europe offers real added value. That is why I will be pushing for an ambitious post-2013 budget for Europe. I believe we should pool our means to back our policy priorities. The issue is not about spending more or less, but spending more intelligently, by looking at European and national budgets together.”

2 EU blues? The future can be brighter

By Pawel Swieboda

Beauty is in the eye of the beholder. This was as true in Shakespeare's *Love's Labours Lost* as it is in the European Union.

On the inside, as the latest Eurobarometer poll revealed, support for the EU in the older Member States has declined sharply while in most of the new ones it has remained stable despite the economic crisis.

In 2008 Nouriel Roubini famously warned that Latvia would drag down the euro-zone. Yet the prophet-of-all-prophets underestimated both the determination of the Latvian government and the sturdiness of the people who saw their country's level of domestic consumption fall by 40 percent. Latvia has done a remarkable job by not only tightening the belt but also trying to reshape its economy.

The EU has not been seen as an unconditional saviour or guarantor-of-last-resort, even though it would have been one if deemed necessary. Latvians took things into their own hands. By doing so, they displayed a healthy attitude towards the EU – an attitude that is more widespread among the new members: pragmatic and business-like rather than idealistic.

Similarly, there were only a handful of people at Pilsudski Square in Warsaw, at midnight on 30 April 2004, when the EU flag was raised at the time of accession. Support for the EU is strong, especially in Poland, but there is little romanticism.

For the new members, the EU is a place where you share common interests but also fight for your own interests. This may not necessarily be bad in today's competitive times.

Changing the public discourse

Mario Monti has repeatedly and convincingly spoken in favour of a new "package deal" inside the EU to re-launch the single market. After what happened during the last decade with the euro, the enlargement and the

economic crisis, the balance of costs and benefits indeed points to the need for a new "contract" inside the EU.

It is bewildering that the Germans think of themselves as being on the losing side of the euro while all figures show the huge export benefits they have enjoyed from intra-EU trade fuelled by the common currency. And there are many more examples of countries feeling damaged or handicapped while in fact reaping huge returns from the integration process. The idea of putting forward a "macro impact assessment of the EU" ruffles many feathers among national political leaders. They fear having to explain Europe but, in reality, such exercise would help clear the air of false myths and unfair allegations.

Apart from enormous gains for everybody, however, there is a real issue of asymmetrical distribution of benefits from the integration process. It needs to be better studied, understood and communicated. In addition, the impact of EU integration should be distinguished from the impact of globalisation – the former usually and arguably helps prepare for the latter. New ways of addressing the existing asymmetries have to be found.

External view(er)s

Looking at the EU from the outside, the picture is mixed. On the one hand, we have a Russia that is opening up to Europe more than it has ever done since the time of Boris Yeltsin in the 1990s. Russia has understood that its economic viability and future cannot be built on the model of a "petro-state". Getting closer to the EU is a way for the authorities to explain to their own population what needs to be done: this is, in essence, the coded message behind the "partnership for modernisation". And addressing this renewed interest for a rapprochement with Russia will be a major foreign policy challenge for the EU in 2011.

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While interest in cooperation grows in Moscow, in Washington what seems to be growing is frustration with the EU's perceived unwillingness to contribute adequately to US-led efforts, especially in Afghanistan. The problem lies both in managing mutual expectations (on either side) and in the EU's own dilemma: Europeans are torn between a lack of appetite for being always led by the United States and their inability to go for the reverse, namely showing leadership, perhaps even vis-a-vis Americans.

Somewhere in-between is China, which is mentally focused on its relationship with the US but for which the EU is a prospective promising, if somewhat puzzling, partner. The challenge there is that while China understands pretty well what goes on in the West, we have a much less clear picture of what goes on in China.

If there is an area where the EU and China can work together, for instance, that is macroeconomic governance. The crisis has put China in a pivotal position in the world economy. Much of future growth is likely to depend on the dynamic in the Chinese market and other emerging markets. At the same time, Beijing has understood that exclusive reliance on exports and investment will not suffice as a driver of economic growth. The reshaping of the Chinese economy that is already under way should open up new opportunities in the area of services, including education and public health, where the EU has a competitive edge.

Engage, agree, and be confident

Apart from refocusing its global engagement, the EU also needs to adjust its methods. The missionary zeal which characterised the run-up to Copenhagen last year needs to be replaced by a strategy of locking partners into what they would see as a two-way street.

Presence, visibility and cohesion are the key words. The EU is too timid in areas where its Member States have strong national interests. It also needs to sell better what it is doing both jointly and individually.

Finally, cohesion is about aligning positions before speaking up. There is an interesting

example of the disjoint reaction of EU countries to the Chinese commitment to 40-45 percent reduction in carbon intensity of the economy by 2020, made in the run-up to Copenhagen. France said this was great because for the first time China made a serious commitment. The UK said that this was nothing new and that China would have met these targets anyway to address its own energy security objectives. There is plenty of room there for achieving a common denominator and stance.

The worst that can be said of the European Union in 2010 is that it is no longer an agenda-setter. However, if the EU is not driving the agenda, who is? Are China or Brazil models for inspiration in terms of global governance?

Actually, most of what is on the international agenda is a result or a by-product of the EU policy process. Where the EU loses its edge is in the implementation phase. In part, this is a problem of size and scale, in a world where standards and norms will be shaped by those who can get a critical mass behind their ideas and solutions. But the EU can only matter in this world if it has more confidence in itself. This is not a time for splitting hair.

3 Strategic partners: where from and what for

By João Marques de Almeida*

In his State of the Union speech in the European Parliament, earlier this month, President Barroso said that “as the strategic partnerships of the 21st Century emerge, Europe should seize the challenge to define its future...Our partners are watching and are expecting us to engage as Europe, not just as 27 individual countries. If we don't act together, Europe will not be a force in the world, and they will move on without us”.

For his part, the President of the European Council van Rompuy called an extraordinary meeting of the Heads of State and Government of the EU 27 – held on 16 September and open to the Foreign Ministers also – to discuss the concept and practice of strategic partnerships and their place in EU external relations, asking the High Representative and Vice-President of the Commission Baroness Ashton to start the debate. It will be followed by other discussions in future meetings of the European Council.

Moreover, the next European Council (28-29 October, two weeks before the EU-US summit to be held in Lisbon on 20 November) will look in some depth at the strategic partnership with the United States and, to quote the Conclusions of the last European Council, “will agree on the key political messages the European Union will bring to the summit”.

Until the end of the year, the European Union still has scheduled summits with four other strategic partners: South Africa (28 September), China (6 October), Russia (7 December) and India (10 December) – after which, finally, the HR/VP will present a progress report on strategic partnerships to the 16-17 December European Council.

Strategic partner(ship)s: history and typology

The first time the European Union used the term was in December 1998, when the Vienna European Council conclusions mentioned Russia as a “strategic partner to the Union”. Six months later, the conclusions of the Cologne European

Council called “to strengthen the strategic partnership between Russia and the European Union”.

In 2003, however, the European Security Strategy identified up to six strategic partners: the United States, Russia, Canada, Japan, China and India.

Since then, the European Union has both deepened and widened such strategic partnerships. It now has nine: the six mentioned above plus Brazil, South Africa and Mexico. Of all these – and it is a point worth mentioning – nine include traditional community matters, and six are exclusively focused on security and defence issues.

It is also clear that the strategic partnerships are not all equal in importance or identical in shape. In this sense, a typology can be easily established: for historical, ideological, political and economic reasons, the United States is the most important strategic partner. The Conclusions of the last European Council define the “transatlantic relationship” as “a core element of the international system”. The United States could thus be seen as the core partner (the ESS calls it the “irreplaceable partner”). Curiously, however, there is no formal “strategic partnership” with the Americans, as if the United States was already a partner before the emergence of the idea of strategic partnerships. For the same set of reasons (albeit in a less significant way), Canada and Japan – one a NATO ally and both G-8 members – are also informal and natural partners.

Russia could be considered the neighbour partner. It is indeed the sole EU European strategic partner and the only one sharing common borders. In international relations territory and borders are quite significant, and indeed most of the issues in the EU-Russia relationship concern our common neighbourhood. Such peculiarity gives the strategic partnership with Russia a special nature.

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Then there are the emerging partners: China, India and Brazil. They are the B, the C and the I in the “BRICs” (Russia being the R) as well as the biggest emerging economies in the world. Most analysts agree that they will be 21st Century global powers.

Lastly, there are two regional partners: South Africa and Mexico. Two criteria seem to guide the establishment of partnerships with such countries: their regional strategic and diplomatic influence, on the one hand, and the special interests of one or more EU members on the other. In this respect, we are likely to witness the establishment of further regional partnerships in the future – with Indonesia, for instance, or Australia (both members of the G-20).

The global context and the European interest

The current strategic partnerships seem to be a political and diplomatic response to the emergence of a multi-polar world. Indeed, dealing with rising powers is one of the most important criteria for the EU to establish strategic partnerships, as those with the B(R)ICs, South Africa and Mexico demonstrate. Of course, sharing common values and historical commitments are also quite important, as the partnerships with the US, Japan and Canada confirm.

However, the rationale behind the EU strategic partnerships seems also to highlight a particular approach to multi-polarity: the creation of a global “concert” of responsible and engaged partners rather than an unrestrained struggle for power between rivals. In this regard, such concert of and between strategic partners seeks to reinforce (and partly reshape) the multilateral global order – a “constitutional” goal for the EU, as it is confirmed by the Lisbon Treaty.

Europe’s own historical experience shows the risks associated with multi-polarity just as the experience of European integration shows that the best way to address and prevent those risks is through multi-lateral agreements and commitments. Strategic partnerships are the EU’s contribution to avoid that the future of global politics repeats some mistakes of Europe’s past.

To fulfil their potential, however, strategic partnerships must be guided by the European interest. They must be useful instruments to pursue European goals, including the interests of the Member States. This, in turn, raises two issues: first, the need to consider each partnership as a specific case in its own right and, therefore, to identify shared bilateral interests; and, second, the combination and articulation of common interests between the EU as such and its own Member States, which explains the role of the European Council in terms of strategic orientation.

Although strategic partnerships are commonly seen as key priorities of EU “foreign” policy, the substance of such partnerships falls – more often than not – within the Commission’s own competences. Indeed, if one looks at the agendas of the forthcoming summits with the strategic partners, it is quite obvious that most of the discussions will touch upon such issues as trade, development, climate change, energy policy, justice and home affairs, migration and so on.

In other words, both the European Council and the European Commission are key stakeholders in all strategic partnerships – which vindicates the institutional interdependence in external relations introduced by the Lisbon Treaty.

4 BEPA News

Départs

Tassos Belessiotis participe au programme "EU Fellowships" et travaillera aux Etats-Unis sur le projet de recherche lancé par l'université de Yale "Divergences in a Monetary Union: The case of the Euro Area and a discussion of the Canadian and US experience".

Stefano Bertozzi a regagné le Conseil de l'Europe, en tant que Conseiller spécial au Bureau de liaison avec l'Union Européenne à Bruxelles. Avant son départ, Stefano a finalisé deux études d'ores et déjà publiées sur le site du BEPA (voir ci-dessous).

Evénements

Le 1^{er} juillet Margaritis Schinas, chef adjoint du BEPA, a rencontré une délégation de vingt membres du Parlement grec en visite officielle à la Commission. M. Schinas a présenté les priorités politiques du collège Barroso II et les initiatives de la Commission pour contrer les effets de la crise économique, y compris les instruments de stabilisation pour la Grèce et les propositions de gouvernance du système économique et monétaire.

Le 9 juillet le BEPA a organisé un séminaire sur la lutte contre la pauvreté et l'exclusion sociale, dans le cadre de la stratégie EU 2020. Cet événement a été organisé en partenariat avec la COMECE et la CEC, les organes rassemblant toutes les Eglises chrétiennes d'Europe.

Le 12 juillet le BEPA a rencontré les think tanks basés à Bruxelles pour présenter le nouveau service et entamer les discussions sur une future collaboration.

Sonia Neto et João Marques de Almeida ont assisté le Président dans la préparation et la conduite de sa visite au Brésil du 14 au 17 juillet, à l'occasion du sommet EU - Brésil.

Le 19 juillet, le Président Barroso, Jerzy Buzek, président du Parlement européen, et Herman van Rompuy, président du Conseil européen, ont rassemblé les hauts dignitaires religieux pour débattre des moyens de lutte contre la pauvreté

et l'exclusion sociale. C'était la sixième édition de cette rencontre annuelle, lancée en 2005 par le président Barroso.

Le 21 septembre, le 19^e Séminaire Jacquemin a été consacré à la présentation de Steven Hill (chroniqueur et politologue américain), "Europe's Promise: Why the European Way Is (Still) the Best Hope for an Insecure Age", qui est aussi le titre de son dernier ouvrage.

Activités à venir

Le 27 octobre à 18h00 le Président Barroso dévoilera une plaque commémorative à la mémoire du Président Ortoli. La "Salle Hebdo" du 13^e étage du Berlaymont sera également rebaptisée "Salle Ortoli". Les parallèles entre les Présidents Ortoli et Barroso sont nombreux : Présidents à l'âge de 48 ans, titulaires de deux mandats consécutifs au sein du Collège, tous deux engagés notamment à gérer un élargissement important pour la Communauté, à faire face à une crise économique majeure et à composer avec un Conseil européen dont le rôle évolue de manière substantielle...

La DG Recherche, en coopération avec le BEPA a lancé un exercice de prospective à l'horizon 2030 de la région euro-méditerranéenne, "Euromed 2030". Un groupe d'experts a été constitué et s'est réuni à quatre reprises, la dernière les 16/17 septembre à Istanbul. Un rapport final avec les tendances, les tensions, les scénarios ainsi que les recommandations, sera présenté à Bruxelles le 16 décembre prochain dans une initiative dans le cadre de la Présidence belge.

Publications

Stefano Bertozzi (ed.), Opening Europe's doors to low-skilled and unskilled workers: http://ec.europa.eu/bepa/pdf/publications_pdf/special_editions/practical_handbook.pdf

Stefano Bertozzi, Madrid: A European capital embracing integration: http://ec.europa.eu/bepa/pdf/publications_pdf/madrid.pdf