

THE SWEDISH EU PRESIDENCY

- ★ After the less-than-stellar performance of the Czech chairmanship of the EU, the Swedes will want to show that small countries can run effective presidencies. Internal political stability and a skilled diplomatic corps should help.
- ★ Stockholm's presidency priorities include an effective EU response to the economic crisis, climate change, enlargement and progress in justice and home affairs.
- ★ However, Europeans will judge the success of the Swedish presidency largely by factors over which Sweden has little influence, such as the fate of the Lisbon treaty, improvements in the European economy and the success of the Copenhagen summit on climate change.

Many European officials heaved a sigh of relief when Sweden took over the EU's rotating six-month presidency from the Czech Republic on July 1st. The Czechs can point to genuine achievements in some tricky areas. For example, they helped to broker a gas deal between Ukraine and Russia in January, and they got EU leaders to agree to guarantees that will allow a repeat referendum on the Lisbon treaty in Ireland. By and large, however, the Czech presidency has proved a disappointment, with Czech leaders openly deriding US economic policy and speaking out against the Lisbon treaty – and the government collapsing in acrimony half-way through the presidency.

Domestic political instability should not pose a risk to the Swedish presidency. The centre-right coalition of Prime Minister Fredrik Reinfeldt has made a dramatic recovery in the opinion polls, and the next general election is not due until September 2010. And while the Czech presidency was held back by a rigid and sometimes ineffective bureaucracy, the Swedes highlight flexibility (all day-to-day EU business will be decided in Brussels, without the time-consuming need to refer back to Stockholm) and professionalism. While Reinfeldt's international profile is quite low, the country's foreign minister (and former prime minister), Carl Bildt, is one of Europe's best known foreign policy figures.

However, Sweden is taking over the rotating EU presidency at tricky time. First, Europe is in its deepest recession since the 1930s. The tools to alleviate the downturn are in the hands of national governments and independent central banks, with little but a co-ordinating role left for the EU to play. Second, a further Irish rejection of the Lisbon treaty in a referendum in October would trigger a sense of crisis in the EU that could overwhelm the Swedish presidency. Third, the EU's institutions are in a state of flux. Following elections in June, the new European Parliament will not be working effectively until the autumn. More importantly, the new European Commission will not be appointed before the Irish have voted on Lisbon, and the new commissioners will then need to be confirmed by the European Parliament. The new Commission may not therefore take office until December 1st, or possibly later. The outgoing Commission under President José Manuel Barroso already looks somewhat tired and timid, with many commissioners more focused on looking for new jobs than pushing through courageous EU initiatives. Since only the Commission has the right to draft EU legislation, this institutional transition means that the Swedish presidency will have to focus on objectives that do not require new EU laws.

The Swedes can be expected to make some progress on most of the issues that they have put on their EU agenda. But the success of their presidency will be judged mainly by developments over which they have little or no influence: the Irish referendum on the Lisbon treaty; improvements in the European economy and a successful deal on a post-Kyoto climate change regime at the Copenhagen summit in December.

★ The Lisbon treaty and the EU's top jobs

Sweden will watch nervously as Ireland holds a second referendum on the Lisbon treaty in October. Irish voters rejected the document in June 2008. But the Irish government will attempt a re-run after EU leaders signed off on a set of legal concessions to guarantee Irish sovereignty in family law, defence and tax policy. EU governments also agreed that each member-state would continue to nominate its own commissioner to the EU's Brussels-based executive – small countries such as Ireland were particularly unhappy about plans to reduce the number of commissioners and move to a rotation system.

Referendums are notoriously difficult to predict. But it seems likely that these amendments, together with a weakened No campaign and the more anxious economic climate in the country, should be enough to make voters back the Lisbon treaty. The No campaign has been demoralised by the defeat of its erstwhile leader, Declan Ganley, and his anti-Lisbon Libertas party, in the European elections. Ganley's media skills had been a potent weapon in convincing undecided voters to reject the treaty last year. Sinn Féin, another party that opposes EU integration, also fared badly in recent elections. Ireland's pro-European forces are now better organised, and keen to improve on their lacklustre campaign last year.

However, the Irish referendum is not the only potential obstacle to the Lisbon treaty coming into force. Germany and Poland have not yet fully signed off the treaty's ratification, and the Czech president, Vaclav Klaus, has said that he would use any pretext to stall the treaty. But it is likely that if Ireland votes Yes, other countries will not create obstacles to ratification – and the treaty will enter into force in late November.

If it is ratified, the Lisbon treaty will not give the EU radical new powers. But it could significantly expand the Union's existing roles in foreign affairs, some security matters and migration policy. The treaty would allow EU countries to appoint a semi-permanent president to chair the European Council (instead of the current rotating presidency); and it would strengthen the position of the EU's High Representative for foreign policy. Sweden's presidency has to play a delicate diplomatic game: it must discretely prepare short-lists of acceptable candidates and define the roles of the new positions, without seeming to pre-judge the outcome of the referendum. At the same time, it must ensure that a new European Commission – including the new High Representative, if the Lisbon treaty comes into force – is appointed and approved before the end of the year.

Who will get the top jobs is difficult to say. Some observers argue that Tony Blair or Felipe Gonzalez, former prime ministers of the UK and Spain respectively, would make suitable candidates for the post of EU Council president. But haggling between EU governments usually eliminates first-choice candidates, pushing lesser-known compromise candidates to the fore. Since the position has almost no executive power, a well-known, statesman-like figure would greatly add to the EU's international credibility and internal cohesion. Among the candidates mooted for the enhanced High Representative position are Olli Rehn, currently the EU's enlargement commissioner, and Sweden's Carl Bildt. Apart from an intricate knowledge of foreign affairs and the ability to forge consensus among 27 EU countries on sensitive issues, the new High Representative will also need to have great organisational skills. He or she will have to forge the foreign policy bureaucracies of the Commission and the Council, plus seconded national diplomats, into a more coherent whole – the so-called External Action Service.

If the Irish say yes and the other laggards complete their ratification, the Swedish presidency will finally see the end of almost a decade of EU institutional discussions. However, the Swedes will also have to stand ready to deal with the repercussions of another Irish No. In this case, the EU would have little choice but to discard the Lisbon treaty and prepare for life with the more cumbersome Nice treaty for years to come.

★ The EU's response to the economic crisis

Economics will inevitably be high up on the agenda of the Swedish presidency. Most EU countries are in deep recession; unemployment is soaring; European banks, which face even larger write-downs than their US counterparts, have little appetite to resume lending; and knee-jerk protectionism is straining the rules of the EU's single market. So the Swedish presidency's economic priorities will be three-fold: to forge a coherent EU response to the downturn; to push through reforms to financial regulation; and to start thinking about what comes after the Lisbon agenda, the EU's economic reform programme that reaches the end of its ten-year lifespan in 2010.

Sweden has few tools at its disposal to manage the economic fall-out from the financial crisis: national governments are responsible for fiscal policy; independent central banks (including the ECB) decide about interest rates and lending operations; and the EU's single market is policed by the European Commission. Nevertheless, France showed in the second half of 2008 that a dynamic EU presidency can play a useful co-ordinating role at times of strain. As a believer in open and competitive markets, Sweden will strongly

support the Commission's efforts to enforce single market rules. However, it may struggle to achieve its declared aim of helping to restore bank lending, particularly given the reluctance of some EU governments to recognise the likely scale of future write-downs and to recapitalise the worst affected banks. Swedish banks' large exposures to the Baltic countries should ensure that the presidency pays particular attention to the precarious situation in some of the new member-states.

At their June summit, EU leaders agreed in principle on a package of measures to improve the regulation and oversight of financial markets. The Swedes intend to tie up the loose ends and start pushing the measures through the legislative process. This objective will require some careful manoeuvring, since there is still much room for disagreement between Britain on the one hand and some of the big eurozone countries on the other. London is not opposed to tightening financial regulation in principle: the publication of the reports drawn up by Adair Turner (for the UK government) and Jacques de Larosière (for the Commission) earlier in 2009 suggested that positions on this issue were converging across the Channel. However, as a non-euro member, the UK remains sensitive to plans to strengthen the role of the ECB in financial regulation and oversight, and is even more hostile to EU-level regulators gaining powers over national ones. It also remains opposed to proposals for tighter rules for hedge funds and private equity firms backed by Germany and France, fearing that they could weaken London's position as Europe's leading financial centre. Since Sweden, like the UK, is not in the euro and tends to have liberal leanings, the Britons will get at least some support from Stockholm in discussions about financial regulation – notably on hedge funds and private equity firms.

★ The Copenhagen climate change summit

Swedes pride themselves on running one of the greenest economies in Europe, which has long managed to combine strong economic growth and declining carbon emissions. So it is not surprising that climate change is one of the presidency's top priorities. Prime Minister Reinfeldt – personally committed and with a good grasp of the details – is determined to help achieve a successful outcome at the UN climate change summit in December. For Copenhagen to be a success, three changes need to happen: first, wealthy countries must agree tough new targets for reducing their output of greenhouse gases. Second, big emerging economies, such as China, need to diverge from 'business as usual' by slowing the rise in their emissions and agreeing to cap them at some specified level. Third, wealthy countries have to help finance the adoption of less polluting technologies by poorer countries.

The EU has led the world in its response to climate change. And although the election of Barack Obama to the White House means more constructive US engagement, there are few signs that Washington is prepared to take the lead. As a result, the onus to bridge differences between rich and poor countries will rest with Europe. In an ideal scenario, the EU will put an ambitious set of proposals on the table; other developed countries will follow suit, showing that they are prepared to shoulder prime responsibility for saving the world's climate; and the developing world will then get on board.

If the EU fails to take the lead, however, the negotiations could end in a stand-off. Stockholm will be able to rely on support from its Nordic neighbours, as well as the British and Dutch governments. With the German election out of the way in September, Berlin should provide reasonably solid backing, as should France. Poorer EU countries in the east and south, however, will insist that the richer countries should bear most of the costs of any new EU commitments. The economic recession will not help. With European industries contracting sharply, many European governments feel that the EU cannot afford to do more to cut emissions until other countries have at least matched Europe's commitments. Governments will also be loath to agree a transfer of large sums of money to developing economies at a time of recession and intense pressure on public finances.

In order to be credible in December, the EU will also have to keep strengthening its own climate change policies. The EU is relying on carbon pricing to encourage investment in green technologies. But carbon prices under the EU's emissions trading scheme are nowhere near high enough to provide businesses with the necessary incentive to make such investments. Unless companies start investing in new technologies now, Europe will not be able to bring about a permanent reduction in emissions. Bleak economic prospects (which means less output and fewer emissions) mean that prices are set to remain weak over the medium term – unless action is taken to boost them. The Swedes should recommend tightening the emissions caps or introducing price floors for carbon permits.

★ Internal security and migration

Sweden intends to use its six months at the EU's helm to get the member-states to agree on new priorities for internal security and migration. A new 'Stockholm programme' is to replace the 'Hague programme' that has guided EU co-operation in justice and home affairs (JHA) since 2004. There are two main

stumbling blocks to Swedish ambitions in this area. First, as long as the fate of the Lisbon treaty hangs in the balance, the EU will struggle to set meaningful priorities. The Lisbon treaty would move large areas of the EU's JHA co-operation to qualified majority voting and therefore change the political dynamics in this area. It may have been better for the EU to leave a new JHA programme until 2010.

Second, the recession – with heightened fears of job losses and low-cost competition – will probably foil the kind of enlightened debate that the Swedes had been hoping to have about migration policies. Instead of emphasising the need to attract more highly skilled workers, the EU may end up discussing tougher border controls and a clamp-down on illegal immigrants. Sweden had suggested widening discussions about migration policy beyond the interior ministers, who are seldom impressed by forecasts of future skill shortages in Europe's ageing workforce. The fact that this idea has already been rejected by the JHA council does not bode well for a more forward-looking migration debate.

Another issue on the Swedish agenda is the EU's common rules for the treatment of refugees and asylum seekers. Sweden, which has a good record on the humane treatment of such people, would like to see better EU rules that bind the member-states to higher standards. The EU's southern member-states have other priorities, however. Spain, Malta and Greece dislike the rule that the country where an asylum-seeker first arrives has to take prime responsibility for him or her. These Mediterranean countries receive the highest number of refugees relative to their size, and they argue that the burden for looking after asylum seekers in the EU should be shared based on a country's size. But the big countries, France, Germany and the UK, already receive the highest number of asylum seekers overall. And they will oppose any new regime that results in more asylum applications.

★ EU enlargement, the neighbourhood and the Baltic Sea

Sweden is a long-standing and staunch proponent of EU enlargement and wants to use its presidency to restore some momentum to the process. There has been some movement in recent months. For example, EU capitals have finally given the European Commission the go-ahead to evaluate the readiness of Montenegro – a standard step in the accession process that had suddenly become highly politicised. Moreover, Iceland is expected to hand in an application for membership early on in the Swedish presidency and Serbia will probably do so once it has reached an agreement with the Dutch government on the prosecution of alleged war criminals.

Notwithstanding these modest signs of progress, the Swedish presidency could struggle to make much headway on enlargement. Not only will it have to grapple with rising anti-enlargement sentiment (an EU survey earlier in 2009 showed that 56 per cent of Europeans thought that eastward enlargement had led to job-losses in their country). It will also be expected to disentangle a web of bilateral vetoes that has brought the entire process to a standstill. The most blatant example is the bitter spat between Croatia and Slovenia over a stretch of Mediterranean border. Croatia had initially been hoping to wrap up its accession negotiations this year and to join the Union as early as 2010. Slovenia, however, has not allowed the opening of new 'chapters' in the accession talks until the border issue is resolved. Greece, meanwhile, is holding up the application of Macedonia because of a longstanding disagreement over the latter's name. France, meanwhile, is blocking a part of the Turkish accession talks, albeit for more general reasons rather than a specific bilateral disagreement. Since President Sarkozy wants the EU to offer Turkey a 'privileged partnership' at best, he is arguing that policy areas that are only relevant to full members should not be discussed.

While the Swedish government is reluctant to get involved in these bilateral issues, it is determined to avert a looming 'train crash' over Turkish accession. By the end of 2009, EU leaders will once again assess whether Turkey has complied with its obligation under the so-called Ankara protocol to extend its customs union with the EU to all new member-states, including Cyprus. This would entail Turkey opening its ports and airports to ships and airplanes from Cyprus – a step that Turkey is reluctant to take unless at least one of two things happens: first, there is substantive progress in the ongoing talks between the northern and southern Cypriots on building a viable federation on the island; second, the EU lives up to its own promise to end the economic isolation of northern Cyprus.

With the Cyprus talks progressing very slowly and the (Greek) Cypriot government blocking an EU decision on freeing up trade with northern Cyprus, Turkey is unlikely to move on port opening before December. When EU leaders decided in 2006 to suspend eight of the 31 chapters of the *acquis* in the Turkish accession negotiations, because of Turkey's failure to comply with the Ankara protocol, they said they would review the situation every year until 2009. Many people in the EU think this constitutes a deadline (although the Swedes do not). Some European leaders that are not keen on seeing Turkey in the EU could use the December summit to call for a complete suspension of bilateral talks, triggering a deep crisis in EU-Turkey relations. Turkey may then withdraw its support for the peace talks in Cyprus, ending what many see as a

last chance to reunify the island. The Swedes will argue that as long as the Cyprus talks are going on, no EU country should do anything that puts them in jeopardy.

As one of the architects of the EU's new 'Eastern Partnership', Sweden will also pay particular attention to the EU's eastern neighbourhood. The Eastern Partnership was launched in May to strengthen the EU's policy towards Ukraine, Moldova, Armenia, Azerbaijan, Georgia and, for the first time in many years, Belarus. Sweden wants to show that the Eastern Partnership is not only a talking shop but can deliver tangible benefits – such as drawing in money from international lenders to help modernise Ukraine's energy infrastructure and lessen the country's dependence on imports of gas from Russia. The Swedes would also like to make it easier for Ukrainians and Moldovans to get EU visas, but not all EU governments back such steps.

Sweden also wants to see some progress on the EU's 'Baltic Sea strategy'. The idea is to use existing EU resources and co-operation programmes more effectively to make the Baltic Sea region greener, safer and more competitive. The strategy, which does not include Russia, is not another regional policy (like the Mediterranean Union or the Eastern Partnership), but a purely internal EU attempt to foster regional cohesion. The European Commission will come up with some ideas on the Baltic Sea strategy in the autumn, and EU leaders will discuss them at their October summit.

★ The EU in the world

The EU's foreign policy agenda during the Swedish presidency has a predictable part and an unpredictable part. Sweden will preside over a series of summits with some of the EU's most important partners, including Russia, China, India, Brazil and the United States. Sweden is generally keen for the EU to play a more active role on the global stage and it is likely to emphasise the importance of strengthening human rights and promoting the economic development of poorer countries. The Swedish government will want the EU to work closely with the Americans in Afghanistan and Pakistan. It will also support President Obama's efforts to push for peace talks in the Middle East, despite the divisions amongst Palestinians and the reluctance of the new Israeli government to work towards a two-state solution. (Sweden has already been very vocal about the need for Israel to show a clear commitment to the peace process before the EU can proceed with an upgrade in bilateral relations, and Stockholm is likely to take a firmer line towards Israel than Prague did during its presidency).

But there are also big uncertainties in the EU's external agenda in the second half of 2009. One is the risk of another gas crisis between Russia and Ukraine, this time perhaps also involving Belarus. The economic crisis has hit Ukraine hard, and the government is having trouble paying for the gas it has agreed to buy from Russia. Another cut-off, like the one that left some people in East European member-states freezing this January, is possible. But this time, things could get even worse: Belarus, which transports the remaining 20 per cent of Russian gas to Europe, has been in a war of words with Moscow since Belarus recently started making more positive noises towards the EU. If Russia suspends transit through both countries at the same time, Europe could lose some 40 per cent of its gas imports. Sweden will seek to avert a crisis by pressuring the Kyiv government into reforming its energy sector. But Ukraine is facing presidential elections in January 2010, and until then, the government will find it difficult to focus on reforms. Belarus also presents a tricky dilemma. The presidency will want to encourage it to move towards the West without plunging the country into a gas war with Russia. Moscow, meanwhile, may not be well disposed to the EU's new presidency, given the testiness of bilateral relations between Sweden and Russia over the past year.

Perhaps the biggest uncertainty concerns Iran. If the EU-led efforts to persuade the Iranians to change the course of their nuclear programme are still at an impasse at the end of the year, the US is likely to ask the EU (alongside Russia and China) to support tougher economic sanctions. The US would argue that the best way of preventing Israel from mounting a military strike on Iran is to go for the sort of sanctions that would change Iranian behaviour. Countries such as Germany, Italy and Spain may be reluctant to take such a strong stance, but the Europeans would probably give the US a part of what it wanted. If Israel used military force to destroy Iran's nuclear facilities, it would trigger a deep crisis in Israeli-European relations, already strained by the inclusion in 2009 of hardliners like Avigdor Lieberman in the Tel Aviv government. Europe has few levers with which to persuade Israel not to strike so the Swedes will be relying on the United States to do the job instead. Sweden, however, can help by stressing to its European partners that the best way to avert war between Israel and Iran is by supporting tough sanctions.



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