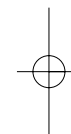
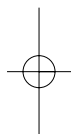
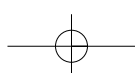


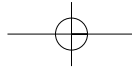
EU 2010

An optimistic vision of the future



Charles Grant





ABOUT THE AUTHOR

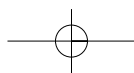
Charles Grant is director of the Centre for European Reform. He is a former Brussels correspondent and defence editor of *The Economist*. He is the author of *Delors: Inside the House that Jacques built* (Nicholas Brealey, 1994), *Strength in Numbers: Europe's foreign and defence policy* (CER, 1996) and *Can Britain lead in Europe?* (CER, 1998).



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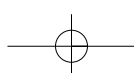
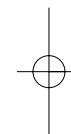
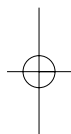
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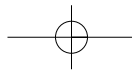
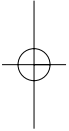
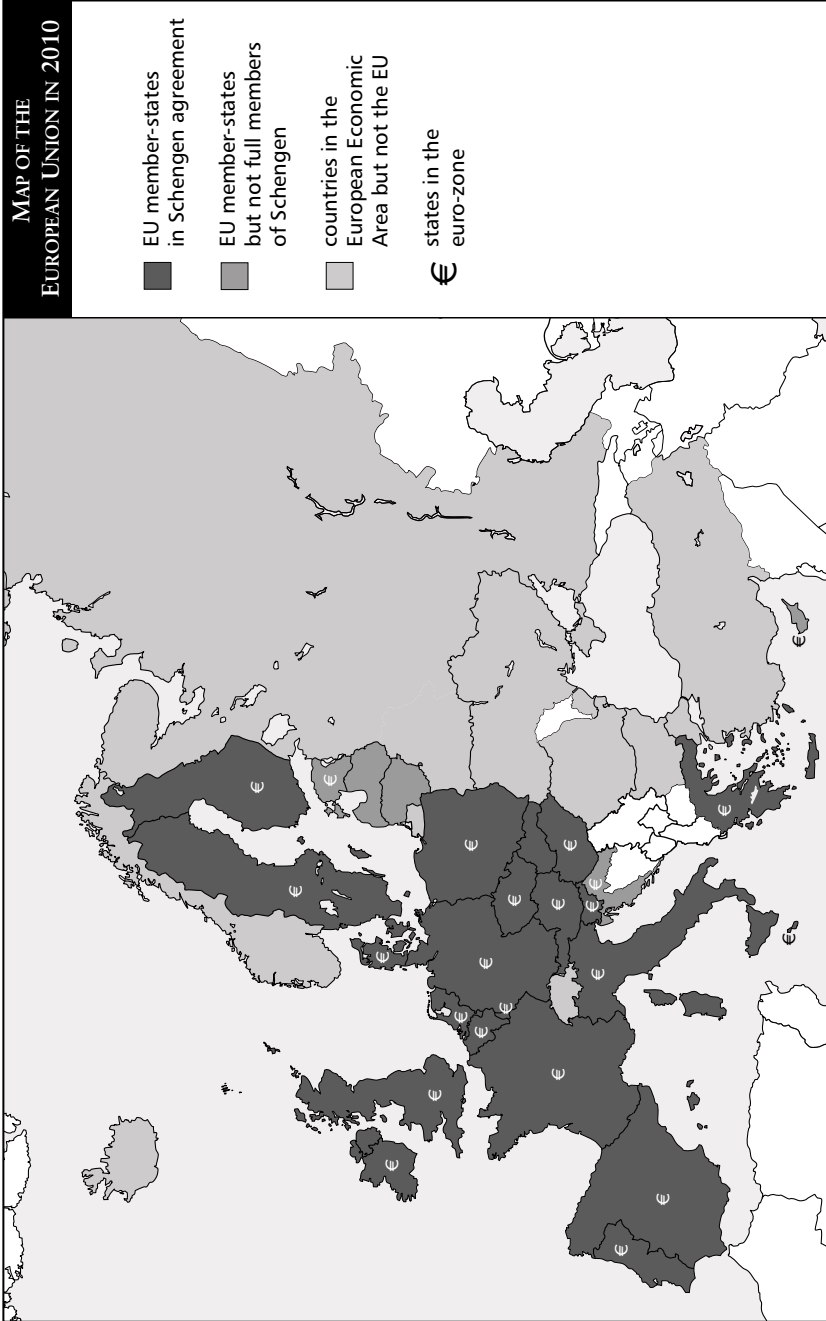
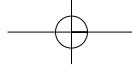
About the author

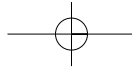
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Preface: Britain's strategic choice

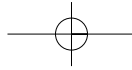
Tony Blair has said that in ten years' time, Britain should count as much as France or Germany in the European Union. This book assumes that by 2010 his wish has been fulfilled: after two full terms of a Labour government, Britain has adopted the euro and is shaping the European agenda as much as any country.

The European Union of 2010 will be, we suggest, not only much broader than that of today, but also—in many respects—more integrated. It will be a Europe which serves British interests and is less unpopular than the current EU. This is a Europe which Tony Blair, in his second term of office, should aspire to build. It is attainable.

This book is about the future of the EU rather than Britain's role in Europe. The focus of this preface, however, is the strategic dilemma that the British face—and have faced for half a century. This dilemma matters to the other Europeans. For Britain's response to it will have a major impact on the EU's economic performance, its institutional structures and its security policy.

The British people have come to a crossroads. They now have to choose: either to commit to an active and engaged role within the EU, or to retreat to a semi-detached position. The status quo is quite comfortable: Britain is influential, despite its absence from the euro. But it is not sustainable. The British will have to wade in deeper, or keep their feet in the dry. The choice they face is similar to that of 1957, when they opted for splendid isolation rather than membership of the European Economic Community.

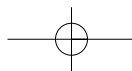
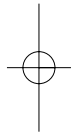
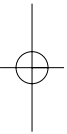
The Blair government faces a once-in-a-generation opportunity to reconstruct and clarify Britain's troubled connection to Europe. The government has already transformed Britain's relations with the EU. Despite opting out of both the euro and the agreement to scrap passport controls, Britain has become one of the more influential member-states—

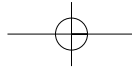


on foreign and defence policy, on economic reform and in the fight against crime. British ideas and methods are spreading across the continent. It is no longer the case that France and Germany get together and decide what happens in the EU. The Labour government's policy of constructive engagement has worked.

And there are great opportunities for Britain to become still more influential:

- ★ *The EU is in a state of flux, and therefore malleable. The never-ending process of enlargement means that debates over Europe's institutions, and policies such as the Common Agricultural Policy (CAP), will be ceaseless. So a country with a clear vision of the kind of Europe it wants has a chance to shape the way the EU develops.*
- ★ *Britain is in a strong position to win the arguments in Europe, thanks to the quality of its ideas (for example on economic reform) and its assets (such as the armed forces); and, thanks, especially, to the government's political strength, which is envied by virtually every other government in Europe.*
- ★ *Europe is moving—albeit slowly—towards the Anglo-Saxon economic model. The Lisbon summit of March 2000 showed that much of the continent is committed to economic reform. Globalisation is forcing even the French to liberalise their economy. The pace of corporate restructuring in Germany is impressive.*
- ★ *Europe is suffering from a leadership vacuum. Gerhard Schröder is never going to dominate Europe in the way that Helmut Kohl did. France will be weakened by cohabitation and its gauche plurielle government for another two years. The Franco-German alliance—despite public attempts to present a united front—is as strained as it has ever been. Italian governments are nearly always weak and José María Aznar has yet to emerge as one of Europe's pre-eminent statesmen. Romano Prodi's Commission has still not proven itself capable of exerting leadership.*
- ★ *The older generation of political leaders—that of Kohl, François Mitterrand and Jacques Delors—who believed that Europe's destiny*





is an ever-closer union, has departed. The current generation is more pragmatic, believing—like the British—that the EU is about delivering benefits that a nation state cannot deliver effectively on its own. The accession of Austria, Finland and Sweden shifted the balance in the pragmatists' favour, while the arrival of the East Europeans will weaken the federalist camp even further.

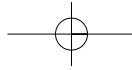
- ★ *Most of Europe's leaders reject the state-building, federal ideology that Joschka Fischer tried to revive in a speech last May. Most of them find the idea of a "two-speed" Europe, as advocated by Fischer and President Jacques Chirac (in his speech in Berlin in June 2000) anathema. None has yet managed to articulate a coherent model or vision of how an enlarged EU could work effectively. This gives Britain a chance to promote its own ideas.*

And yet, despite these favourable circumstances, Britain risks losing its influential position. When President Chirac called for a "pioneer group" of EU members to strike out ahead, inside or outside the EU's institutional structures, the discomfort of the British government was palpable. Ministers were unable to rise to the challenge of responding to President Chirac, and debating the big questions on where the EU is going, because—it must be supposed—they were worried about the reaction of eurosceptic elements in the British media.

Tony Blair and his ministers must find the courage and the confidence to promote their own vision for the future of the EU. Nevertheless, it is Britain's attitude to the euro, more than anything else, which will determine whether it slides to the EU's margins or moves centre-stage.

A two-speed Europe of the kind envisaged by Chirac and Fischer, with Britain in the outer circle, could easily come about, if:

- ★ *Britain's partners believe that it is not going to join the euro during the next Parliament;*
- ★ *Britain tries to stop the euro-zone countries from strengthening their Euro Group committee;*



- ★ *The Labour government decides to neutralise the anti-European policies of the Tories by echoing their eurosceptic rhetoric;*
- ★ *The British and their allies fail to produce their own, pragmatic vision for Europe's institutions.*

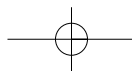
In these unfavourable circumstances, the old, centralising, federal ideology—although it has weakened in recent years—could re-emerge as the “default option” for several governments. The Euroland countries would probably tighten their co-ordination of tax and budgetary policy. This would make the euro an even less appealing proposition to the British. A new generation of French and German leaders, committed to Joschka Fischer’s “centre of gravity” and to a closer Franco-German alliance, could fill Europe’s leadership vacuum.

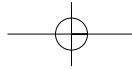
The British would see that other countries were, as they had always feared, in the driving seat, and that the influence of their government—at least in the economic domain—was marginal. The EU would become increasingly unpopular. More Tories would dare to demand the “renegotiation” of British membership. A Labour government would probably lack the confidence to sign up to new sorts of integration, for example in the treatment of asylum seekers or in judicial co-operation, even when it was clearly in the interests of the British people. Meanwhile the Americans would view Britain as a less influential and thus less important ally.

The marginalisation of Britain is only one thing that could go badly wrong with the EU. For it is a potentially unstable collection of countries and interests, held together by a mesh of institutions, alliances and informal friendships—but which a major crisis could easily destabilise. Thus in 1992 the Danish “No”, the French “Petit Oui” and John Major’s hesitations over ratifying the Maastricht treaty very nearly tore apart the institutional fabric of the EU. Very little has been done to strengthen the institutions since then.

Imagine the following scenario...

In 2005 a surfeit of difficult challenges, weak institutions and poor leadership has brought the EU to the brink of disaster:

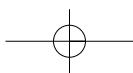
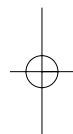
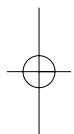
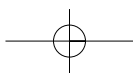


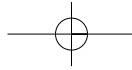


- ★ *In the Balkans, the EU's under-funded and ineffective policies have led to economic stagnation and to endemic outbreaks of ethnic fighting.*
- ★ *Britain's decision to participate in America's system of missile defence has created a serious rift between London and Paris. The result is that European efforts to boost EU military capabilities have made little progress.*
- ★ *The EU's failure to agree on far-reaching CAP reforms has held up the world trade talks and infuriated the Americans. It has also delayed discussions of a new EU budgetary package and the enlargement process. Poland will not accept lower levels of cash payments for its farmers than those in the EU already receive, while Spain is resisting cuts to its regional funds. Thus the "first wave" of enlargement has been postponed indefinitely.*
- ★ *The EU has failed to agree on a common regime for asylum seekers or on measures to help tackle illegal immigration. Britain, receiving high numbers of asylum seekers and illegal immigrants, blames this on other EU countries—and especially, on Brussels.*
- ★ *A series of weak EU presidencies has allowed the economic reform process to stall. The US stockmarket crash has led to a global slowdown and rising unemployment. So the trade unions and many left-of-centre governments have become resistant to further economic liberalisation.*

These failures have raised public discontent with the EU, in Britain and on the continent, to new highs. The EU has committed itself to a further treaty revision in 2006. But those governments which have to hold referenda are not optimistic about getting the new treaty ratified...

What follows, is, by contrast, an optimistic vision—of how Britain can avoid isolation and, more importantly, of how the EU can reform itself. It is the more likely scenario.





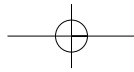
1 A truly continental union

The European Union's principal task in the first decades of the 21st century is to spread peace, stability, security and prosperity to the entire European continent. The chief mechanism for achieving this end is the enlargement of the Union. In 2010 the Union's 26 members already cover much of the continent, while almost every European country which has not yet joined aspires to do so. The membership includes (in addition to the 15 countries which comprised the EU in 2000) Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Thus the Union's population is 460 million.

The inter-governmental conference (IGC) of 2000 had limited the number of commissioners to one per country, increased the voting weight of large countries and extended modestly the areas subject to qualified majority voting, but done little else. Following the arrival of six new members in 2004, a second and more radical IGC prepared the ground for another round of enlargement that concluded in 2008 and brought the total membership to 26. Six Balkan states—Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia—are seeking to start entry talks; Bulgaria, Norway, Romania and Switzerland are close to completing their membership negotiations; and Turkey has recently begun its talks on membership.

Economically, the EU is a superpower that ranks with the United States. Its currency is one of two that dominate the world. The EU is the world's largest single market and its underlying growth rate—thanks, in part, to the booming new entrants from Eastern Europe—is slightly higher than America's. Unemployment is still a little higher in Europe, but social protection in many EU countries is superior to that in the US.

Politically, the EU's cumbersome decision-making procedures, and its relatively weak military muscles, prevent it from being seen as a superpower. Because the EU and the US share so many interests and values, they often have similar foreign policies. The Americans are usually the senior



partner in this alliance, although in the Balkans and in Africa the Europeans tend to take the lead. NATO still ties together the defence establishments of North America and Europe—despite the fact that the US no longer has any troops based permanently in Europe, and the fact that the EU has developed its own military organisation.

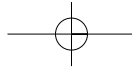
There are times when the Europeans stand up to the Americans, usually because they disagree on the importance of international rules, norms and organisations. Being the world's sole super-power, the US can quite often get its way by putting pressure on individual countries, rather than by using international institutions. By contrast, the EU is the world's principal champion of rule-based global governance. Japan, and sometimes China and Russia, support the EU against the US on this issue.

The EU is regarded as a successful role model for other regional groupings that are bent on further integration. In Latin America, Mercosur has beefed up its secretariat, so that it can, like the European Commission, propose legislation. The countries of Asean, having come together with Japan, China and South Korea to create the East Asian Economic Community in 2003, are now planning their own currency.

The pragmatic Union

In 2010 the EU remains, as it was in 2000, more a quasi-federation of nation states than a quasi-federal state, even if it has some of the characteristics of the latter, such as a supranational central bank. The nation states are the building block: through the treaties they delegate authority to EU institutions in defined areas. It is the states which send prime ministers, ministers, commissioners, central bank governors and MEPs to the various EU institutions. And it is the states which have to approve the appointment of federal figures such as the presidents of the Commission and the European Central Bank. Indeed, a prime task for national governments is to act as the link between local and regional authorities, on the one hand, and EU institutions on the other. One of the few remaining tasks for the Belgian state is to send a prime minister, a commissioner, a central bank governor and other representatives to the EU's fora.

Most European politicians take a pragmatic view of the EU's purpose. The British and the Nordics had always seen the EU as a tool which helps governments to tackle the various economic, environmental and security



A truly continental union

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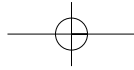
challenges that they cannot adequately tackle on their own. Most of the newly-arrived members from Eastern Europe agree with the pragmatists.

The alternative view, that Europe has a “destiny” leading to an ever-closer federal union, dominated the politics of the EU until the early 1990s but is now much less preponderant. The European Parliament remains staunchly federalist, but even in France and Germany fewer people see Europe as a “project”. One indication of the pragmatists’ supremacy is that most of the growth areas of EU business, such as the Common Foreign and Security Policy (CFSP), police and judicial co-operation, and economic policy co-ordination, are driven principally by the member-states and their own special representatives, such as “Ms CFSP”, who manages EU foreign policy, and “Mr Euroland”, who represents the Euro-zone to the rest of the world.

The EU is a union of nation states, but one with fairly strong central institutions that are capable of taking action. Over the past few years the various EU institutions have made a better job of working together, as part of a single system of joined-up government, and they compete less against each other. The European Council—the regular meetings of the heads of government and the president of the European Commission—has emerged as the EU’s supreme strategic authority; the various Councils of Ministers, the new Diplomatic Service and the Commission follow the agenda that it sets.

A community of values

For all the pragmatism, the EU does make efforts to demonstrate to its citizens that it is not a soulless, purely functional enterprise. Its treaties and declarations celebrate common European values, for they are the intangible glue which helps to hold the whole enterprise together. Many politicians believe that the Union will work better if its citizens understand that it is a community of values. For if people from one member-state regard those from another as “foreign”, some of the EU’s important principles—such as the freedom to work or invest outside one’s home country—risk being undermined. The stress on values has also helped to rally public support for the EU’s military involvement in the Balkans: politicians have made the point that the countries of the EU—bound by common values and a common geography—cannot tolerate atrocities on their own doorstep.



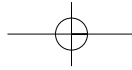
The incorporation of a Charter of Fundamental Rights into the treaties has helped to make it clear to everyone—and particularly to the peoples of would-be members—that the EU stands for common values. The charter covers only rights that member-states have already committed themselves to respect in their national laws or in EU law. The charter has not given the EU fresh law-making competences. But it does allow citizens to seek redress in national courts against improper behaviour or malpractice by EU institutions, or by national governments in the administration of EU law or policy. For example, any citizen who claims to have suffered abuse at the hands of Europol during an international police operation can seek redress in national courts and claim that his or her rights under the charter have been breached. Whistle-blowers in EU institutions have also found the charter a useful protection against unfair punishment.

The Amsterdam treaty, signed in 1997, included articles which allowed the European Council to suspend the voting rights of a member government that was guilty of breaching human rights. Subsequent amendments permitted the European Council to resort to a series of graduated responses, short of the “nuclear option” of suspension of voting rights: step one is a formal warning, in private, to the government concerned; step two is a public warning; and step three is the loss of some EU aid.

These amendments also allowed the European Council to mete out a similar set of punishments to applicant countries, the severest being the suspension of negotiations on membership. On one occasion, before Slovakia had joined the EU, a public warning succeeded in making its government act promptly to improve the treatment of its Roma minority.

Several applicants complained that this procedure risked becoming too political and insufficiently objective, and that some countries were receiving favoured treatment. So in 2007 the EU created a Human Rights Ombudsman to investigate and report on human rights problems in applicant countries. The ombudsman works closely with, and draws on the expertise of the Council of Europe. Before punishing an applicant government, the European Council is obliged to take account of the ombudsman’s reports.

The process of enlargement has, in itself, proved to be a powerful instrument for influencing the countries which aspire to join the EU. The



A truly continental union

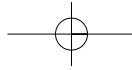
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EU has used both sticks and carrots: while countries that abuse human rights have slipped down the queue for membership, those which improve their performance have gained rewards, such as increases in technical assistance, or more funds for cleaning up their environment. The EU has three big political prizes to offer: acceptance as a candidate, the start of negotiations for membership, and the conclusion of negotiations. Thus in 2008, when Turkey granted cultural rights to its Kurdish people and curbed the role of the army in public life, its reward was a starting date for membership negotiations.

After six countries joined the EU in 2004, other applicants worried that the EU would find excuses to postpone future rounds of enlargement indefinitely. So the European Council agreed to a new element in the enlargement procedure, intended to introduce more objectivity into the process of deciding which countries should join, and when. There are now 20, detailed entry criteria, covering such subjects as the amount of competition in the telecoms market, the role of the state in the banking system, the degree of political interference in competition policy, the extent of civilian control over the armed forces, the independence of the media, the rights of ethnic minorities and the amount of corruption in the public administration. Every year the Commission attempts to quantify the performance of each applicant, and publishes a scorecard, with points out of ten for each criterion.

Inevitably, some of the assessments on the scorecards are highly subjective. But the benefits of this system are already apparent. It is now harder for the EU to exclude countries which are making a good job of adopting its *acquis communautaire*. The scorecards are also a good way of putting pressure on the applicants to improve their performance in areas where they are shown to be lagging. In order for an applicant to join the EU, the member-states still have to agree unanimously, on the basis of a Commission recommendation, that it is suitably qualified.

To the annoyance of many existing member-states, some applicants have turned the tables and demanded that EU members should also be judged, on marks out of ten, against these 20 criteria. The Commission has offered to publish scorecards for existing members; the European Council has told them not to do so; but the Parliament is now insisting that the Commission should also assess the member-states.



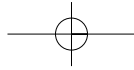
Variable geometry

As the EU has enlarged, its institutional structures have grown more complex. The EU now contains “multiple cores”, groupings of members that are committed to the passport union, closer economic policy coordination, stricter environmental standards, and so on. The idea of a “two-speed” Europe, often raised by French and German politicians a decade earlier, proved insufficiently subtle for the complexities of a 26-country Union. For that idea had been built on the assumption that membership of the euro would determine membership of other *avant-garde* groups. But in fact, although inclusion or not in the euro remains the biggest distinction among the EU members, the euro-zone does not overlap exactly with several of the other sub-groups.

Britain, Denmark, Greece and Sweden have all joined the euro, as have Cyprus, the Czech Republic, Estonia, Hungary, Malta, Poland and Slovenia. The British referendum of 2003 had been a political thriller. Early in that year Chancellor Gordon Brown declared that the ten economic tests had been met (five extra tests appeared during the 2001 election campaign, to counter Tory charges that the initial five economic tests were so vague that they would, in practice, allow Labour to “give away” the pound when it wanted). A week before the May referendum the anti-euro campaign was five points ahead in the polls. But two events in the last week boosted the fortunes of the pro-euro forces.

A leaked Conservative Party document showed that Michael Portillo, the party leader, planned to use a “No” result in the referendum as a springboard for renegotiating British membership of the EU, with the ultimate intention of withdrawal. And then a large group of foreign investors in Britain, including—in a bizarre shift of policy, following several continental acquisitions—Rupert Murdoch’s News Corporation, issued a declaration. They said, in words that appeared on billboards all over the country, that if Britain failed to join the euro they would review all investments in the UK.

These two events swung opinion behind the euro, and the final result of 56 per cent in favour was described as “satisfactory” by Tony Blair. Portillo rapidly shifted his position on the euro and the EU, promising to respect the referendum result “for at least two parliaments.” That prompted John Redwood and a group of Tory anti-Europeans to leave the



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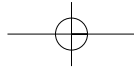
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Conservatives and join forces with the remnants of the UK Independence Party.

As the EU has extended its territory into Eastern Europe, “variable geometry”—the idea that some member-states will not take part in some EU activities—has become increasingly common. All the EU’s new members benefit from “transitional periods”, during which certain EU regulations do not apply to them. Sometimes these transitional periods stem from the new member requiring more time to meet EU norms, such as on environmental standards. The more controversial transitional periods have involved the existing members refusing to offer all the benefits of membership, such as free movement of labour, for a period of several years.

There were rows in 2008 over the indefinite exclusion of some of the new entrants from the EU’s “Schengenland” passport union. Croatia’s demand that it be included was rejected on the grounds that its border with Serbia and Bosnia was porous. The Croats held out on this point, until they were told that unless they gave in they would have to wait until the next wave of enlargement. Latvia and Lithuania were also excluded from Schengenland, as Estonia had been when it joined the EU in 2004. It is likely that Romania and Bulgaria will be left outside the passport union when they finally join. Nevertheless all entrants receive a promise in their accession treaties that they will ultimately be admitted to the passport union, when they can meet the appropriate standards (for example on managing exchanges of information with other members’ immigration authorities, on the quality of border controls and on the redesign of airports).

Some of the variable geometry now involves groups of members moving ahead on their own, rather than the exclusion of new members from certain EU policies. A big controversy over these *avant-garde* groups occurred in 2005, when the members of the Euro Group—then including all EU members except for the six new arrivals—attempted to make their committee a statutory institution with formal powers. They wanted to adopt more formal procedures for setting exchange-rate policy and for co-ordinating budgetary policy. They also wanted to be able to issue formal instructions to their spokesman, “Mr Euroland”. They argued that the recent EU enlargement made Ecofin too large and unwieldy a body, with too disparate a membership, to co-ordinate policy effectively in these areas.

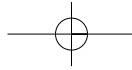


The EU's new members kicked up a huge fuss, complaining that no sooner had they joined the club than the old members were creating a new division to separate west from east. The Commission also argued that the treaty's provisions for variable geometry did not allow any advanced group to establish new EU institutions. However, after Poland joined the euro (and thus the Euro Group) in January 2006, the euro countries persuaded the others to let them amend the treaties to give the Euro Group statutory powers. The Euro Group countries reassured the others that they would be welcomed into the club as soon as they joined the single currency.

The IGC of 2006 also made variable geometry easier, removing the power of a single country to veto a group from using the EU institutions to move ahead in a particular policy area. However, the new treaty permitted this kind of flexibility only when a long list of conditions was satisfied, including no damage to the single market and the approval of the Commission.

Since then, there have been several examples of variable geometry:

- ★ A group of North European countries has chosen to work together to adopt higher environmental standards, such as those on factory emissions. This group did not want to wait for the East European members to catch up with existing EU standards before raising their own (the Commission approved this *avant-garde* group on the grounds that the countries concerned would be harming their own economic interests, rather than gaining at the expense of their neighbours).
- ★ The Schengen countries have set up a European Border Guard, to police their common frontier. The staff have been recruited from the police, immigration and intelligence services of all the Schengen countries. One advantage of this force is that it allows all Schengenland countries to contribute to the cost of policing their border; otherwise members such as Poland and Hungary (both now inside the passport union) would have to spend disproportionately, for the benefit of members like Austria and Germany which are keen to keep illegal immigrants out of the EU. Another advantage of this special force is that border guards from West European countries



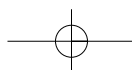
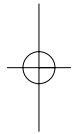
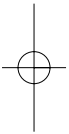
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can transfer some of their expertise to those who come from Eastern Europe. A group of Mediterranean countries has set up a European Coastguard, to patrol for boats of illegal immigrants (see Chapter 4).

- ★ The six members with the largest defence industries—Britain, France, Germany, Italy, Spain and Sweden—have set up a European Armaments Agency, with common rules on exports and procurement.

The British became enthusiasts for variable geometry only after they joined the euro. Previously, they had thought that other countries would use *avant-garde* groups to exclude them. But by 2010 the British have come to see the benefits of allowing such groups to emerge in areas like defence or economic policy co-ordination. They realise that they will almost always be inside such core groups.



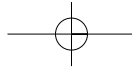
2 The governments in charge

In 2010 the European Union's institutions look very different from how they had looked ten years earlier. In the 1990s there had been frequent conflicts between supranational bodies, such as the Commission and the Parliament, and the governments that were represented in the Council of Ministers. But during the first decade of the century, the governance of the EU became more inter-governmental. For the EU expanded into areas like the Common Foreign and Security Policy (CFSP) and co-operation on justice and home affairs, where governments wanted to take the lead. And even in areas such as economic reform, where the Commission had a direct interest, governments played a large role in driving forward the benchmarking, exchange of best practice and peer-group pressure.

In 2010 the Commission, headed by Bronislaw Geremek, the former Polish prime minister, remains a crucial institution. But it is one part of a broader network of EU bodies—including the Council of Ministers, the Court of Justice, the Central Bank and the Parliament—rather than the driving force behind European integration. There is now a single European Administration, of which the Commission and the Council Secretariat are two principal divisions, and the new Diplomatic Service a third.

The old dichotomy between inter-governmental co-operation and supranational institutions is now, to a large extent, *passé*. There is a widespread recognition among politicians that the EU cannot function well unless its own institutions work closely with national governments; and equally, that national governments cannot work in isolation from the EU, since European policy impinges on most areas of domestic governance. The EU is a blend of inter-governmental co-operation and *communautaire* institutions, held together by strong leadership from the European Council, which meets every two months. Some commentators have described this model as “team government”.

The European Council stands at the apex of this system of governance and is the most crucial part of it. For, despite the EU's persistent attempts to



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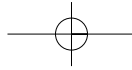
reform itself, it remains a complex, slow-moving and ungainly jumble of institutions and connections that is scarcely appealing to voters. That is why the governments have built up the role of the European Council as the EU's visible, political authority, setting the strategic direction for the other bodies to follow. They want the European Council to show that, these days, democratically-elected governments are in charge of the EU. The Commission retains its sole right of initiative in areas such as the single market, trade policy, asylum, immigration and the environment, but works within a mandate laid down by the European Council.

The "rotating presidency", whereby the management of EU business shifted from one country to another every six months, has been abolished. The only relic of that rotation is that the European Council moves from one member-state to another every six months. When a prime minister hosts and chairs a summit it usually has a positive effect on his popularity, and on the EU's legitimacy in his or her country.

The end of the rotating presidency has enhanced the role of the Council of Ministers Secretariat, which has emerged out of the shadows as a powerful bureaucracy in its own right. It employs about 6,000 people, (compared with the Commission's slimmed-down workforce of 12,000 and the Diplomatic Service's 5,000). The secretariat has taken on some of the co-ordinating work that used to be done by the presidency. It also manages the meetings of the European Council.

The Council Secretariat has several publicly-recognised faces at its head. "Ms CFSP", the former Swedish prime minister Anna Lindh, performs the role that was created out of the merger of the jobs once held by Javier Solana, the High Representative, and Chris Patten, the commissioner for external relations. She runs the EU's Diplomatic Service, a body formed out of units of the Commission and the Council Secretariat, that is based within the latter (Solana had doubled up as High Representative and secretary-general of the Council of Ministers, but the latter job is now held by a senior official). She chairs meetings of the foreign ministers and of the defence ministers.

Then there is "Mr Euroland", Gordon Brown, who represents the euro-zone to the rest of the world and chairs both the Euro Group and the council of finance ministers; and "Ms JHA" (as in Justice and Home



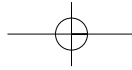
Affairs), the French politician Elizabeth Guigou, who gives a lead in co-ordinating those aspects of police and judicial co-operation that are not subject to the “Community method” of Commission initiative and majority voting, and who also chairs meetings of JHA ministers.

All three figures are based in buildings of the Council Secretariat. Yet Ms CFSP and Mr Euroland also hold the title of vice president of the Commission, and attend meetings of the college of commissioners. The point of this institutional blurring is to encourage “joined-up government”. There is a fairly clear division of labour between the Secretariat, the Diplomatic Service and the Commission: the first takes the lead on the euro’s external representation and some police and judicial co-operation, the second focuses on the CFSP and the third remains the leading body for trade policy, the single market, regional aid, environmental policy and enlargement. But the divisions between these three parts of the European Administration are becoming less distinct.

Between each summit, weekly meetings of a new General Affairs Council (GAC)—consisting of senior “Europe ministers” appointed by prime ministers—take an overview of EU business. The GAC tries to implement European Council decisions and supervises the work of the other councils and the Commission. Most of the old councils (agriculture, internal market, the environment and so on) now have a subordinate status as subcommittees of the GAC. The GAC also attempts to co-ordinate the work of the other councils—now consisting only of defence, finance, foreign affairs and JHA—but cannot command them. Disputes between these councils sometimes have to be settled by the European Council itself.

The ministers of the General Affairs Council elect one of their own number as the GAC president, for a two-year period. Each of the GAC’s ministerial subcommittees chooses its own president on the same system. With these various bodies managed by ministers from different countries, the job of co-ordinating their work is crucial. The GAC, the Council Secretariat and the Commission all help—as does another body, known as the prime ministers’ “sherpas”.

For while the GAC is the formal institution which takes forward summit initiatives, the prime ministers’ special representatives, or sherpas, perform that role on an informal basis. They meet together regularly, and are also



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in daily contact on a secure intranet and through video conferencing. The president of the Commission sends a representative to this group.

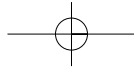
This shadowy body first emerged in 2000, when the sherpas worked on the follow-up to the Lisbon summit on economic reform. Their role has developed during the subsequent decade. Neither the Commission, nor the foreign ministries, nor the finance ministries have welcomed the growing power of this group of senior officials. But prime ministers have found it quicker, easier and more efficient to work through a body which—like the new GAC—can take an overview and avoid the rivalries that beset different ministers and ministries. To the annoyance of the smaller member-states, many actions of the sherpa group are “pre-cooked” in meetings of special representatives from the “big six” (Britain, France, Germany, Italy, Poland and Spain).

The co-ordinating job of the sherpas, as with the new Europe ministers, is as much within each national government as between them. Indeed, the growing importance of EU summits, and of EU policy in domestic politics, has enhanced the role of prime ministers—relative to other ministers—in national political systems.

The Commission remains an important body, adding value through its independence of any one national government; it puts forward the general, European interest. But the Commission is less independent of the European Council than in previous decades.

It is seen as more competent and less corrupt than in the 1990s. The reforms pushed through by Neil Kinnock at the start of the decade have made the bureaucracy more meritocratic. The Commission has made a better job of prioritising its tasks, and of getting out of those which it considers peripheral. Many of its administrative jobs, such as translation, have been out-sourced to private contractors. And key tasks have been hived off to agencies: thus the EU’s overseas aid and technical assistance programmes are administered by independent agencies—bodies which work to guidelines set by the Commission, and which report to the Council of Ministers and to the Parliament.

Under President Geremek’s steady and moderate leadership, the Commission has started to see itself as part of a system of joined-up



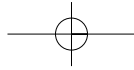
government that includes the member-states. It seeks to remain politically independent of the governments, while at the same time working closely with national administrations, to take advantage of their skills and knowledge. There are now frequent exchanges of personnel between the Commission and national administrations, to encourage the transfer of expertise and to improve communications between them. When preparing legislation, the Commission consults with national administrations at an earlier stage than in the past. Several previous presidents of the Commission have complained that Geremek is not standing up for the institution's interests as vigorously as he should.

The Parliament remains, as it always has been, a problematic institution. For much of the past decade the Parliament and the European Council have struggled for influence over the Commission's agenda. The heads of government have usually won, for they have more clout and legitimacy, while the Parliament remains a little-loved institution.

But the Parliament has gained the power of "co-decision"—an equal say with the Council of Ministers—over all aspects of EU spending, including the Common Agricultural Policy (CAP), where its powers had previously been limited. Virtually all EU legislation is subject to co-decision between the Parliament and the Council. So the Council and the Commission are obliged to listen to the Parliament, which has the ability to make life difficult for both of them. But while the Parliament can win arguments over details, it seldom sets the EU's broad agenda. The MEPs' influence over the EU budget ensures that the foreign ministers and Ms CSFP take the trouble to explain their foreign policy priorities to the Parliament; but it is the governments which set those priorities, not the MEPs.

The European Parliament has developed its scrutiny role, working closely with the Court of Auditors. The Parliament's scrutiny committees have several times exposed fraud and misconduct in EU institutions, including in the Council Secretariat. These committees often subject commissioners and officials to rigorous questioning.

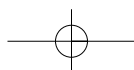
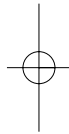
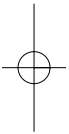
The issue of how MEPs should be chosen has been subject to much debate (see below). But few argue—apart from MEPs—that the way to solve the EU's democratic deficit is to give the Parliament more power.

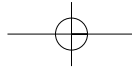


The quest for legitimacy

In 2010 there are some tentative signs that the tide of euroscepticism may be turning. Eurobarometer polls show that public support for the EU in most member-states has grown by five or ten percentage points over the past decade. The EU's image has benefited from the fact that the European Council, consisting of elected heads of government, is seen to be in charge of the EU. But much else has helped:

- ★ The downward trend of unemployment—although interrupted by the mid-decade recession—has, together with continually low levels of inflation, made most people relatively optimistic about their futures, and thus about European integration.
- ★ The evident success of the CFSP in bringing peace and stability—if not inter-ethnic reconciliation—to the Balkans has improved the EU's standing.
- ★ The Standing Council on Subsidiarity is making a good job of publicising its new role. Consisting of retired senior politicians, this committee reports directly to the European Council. Every year it proposes that the EU scrap a series of redundant laws, programmes and budget lines. The European Council adopts or rejects these recommendations. Thanks to this committee, the EU has already scrapped most of its tourism and media programmes; many of the “Community Initiatives”, programmes that the Commission manages on its own; legislation on the purity of drinking water, which is now left to each member-state; and, after external auditors suggested that they delivered very poor value for money, about half the Union's R&D programmes.
- ★ The EU's schemes for educational exchanges, which in the 1990s had applied mainly to students, now pay for millions of children at secondary school to study in EU countries other than their own.
- ★ The education ministers have agreed that in every member-state, schools should teach how the EU works.

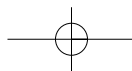


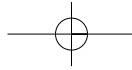


- ★ The creation of the European football team has transformed the EU's image among young people, while the annual EU-Latin America match is a high point of the sporting calendar. The 12 gold stars are displayed on the team's shirts.
- ★ When the Council of Ministers meets as a legislature, TV cameras are present. The old argument that openness would drive business into the corridors missed the point. It does not matter that deals are stitched up in huddles. It does matter that people can see how EU institutions work and how their ministers justify the way they vote. And it does matter that, after each meeting of the Council, government spokesmen can no longer lie about what happened inside.
- ★ European Parliamentary elections were abolished in the IGC of 2006. Since that treaty change was ratified, each country has elected its MEPs on the same day that it has national elections; this has roughly doubled the number of people who bother to vote for MEPs. This acknowledgement that the European Parliament is an extension of national political systems has helped to dispel some of the cynicism which surrounds it.

The European Parliament has helped pan-European federations of political parties to develop into more solid entities, albeit at a slow pace. Both the main parties are strong believers in the virtues of liberal capitalism. The Party of the European Left is internationalist, stresses the need for EU action and campaigns in favour of enlarging the Union. It incorporates most of the parties which used to call themselves liberal. The Party of the European Right is nationalist, stresses the importance of the role of nation states and is very cautious about EU enlargement. The word "Christian Democrat" is no longer used. The right itself is divided into factions, with one group taking a very hard line on immigration and asylum seekers. There is also a racist far-right, as well as a state-socialist far-left and a pan-European green group.

Despite these developments and their impact on public opinion, governments still worry about the EU institutions' "crisis of legitimacy". Many people do not understand what the EU does, why it is needed, or how it is accountable. Neither the European Central Bank (ECB), which is seen to have delivered low inflation, nor the Council Secretariat, which





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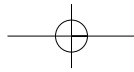
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is seen to serve the European Council, is particularly unpopular. But the European Parliament is still viewed by many as a redundant institution without a meaningful role.

And throughout much of Europe, the Commission—despite the many reforms which have transformed the way it works—has become an unpopular body. For it is policing the market, stamping out state aid, and taking governments to court for failing to open markets or implement laws. The Commission twists the arms of governments that do not respond to peer-group pressure on a wide range of economic, social and environmental policies. Because of the Commission's market-orientated economic philosophy, championed with some force by President Geremek, it is a particularly unpopular body in France, which sees it as a creature of Anglo-Saxon liberalism, and in Germany, where *Land* governments are openly defiant of EU rules on state aid.

In Britain, however, the Commission has come to be seen as a friend and ally. The British recognise that it promotes their own, liberalising agenda. They see that it regularly prosecutes continentals for failing to follow the rules. Increasingly, therefore, British eurosceptics target their attacks on powerful governments, such as France and Germany, rather than on the Commission. The French president, Martine Aubry, and her friend the German chancellor, Angela Merkel, often bear the brunt of criticism in the British press. *The Sun* regularly refers to them as the “horrible harridans”.

The EU's perceived lack of legitimacy has been widely debated over the past decade. The IGC of 2006 tried to deal with the problem by consolidating the EU treaties and splitting them in two. The first part is now written in the style of a constitution that is comprehensible to lay people. This sets out the objectives of the EU and its fundamental constitutional principles, and defines the roles of the institutions. It emphasises the many areas—such as budgets, taxation, health, education, welfare, housing, planning, transport and policing—for which the nation state retains prime responsibility. This first part can be modified only by inter-governmental agreement and by ratification in every member-state. The creation of this Part One treaty is helping to demystify the EU, and to reassure people that many areas of policy will never be run by “Brussels”.



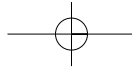
The second part of the new treaty covers the EU's policies and programmes, and the more detailed institutional provisions. The accession of a new member requires only Part Two to be amended. Changing this part requires the unanimous agreement of every government, but does not require ratification in each member-state. The virtue of this Part Two is that it allows the Union to reform its policies and procedures without having to worry about a referendum or parliamentary vote blocking the change.

One of the tasks of the European Court is to ensure consistency between Part One and Part Two, and to adjudicate when a government or EU institution claims that the distinct roles of the two parts have not been respected. For example, the Court would rule out of order any attempt to alter "fundamental principles" through an amendment of Part Two of the treaty.

Despite the fact that in 2010, the governments are in control, many of them worry that the Commission lacks the authority to police the single market—a task which has become much harder in an EU of 26 countries. Furthermore, the Commission's crucial role in managing the arrangements for "variable geometry"—approving the creation of advanced groups and then supervising them, so that they treat "outs" fairly—requires it to be a respected body of unquestioned authority. The same applies to its important job of leading the never-ending enlargement negotiations. Governments also worry that the European Parliament is still seen by many as an expensive irrelevance. They are concerned that, like the Commission, it lacks sufficient legitimacy.

Therefore support for two radical institutional reforms is growing. Both reforms would, it is claimed, help to reconnect the EU political system to that of the member-states. One reform plan, concerning the European Parliament, would halve the number of directly-elected MEPs and replace them with national parliamentarians. There would thus be two kinds of MEP.

The idea of linking national parliaments to the European Parliament would be to educate the former about the importance of the EU and to enhance the status of the latter. The plan would also avoid the expense and complication of the oft-made proposal that the European Parliament should have an "upper house" of national parliamentarians.



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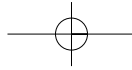
The two kinds of MEP would have different sorts of job to do in the European Parliament. The directly-elected ones would, as now, involve themselves in the nitty-gritty of EU legislation. The “national” MEPs, having neither the time, nor the inclination, nor the expertise to get involved in detailed legislative work, would have a different focus. They would ask questions of ministers, commissioners, and ECB board members. And they would concentrate on major constitutional issues, such as the relative powers of the EU and its member-states; on ensuring that the principle of subsidiarity is respected; on treaties between the EU and third parties; and on the continuing process of enlargement. Directly-elected MEPs would also be free to get involved in these matters, when they wished, while indirectly-elected MEPs would be required to vote yes or no to the final reading of EU legislation.

The intention of the other reform plan gaining support in several EU capitals is to boost the Commission’s legitimacy. Each member-state would hold a direct election for its own commissioner (ever since 2005 there has been one commissioner per member-state). If the public voted for the men and women running “Brussels”, say proponents of this plan, they would not regard them as so alien. Each commissioner’s term of office would be non-renewable, so that he or she would not be tempted to pander to national interests.

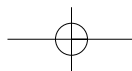
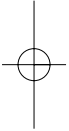
The heads of government would choose one of the elected commissioners as the president, subject to approval by the Parliament. They would then choose two other commissioners to be the vice presidents in charge of foreign policy and the representation of the euro-zone. The president would then allot the remaining portfolios among the other commissioners. The Parliament would be able to sack individual commissioners, by a two-thirds vote, on grounds of corruption or gross incompetence.

Many governments, especially those of the European Right, oppose this plan on the grounds that it would make the commissioners more powerful. But other governments, especially those dominated by the European Left, argue that EU institutions will simply not function effectively unless the Commission enhances its authority and legitimacy.

Sir Tony Blair, who retired as British prime minister shortly after his third election victory, in 2005, used to be opposed to electing the Commission.



But now that he is being tipped as a future president of the Commission, he has become sympathetic to the idea. He told one interviewer: “The introduction of direct elections for Europe’s commissioners would help to trounce the eurosceptics once and for all.” Eurosceptics, of course, are virulently opposed to any plan which could improve the EU’s image. The EU’s governments are unlikely to give unanimous support for elected commissioners at the next IGC. However, as the institutional complexities and difficulties of running a 26-member EU become apparent, support for this scheme is growing.



3 The new European economy

Economic governance

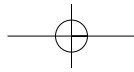
The euro has proved a success. EU-wide inflation has remained at just below 2 per cent for the last ten years, while EU-wide unemployment has fallen to 5.5 per cent. The EU economy has grown solidly for most of the past decade at an average of 3 per cent a year. The euro has boosted competition and created a large and liquid capital market. Cross-border, hostile takeovers—by European and American companies—have become common. An equity culture is transforming the way that businesses operate across the continent. Eastern Europe, with its rapid growth rates of 4 per cent to 7 per cent, has also contributed to Western Europe's growth, while Russia's economic revival is beginning to do the same.

Only once during the past decade has European growth slowed, during the 2004-05 recession which followed the US-led stockmarket crash. It was during this recession that Euroland finance ministers decided that they needed a more pro-active and co-ordinated budgetary policy. The Stability and Growth Pact (agreed in 1996) had limited budget deficits to 3 per cent of GDP but did not give EU finance ministers the scope to make more active responses to a surplus or deficit of demand.

The ECB had long lobbied for tighter fiscal co-ordination among Euroland governments, for it did not want to take all the strain of rekindling or dampening growth itself. As early as 1999, one of its board members, Tommaso Padoa-Schioppa, had argued: "As a fiscal policy framework for the euro-zone, the Stability and Growth Pact lacks the flexibility of a normal central fiscal authority to respond effectively, if need be, to Euroland-wide symmetric shocks....over time it may prove desirable for the EU to be capable of developing its own fiscal policy stance."¹

1 "Will EMU lead to a European economic government?" edited by Ben Hall, CER, 1999

Ever since the IGC of 2006, the Euro Group has been an EU institution with statutory powers. It can now mandate Mr Euroland in international negotiations, approve an exchange-rate regime and decide on



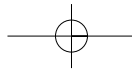
Euroland's common fiscal stance. Until the recession of 2004-05, national circumstances and differing electoral cycles had always impeded attempts to co-ordinate fiscal policy more closely. Since then, however, the Euro Group ministers have, every year, agreed on targets for a rolling three-year Euroland fiscal position, and for the national positions which comprise it. Within these broad parameters, however, national governments still set their own budgets.

Any minister who fails to consult the others on his budgetary plans finds that his arm is severely twisted. In theory, the EU has no means of disciplining governments over budgetary policy (other than the Stability and Growth Pact's crude and never-used methods for enforcing the rule that budget deficits should not exceed 3 per cent of GDP). In practice, all Euroland governments—and most of those from member-states which have not yet adopted the euro—co-operate with the process of peer review of fiscal policy.

The Commission now has a chief economist, who plays an influential role in the discussions on fiscal policy, reminding ministers of the EU-wide perspective. The ECB governor and Mr Euroland (see below) also play a role in these discussions. The Euro Group tries to avoid short-term fine-tuning of demand, of the sort that Jacques Delors had advocated when he was president of the Commission. But it also tries to avoid the “anything goes” practice of the 1990s, whereby each country set its budgetary policy without regard to those of its neighbours. Like the ECB, the Euro Group believes that it is important to set out a stable and predictable framework in its own area of economic policy-making.

In the first few years of the euro's existence, the dollar-euro exchange rate had proved alarmingly volatile—because of the neglect of the exchange rate by the ECB and the Federal Reserve, and because of the propensity of financial markets to over-shoot. The Euro Group has spent the past decade moving steadily towards developing its own stance on an optimal level for the euro.

As yet, there are no formal dollar-euro target zones. But there are increasingly frequent discussions between the US and the EU on exchange rates, concluding in joint declarations of desirable levels. The Euro Group has recently decided to negotiate with the US Treasury over the



The new European economy

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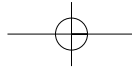
establishment of reference ranges for the dollar-euro exchange rate. The Japanese and their friends in the East Asian Economic Community say that they are keen to join these discussions, raising the prospect of target zones linking the dollar, the euro and the yen—or even the dollar, the euro and the planned East Asian Currency Unit (EACU).

In these external negotiations Gordon Brown, the High Representative for Financial Affairs—also known as “Mr Euroland”—represents the EU. He also represents the EU in the management of financial crises, in the finance G-8 (which consists of the US, Canada, Euroland, Japan, Russia, India, Brazil and China) and in discussions about the World Bank and IMF (inside the IMF, a restructuring of quotas has led to the euro members merging theirs).

The success of Javier Solana as the first “Mr CFSP” persuaded the EU governments that they needed a similar figure to represent them in external financial matters. The governments decided that neither the ECB, which was seen as insufficiently political, nor the Commission, which might get too big for its boots, should take on this negotiating role. In any case, most of the subjects for which Mr Euroland is responsible are primarily the competence of member-states. He works to a mandate set by the Euro Group, which he chairs.

Gordon Brown and his support staff, consisting of a mixture of Commission officials and those seconded from national administrations, are based in the Council Secretariat. He is—like Ms CFSP—a vice president of the Commission. He is appointed by the European Council, subject to the approval of the president of the Commission. Although not obliged to follow collective solidarity with his fellow commissioners, he makes an effort to do so, for the sake of smooth relations between the Council and the Commission. If the working relationship between the Commission president and either of his vice presidents broke down—and this has not yet happened—the president would be entitled to ask the European Council to sack either of them. The European Council would then decide whether or not to do so.

The ECB’s success in holding down inflation, and thus in providing stable and low short-term interest rates, has persuaded more and more borrowers—both private and commercial—to take out fixed-rate loans. Even British



home-buyers now routinely take out long-term, fixed-rate mortgages. Shifts in the ECB's short-term rates still influence consumer spending, but they have less effect on the European economy than in the past.

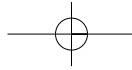
In any case, the spread of the internet, the increased mobility of capital, the issuance of electronic money and the transfer of more debt into securities have all made it harder for the ECB to control the money supply; and to gauge the impact of changes in money supply on the real economy and on inflation.

Electronic money, stored in smart cards, mobile phones and computer hard disks, and used for internet purchases, circulates widely. Some individuals and companies are now swapping e-money balances outside the banking system, through settlement schemes that are run by IT companies.

Thus, within a few years of the euro's launch, the ECB's "two-pillar" strategy of watching both money supply and a range of inflation indicators—including the prices of houses and shares—became tilted in the latter's direction. The sheer pace of financial innovation meant that the relationship between money and the real economy never stabilised. In any case, the euro rapidly replaced the dollar as the first-choice black market currency in Eastern Europe and in Russia. Furthermore, the decision of some countries outside the EU, such as Norway, to adopt the euro as parallel legal tender—to facilitate their own trade with Euroland—made it even harder for the ECB to control the money supply.

Once, the world held its breath while the Bundesbank (or, in its early years, the ECB) met behind closed doors; but now that world money supply is a more useful concept than EU money supply (and neither is given as much weight in day-to-day decision-making as was once the case), global fora such as the monthly gathering of central bank governors at the Bank for International Settlements in Basel have become more significant.

The ECB has recently gone through a phase of painful organisational change. The EU's enlargement meant that the balance on the ECB council between the six executive directors and the Euroland central bank governors became skewed. Coalitions of the national interests represented



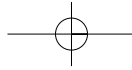
on the council became too strong, relative to the bank itself. So the IGC of 2006 re-arranged the composition of the council: following the example of the United Nations Security Council, small countries now take it in turns to send their governors to the ECB's decision-making body. The ECB has also clarified and defined its role as a lender of last resort to the banking system and to the securities clearing houses.

The single market

The single currency has delivered a stable macro-economic environment. Both the euro and the growth of e-commerce have stimulated cross-border purchases in a single market which, if the countries of the European Economic Area are included, now stretches to around 700 million consumers. Economic historians regard the Lisbon summit of March 2000 as the crucial turning point in Europe's economic fortunes. On that occasion, thanks to the leadership of the Spanish, Portuguese and British, the EU's leaders signed up to a largely Anglo-Saxon recipe of supply-side modernisation, to be implemented mostly by peer-group pressure. This was all in pursuit of a strategic goal defined as the creation of "the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion."

Many of those historians are puzzled by the fact that most British newspapers scarcely bothered to report on that summit. For, as *Libération* had noted at the time: "Tony Blair has every reason to be pleased. His European partners rallied to the "third way" at the European Council on employment. This clever mix of liberalism and social democracy—in which deregulation is tempered by a minimum social safety net and the state plays no more than a regulating role to promote economic activity—is now the model for the 15 EU members."

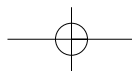
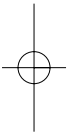
Meeting again in the spring of 2001, EU leaders decided to turn the "Lisbon process" into a flagship programme, based around a new Commission white paper on entrepreneurship, innovation and e-commerce. This was modelled on its 1985 white paper on the single market, which in the late 1980s had played a crucial role in improving perceptions of the EU among businesses and the public at large. The 2001 white paper set out a series of goals to be achieved over a five-year time-frame, and the steps required to meet them. Having Europe's largest venture capital and equity

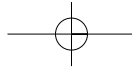


markets, the British played a significant role in drawing up and in implementing the white paper. A special EU summit, meeting every March, monitored progress towards the white paper's goals, and, when necessary, put pressure on whoever was failing to fulfil commitments.

By 2005 most of the white paper's goals had been met. Many of them required direct action at an EU level, particularly from the council of finance ministers. The goals included:

- ★ A single European patent system.
- ★ The completion of the single market in areas where national barriers had remained, such as broadcasting, postal services, pharmaceuticals and, especially, financial services.
- ★ A directive on the deregulation of pension funds, allowing them to increase cross-border investments and to put more money into venture capital.
- ★ A new, lightweight agency to regulate financial service industries. The role of this agency has not been to replace national regulators but to co-ordinate their work, and in particular to ensure that local rules are not used as an excuse for protectionism.
- ★ A legal framework, at national and EU level, to encourage the consolidation of Europe's many stockmarkets, and thus cheapen the cost of capital. This included some harmonisation of the rules on listing procedures, prospectuses and the treatment of minority shareholders.
- ★ A revised set of EU rules on public procurement, so that smaller firms are better able to bid for contracts, and so that EU and government procurement can take place on the internet.
- ★ A much tougher competition policy from the Commission, particularly on state aid.
- ★ A European Company Statute that makes cross-border mergers easier, by allowing firms to incorporate under EU law.





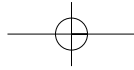
- ★ Movement towards the harmonisation of corporate “tax bases”, that is the various national definitions of company income that is liable to tax. The first step required the EU to adopt the international code of accounting practices, and to encourage companies to use this rather than national codes. The second step required governments to make companies adopt the international code; and to reduce and to harmonise the various tax exemptions that may cause the effective rate of taxation to differ from the headline rate.

Many of the white paper’s other goals required action principally from national governments. But the Commission played a role in the achievement of these goals, by encouraging councils of ministers—especially those of finance—to agree on common targets, by facilitating the exchange of best practice and by managing the peer-group pressure. These goals included:

- ★ Making it as cheap and as quick to set up a business in Europe as it is in the US.
- ★ Making regimes for approving new products as speedy as those in the US.
- ★ Every school and university should teach entrepreneurship.
- ★ Every government should set a national target to encourage the use of stock options.
- ★ Rates of capital gains tax applying to investments in small or young companies should converge on a low level of 10 per cent.

In 2005 the EU updated its programme of economic reform, adopting new and more ambitious targets:

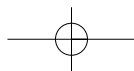
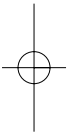
- ★ A long-term growth rate that matches that of the US.
- ★ Levels of investment in high-tech industries that match the US.
- ★ A convergence of the non-wage costs of employment on the average of the best four member-states in the EU.

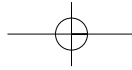


- ★ A quantifiable improvement in the skills level of the workforce in every member-state.

At first, the EU's economic reform programmes were not popular with many Europeans. But when, in mid-decade, the European Council supplemented them with a parallel set of targets to promote social cohesion, reduce social exclusion and improve the quality of life, support picked up. Governments made it clear that their aim was to modernise and preserve Europe's social model. These targets included:

- ★ Each government should ensure—through regulation, subsidy or public-private partnership—that every family has access to the internet, either through digital TV, broadband cable or mobile telephones. Governments should set up subsidised training schemes for poorer families on how to use the internet.
- ★ The EU should sponsor an internet university. This is targeted at adults who lack the time or the money to study at conventional universities, including those outside the EU, particularly in the less-developed parts of the world. Britain, with its own expertise in home learning, took the lead in this initiative.
- ★ Each government must come up with its own plan for the elimination of child poverty, including targets against which performance can be measured.
- ★ In order to increase the role played by women and ethnic minorities in public life, every government must set its own non-binding targets for the percentage of judges, senior civil servants, members of parliament, professors and medical consultants who come from those groups (because each EU country starts from such a different position, EU-wide targets would be too easy for some members and too difficult for others).
- ★ Every EU country should adopt legislation against racial discrimination, backed up by strong penalties. During the exchange of best practice which drove forward this initiative, Britain's Race Relations Act proved an influential model.





- ★ To reduce the delays suffered by air-travellers, Eurocontrol should be given more sway over national air-traffic control authorities. Eurocontrol's powers are being extended in a series of gradual steps, on condition that it satisfies targets for efficiency and safety.
- ★ Half of all the cars sold in 2015 should have "zero-pollution" fuel cell engines. By 2010 cars with these engines have become comparable in price to the old-fashioned ones based on petrol and diesel.
- ★ Every country in the EU should be linked up to Europe's high-speed train network. This means extending high-speed lines to the new arrivals from Eastern Europe and to Greece. The European Investment Bank provides matching funds for the public-private partnerships which finance the cost of the new lines.

One other set of EU-wide social targets, dealing with pensions and retirement, is proving less popular. Concern about ageing populations tops the political agenda in many European countries. Taxes are rising to cope with the pressure of ever-greater numbers of retired people on government budgets. The birth rate has fallen below ten per thousand in most West European countries, and the population is falling in several of them. Italy is forecast (on current trends) to have less than 40 million people by mid-century—though some demographers believe that illegal immigration will counter-act much of this shrinkage. In many EU countries, the ratio of tax-payers to retired people has fallen to 2:1. In Italy, the most extreme case, this ratio is projected to reach 0.7:1 by 2050.

Central and Eastern European countries have also suffered from low birth rates. The economic boom in these countries, especially those which have just joined the EU, has drawn in labour—legal and illegal—from the Balkans, Ukraine, Russia and the Caucasus. Western Europe, in turn, has attracted skilled immigrants from the new member-states such as Poland, Hungary, the Czech Republic, Slovakia, Slovenia and Estonia. Technically, immigrants from these member-states will need a permit to work in the EU's 15 original member-states until 2012, when the transitional arrangements on the free movement of labour expire. But people from those East European countries do not need a visa to enter the 15 and several million of them already work in Western Europe, especially in Germany, either legally or illegally. Many Central and East European

governments are vexed by the brain-drain of some of their best and brightest.

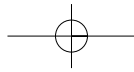
EU governments knew that any attempt to lift the retirement age would prove unpopular—but that it would be easier to sell to voters if presented as part of an “inevitable” Europe-wide response to a common problem. So in 2004 the governments agreed on a set of common targets: to raise the retirement age to 70 over a ten-year period; to remove incentives to early retirement; to establish a series of national schemes, partly funded by the EU, to retrain people over the age of 55; and to encourage the growth of private pension schemes—of the sort which originated in the Netherlands and Britain and are now spreading throughout the EU—to take some of the strain of pensions off state budgets.

In the pursuit of these targets, as in so many other areas, the “new model” of European integration—based on benchmarking, exchange of best practice and peer-group pressure—has proven its worth. Thanks to these targets, plus healthy rates of economic growth, some tax increases and a relaxation of the EU’s common immigration policy, the Union has coped with its ageing populations.

Farming and trade

One big consequence of enlargement has been a drastic reform of the Common Agricultural Policy, and thus of the EU’s budget. Those countries joining in 2004 did not receive the full benefits of the CAP, on the grounds that the CAP would be subject to a major review in 2006, when the Berlin budgetary package of 1999 expired. That review, predictably, proved contentious. With such a long list of applicants preparing to join, EU governments had to choose between three options:

- ★ To extend the cash payments enjoyed by West European farmers under the existing CAP to all EU farmers. That would mean a major increase in the size of the EU budget.
- ★ To deny all recent and future adherents most of the CAP benefits that go to farmers in Western Europe. This option was politically unacceptable to the East Europeans. Those of them already in the EU threatened to veto this option.



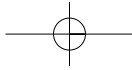
- ★ To embark on a radical reform of the CAP, involving further price cuts; “degressivity”, so that existing cash payments to farmers in Western Europe would be phased out over time; and “co-financing”, so that national governments would take on a rising proportion of the cost of payments to their farmers, reaching 50 per cent in 2010.

After months of argument, every government except France backed the third option. Finally the French gave in—but only after the other governments agreed that the chairman of the new EU financial services regulator would be French, and that the EU would back Paris as the site of the future World Environment Organisation. Those palliatives were not enough to prevent angry mobs of French farmers from rioting in central Paris. As a result of the decision to partially re-nationalise the CAP, the Union’s budget remains well within the limit set at Edinburgh in 1992, which is 1.27 per cent of its GDP.

The EU’s shift on agricultural policy strengthened its hand in the WTO, winning it friends among developing countries, and helped to ensure the conclusion of the WTO round—which began in 2001—in 2006. The EU has used its influence to argue that neither the US nor anyone else should use environmental or social standards as an excuse to block imports through the WTO’s dispute settlement procedures. However, the EU has championed a model of capitalism that is environmentally-friendly and respectful of social rights.

So the EU persuaded the WTO and the International Labour Organisation (which has been greatly reformed and slimmed down over the past few years) to establish a joint, public forum on trade and labour standards. Participating governments sign up to non-binding agreements to pursue common targets on these standards, for example on the use of child labour. They undertake to achieve these targets through benchmarking and the exchange of best practice. In this forum, governments are free to name and shame those countries which they think have not complied with the targets. The EU has become well-known for developing these forms of “soft convergence” among its own members; now it is encouraging countries from outside Europe to apply similar principles at a global level.

Partly because of the EU’s influence, the WTO round paid rather more attention to environmental than to labour standards. The round’s final

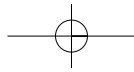


agreement contained a series of environmental targets which all WTO members approved. It also established a new WTO forum—in which some NGOs have observer rights—to deal with clashes between WTO rules and international environmental agreements. The point of this forum is that it allows governments to negotiate political solutions and to keep environmental arguments away from the lawyers who run WTO dispute settlement panels.

Big business was disappointed with the results of the WTO trade round, particularly in the area of non-tariff barriers. So, following strong lobbying from multinational companies, in 2007 the EU and NAFTA began negotiations for a Transatlantic Single Market (TSM). These talks, which are still underway, are focusing on the removal of barriers to foreign investment, for example in airlines and telecoms; on opening up public procurement, including at the level of the American states; on making it easier for someone to get a job on the other side of the Atlantic; on mutual recognition of standards for product safety; and on the creation of a lightweight competition body that would deepen links between the authorities on both sides of the Atlantic, and work for a convergence of their doctrines.

The WTO has given its blessing to the idea of a Transatlantic Single Market, since both the EU and NAFTA have made it clear that other countries—when they are willing and able to comply with TSM rules—will be invited to join, wherever their geographical location. The WTO hopes that the TSM will become an *avant-garde* group within the WTO, gradually growing to take in the entire membership.

In 2008 the EU began parallel talks with the East Asian Economic Community (EAEC), which had been formed in 2003 by the ten Asean countries plus Japan, China and (as it then was) South Korea, for the creation of a European and Asian Zone of Economic Co-operation (EAZAC). The two parties have found substantial common ground: both are happy to leave agriculture out of the talks; they share a common approach to many environmental problems—and a common concern about America's bad behaviour on many green questions; and both think it important to strengthen the rather weak political ties between the EU and the EAEC. These talks are focusing on collaboration on competition policy, on rules for foreign investment and on the mutual recognition of standards.



Another crucial part of the negotiations' agenda is co-operation on monetary policy and on currencies. For the 13 countries of the EAEC, inspired by the successful example of the euro, have decided to free themselves from the dominance of the dollar and of the US financial system. So the EAEC plans to develop the East Asian Monetary Fund into a fully-fledged central bank, based in Shanghai. The EAEC governments have declared their intention to replace their national currencies with the East Asian Currency Unit in 2015. And having seen the Europeans and the Americans take steps to reduce fluctuations between the dollar and the euro, the East Asians are keen to be included in discussions on reference ranges. The EU is sympathetic to the East Asians' request for technical assistance on the establishment of their own central bank and currency.

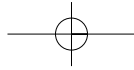
Ever since the IGC of 2006, EU ministers have taken decisions on all aspects of trade policy by qualified majority vote. The extension of QMV into trade in services and intellectual property has, in practice, strengthened the authority of the Commission in trade talks. The EU's partners now find the Commission a more effective negotiator.

The environment

All over the world, public opinion is worried by steadily rising global temperatures, and a succession of unusual climatic phenomena. Thus EU governments have agreed unanimously to co-ordinate their taxes on energy use and CO₂ emissions according to certain common principles, including pan-European minimum rates. One reason why finance ministries were happy to accept this was the erosion of VAT revenues by e-commerce; they needed an alternative source of money. A slice of the revenues from these national energy taxes is hypothecated for the EU's research programmes on renewable energy sources.

The EU's co-ordination of energy taxes is only part of its strategy for combating global warming. The EU's transport and energy ministers now agree on common targets—for example on insulation, road pricing and the efficiency of electricity-generating plants—and engage in a process of peer review and exchange of best practice.

One of the EU's most important external representatives is the commissioner for environmental policy, Joschka Fischer. He spends much of his time in international environmental negotiations, such as the permanent conference

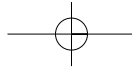


on the reduction of greenhouse gas emissions. Because the EU is the only major trading block to have met the targets agreed in Kyoto in 1997 (an 8 per cent cut in CO₂ emissions, from 1990 levels, by 2010), it has taken on a pre-eminent role in discussions on global environmental regulation.

The environment commissioner is also closely involved in the EU's deliberations on transport policy, energy policy and economic policy in general, seeking to ensure that ministers and other commissioners take heed of environmental concerns. He publishes annual league tables of the member-states' performance, measured against a set of environmental targets. He often lectures governments on how they should adopt more energy-efficient and pollution-minimising policies. And he spends much of his time in Eastern Europe, making sure that recent arrivals in the EU meet its environmental standards. Much of the regional aid that is targeted on the new member-states pays for the cleaning of polluted landscapes, waterways and lakes.

The European Environment Agency, an independent body established in the 1990s, now has statutory powers to carry out inspections to ensure compliance with EU environmental regulations; and to prosecute companies in breach of those regulations, when national governments fail to do so.

The EU's plans for a World Environment Organisation are gathering support in many parts of the world. This new body would take over the job of ensuring that international targets for reducing greenhouse gas emissions were implemented. It would also regulate the trading of CO₂ emission permits and oversee various international agreements, such as those on bio-diversity and the ozone layer. Its rules would have equivalent force to WTO rules on trade. A joint committee of the two organisations would work out compromises where their rules appeared to be contradictory.



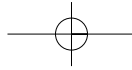
4 A common judicial space

During the first decade of the 21st century, the EU's involvement in justice and home affairs (JHA) has grown dramatically. The EU has been seen to play a useful role in helping governments to tackle the problems of asylum-seekers, illegal immigration and organised crime, so its activity in these areas has not been unpopular.

In the early years of the new century, governments throughout the EU had struggled to cope with rising numbers of asylum seekers, particularly from the Caucasus, China, the Balkans and sub-Saharan Africa. Public opinion in countries with relatively liberal regimes, such as Britain and Germany, had demanded that something be done to restrict the number. So by 2002 most member-states wanted to adopt qualified majority voting for asylum policy. They regretted their failure to make that change at the IGC of 2000. But the French held out for the retention of unanimity, agreeing to majority voting only when the others threatened to push ahead without them, through some form of variable geometry. This shift enabled the member-states to put in place a common asylum regime, covering agreements on the definition of an asylum seeker, on the legal rights of asylum seekers and on minimum standards for their treatment.

The EU's relatively austere regime deterred some of the asylum seekers who were really economic migrants, and the overall numbers applying for asylum have fallen. But because of their geographical position, the EU's Mediterranean and East European members receive relatively large numbers. EU funding for these "front-line" countries is helping to make the common regime effective, for example in paying for the finger-printing of all asylum seekers. As a result, the rule that an asylum seeker can apply only in the country where he or she first entered the EU is at last enforceable. And in those countries which house disproportionate numbers of asylum seekers, the EU contributes to accommodation costs.

Illegal immigration remains a problem. Large numbers of migrants try to find their way into Europe through the EU's poor southern, south-eastern

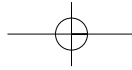


and eastern fringes. The EU is trying to tackle the root causes of illegal immigration by enhancing economic and political stability in the countries of North Africa, the Middle East and the Caucasus, as well as in Moldova and Ukraine, through Partnership Agreements. These cover trade, aid, technical assistance and regular meetings at ministerial and official level. Countries which fail to meet EU standards on human rights, democratic performance and civil society are liable to lose the benefits of these agreements.

To keep out would-be illegal immigrants, the EU gives money to member-states on its southern and eastern borders to tighten their frontier controls. Europol has had some success in infiltrating the criminal gangs that are responsible for trafficking most illegal immigrants. To gain expertise in this area it has taken on immigration officials and intelligence officers from the member-states. It also makes use of the new Internal Security Information System, which combines the old Schengen Information System and the Europol database. The EU's eastern frontier is a first line of defence against illegal immigration; the border of the Schengen passport union, which is policed by the European Border Guard (see Chapter 1), overlaps with that frontier in some places but in others acts as a second line.

The EU's Mediterranean members—which now include Croatia, Cyprus, Malta and Slovenia—have used the enhanced co-operation provisions of the treaties to establish a European Coastguard. A fleet of fast patrol boats, supplied with satellite and signals intelligence by the EU's Joint Intelligence Committee (see Chapter 5), attempts to prevent illegal immigrants from crossing to the EU's shores. Although an EU institution that is funded partly by the EU budget, the Coastguard is managed by the Mediterranean countries and they pay for the greater part of its costs.

In 2004, when governments finally tackled the problem of ageing populations in an EU framework, interior ministers agreed to relax the provision of work permits for certain categories of skilled labour in short supply. They agreed on EU quotas, divided among the various member-states, for maths teachers, IT specialists, communications engineers, nurses and doctors. Some developing countries are annoyed that many of their younger and more skilled workers are being sucked into the EU. As a political issue, immigration—both legal and illegal—has divided the parties of the right. Hard-line right wingers pander to



populist sentiment, demanding that legal immigration be stopped and that illegals be rounded up and “sent home”. Liberal conservatives take a softer line.

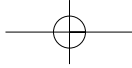
The EU has established a common regime of visas, and of residence and work permits. The member-states have aligned their rules on the granting of national citizenship. Third-country nationals who are long-term residents in one member-state now have the same rights to travel, reside and work in other member-states as EU citizens.

The UK has recently opted to participate in this regime and to abolish passport controls at its frontiers. The British government decided that it would be more effective to combat illegal immigration through the introduction of a national identity card. The British police can now request that a citizen produce his or her card within three days of their asking. The UK government is also combating illegal immigration through devoting more resources to intelligence and surveillance operations.

The abandonment of UK passport controls proved less unpopular than many had feared: British tourists, used to frontier-free travel elsewhere in Europe, had found them a growing irritation, while the introduction of identity cards satisfied the law-and-order lobby. Many people find identity cards useful.

Europol has emerged as an increasingly important and visible EU institution. The rules governing Europol are subject to the EU’s normal decision-making procedures: governments vote by qualified majority on legislative proposals from the Commission, while the Parliament has the power of co-decision. Europol has become increasingly effective in the fight against organised crime, terrorism and far-right racist groups, thanks to its growing budget and close links to national police forces. It has the power to request national police forces to enter into joint investigations; a national police force cannot refuse unless the minister responsible makes a formal explanation to the council of JHA ministers.

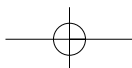
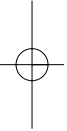
Europol draws on intelligence supplied by the EU’s Joint Intelligence Committee to track the movements of boats that are suspected of drug smuggling. Eurojust, the parallel co-ordinating body of judges and prosecuting authorities, has been incorporated into Europol, allowing the



latter to act more quickly in cross-border investigations. Europol is now headed by the high-profile investigating magistrate, Baltasar Garzón.

Huge progress has been made in judicial co-operation, so that it is much easier for national authorities to investigate and prosecute criminal cases that run across several jurisdictions. A process of peer review has helped to streamline the way that national authorities deal with foreign court orders, and to improve general standards of justice, especially in the new member-states. The appointment of Elizabeth Guigou as High Representative for Internal Security (“Ms JHA”) has helped the public to understand the significance of the EU’s role in this crucial but highly-complex policy area. She represents the EU in international negotiations, chairs meetings of JHA ministers and chides member-states which fail to meet agreed standards.

The EU has harmonised some aspects of criminal law for the most mobile offences, such as money laundering and crimes committed over the internet, and also for fraud against the EU budget. It has also adopted common rules on child custody. It has established common minimum standards for legal aid, translation and interpretation in court, rules on evidence and bail procedures. This has allowed the member-states to put in place a system of mutual recognition of court judgements. Extradition has been phased out; instead, a system of “Eurowarrants” allows instant arrest and deportation.



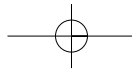
5 Europe, an emerging power

Common foreign policies

In 2010 the EU and its member-states have become a diplomatic force in their own right, at least for policy issues that require patient diplomacy. When the subject is arms control, or Middle East peace talks, or what to do about the Caucasus, or global environmental negotiations, the world assumes that the EU will be an actor. But when there is a sudden crisis, such as the eruption of a new war, Britain, France and Germany tend to ignore the EU and act trilaterally, or with the Americans. Seen from outside, the EU is an aspiring super-power, albeit a soft, slow-moving one, with fuzzy edges. It does not yet have its own representative in the new-look UN Security Council, on which Germany, Japan, Brazil and India have permanent seats.

The EU's foreign policy representative, Anna Lindh (also known as "Ms CFSP"), has emerged as a substantial figure in international diplomacy. She can talk on equal terms to the foreign ministers of China, Russia or the US. Her role has been enhanced since the IGC of 2006 merged the job of the High Representative for foreign policy with the job of the commissioner for external relations. Silly turf wars between the two had limited the EU's effectiveness on foreign policy. There had also been a number of occasions when the High Representative had promised a foreign government financial aid or technical assistance, without having checked that the Commission had the resources available.

Now that Ms CFSP and her staff are intimately tied to the Commission—she is a Commission vice president, while the Diplomatic Service contains many officials who came from the Commission—the EU is better able to deliver on its foreign policy promises. The Diplomatic Service makes a more effective job of integrating the diplomatic and economic components of EU foreign policy than did the combined efforts of the Commission and the Council Secretariat, when their foreign-policy departments were separate. All this has helped to boost the international reputation of Anna Lindh.

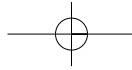


Ms CFSP has taken on some of the roles formerly played by the rotating presidency, chairing meetings of foreign ministers and representing the EU to the outside world. The EU's diplomatic partners are delighted that the presidency has gone: some of the smaller member-states had lacked the expertise to run a presidency adequately, while the lack of continuity in the EU's external representation had been irksome.

Anna Lindh and Gordon Brown, the two Commission vice presidents, have a different status to the other commissioners. The European Council appoints them, subject to the approval of the President of the Commission, Bronislaw Geremek. The European Parliament has no direct say over their appointment. They are thus more independent of the Commission president and the European Parliament than the other commissioners. They are members of the college of commissioners, and make an effort to comply with the college's collective responsibility. But they are not obliged to do so, and since they report to the European Council (and to the foreign ministers and the finance ministers, respectively), cannot always do so. An important part of their role is to communicate what the governments think to the Commission, and also to convey the Commission's own analysis back to the European Council and the Council of Ministers.

Ms CFSP works in a specially-designed secure building in Brussels, which is often referred to simply as "the foreign ministry". This is the home of the EU's Diplomatic Service, formed out of the Commission's external relations directorate, units of the Council Secretariat and seconded national diplomats. This specialist corps runs the EU's 140 overseas offices, which were formerly the Commission offices, and its staff receive a special diplomatic training.

One part of the Diplomatic Service is specifically responsible for crisis management. The experience of the EU governments in Bosnia and in Kosovo had taught them that rebuilding war-ravaged countries would require much more than soldiers. So, following the success of the "headline goal", which encouraged the member-states to boost their military capabilities in the early years of the decade, the EU has worked towards implementing a series of non-military headline goals. Anna Lindh has given a lead in persuading the governments to agree to provide a set of crisis-management capabilities, that the EU can call upon when



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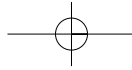
necessary. These include units of police (10,000 are already available); teams to train soldiers, border guards and police forces; transport helicopters; aeroplanes for shifting food and other supplies; mine-clearance teams; civil engineers; media training teams; and medical facilities. A process of peer review, in which the governments encourage each other to fulfil their commitments, is now underway.

Within the foreign affairs council, the “big six”—the UK, France, Germany, Spain, Italy and Poland—operate as an informal caucus and, together with Ms CFSP, prepare decisions in advance of meetings of the full council. The big six are more dominant in foreign and security policy than in other areas. This is because the gap between what they and the small countries can contribute to the Union is greater in the CFSP.

This dominance of the large countries does not stem from the EU’s voting rules being skewed in their favour. In fact voting rules for foreign policy have changed little during the decade. Decisions on general principles and broad strategy require unanimity, while decisions on the implementation of policy are taken by QMV. Furthermore, a member which wishes to publicly dissociate itself from a decision, without going so far as to use the veto, may “constructively abstain”.

However, a custom has emerged whereby, if the big six support a foreign policy position, smaller countries do not use their veto, except in exceptional circumstances. Small countries are forever complaining about these procedures and customs. In 2006, when most EU member-states wanted to recognise Montenegro’s independence from Serbia, Greece used its veto for a year. The big six began to formalise their own meetings and started issuing declarations on foreign policy *à six*. The other small countries became worried that this would weaken EU institutions. So, with the Netherlands taking a lead, the small countries persuaded Greece to lift its veto and to constructively abstain from the recognition.

Similarly, in 2007 the Irish and the Austrians threatened to veto an EU military mission to Sierra Leone. The point of the mission was to end the long-running civil war and to seize the diamond mines that were held by Liberian-backed guerillas. Ireland and Austria argued that the EU should keep out of Africa’s military conflicts, but when the large countries said that they would use some means of “variable geometry”, to go ahead



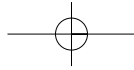
without them, the Irish and the Austrians backed down (unlike the Swedes and Finns, they had never joined NATO). Much though the small countries grumble, most of them have now understood that effective EU foreign policy requires leadership, and that if they do not let the big countries play a pre-eminent role, the big countries will act on their own, outside the structures of the EU. They look to Ms CFSP to protect their interests in key decisions on foreign policy.

Bulgaria, Romania, Russia, Switzerland, Turkey and Ukraine have joined Norway and Iceland in the European Economic Area, thereby agreeing to accept many provisions of the EU's single market. In the cases of Russia and Ukraine, however, extensive transitional arrangements mean that many single market rules do not yet apply.

With both Russia and Turkey, the EU has developed what it calls "strategic partnerships". Russia looks both east and west. Its two dominant political parties, the Nationalists and the Liberals, are both committed to market capitalism. But the Nationalists emphasise Russia's alliance with China and India, and are suspicious of becoming too close to the EU, which they suspect of being a creature of the Americans. The Liberals point to the benefits of the recently-concluded agreement which made Russia an associate member of the EU. These benefits include co-operation on the modernisation of Russia's aerospace industry; an end to visa restrictions on Russians travelling to the EU; and a massive exchange programme, so that academics, business people, civil servants, lawyers, journalists and those working for NGOs can spend periods of time in the West.

Associate membership also means that the Russian president attends two EU summits a year. Russian ministers and officials take part in certain EU ministerial meetings—with a voice but not a vote—where matters of common concern are discussed. Co-operation with Russia has proved particularly fruitful in the EU's battle against organised crime, illegal immigration and drug trafficking. The Russians are also included in many EU meetings on the Balkans, even though they often disagree with EU policy.

Turkey has a similar form of associate membership, although it is assumed that Turkey, unlike Russia, will eventually become a full member. Turkey, delighted that it has been allowed to start negotiations on membership, has allowed northern Cyprus to join a Cypriot confederation within the



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EU (Commission officials believe that Turkey's accession negotiations may take at least ten years).

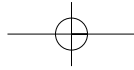
Ukraine, too, is an associate member. The EU governments have made it clear that, if Ukraine seeks to join the EU, it will be considered according to the same criteria as any other candidate. Ukraine has not yet decided if it wants to join the EU, mainly because Ukrainian opinion is thoroughly divided on the matter. Moldova is also unsure of where its destiny lies, while Belarus ceased to exist when it merged with Russia in 2004.

The EU runs the Balkan Stability Pact, a framework for channelling international aid into the region. Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia are often described as EU protectorates. They are tied to the EU by association agreements and aspire to start accession talks. The EU representatives in these countries, known colloquially as the viceroys, wield about as much power as their prime ministers. The viceroys can ensure that the EU delivers carrots, in the form of technical assistance, soft loans and exchange programmes to encourage the development of civil society. They can also wield sticks: any government that mistreats minorities, slips up on human rights or forgets its democratic principles is liable to lose aid and slide down the queue for accession. And if necessary the viceroys can call on armed help from the military garrisons and EU police that are stationed in these countries.

EU garrisons totalling some 80,000 troops are present in the Balkans. These soldiers wear blue berets embossed with the 12 gold stars. Although America has no troops in the area, it offers intelligence, communications facilities, airborne radar systems and satellites to support the EU forces.

The region which causes the EU most trouble is no longer the Balkans, but sub-Saharan Africa. It remains the one part of the world where warfare, extreme poverty and endemic disease are rife—and it is the source of much illegal immigration. The EU seldom has the resources or the political will to intervene militarily; but it does spend money on the training of local armed forces and police, on the infrastructure for deliveries of aid (such as ports and railways) and on technical assistance.

Much of the time of the EU's 26 foreign ministers, and of its senior officials, is spent on regular meetings with non-EU countries and



organisations. Every year, for example, there are EU-Mercosur, EU-East Asian Economic Community and EU-Central Asia gatherings, as well as EU-China and EU-Japan ministerial meetings. Even in the age of the internet, politicians still believe that face-to-face meetings are irreplaceable as a means of building up trust, confidence and knowledge. It helps that English has become the universally-recognised language of diplomacy.

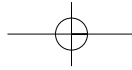
Intelligence

Ms CFSP's responsibilities cover not only foreign policy and defence, but also the assessment of intelligence. The various national intelligence services retain their operational independence. But a new EU Joint Intelligence Committee (EU-JIC), reporting to Ms CFSP, is playing a growing role in the co-ordination of the work of the national agencies. This body is modelled on the British JIC, and consists of one senior intelligence official from each member-state. It suggests to the national agencies that they should pursue certain priorities.

Because of the sensitivity of much of the raw data collected by the agencies, none of it is shared at an EU level. However, the assessments made by the national agencies are exchanged within the EU-JIC. This committee sifts, evaluates and summarises the reports, making them available to Ms CFSP and to EU foreign and defence ministers.

The US seconds a senior intelligence officer to the EU-JIC, who attends some but not all of its meetings. He passes on American assessments to the EU-JIC, and sends the more useful European assessments back home. The fact that the US has so much more intelligence to offer the Europeans than vice versa explains why even the French have accepted the presence of an American in the Brussels "foreign ministry". In exchange, the US has agreed that a senior European should be based in its National Intelligence Council.

Britain retains its privileged intelligence-sharing relationship with the US, Canada, Australia and New Zealand. Thus some of the material exchanged among the Anglo-Saxons cannot be fed into the EU system. But Britain has brokered a deal between the US and the other Anglo-Saxon allies on the one hand, and the continental countries (notably France) on the other, whereby all parties agree to follow a code of conduct when spying on each other. This has helped to reduce tensions between France



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and the US, and that in turn has encouraged the Americans to share more of their intelligence with EU countries.

The principal reason why the US shares more intelligence with the Europeans than it used to is that it does not want EU foreign policy to diverge from its own. The Americans know that EU and US foreign policies are more likely to converge if their policy-makers see the same intelligence assessments.

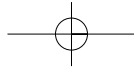
The EU's satellite centre at Torrejón in Spain provides reports to the EU-JIC. The Torrejón centre has built up considerable expertise in the analysis of commercial satellite photos. The EU has abandoned plans for its own specialist military satellites. Imagery from American, Russian, French and Indian commercial satellites is too good and too cheap to make specialist military satellites worthwhile—especially since the US has given binding commitments not to exercise “shutter control” over photos that the EU requests from American-owned commercial satellites.

Military Europe

In 2010 NATO remains a powerful and coherent expression of the Europeans' and North Americans' commitment to collective self-defence. Its enlargement has, more or less, proceeded in parallel to that of the EU. Most of the EU's new members have either joined NATO or plan to do so. The Baltic states, to their dismay, have been prevented from joining NATO by the desire of most European governments not to annoy the Russians. However the Balts have been partially placated by their full involvement in the EU's own, and increasingly important defence organisation.

NATO works very closely with the EU and is less dominated by the US than it was in 2000. The US no longer has any troops based permanently in Europe. NATO has become, in effect, a channel through which the US offers high-tech weaponry and logistical support to European crisis management operations.

The division of labour within NATO has become more pronounced over the past 15 years: when NATO decides to embark upon a military mission—whether it is branded “NATO” or “EU”—the Europeans provide the troops for peacekeeping or peacemaking, while the US is usually unwilling to provide troops. However, the Americans contribute



the advanced capabilities that they like spending money on—particularly in the realms of space, communications and surveillance—and the Europeans do not want to spend money on. For example the US is the only country to have deployed an array of space-based laser weapons; these could, if activated, destroy China's network of military satellites.

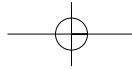
The beginnings of this division of labour had started to become apparent as early as the Kosovo conflict of 1999, for which the US provided most of the air power and the command, control and communications facilities, and the Europeans most of the peacekeepers.

The EU has made slow but steady progress towards strengthening its military muscles. Every year the council of defence ministers, working by unanimity, sets targets for each member to deliver specific military capabilities. Governments are supposed to implement these targets over a five-year period. For example, one country may agree to make available at a month's notice an air-mobile brigade, a battalion of engineers, a couple of frigates and a squadron of reconnaissance aircraft.

An EU Defence Inspectorate, reporting to Ms CFSP, carries out annual audits to verify whether governments have complied with their targets. Many governments do not meet the targets. But Anna Lindh, armed with the inspectorate's reports, publicly names and shames these governments in the council of defence ministers. This peer group pressure is starting to prove effective, and is helping defence ministers to win arguments against rapacious finance ministers.

The EU has three times deployed military forces under its own name—intervening in Montenegro's civil war, evacuating westerners from Kinshasa and seizing the diamond mines in Sierra Leone. On all three occasions the US provided logistical support through NATO. The EU has not yet intervened in any of the Caucasian wars, having been warned by Russia not to do so.

The headquarters of the EU's rapid reaction force has been established in Strasbourg (as part of a deal in which the French government lifted its veto on the European Parliament moving to Brussels). This fixed multinational headquarters can call on any of three mobile corps headquarters that are available to NATO or the EU—the British-led Allied Command Europe



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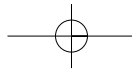
Rapid Reaction Corps, the French-led Eurocorps and a new German-led corps (the last two of which are based in Strasbourg)—to deploy to a war zone within a month. The EU also has its own command ship, modelled on America's Mount Whitney, which can co-ordinate air, land and sea forces from a crisis area such as the Adriatic. This ship is available on request to NATO.

The Americans have become relaxed about the EU deploying force in its own name. They have welcomed the EU's declaration that no member-state should spend less than 2 per cent of its GDP on defence (not every member-state complies, but the previous trend towards shrinking defence budgets has been reversed). The serious efforts of several EU states to modernise their forces have impressed the Americans; Germany introduced a fully-professional army in 2006.

Europe's governments are learning that the pooling of military capabilities saves money. They have realised that a lot of money is wasted through each country having separate training systems, logistical support and maintenance operations, communications networks, planning staffs and military R&D. Through a series of bilateral and multilateral agreements, many EU countries have merged staff colleges, medical facilities, supply organisations and maintenance units.

The EU's fleet of Airbus A400 military transport and tanker aircraft, managed out of bases in Belgium and Hungary, has been in service for three years. The EU makes these aircraft available to national governments or to NATO, on request. The EU's military staff, housed within Ms CFSP's secure building in Brussels, manages these aircraft and other common capabilities.

The success of this EU fleet of A400s led to a plan, due to be implemented in 2012, for a common EU fighter force of Eurofighters, Rafales and Gripens. This force would be serviced by a single headquarters, training centre and logistical support operation. Britain and France, unlike most other EU countries, have decided to keep some of their fighter aircraft outside the EU pool. But in any case, every government will have the right to recall its aircraft to national duties whenever it wishes; and the EU's support organisation will be obliged to service any aircraft that are under national command. The EU will be able to offer this fighter force to NATO.



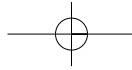
The EU is also developing its own squadron of Unmanned Aerial Vehicles (UAVs). Such aircraft, normally cheaper than manned planes, are particularly useful for battlefield reconnaissance. In 2005 the several EU countries which were developing UAVs agreed to a set of common requirements, and to pool their R&D. The EU's first squadron of UAVs is expected to be airborne within a few years.

The cause of common "EU" capabilities, as opposed to national capabilities, is politically popular in several countries, such as Germany. German public opinion opposed any increase in defence spending until it became clear that the money would go directly towards strengthening the EU's role in crisis management.

Common capabilities have required the EU to think about common funding. Following a British initiative, strongly supported by the French, the EU established its own defence budget in 2009. The Treasury had noted that Britain contributed more to European security than did most of its partners, and that a special defence budget would prevent other countries from "free-riding".

The budget rules allow member-states three choices: to contribute military assets to the EU's common capabilities; or to agree to make available national assets to the EU, at short notice; or to pay money into the EU defence budget which funds these capabilities. Under the EU defence budget financing formula, the first option earns large "budgetary credits", and the second option fewer credits. The smaller countries tend to earn credits in non-front-line areas such as logistical support, photo reconnaissance and communications, but less in areas such as armoured warfare, submarines or air-to-ground missiles. The formula is designed to ensure that countries whose overall contribution to European defence is low, compared to the size of their economies, make substantial payments into the budget.

The EU's defence budget has been kept apart from its general budget, to highlight how much (or how little) each member-state contributes to European security. Keeping this special budget separate also ensures that the European Parliament has no say over EU defence policy. Furthermore, the separation enables and encourages those countries closely allied to the EU's defence arrangements, but not in the EU, such as Turkey and Norway, to contribute capabilities or cash to European defence.



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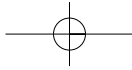
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The EU's governments have begun to reach agreements on common standards for defence equipment, for example on the requirements for military vehicles. This has helped defence industry consolidation, though many of the major alliances and mergers have been transatlantic. Boeing merged with BAE Systems, but only after the British firm sold its shareholding in Airbus. European Aerospace and Defence Systems (EADS) merged with Lockheed Martin, and now builds the Airbus A3XX super-jumbo not only in Toulouse but also in California. The French-American combine, Thomson-Raytheon, is busy restructuring DCN, the recently-privatised French naval shipbuilding firm.

The US and the EU have started to establish a single market for armaments production. This did not become possible until the US lifted most of the barriers to European involvement in its defence industry—and that did not happen until the Europeans, led by the six nations of the European Armaments Agency, agreed on common and stringent rules for the control of arms exports. A new regulatory body within NATO has taken on the task of managing the embryonic transatlantic defence industrial market. It is trying to establish NATO rules on public procurement, mergers, technology transfer and export policy, to ensure that, among NATO allies, the market is genuinely free and fair.

Arguments over missile-defence have been a constant source of transatlantic tension for the past decade. America's system of National Missile Defence (NMD), designed to intercept small numbers of ballistic missiles from "rogue states", was supposed to have become operational in 2006 but is still experiencing technical hitches. Britain and Denmark have allowed the US to upgrade its early-warning radar stations at Fylingdales in Yorkshire and Thule in Greenland, and these are now integrated into NMD.

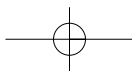
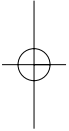
The US has applied heavy pressure on the Europeans to follow suit with their own, equivalent system of missile defence. It has offered a lot of its technology at low prices. But most Europeans do not share the Americans' perception of the threat. The US had claimed that North Korea and Iran were the dangers—but in 2005 North Korea voted in a referendum to unite with the South, while Iran has been a fairly solid democracy ever since the Expulsion of the Ayatollahs (who were offered sanctuary by Afghanistan) in 2004. Most Europeans see NMD as a destabilising and



ineffective answer to a largely imaginary threat.

The US tried particularly hard to convince the British that they needed missile defence. The Americans pointed out, gently, that the radar installation at Fylingdales made the UK more vulnerable to attack than most of the rest of the EU. They offered to sell ship-based interceptors that would protect much of the British Isles. In 2004 the Blair government was on the brink of signing up for this. The French government became incandescent, pointing out that to de-couple Britain's security from that of France would undermine the construction of a European defence capability, in particular, and European unity, in general. The French also blocked plans for a Franco-British project to construct a new generation of submarines that would carry the British and French nuclear deterrents.

While Blair wavered, the then Chancellor of the Exchequer, Gordon Brown, settled the argument by saying that if the Ministry of Defence was going to spend €5 billion on a system of missile defence, there would be no room in the budget for increasing old age pensions before the forthcoming election. The Conservative opposition attacked the government for failing to invest in a missile defence system, accusing it of leaving the realm undefended. But in the general election of 2005 the Conservatives failed to frighten the public with the prospect of attack from ballistic missiles. The EU governments have now agreed to carry out research on the technologies of missile defence, but not to deploy a system.



6 The balance of power, within Europe and across the Atlantic

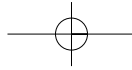
A Britain which counts

In 2010 Britain is a much more influential member-state than it was in 2000. Its decision to join the euro convinced the other EU countries that it had truly tied its destiny to Europe. The great majority of the member-states—especially since the accession of nine East European countries—support Britain’s “pragmatic” philosophy of the EU, viewing the Union as a tool for delivering certain goods more effectively than can individual countries on their own. The old federalist idea that the Commission should become a European government, responsible to the Parliament, now finds little support outside the Benelux countries and Italy.

Britain has set much of the EU’s intellectual agenda on the promotion of entrepreneurship, economic reform and the knowledge-based economy. The Nordic, Benelux and Iberian countries have long been natural allies of the British in these policy areas. The Germans and Italians are starting to share a British perspective, while the new members from Eastern Europe are enthusiasts for the new economy.

As the principal champion of enlargement, Britain has won many friends in Eastern Europe. It has taken the lead, with the French, in developing the EU’s foreign and defence policy. Britain is also one of the strongest proponents of co-operation on Justice and Home Affairs, an area where the quality of its police forces and judicial systems has given it some advantage.

Economically, Britain continues to prosper. One reason is that, following its decision to join the euro, Britain regained its position as the most popular location for foreign direct investment in the EU. Another is that, thanks to the prevalence of private pension schemes in Britain, it is weathering the problem of ageing populations better than the other large countries. France, Germany and Italy have had to raise taxes to finance the reform of “pay-as-you-go” state pension schemes.

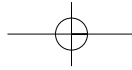


Nevertheless Germany has strengthened its position as Europe's pre-eminent economic power, thanks partly to the huge investment it has made in Eastern Europe. Angela Merkel's grand coalition of the CDU/CSU and the SPD has pushed through much-needed structural economic reforms, for example to promote a more flexible labour market. This has boosted foreign investment, especially from American and Japanese multinationals that are attracted by Germany's geographical position at the centre of the single market.

Spain has emerged as one of the most powerful members of the EU. It has profited from a succession of strong, stable governments; from its deregulated markets and encouragement of foreign investment; from its close ties to the booming economies of Latin America; and from its openness to US investment and ideas. Since the decision in 2005 of Spain and Britain to share sovereignty over Gibraltar, the former colony has become a fast-growing financial centre that is fully-integrated into the Spanish economy. Spain often wields more influence in the EU than Italy, which has been held back by the difficulty of reforming its public sector and its pensions system, and by the lead weight of the Mezzogiorno.

France remains economically strong, while some of the world's most successful companies are French. Politically, however, President Aubry's government is increasingly isolated. France has fought too many losing battles. It resisted a radical reform of the CAP. It opposed more powers for the World Trade Organisation. It voted against the liberalisation of utility and consumer finance markets. And it dragged its feet on EU enlargement. But it lost all these arguments.

France's gut hostility to things American and to "Anglo-Saxon" business practices appears outmoded to most of the rest of Europe, and especially to the East Europeans. France's belief in its own exceptionalism still permeates large sections of its ruling elite. Some commentators believe that this is already starting to affect the French economy. For example, when EU finance ministers meet together to survey each others' performance against agreed targets, the French are the most resistant to peer-group pressure. "We do not need to be told how to modernise our own economy," the French ministers often say. France has persisted with centralised, national schemes of pay-bargaining, while the rest of Europe has devolved such negotiations to localities and to companies. The public sector trade unions continue to



resist changes to the status and conditions of their members, a cost which has to be born by the rest of the economy. France now attracts less foreign investment than Germany, the reverse of ten years earlier.

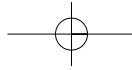
The language battles of 2007-08 seriously affected foreign investment in France. In 2007, the radical activist José Bové stood on an independent, anti-American presidential ticket, winning 28 per cent in the first round of the election, only slightly behind Martine Aubry, who won the second round for the Socialists. Shortly after that election, 20 of the EU's 21 members agreed to adopt English as their sole working language, in order to save money on translation and interpretation, and to make EU meetings more productive.

France used the "Luxembourg compromise" to veto this reform. José Bové and a white-haired Jean-Pierre Chevènement led a populist campaign against the English language, with Jeanne d'Arc as their symbol. The campaign spilled over into widespread attacks on American property. Only in 2008, when it became apparent that many American multinationals were pulling out of France, and when Chancellor Merkel told France that it would no longer be treated as a special friend if it continued to resist the will of the other 20 members, did President Aubry give in.

In 2010 the alliance between France and Germany remains strong and the Aubry-Merkel friendship is one reflection of it. France and Germany tend to dominate discussions in the Euro Group. But they no longer have such an exclusive relationship. Depending on the issue, the Germans may team up with Italy or Spain or Poland or Britain.

The Germans were hurt that the French decided to make the British their privileged partners in the new defence organisation—and that London and Paris often team up on institutional questions, to promote inter-governmental arrangements. Furthermore, the Germans are so busy reinforcing their dominant role in Eastern Europe that they have less time for the French. France's insecurity means that its behaviour is sometimes prickly. The Germans no longer give in when the French say to them "do what we say or we shall call you bad Europeans". There is no doubt that Germany is now the stronger of the two partners.

The new members from Eastern Europe are in many respects natural allies of the British. When they realised that their farmers were not going



to enjoy the same benefits from the CAP as did long-standing EU members, they voted for its radical reform. They want to attract and retain as much foreign investment as possible, so they are usually on the side of free trade, against EU regulation of the labour market and against stringent environmental standards. The Polish government is often the principal spokesman for the East Europeans. Furthermore, the Commission's President Geremek ensures that West Europeans do not forget East European interests.

In discussions on NATO and European defence, the East Europeans, and especially the Poles, support the British-German-Spanish line that the CFSP must not become anti-American or anti-NATO. The French sometimes find themselves isolated in these arguments.

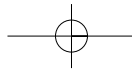
Britain's close ties to the US are another source of its strength within the EU. Britain and Germany are the only two countries which, on their own, have much chance of influencing US policy.

Think-tanks are running seminars on the emergence, within the last few years, of a "Triple Alliance" between Madrid, London and Warsaw. This trio has formed a strong axis in favour of foreign policies that avoid anti-Americanism, of minimal regulation on business and of radical reform to the CAP. Spain, Britain and Poland are quite often opposed to the Franco-German tandem or to France on its own.

A more balanced transatlantic relationship

The relationship between the US and the EU is, as ever, subject to strains and tensions. The biggest disagreements often stem from America's reluctance to work within multinational organisations and agreements such as the UN, the International Criminal Court, and the various arms control treaties and conventions. The US is the only major country that opposes the EU's plans for a World Environment Organisation. Yet the US and the EU agree much more often than they disagree; most of their fundamental interests and values are similar. The transatlantic alliance remains one of the significant certainties of geopolitics.

In 2010 the economies of Brazil, China, India and Russia are continuing to grow at impressive rates. So are the defence budgets of China, India and Russia. The deepening alliance between these three countries, founded on



The balance of power

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their common opposition to America's global dominance, is causing concern in Washington DC.

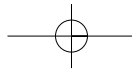
Many of America's leading politicians remain committed to the transatlantic relationship. They argue, against the unilateralists and isolationists, that America needs friends in the world, and that the Europeans are the best friends it has. Of course, the arrival of the euro and of a more effective CFSP have irked a lot of American policy-makers. But they treat the EU with more respect than they did ten years earlier.

The establishment of the euro as one of two global currencies has reduced the Europeans' dependence on the dollar. It has also subjected the US to more discipline from global markets than in the past. Now that international investors have a choice between dollar and euro assets, US policy makers have to think more about the international ramifications of their decisions. US interest rates are sometimes a little higher than they would have been without the euro.

The Americans appreciate working with Mr Euroland on international financial questions. Gordon Brown has proved a tough negotiator and a keen defender of European interests, but he has helped to curb the Europeans' tendency to be provincial and to argue among themselves. And because the euro has encouraged the Europeans to act more effectively and responsibly, the Americans are taking European views on financial issues more seriously.

Rapid movements in the dollar-euro-yen exchange rates have led to accusations by all sides that the others have used "unfair" devaluations in order to gain a competitive advantage. So in 2010 there is a growing consensus that the euro, the dollar and the yen (which may ultimately be replaced by the putative East Asian Currency Unit) should be linked by some broad reference ranges. The prospect of global currency stability has in itself curbed the volatility of currency markets—to the delight of those who earn a living through the international trade of goods and services.

The creation of a more solid CFSP has caused plenty of annoyance in Washington. Most Americans support the general principle of an effective European foreign policy, but they oppose its particular actions quite



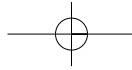
regularly. The US government opposed the EU's trade and co-operation agreement with Iran. It was unhappy that EU governments allowed a major Russian involvement in Airbus's project for the A3XX super-jumbo (the administration consequently delayed approval of Lockheed Martin's merger with EADS). And it is concerned that Russia's associate membership of the EU gives it a presence in some important EU fora, including those where military matters are discussed.

Nevertheless the US and the EU have reached an informal understanding on spheres of influence in foreign policy. The US has encouraged the Europeans to take the lead in the Balkans, North Africa and sub-Saharan Africa, while it remains pre-eminent in the rest of the world, including the Middle East.

In some areas, new institutional ties are helping to reduce transatlantic tensions. NATO is working on the establishment of a single market in defence equipment (see Chapter 5). The EU and NAFTA are negotiating on the creation of a Transatlantic Single Market. The establishment of an EU food agency early in the decade succeeded in curbing disputes on food health among Europeans, but did not do much to quell transatlantic arguments. So in 2005 the US and the EU agreed that their respective food agencies should work according to common methods and procedures, and have access to each others' papers.

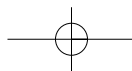
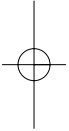
There are some signs that the emergence of Europe as a quasi-power is, in itself, helping the cause of America's multilateralists. When America was evidently a very sole superpower, unilateralists could easily make a case that it could better pursue its interests through dealing with countries—and sometimes bullying them—bilaterally, rather than through multilateral institutions. But now Europe is itself an influential bloc, while Mercosur and the East Asian Economic Community are increasingly powerful economic entities. Russia, China and India show signs of becoming, at least in some respects, semi-superpowers. So the multilateralists are finding it somewhat easier to argue that the US can achieve more through working with the UN, the WTO, and the many other international bodies and agreements.

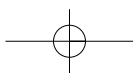
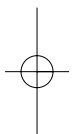
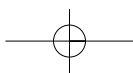
One of the key objectives of Europe's foreign policy is to persuade the US to play a role in sustaining a rule-based multilateral world order.



Europeans constantly point out to Americans the benefits of acting multilaterally. And on many, though not all, fundamental questions of foreign policy, the US and the EU agree. In particular they agree on the importance of maintaining an open, global trading system. They also believe in the need to uphold human rights and democratic principles—and that in order to uphold them, intervention in other countries' affairs may sometimes be necessary. Russia, China and India—and indeed most other governments—are very resistant to any doctrine of humanitarian intervention.

Jean Monnet believed that when Europe was unified, it should work with the US to pool sovereignty in the transatlantic area. In 2010, the Europeans and North Americans are far from fulfilling Monnet's dream. But the transatlantic relationship has become a solid, stable and—in many respects—dominant global alliance. Other countries have to define themselves as being for or against the transatlantic tandem. America is still the leading party, but the alliance is less lop-sided than a decade earlier.

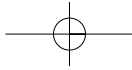




EU 2010: a summary of the principal institutional changes since 2000

A new institutional model

- ★ The European Council has become the EU's strategic authority, setting a work programme for various councils of ministers and the Commission to follow.
- ★ The old antagonism between supranational institutions and inter-governmental decision-making is a thing of the past. The Commission, the Council of Ministers Secretariat and the new Diplomatic Service are all part of an integrated European Administration. There are frequent exchanges of personnel between national administrations and the European institutions.
- ★ The many councils of ministers have been simplified and consolidated. A new General Affairs Council, consisting of senior politicians appointed by prime ministers, co-ordinates the work of the several sub-councils (single market, farming, transport, trade and so on) between meetings of the European Council. The only full councils, apart from the GAC, are for Justice and Home Affairs, Foreign policy, defence and finance. On an informal basis, the prime ministers' sherpas also play a crucial role in co-ordinating the EU's work.
- ★ The rotating presidency has been abolished. This has enhanced the role of the Council Secretariat, which provides continuity to EU policy. Ms CFSP chairs foreign and defence ministers' meetings; Mr Euroland chairs the Euro Group of countries in the euro-zone, as well as the council of finance ministers; and Ms JHA chairs meetings of JHA ministers. All three of these figures represent the EU

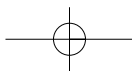
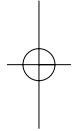
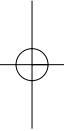


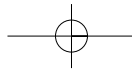
externally, in their own area. In each of the other councils, the ministers elect one of their number as the chair, for a two-year period.

- ★ The Commission is a smaller body. Independent agencies, responsible to the Council of Ministers and to the European Parliament, have taken on responsibility for running many of the EU's spending programmes, for example on overseas aid and on technical assistance. The EU's decision to make English its sole working language means that the Commission requires many fewer staff for translation and interpretation.

Enhancing the Union's legitimacy

- ★ The essential parts of the EU treaties have been rewritten into an easy-to-read constitutional document, known as "Part One" of the treaty.
- ★ Part One includes a Charter of Fundamental Rights, legally-binding on member-states and enforceable in national courts. This has helped to establish the idea that the EU stands for common values.
- ★ "Part Two" of the treaty, dealing with policies and institutional details, can be amended by inter-governmental agreement. Changes do not have to be ratified by national parliaments. The accession of a new member requires Part Two, but not Part One to be changed.
- ★ The Council of Ministers is televised when legislation is discussed.
- ★ Every year the EU's Standing Council on Subsidiarity proposes that a list of outmoded laws, regulations, programmes and budget lines should be scrapped. The European Council adopts or rejects these recommendations.
- ★ European elections have been abolished. Instead MEPs are elected on the same day as members of national parliaments. The Parliament has the power of co-decision over virtually all EU legislation, and over all parts of the budget.

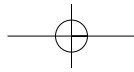




- ★ The EU is on the brink of a radical reform of the European Parliament. The plan is to elect only half the Parliament's members through direct elections. The other half would come from national parliaments.
- ★ There is also growing support for a proposal that each member-state should hold direct elections for its own commissioner. The European Council would choose one of the elected commissioners as president.

A wider Europe

- ★ The European Economic Area extends the benefits of the single market not only to the EU's 26 member-states but also to Switzerland, Iceland, Norway, Romania, Bulgaria, Ukraine, Russia and Turkey. The latter three countries have special "associate member" status, allowing them to participate in many EU meetings, but not to vote. Norway, Switzerland, Bulgaria, Romania and Turkey are negotiating to join the EU.
- ★ The treaties permit an *avant-garde* group of countries to move ahead in certain policy areas, through "enhanced co-operation", after a vote among all governments by qualified majority—provided that the single market is not endangered and the Commission approves. *Avant-garde* groups have set up a European Border Guard, a European Coast Guard and a European Armaments Agency. A group of North European countries has chosen to adopt higher environmental standards.
- ★ The EU runs the Balkan Stability Pact, applying a mixture of sticks and carrots to the region's problem countries. Those countries which behave well get more aid and move higher up the queue for membership.
- ★ The Common Agricultural Policy has been transformed. Prices have been cut, cash payments to farmers in Western Europe are being phased out and national governments now pay for half the cost of subsidising their own farmers.

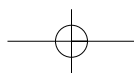


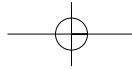
Economic decision-making

- ★ The council of finance ministers plays an important role in promoting economic reform, brokering ministerial agreements in pursuit of common targets. Benchmarking, the exchange of best practice and peer-group pressure encourage the governments to pursue these targets. The Commission's job is to prod, chivvy and name-and-shame governments which fall behind.
- ★ The Euro Group (consisting of the finance ministers of the euro-zone countries) has become a statutory EU institution and emerged as a powerful policy-making body. It co-ordinates fiscal policy, so that it works in harmony with monetary policy. It also decides on Euroland's exchange-rate policy and issues instructions to Mr Euroland.
- ★ Mr Euroland represents the euro-zone countries in dealings with the US on reference ranges for the exchange rate, in international financial negotiations and in the G-8 (which consists of the US, Russia, China, Euroland, Canada, Brazil, India and Japan). Mr Euroland reports to the finance ministers of the Euro Group, but is also a vice president of the Commission.
- ★ The council of the ECB has been reformed, so that not all the small countries in the euro-zone are members of it. Small countries take it in turns to be represented.
- ★ EU ministers take decisions on all aspects of trade policy—including services and intellectual property—by qualified majority voting (QMV).

Justice and home affairs

- ★ Common policies on asylum, visas, and residence and work permits have been agreed by QMV.
- ★ Ministers also vote by QMV to set the rules for Europol, which can push national police forces and prosecuting authorities to enter into joint investigations and prosecutions.





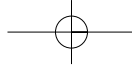
Principal institutional changes since 2000

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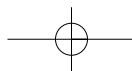
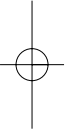
- ★ Criminal law for money laundering, internet crime and fraud against the EU budget has been harmonised.
- ★ Peer-group pressure and the exchange of best practice have improved the quality of justice applying to foreign citizens within the EU. Thus common standards on legal aid, systems of bail, rules of evidence and standards of interpretation have been adopted.
- ★ The governments have agreed on the mutual recognition of court decisions and judgements, so that criminals cannot escape justice by moving to another member-state.
- ★ Extradition within the EU has been replaced by instantly-enforceable Eurowarrants.

Security policy

- ★ The EU has merged the job of the High Representative for foreign policy with that of the commissioner for external relations. Ms CFSP, as she is known, is appointed by the European Council, subject to the approval of the President of the Commission. She is a vice president of the Commission, but reports to the European Council rather than to the other commissioners.
- ★ A new EU Diplomatic Service, consisting of staff from the Commission, the member-states and the Council of Ministers Secretariat, and using the Union's network of representative offices, works for Ms CFSP.
- ★ The EU has established a rapid reaction force that is able to undertake small-scale military missions. This can call on three mobile corps headquarters.
- ★ A process of peer-review, reinforced by a Defence Inspectorate, has encouraged governments to beef up their military capabilities. The creation of an EU fleet of military transport aircraft has saved money by eliminating the duplication of support operations. This has encouraged thinking about pooled capabilities in other areas, such as fighter aircraft.



★ The EU has established a special Defence Budget. Governments have the choice of providing military capabilities to the EU, or paying into the budget that finances common capabilities and EU military missions.



Afterword

Vernon Ellis¹

“Optimistic” is not a word one hears too often in British debates about the European Union. For far too long, the tone of discussions has been relentlessly negative, with the impact of Britain’s EU membership assessed through a simplistic calculation of money paid in and grants received. Yet in the 27 years since the UK joined, the benefits to British business have been immense, vastly outweighing the contributions made. There has been an extraordinary growth of trade, while inward investment has flooded in and business has become much more competitive.

This is not to say that the EU is by any means perfect. But Charles Grant’s fascinating pamphlet is right to take a positive vision of the EU as its starting point. Too many UK observers simply complain about the supposed deficiencies of the EU. They invent alternatives that are based on the premise that we can wind back the clock and pretend that the single market and the euro do not exist. Instead, what we should do is decide on the kind of EU we want, and then work out how to reach it from where we are now.

The development of scenarios is an increasingly common tool in both the political and business worlds. A number of organisations have published their own thoughts on what the Europe of the future might be like. Andersen Consulting was one of the early contributors, developing in the mid-1990s three alternative visions of Europe (subsequently refined in our publication Reconnecting Europe): Competitive Europe, an integrated Europe with a strong equity culture but high levels of social division; Conscience Europe, an integrated Europe with high social costs

¹ Vernon Ellis is International Chairman of Andersen Consulting, and a member of the CER’s advisory board

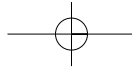
and slower growth, but less social division; and Patchwork Europe, in which the continent has evolved into lots of regional groupings, with a weak EU.

As in all analysis which seeks to push possibilities to the extremes, in different directions, none of these scenarios is likely to be singularly predominant. The future will likely be in the broad direction of one scenario, but with other flavours added, some of which have yet to emerge. My own view is that a combination of two powerful forces—a standard global liberal economic model, plus information and communications technology (ICT)—will drive Europe firmly in the direction of “Competitive Europe”.

The liberal economic model is based on an attention to sound money and low inflation. Lower levels of government spending and intervention are combined with deregulation and privatisation, while free trade and free movement of capital sit alongside an increased emphasis on shareholder value. This model is driving up the standard of performance around the world, and there is no hiding place for companies which are not productive and responsive to customer needs.

The preparations of many EU governments for the euro have set in place a powerful framework which makes it almost impossible for them to buck this trend towards the liberal economic model. Liberalising influences within the European Commission have helped to establish a level playing field, and business has taken advantage of this. Few people in Britain appreciate the extent to which interconnected supply and distribution chains, together with co-ordinated production facilities, exist within the EU, and how Britain is a crucial part of this web. This network is growing denser by the day, not just through mergers and acquisitions (the Vodafone/Mannesman takeover was an important sign that Germany is changing) but also through the ever-growing network of alliances across Europe.

Information and communications technology also plays a vital role. Partly, of course, by being the facilitator of interconnected capital markets, which will punish any government that appears to be heading in a contrary direction; and partly by putting an increasingly sharp spotlight on shareholder value. But ICT is also the vital enabler of integrated production and supply chains.

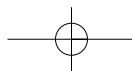


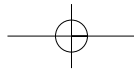
The e-commerce and internet revolution will be an immense accelerator to all the above, as it transforms markets and the way that companies relate to their customers and suppliers. And this is happening despite the stock market correction in spring 2000, which briefly gave the impression of e-commerce as a bubble that had burst. Paradoxically, this unexpected disruption has left European businesses much better placed to succeed in the new economy. It has created to a greater sense of realism about the opportunities and threats presented by e-commerce. There is now more understanding of the implications of e-commerce for business, and a more widespread realisation that e-commerce does not make the normal disciplines of business any less important.

A recent Andersen Consulting survey of senior executives across Europe gives the lie to those who have persistently written off the internet revolution as some kind of passing fad. All but three per cent of the executives interviewed said that their companies were using e-commerce in their daily business. This vote of confidence by European business leaders should serve to undermine once and for all the notion that e-commerce might be a strictly North American phenomenon. In fact, the European landscape has changed permanently, and e-commerce is embedded in the fabric of European business. More than that, our survey revealed a Europe which is quietly confident about its future in the new economy.

This is in part due to some technological developments that seem to favour European business. All the progress made by e-commerce in the past two or three years may yet be dwarfed by developments in mobile, short-range wireless, digital TV, voice and language technologies, which promise to provide unprecedented access for the mass market. Electronic communication is about to come within the reach of countries and communities that cannot afford PCs. And this is an area in which Europe leads the world.

The Nordic countries and the UK seem to be setting the pace, although there are very positive signs in most of Europe, including some central European countries such as Poland. Paradoxically, the technological backwardness of the Communist years has proved to be to the region's advantage. With the encouragement of western partners, companies have often been able to 'leapfrog' to advanced systems without the expense and complexity of dealing with outdated infrastructure.



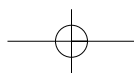


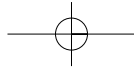
The EU accession process seems set to lead to a substantially enlarged EU well before 2010, as Charles predicts. But even if delays occur, an enlarged and more integrated Europe is already becoming a reality—many Central and East European businesses on a daily basis sell to EU consumers, enter into alliances with EU companies and act as suppliers to EU businesses. Charles is absolutely right to emphasise the valuable impact that these countries can have on the whole continent. This was brought home to me late last year, when I hosted a dinner in Berlin with some leading European business people. One guest spoke particularly passionately about need for a more entrepreneurial culture and greater competitiveness across EU. He was not the head of some western European company; rather, the Polish CEO of the Gdynia shipyard—which was in severe financial difficulties ten years ago but is now one of the leading shipyards in the world.

The shift of values across Europe towards greater acceptance of competition and the free market—in tandem with a move from ideology-based politics to much more pragmatic government—is inexorable. This may take time to filter through to wider government policies (for example, there is still large-scale structural unemployment within many member-states). Nonetheless there is an unmistakable consensus building up for undertaking labour market and fiscal reforms, encouraging inward foreign investment, and embracing technology and entrepreneurship.

But at the same time, traditional European concerns for a socially cohesive society will not go away. In my view, the drive towards “Competitive Europe” and liberalisation will be tempered by pragmatic policies, both at the EU and national levels, in favour of values and selective interventions that seek to develop the right conditions for inclusiveness, and enable disadvantaged sections of society to share in the fruits of economic growth. I believe that the optimistic scenario Charles lays out in this pamphlet is very close to my vision of a tempered “Competitive Europe”. This scenario is good for both business and citizens in Europe, and is one in which Europe as a whole plays a vital and important role in the world.

I would add just one other factor—the role that business should and, I believe, will play in creating a cohesive and productive society. Increasingly, leading businessmen are discovering that “corporate social





responsibility” coincides with “enlightened long-term self-interest”. We are in a decade in which the state withdraws more and more from social funding programmes, so corporations will have a vital role in bridging the divide between rich and poor, between the digital “haves” and “have-nots”.

As far as Britain is concerned, this more integrated EU need not be seen as a threat. In particular, fears that Britain’s special relationship with the US will be damaged are unfounded. I welcome Charles Grant’s vision of a strong relationship between the US and the UK, and wholeheartedly share his view that Britain’s involvement in the EU can act as a basis for strengthening rather than weakening this relationship. Some people still suggest that the UK needs to choose between Europe and the United States, sometimes even arguing Britain should join NAFTA, but this really is old-fashioned thinking. Far from being a zero-sum game, Britain’s trade has risen substantially with both Europe and North America during the period in which the UK has belonged to the EU. Many of the American chief executives I speak to cite the value of Britain’s EU membership. Playing a reduced role within the EU, or—worse still—contemplating withdrawal, would threaten not only Britain’s trade across the Channel but also trade across the Atlantic.

An enlarged and more integrated Europe is already becoming a day-to-day reality for business. A move away from this seems to me to be neither practical nor in the interests of EU members (the UK included) and applicants. Charles Grant rightly contrasts the prospect of ‘the marginalisation of Britain’ with the vision of ‘a Britain which counts’. If this pamphlet can help to focus the debate so that we move towards achieving the latter, it will have fulfilled a very valuable role.

