



CENTRE FOR EUROPEAN REFORM

policy brief

After the Brussels summit: what next for the EU?

- ★ The EU's failure to reach agreement on a new constitutional treaty is a damaging blow to its credibility, but it does not trigger a full-scale crisis. EU enlargement can proceed on time, on the basis of the Nice Treaty's decision-making arrangements.
- ★ Elections later in 2004 in Spain, and possibly also in Poland, may take some of the heat out of the argument on voting weights. But if governments opt for a long delay in resuming negotiations they run the risk that countries will want to re-open debates on many issues apart from voting weights.
- ★ The next few years will see further acrimony as the EU must agree on a new budget package by 2006.
- ★ A Franco-German attempt to establish a 'core Europe' is unlikely to succeed. But various leadership groups, where different groups of countries decide on closer integration in different policy areas, are likely to emerge.

What went wrong?

The manner and speed at which the Brussels European Council collapsed took most observers by surprise. Heads of state and government had arrived on the morning of Friday December 12th, expecting negotiations to last until late on Sunday 14th. In the event, the Italian presidency called a halt to proceedings on midday on Saturday, after concluding there was no way of breaking an impasse over voting weights.

With the benefit of hindsight, this failure seems less surprising. Both Germany and Poland had hardened their respective positions on voting weights in the run-up to the summit, leaving little room for compromise. The Italian presidency had not properly prepared the ground for constructive discussions. Silvio Berlusconi, the Italian prime minister, had promised to keep a potential compromise 'in

his back-pocket', but at the summit itself the Italian team proved bereft of new ideas.

Just as importantly, other member-states were prepared to let the talks fail. For Tony Blair, the UK prime minister, the collapse of the IGC headed off a damaging domestic row about whether to hold a referendum on the constitutional treaty. France had no strong incentive to make concessions, because it can live with the Nice voting arrangements, which give the French the same weight as the Germans. More importantly, President Chirac was keen to make the political point that decision-making with 25 countries around the table is proving increasingly difficult. Following the failure of the Brussels meeting, France has quickly moved to fill the vacuum with its own ideas for a two-speed Europe (see below). Above all, member-states had neither a sense of urgency nor the mutual trust that

would have enabled them to do a deal on an ultra-sensitive issue such as voting weights.

What happens next?

The Irish government, which takes over the EU presidency in January 2004, faces the unenviable task of trying to get the talks restarted. The Irish have sought to downplay expectations of any quick agreement. Irish prime minister, Bertie Ahern, has said he wants to conduct a series of informal consultations and report back to the European Council in March 2004. If the Irish decide there are good prospects for a deal, the EU could reconvene the inter-governmental conference, aiming to reach a final agreement at the European Council in June 2004.

However, Europe's electoral timetable makes it more likely that a deal will have to wait until the Dutch presidency in the second half of 2004. The Spanish are unlikely to shift their position ahead of parliamentary elections in March. Moreover, since European Parliament elections are scheduled for June, and a new Commission President will be nominated shortly afterwards, the temptation for governments will be to postpone real negotiations until the autumn of 2004.

Can the EU reach agreement on the constitutional treaty?

The prospects for a deal on the key sticking-point, the issue of voting weights, do not look good. The Brussels talks broke down because Poland and Spain were not prepared to accept a switch from the arrangements agreed at Nice, which gave them an overly generous number of votes, to a system of 'double majority' voting. France, Germany and others were keen on the system proposed by the Convention whereby a measure would pass if it was supported in the Council of Ministers by 50 per cent of member-states, also representing 60 per cent of the total EU population. Most of the possible compromise packages, such as raising the population threshold to 63 or 64 per cent, or delaying the implementation of the new rules until after 2009, have been floated and rejected by one side or another. The EU is unlikely to stumble upon a new formula which suddenly would satisfy all sides.

The longer the member-states wait to cut a deal, the greater the chances that some will want to re-open parts of the treaty which leaders had supposedly agreed. When Berlusconi brought proceedings to an end, he specified that member-states had agreed on a variety of institutional issues, despite their disagreement on voting weights. Tony Blair in particular will

be keen to 'bank' the gains he made during the summit when the presidency expressed support for the UK's famous 'red lines': the UK was promised there would be no majority voting in sensitive areas such as tax, social security, foreign policy or judicial procedures.

But in the absence of an overall agreement, some member-states will try to re-open some of these issues. France has already signalled it was only prepared to accept that every country would have one commissioner with full voting powers because it expected the IGC to reach an overall agreement. Other countries may want to withdraw concessions, for example by trying to keep majority voting on areas which the Convention's text designated for it. The good news is that the deal between Britain, France and Germany on the terms of the proposed EU operational military headquarters has been accepted by all other member-states and cannot unravel.

Member-states may develop a greater sense of urgency once they get nearer to using the complex Nice voting provisions. Analysts calculate that member-states will only be able to reach agreement on 2 per cent of EU business using the Nice voting rules. If this analysis proves correct – and the EU's decision-making machinery grinds to a halt – governments could become more willing to make serious reforms. But this would still mean a serious delay since the Nice voting system will only take effect on November 1st 2004.

Preparing for the next row on the EU budget

The IGC collapse opens up a turbulent phase in European politics. Over the next year, the EU will argue over power and money while the overall political atmosphere is set to worsen further. The budget debates will again pit Germany, by far the largest contributor to the EU budget, against Spain and Poland, likely to be the largest recipients of EU funds in the next budget package. Germany has warned of 'certain parallels' between the budget negotiations and finalising a deal on the constitution. In these budget negotiations Germany will have important allies. Even before the Commission has presented its own proposals, the six biggest net contributors (Germany, Britain, France, the Netherlands, Sweden and Austria) have already called for a freeze in the funds available. The six countries believe the EU budget should be capped at 1 per cent of total EU GDP – the present level of spending – until 2013, with more targeting on priority areas. Since unanimity is required for any budget deal, this group of EU paymasters is in a strong negotiating position.

In the budget negotiations, the Polish-Spanish axis is likely to break up. Madrid and Warsaw will both try to maximise the overall size of the EU budget, arguing it should be closer to the 1.24 per cent of EU GDP ceiling specified in the treaty. But they will soon start fighting each other for how much money each gets from EU regional funds. However, this kind of shifting alliance, where countries make common cause over a single issue, will increasingly be the norm in the enlarged Union, replacing the strategic partnerships of the past.

Will the failure of the talks lead to a two-speed Europe?

In recent weeks France and Germany have complained loudly about the Polish-Spanish axis, but their own bilateral partnership has become increasingly defensive and self-interested. For decades, France and Germany put together deals that could unite the whole Union, and collaborated on projects to drive integration forward. But this positive dynamic is becoming increasingly rare. While Paris and Berlin often disagree in terms of substantive policies to pursue together, they are increasingly co-operating to defend their own interests against other member-states. The past 18 months have seen a series of Franco-German deals that have alienated other members of the EU, culminating in their joint defiance of the Stability Pact rules at the end of November, just weeks before the Brussels summit.

During the IGC negotiations, Paris and Berlin pushed hard for the 'double majority' voting system against strong opposition from Spain and Poland and some of the smaller member-states. Although the double majority system would be preferable for the Union – in the view of the CER – the bullying tactics employed by Paris and Berlin have won them no new friends.

The French and German governments have reacted to the collapse of the talks by suggesting that small 'pioneer' groups of

countries might have to pursue further integration. But few countries beyond Belgium and Luxembourg will be attracted to join a single 'core Europe' dominated by Germany and France, because they would always be junior partners, dancing to the big countries' tune. Silvio Berlusconi has already signalled his lack of interest in it. Poland, meanwhile, has become wary of the 'Weimar triangle' that was supposed to promote trilateralism between Warsaw, Berlin and Paris. On the other hand, several other member-states would be afraid of being left out of a serious project led by such a 'core Europe'.

The real question about whether a two-tier Europe will develop is not whether some French, German and Belgian politicians want it to happen. The question is whether they can find a major project to do together. At the moment, there is little sign of them agreeing on a big new initiative – for example, in foreign or defence policy (where they need the British), or justice and home affairs (where France and Germany tend to disagree).

The political and legal obstacles to the establishment of a core union within the broader European Union are immense. If Chirac and Schröder seriously tried to build a core, they would probably fail. But they could wreak much damage in the process, alienating a majority of other members, and none more so than the eight Central and East European countries which are about to join the EU. They do not want to be told they are in the outer tier of the club they have just joined. The influence of France – and especially Germany – on Eastern Europe has plummeted over the past year. If France and Germany want to rebuild their reputations, they should avoid talk of hard cores and focus their energy on helping their partners to find a compromise on the constitution.

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