

Challenges for the European Union

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The current situation

In rejecting the draft Constitutional Treaty for the European Union, the citizens of two of the EU's founding members have signalled their reservations. These are rooted not only in domestic policy issues, but also in the fact that they see globalisation and Europeanisation as a risk, rather than an opportunity. Linked with this is their growing unease about an EU which seems to be unaware of its geographical borders.

The supporters of European integration have evidently been unsuccessful in making clear to the citizens that the EU, with its single market, makes Europe a global player in the process of globalisation, with improved opportunities for all. By deepening their economic and political integration, the peoples of Europe are seeking to ensure that they can hold their own in the face of significantly increased global competition – whether this competition be political, economic or cultural. There is thus no alternative to this integration. This message was not conveyed to voters during the ratification process – whether this process took the form of a referendum or a parliamentary procedure; nor were the advantages which the Constitutional Treaty brings in terms of promoting democracy, civil rights and the EU's ability to act internally and externally.

Continuing high unemployment and low rates of economic growth in some Member States, together with the active support given by almost all governments and all European institutions for new rounds of enlargement, have led many people to feel that the speed of this enlargement is overstressing Europe.

These issues of importance to the citizens must not be ignored. At the same time, politicians must reject the illusion to legislate the EU into the hearts of Europeans. I may not like smoking in bars, but it is not up to the EU to regulate this matter. I may not like fatty food, but the EU should not prescribe citizens what to eat.

The French and Dutch have not only stopped the passage of the constitutional treaty, but also, quite probably, the wave of European integration that began 20 years ago with Jacques Delors's drive for the single market. In both France and Britain, an important precedent has been set: proposed changes to the EU treaties that are of any significance will have to be approved by referendum. This means that the chances of the EU agreeing to a closer political union in the foreseeable future are minimal. This halt to the Union's deepening may also signal an end to further widening, to quote Charles Grant.

What must be done now

There is now no prospect of the Treaty being ratified in the near future. Neither can it be "improved" for the ratification procedures still to come. Instead, the aim must be for the Treaty to be retained as a benchmark for future reforms; it should not disappear into the history books. No treaty for the whole of Europe will please all sides to the same degree; it is obvious that there will be controversial elements. But the general direction is correct and the advantages outweigh the disadvantages. The Constitutional Treaty enhances the EU's ability to act, gives the European Parliament more rights, scales down the European Commission, creates opportunities for a common foreign and security policy and anchors a charter of fundamental rights at constitutional level. Without the Treaty, the enlarged Europe will find it more difficult to take decisions.

Once the EU regains the strength to tackle reforms, the provisions contained in the Constitutional Treaty – in particular with regard to majority decision-making – will be of vital importance. Indeed, further

efforts are likely to be needed if an effective Europe is to develop, something on which Germany is more dependent than most other countries. So those countries sticking to their plans for ratification should not be persuaded against doing so.

In the meantime, the European Council could make a few institutional improvements within the legal base of the existing treaties. For example, the heads of government could decide to open decision-making in the Council of Ministers to the public. Furthermore, the governments and the Commission could agree to apply the proposed article in the constitutional treaty that would permit a third or more of the national parliaments to ask the Commission to reconsider a draft law. Even Eurosceptics would surely not object to such measures.

The application of some of the foreign policy provisions would be more controversial, yet the need for effective EU foreign policy is becoming ever more acute. The Commission and the Council of Ministers have started to build an EU diplomatic service, consisting of officials from the Member States, the Council and the Commission. This task needs to be accomplished speedily, so that Javier Solana, the High Representative, has more resources to help him in his role of co-ordinating EU foreign policy. Whether the EU can on an informal basis merge Solana's job with that of the Commissioner for external relations, to create the 'foreign minister' promised by the treaty, is more doubtful. Any attempt to create that post on the legal basis of the current treaties would probably be too controversial for some Member States.

Should it become completely clear that the Constitutional Treaty in its current form has no chance of ratification, a "second try" ought to have greater chances of success, provided that the text is stripped of its complicated legal provisions – in particular concerning the Community policies – creating a more manageable text, which is easier to understand and reduced to the core constitutional

provisions. The other elements of the text can then be regulated by secondary law. The core constitutional provisions should then be put to a referendum in Germany, too.

This process should be initiated swiftly, following the pause for thought which is now obviously needed: in the long run, a European Union based on the structurally deficient Treaty of Nice will neither be able to act, nor will it be sufficiently democratic. It was precisely France and Germany who are largely responsible for this situation, having set the wrong course at the Berlin Summit.

Whether or not the gains represented by further integration can be effectively conveyed to the public depends essentially on the credibility and commitment of politicians. It is the Member States and their leading political figures which are responsible for ensuring employment momentum and job creation and placing the welfare state on a new basis. All too often, Europe serves as the scapegoat for policy mistakes made at national level. The agreement reached in Lisbon, to dynamically shape a Europe unique in terms of economic and research policy, calls for more political drive than is currently in evidence in Germany. The European political class is lacking the resolve to take concrete action. Too much remains on paper only.

The current situation must be analysed and answers provided in several respects:

Firstly, the enlargement which took place in 2004 must receive credible support in public and the considerable advantages it brings in terms of economic, cultural and security policy must be stressed. It was European integration which secured peace in Europe after two murderous wars. This alone makes it worthwhile. Today, we face further tasks and challenges. There is no alternative to Europe as a global player. This does not mean a simple free trade zone. This means building a common market on common rules, it means free trade all over the world and European opportunities in this trading

process. The single market, fundamental freedoms, human rights, security, opportunities in global competition – all of this can only be achieved with – and not without – European integration. Moreover, turbulent regions exist on the periphery of Europe. If Europe were to remain indifferent this would signify the absence of a global perspective.

The era of continuous enlargement, with new countries necessarily gaining full membership, is over for the time being, however. This means significant disadvantages and risks for the stabilisation of the constituent states of former Yugoslavia and thus for the Western Balkan region, which is so important for the security of Europe as a whole. A great deal of creativity, sense of purpose, persuasion and considerable negotiating skills are therefore needed right now – not least for the negotiations with Turkey, a strategically very important partner – in order to offer concrete rights and opportunities for participation viewed by all concerned as a serious alternative to full membership, or at least as a stable basis for cooperation during a very long period of transition.

Negotiations with Romania and Bulgaria have been finalized and completed with the signing of the accession treaties. It is now vital that these two states really do meet the criteria for membership. It is in the interests of all the Member States of the EU to support them in this in every way possible, and in particular to offer help and cooperation, while also exerting the necessary pressure as regards implementation of the remaining reforms in the areas of justice, police, public administration, anti-corruption measures, environmental protection and competition.

With regard to Turkey it is particularly important that, in view of the goal of an open-ended process, alternatives to full membership be considered from the very beginning in the negotiations due to begin in October and set to last more than a decade. After all, it cannot be

assumed that Turkey will be able to take over the whole of the *acquis communautaire* by the end of the next decade, nor can it be assumed that the European Union will have regained the necessary strength to allow it to absorb and integrate this large and heterogeneous country without the risk of becoming overstretched and overburdened.

The Union is neither dead nor dying. The British presidency needs to show that the EU remains a viable enterprise, that it can improve its institutions, and that it is capable of tackling the wide array of challenges that confront it. Above all the Union needs to recognise that in large parts of Europe it is neither understood nor appreciated. EU leaders must deal with the many problems that are piling up on the EU's agenda. These include agreeing on a budgetary package for the next seven years, concluding the Doha round of trade talks, sorting out the future of Kosovo and helping persuade Iran to halt its nuclear programme. The French and Dutch referenda having battered its credibility, the Union needs to show that it can deal with difficult issues in an effective manner.

The French referendum makes it particularly hard for the EU to push ahead with economic reform and enlargement. Many will interpret the "Non" as a vote not only against further accessions but also against liberalisation. Politicians are now talking about stopping the liberalisation of services within Europe and introducing tariffs on Chinese textile imports. Protectionism may give the rich countries some breathing space in the short term, but it is likely to cause considerable damage over the long term. Without courageous politicians and confidence in its own strength, Europe will remain in crisis for a long while yet.

Given the dreadful performance of much of the Euroland economy, the EU has little choice but to continue with economic reform – even though most of the key decisions on structural reform rest with

national governments. Europe needs more than just the realization that the old ways of doing business no longer suffice. It also requires a vision of how to merge the requirements of a globalised and more dynamic world with the accomplishment in the social sphere that we Europeans are rightly proud of. To be truly successful, we must embrace the spirit of reform as a positive way forward, rather than a necessary evil that must be tolerated.

As global competition intensifies, European governments are finally acknowledging the need for reform. In many countries, labour-market flexibility is on the rise. These reforms serve the overriding goal of increasing employment in Europe: an economic and social model that employs less than two-thirds of those who are able to work is not sustainable in the long run.

Consequently, there is no alternative to an intensification of labour-market reforms. Europe's reform agenda, however, cannot stop at the labour market. EU heads of state took a step in the right direction at their mid-term review of the Lisbon agenda when they agreed to focus anew on attractive investment and working conditions, and on spurring knowledge and innovation. But lasting change will only come about through concrete steps, such as the further liberalization of the markets for goods and services.

The European social model of the future will be more selective. Instead of spending huge sums on programs that achieve little more than redistribution among the middle classes, this system should set a few clear priorities. One key focus must be on the provision of work as a means to escape poverty, with strict conditionality attached to social transfer payments. More individual responsibility will also be needed in the spheres of retirement provision and health care. At the same time, transfers must be provided to those whose income falls below a certain level.

In the end, the evolution of the European economy will not only be characterized by a greater reliance on free markets and flexible labour markets, but also by a more focused and streamlined safety net.

These reforms will be national reforms, which the EU can support. Not by setting legal requirements for national social security systems – I am a firm believer in both subsidiarity and the innovative power of different systems coexisting alongside each other. But by providing a forum within which best practice solutions are exchanged. The EU should continue to set a clear framework for sound national budgetary policies, and it should adapt its own budget so as to gear it towards the challenges of the future – not the past. The EU institutions should continue to improve the quality of EU legislation, notably by ensuring proper assessments of legislative proposals.

We do not lack carefully-worded *communiqués*. We lack decisive action: clear priority-setting, follow-up and consistency between policy-areas and actors. This starts at national level: when different German ministries neutralize each other in the Council, I doubt that either German or European interests are served.

What we need are decision-makers that show political leadership in pushing forward and defending the necessary reforms - both at German and European level.