PISM | POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 70 (523), 1 July 2013 © PISM

Lithuania at the Helm of the EU: Regional Cooperation on the Rise

Kinga Dudzińska, Agata Gostyńska

There are expectations that Vilnius will use its six months at the helm of the EU to act as a bridge between the euro "ins" and "outs," as well as between proponents of a growth agenda and those in the austerity camp. There are also hopes that Lithuania will propel the debate on the EMU, Eastern Partnership, Single Market and energy. Warsaw would seem to have much to gain from a Council presidency run in this manner. Yet, Poland's northeastern neighbour is unlikely to fully meet its potential in these areas. Rather, the contribution of the Lithuanian presidency will be to highlight the growing importance of regional forums in EU affairs, something of importance to Poland and a possible new stimulus for Polish–Lithuanian cooperation.

Pivotal Presidency with Little Room for Manoeuvre? Lithuania takes over the Council at the peak of the EU's five-year legislative cycle and with less than a year to go before the next European elections. It will therefore be key to the success of the current legislative programme. With the 2014 election campaign already heating up, however, the Lithuanians will struggle to complete ongoing negotiations in sensitive dossiers or to feed new proposals into the legislative process: these dossiers may well fall prey to MEP grandstanding, particularly in areas of public interest such as data protection, crisis measures and the annual budget for 2014. Even though political agreement between the Council and the European Parliament on the Multiannual Financial Framework 2014–2020 (MFF) was achieved under the outgoing Irish presidency the final parliamentary vote and thus consent to the deal would take place during the Lithuanian presidency. Thus, it cannot be entirely excluded that under the new presidency MEPs could be tempted to flex their muscles at least in the process of ongoing legislative talks on around 70 sectoral acts defining spending on particular EU policies.

Meanwhile, Lithuania's Seimas will hold an Interparliamentary Conference in October in line with Article 13 of the fiscal compact. The inauguration of this new interparliamentary forum ought to allow the presidency to constructively define the role of national parliaments in the EU's integrated budgetary framework. This task might, however, prove challenging due to the rivalry between MPs and MEPs as well as the temptation to further differentiate deputies from eurozone and non-eurozone Member States. Lithuanian efforts to push forward the economic governance agenda will also be affected by the political calendar in Germany. The September parliamentary election there has placed ideas concerning the Economic and Monetary Union—including the banking union and Convergence and Competitiveness Instrument in the form of contractual agreements that include financial incentives—in the EU "freezer" until at least the mid-point of the presidency.

Bridging Euro "Ins" and "Outs"? There are nevertheless hopes that Lithuania will play a strong bridging function during its presidency. Relative calm on bond market means that eurozone members have been less likely to resort to exclusive forms of cooperation requiring confidentiality. This in turn creates some room for a non-eurozone presidency such as Lithuania's to take an inclusive approach to building eurozone economic governance. Lithuania is, however, unlikely to pick up that particular gauntlet. It is more likely to defer to the Council's General Secretariat, particularly in regards to the demanding Economic and Financial Affairs (Ecofin) agenda. This dossier will prove tricky not least because of the stalemate in the Council on the question of deposit guarantee schemes and disagreement on the possibilities to establish a Single Resolution Mechanism.

Rather, Lithuania is likely to use its presidency to strengthen its own ties with the eurozone. Having officially declared its willingness to adopt the euro in 2015, Lithuania hopes to leave the eurozone waiting-room sooner rather than later. Such a timetable would be ambitious, however, as Lithuania has encountered problems with its inflation rate, just as when it first attempted to adopt the common currency. Lithuania, which will likely be the last of the three Baltic States to join eurozone, is therefore expected to use the presidency to enhance its own political clout in official talks with the EU institutions. Thanks to its determination to meet the convergence criteria and join the bloc, Lithuania will gain brownie points for driving off the gloomy atmosphere surrounding the eurozone—credit it could well use to boost its voice in the discussion about the future of the EU architecture.

Bridging the Austerity and Growth Agendas? Even if it is constrained in its role as a bridge between the euro "ins" and "outs," Vilnius seems to have the credibility to lead the debate on eurozone economic governance. Having undergone a 15% decrease in its GDP in 2009, Lithuania is now expecting growth of around 4.5% for 2013. Since 2009, the country has successfully implemented austerity policies based on an internal devaluation, particularly focused on radical public spending cuts (e.g., administration salaries have been reduced by up to 36%). But the continued support for austerity policies under today's centre-left coalition government and Social Democrat prime minister is questionable. Lithuania, which avoided having to resort to EU financial assistance, owes its recovery to the strict reforms imposed by the previous Conservative–Christian Democrat coalition.

The current government thus seems less likely to champion fiscal discipline on the EU level than some may expect. Indeed, the Council decision to remove Lithuania from the excessive deficit procedure should really pave the way for the presidency to act as an honest broker, bridging proponents of the austerity agendas and their opponents in the growth camp. After all, Lithuania is still grappling with a high unemployment rate of around 11.5% as well as with high levels of emigration, and thus shares many of the concerns of the southern euro members. However, its scope to actively bridge the two camps will again be constrained by practical political concerns: it will avoid jeopardising relations with large eurozone members and being pigeonholed as belonging to one camp or another when it joins the currency.

An Agenda-Setter? Lithuania's other priorities are the result of domestic political consensus reached back in November 2011 and expressed in a Seimas resolution. This agenda reflects primarily its geopolitical situation. Lithuania, with its uneasy post-Soviet experience, is naturally interested in strengthening links with the Eastern Partnership (EaP) countries, especially Belarus and Ukraine. Trade between Lithuania and Belarus has been steadily growing and, in the years 2004–2012, Lithuanian exports to Belarus increased fourfold, while Belarus trade with Lithuania tripled. It is also in its vital interest to improve its energy security, given its strong dependence on Russia, and finally to deepen its cooperation within the Baltic Sea Region, particularly through consolidating its partnership with the Nordic countries, which it has identified as an economic example to follow.

Yet, the presidency will hardly have to smuggle these domestic priorities onto the EU agenda. They are congruent with EU priorities to enhance competitiveness and to create a stable and prosperous neighbourhood. Tellingly, the presidency's flagship project, the Eastern Partnership Summit in November, will largely be in the hands of EU institutions and the EaP countries themselves: given the limits posed by the Lisbon Treaty on the Council presidency's role in external action, the signature of an Association Agreement with Ukraine will principally depend on the EU institutions' efforts to convince Kiev to fulfil EU conditions. The presidency will play here only a supporting role. As for the presidency's other priorities, existing EU efforts to integrate the European energy networks and push with work on completing the internal energy market chime with Lithuanian moves to end the Baltic States' status as "energy islands." And EU efforts to complete the Single Market Act I echo Lithuania's position as a small open economy strongly dependent on foreign trade (export stands for around 84% of its GDP).

Recommendations. The significance of the Lithuanian presidency thus lies elsewhere. The sovereign debt crisis has boosted the significance of regional cooperation in the EU—a format to which Lithuania is particularly attached. The crisis has, for instance, consolidated the Baltic States forum, with its members collectively declaring their commitment to the eurozone project. Their focus is in contrast to the four Visegrad countries, which with their different economies and lack of a common stance concerning euro adoption would rather use the regional platform to prevent the marginalisation of non-eurozone members in a differentiated EU. Thus, the Lithuanian presidency could be exploited to build bridges between these regional forums along with a discussion about the regions' possible contributions to stimulating growth in Europe. The joint interests defined by the Baltic, Visegrad and Nordic countries in February 2013 in Gdańsk are coherent with the EU agenda—the single market, energy, transport—but could also provide new stimulus to Polish–Lithuanian cooperation, distracted by the unresolved problem of national minority rights, as well as in the longer term facilitating wider coordination of the CEE countries' interests at the EU level.