



REPORT

THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

IS THIS THE FUTURE OF EUROPE? OPPORTUNITIES AND RISKS FOR POLAND IN A UNION OF INSIDERS AND OUTSIDERS

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EDITOR: RODERICK PARKES

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Editor:
Roderick Parkes

Authors:
Pinar Elman, Ryszarda Formuszewicz, Agata Gostyńska,
Elżbieta Kaca, Dariusz Kałan, Dorota Liszczyk, Lidia Puka,
Anita Sobják, Paweł Tokarski, Patryk Toporowski

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Copy editor
Brien Barnett

Proofreader
Katarzyna Staniewska

Technical editor and cover designer
Dorota Dołęgowska

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Polski Instytut Spraw Międzynarodowych
ul. Warecka 1a, 00-950 Warszawa
phone (+48) 22 556 80 00, fax (+48) 22 556 80 99
pism@pism.pl, www.pism.pl

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Summary

More than any other Member State, Poland feels the dangers of the separation of the EU into insiders and outsiders. The country's economic, political and security standing is bound up with its further integration into a strong European Union, but the intrusive reforms being carried out to restore the Eurozone risk excluding not just it and other non-euro members but the arc of states to its east. Poland has thus fallen victim to 2004's "incomplete enlargement" of the bloc.

So far, Poland has enjoyed sympathy and support from euro members such as Germany, and as a "pre-in" to the currency has been entitled to co-define the development of Eurozone governance. However, its EU partners appear increasingly intolerant of its demands for inclusion. When it ratified its EU accession treaty, they argue, Poland undertook to join the common currency. If it wants to ensure that it is included in decision-making, Warsaw simply needs to re-commit with a firm roadmap.

This assertion that Poland's European dilemmas can be solved simply by winning over a sceptical domestic public and re-committing to the euro is cheeky. For one thing, the division of the bloc into insiders and outsiders stretches far beyond the Eurozone question. Poland remains structurally behind in a wide number of EU policy areas and institutions. Further, these dilemmas cannot be solved without the support of the "incumbents." The move by EU governments to try to unilateralise Poland's problems is disingenuous.

Nevertheless, the onus is on Warsaw to show other European governments that efforts to accommodate Poland are in their mutual interest. The present collection of essays tests out three such possible approaches. With the increased emphasis in the European political debate about the EU's role in international affairs, and given the importance of further EU enlargement for Poland, each approach stresses different aspects of the EU's makeup as an international actor.

- The first, *Laboratory Europe*, dusts off the old idea of the EU as a laboratory for globalisation, generating local solutions to dilemmas mirrored on the global level. The essays on energy policy, economic policy and a political union suggest that Poland has much to gain from an EU agenda focused on integrating catch-up countries into Western institutions and resolving tensions between catch-up and wealthy post-industrial countries. But the essays also highlight the political hurdles—the question of what incentives Poland has to offer western members to support its catching-up, and the implications for Poland itself of one day having to accommodate newer Member States such as Ukraine or Moldova.
- The second, *Acquisitive Europe*, highlights the new prevalence of hard economic and geopolitical interests in the EU's enlargement and neighbourhood policies, suggesting that the EU may begin expanding geographically so as to gain resources and markets. The case-studies on EU budgetary policy, enlargement and ENP show a potential advantage for Poland in harnessing this trend: Eurozone members may be more accommodating towards Warsaw if they understand that they, too, can gain from its economic health and geography. Still, Warsaw would have to take care that this interest-led approach does not in turn undermine the EU's institutional and normative integrity.
- The third *G-Whatever Europe*, echoes the recent trend at the global level to fill the power vacuum by means of ad hoc, goal-oriented coalitions of the willing (the formation of so called G-Whatever groups). The EU, established in order to diffuse power amongst European states, is now struggling to create critical mass for action in numerous spheres. This gives Poland an excuse to harness other actors through coalitions of the willing, thereby minimising the country's exclusion from mainstream

cooperation and improving the EU's capacity for action. Yet, case studies of the External Action Service, the Visegrad group and the fragmentation of popular opinion warn that Poland may thereby add to the disintegration of the bloc as well as give larger players an excuse to sideline it.

Given the pros and cons of each mode of action, the answer for Poland probably lies in pragmatically harnessing these three sets of ideas, borrowing from their various logics in a way that most convincingly supports its interests.

Poland: The (Success) Story So Far

Anita Sobják

In the midst of a whole series of accelerated changes in and to the EU, Poland's role in the Union has undergone a spectacular evolution. For anyone who had not earlier noticed this process, last year's crisis-dominated European debates certainly made it clear. As only a narrow circle of Member States seem to be setting the pattern and rhythm for shaping the future track of the EU, Poland has so far been able to keep up with them. Yet with the change of both the domestic and European setups, Poland needs to rethink its strategy to maintain its European profile. For this, a number of questions need to be clarified: what are the roots of Poland's recent advancements? What is the Polish vision of the future Europe and where does it see itself in it? What are the potential obstacles standing in Poland's way of reaching its objectives? What are the stances of other Member States towards the Polish project?

Poland's Changing Role and Its Catalysts

Throughout the debates about EU crisis management and reform, Poland's desire to be part of the most vital decisions has been clear. While its ambition to rank amongst the main voices of the EU is not entirely new—it has been there ever since accession in 2004—it has only recently gained legitimate expression at a time of considerable contrast between its relative domestic stability and European instability. This constellation has enabled Poland to reveal its potential at precisely the time when the stakes are highest. As the Polish premier Donald Tusk puts it, "If you are not at the table then you will find yourself on the menu." This is today the underlying Polish rationale for "more Europe," a goal for which Poland has been arguing more consistently and vocally than any other Member State.

This constellation is not, however, a fleeting historical accident. The following long-term developments can be identified as catalysts of the increasing significance of Poland on the European scene: a consistently good economic performance; enduring political stability; historically-determined assertiveness; the opportunities delivered by holding the EU Council presidency; and finally the EU crisis.

The first factor—the solid performance of the Polish economy during the crisis—was underpinned by sound macroeconomic policies that in 2009 made Poland the only EU state to record positive growth in GDP. Solid resistance was kept up until 2012, when the impact of the crisis finally became perceptible in Poland as well. Naturally, there is more to this than a sensible crisis-management strategy. Poland has doggedly pursued economic transformation during the past 20 years and has had uninterrupted GDP growth in these more than two decades. It has also made the best of its accession to the EU. The common market opened the doors for barrier-free trade with Member States and the successful use of generous allocations of European funds (Poland has the highest absorption rate for funds in the EU) made the country the largest net beneficiary of structural funds.

Poland's success in weathering the economic crisis contributed, no doubt, to the 2011 re-election of the pro-European coalition led by Donald Tusk from the party Civic Platform (PO). This was the first instance since the regime change that a Polish government had been re-elected. After a serious discrediting of the left in the early 2000s and then two years of conservative rule in 2005–2007 characterised by sometimes strained EU relations, the centre-right PO government brought a change of track. Today, the present government is facing increasing criticism on grounds that the reform pace has been too slow, especially in certain, mainly social issues, while the more Eurosceptic opposition is gaining ground. Yet this does not

change the overall positive European assessment of a six-year tenure that is considered to have set Poland on the track of sustainable development and transformed it into a predictable international player.

Delving further into the history of today's Poland, a third factor becomes clear—historically defined assertiveness. Poland has been consciously serving as a role model since as early as the 18th century when it adopted the first written constitution in Europe (and second in the world following the example of the U.S.). During the period of Soviet domination, the country was a forerunner in the Eastern bloc in terms of opposition and was amongst the first countries to set off on the road to a transition to democracy and market capitalism. As such, its current aspirations of political leadership can easily be seen as a logical sequence of Poland striving to overcome constraints of past legacies and excel in the region.

The EU Council presidency held by Poland between July and December 2011 also came at an opportune moment. Even if many of its proposed priorities were overshadowed by developments in North Africa and the Eurozone's troubles (jarring because of Poland's traditional focus on the EU's eastern neighbourhood and its non-membership in the monetary union), Warsaw succeeded in making its voice heard and providing sound management of EU issues. The presidency is usually perceived as a coming of age for EU members, bringing a taste of political influence and leadership at the European level, coupled with an expectation of consensual behaviour and neutral deal-brokering.

The presidency marked, in other words, a test of the Polish political elite and administration as well as a big leap forward in terms of their Europeanization, a process that was begun rather than completed with the 2004 accession. More importantly, perhaps, the increased public attention during the presidency towards Poland's role in the EU—coming on top of the proven membership guarantees in the form of EU funds, freedoms, etc.—delivered some positive imprints on Polish public opinion at a time when support for the crisis-ridden EU had been abating continent-wide. On the back of these strengths, it is clear that the economic crisis in its initial phase has served as a springboard for Polish ambitions, highlighting the contrast between the shallow resistance capacity of certain older Member States and the enviable stability of the Polish standing.

Visions and Ambitions

How does Poland intend to make use of these strengths? Straight off, due to its size and relative political and economic weight, Poland wishes to become an informal regional leader, building coalitions wherever its interests dictate. Some, especially small neighbours view such ambitions with a degree of suspicion. Nevertheless Poland is supportive of the various regional initiatives serving this purpose, while acknowledging both their lack of congruency of positions on many issues, as well as its own limitations to play such a leading role.

But Poland is aiming higher and sees its position on a regional level as providing a more secure status for the country in the EU. It is striving to accede to the inner circle of EU decision-making. And its relative success was highlighted by its participation in 2012 as the sole newer Member State involved in drawing up a report by the so called Future of Europe Group, consisting of a select group of 11 foreign ministers. Warsaw also has a quite clearly shaped idea of what the future of Europe should look like—consequently and effectively advocated by political elites here.

The core idea is a further deepening of European integration in an inclusive manner, one achieved within the current treaty framework and which avoids institutionalizing divisions. This implies that the Economic and Monetary Union needs to be enforced without disintegrating the EU. Poland is only ready to accept temporary divisions for the sake of rehabilitating the Eurozone. Such staunch determination does not take much to be explained. Poland's recent development has been to a large extent fostered by the European integration process, and due to the present scale of the country's embeddedness in European economic structures, the Polish

future is tightly bound to that of the EU and the Eurozone. It is enough to think of the benefits Poland has been drawing from the single market, a project severely threatened by the crisis.

Apart from the most urgent economic aspects of integration, as a long-term vision, Warsaw envisages an ultimate political union, although not a European “super-state.” To that end, some prerogatives will need to be delineated that will unalterably remain within the purview of the nation-state, for instance, questions of national identity, religion, public morality, lifestyle, as well as tax policy and social security.

Dilemmas

While the crisis has clearly served as a chance for Poland to broadcast its potential, the urgency of finding both quick solutions to acute EU-wide problems and sustainable reforms has also exposed Poland to pressures it cannot readily absorb as a relative newcomer in the inner circles of the EU. This situation has highlighted some contradictions between the present high ambitions and the burdensome past legacy of the country. These emanate on the one hand from a kind of historical neurosis (the result of centuries-long foreign occupation that translates today into still enduring complexes vis-à-vis powerful European states), and on the other from what may be termed as its still-incomplete EU accession process.

Even though Poland joined the EU in 2004, the accession process did not come to a full stop. Poles still feel they are punching below their weight, as the country’s influence in the EU still does not reflect its size in terms of economic potential and population. For instance, in a web of long-established partnerships and alliances at the European debating table, the newer Member States often still cannot find their place, and hence rely rather on each other instead of establishing partnerships with older Member States. For their part, the older members still prefer to regard the newer states as rather peripheral. As the debate in Brussels started to focus increasingly on euro matters, the dividing line between Eurozone members on the one hand and the “pre-ins” and “outs” on the other became even more clearly articulated. There are concerns that the formal emergence of a “multi-speed” Europe would in fact seal the present hierarchies for good, just as Poland was getting close to bridging the abyss.

Such cleavages explain at least partially the reservation of the old Member States about Poland portraying them as partners of the first rank, and why they continue to look at the rapid emergence of this Central European state with a measure of suspicion and scepticism. They ask themselves to what extent the current Polish foreign and European engagement is stable and to what extent they can consider Poland a long-term and reliable partner.

Poland and the Big Three

Germany has been the most determined advocate of Poland’s Euro-Atlantic integration, and since accession the pair have also become key economic partners. In terms of politics, Germany recognises Polish achievements and is heading towards a shift in its traditional perception of Poland. However, it still underestimates the importance of bilateral trade with Poland, the volume of which actually exceeds that of German–Russian trade. It is also important to note that Polish European policies largely converge with German priorities. On balance, it could be claimed that while Polish–German relations are on the rise, asymmetries remain as Poland affords more importance to its German partner than it gets in return.

France has conventionally been one of those Member States sceptical towards Poland, deeming it an insufficiently interesting partner for substantial cooperation. However, a recent change of government and weakening of French economic power leading to a diminishing bargaining position vis-à-vis Germany are among the factors encouraging a French open-door policy towards non-Eurozone states such as Poland. As such, despite the persistent French preference for intergovernmental forms of European integration and despite divergent views on numerous EU policies, such as the internal market or climate policy, France has been more

receptive towards Poland as a partner in negotiations on issues such as the new financial perspective (particularly Common Agricultural Policy), and nuclear and defence cooperation.

With the UK, meanwhile, Poland has traditionally maintained close bonds, underpinned by common perspectives on issues such as enlargement and the internal market. Recently, however, the UK has been demonstrating consistent obstruction to EU reforms and increasingly is voicing its wish to renegotiate the terms of membership. Such trends are driving a wedge between Warsaw and London. At a time when the UK seems to accept isolating itself rather than compromising, it is viewing Polish engagement in forging an ever more-integrated Europe with suspicion—not to mention Europe-wide speculation that Poland might at least partially fill the political void in the unfortunate event of a loosening of British ties with the EU.

Poland's ability to master such tectonic shifts in its external relations are the key to accomplishing its European strategy. If Poland wishes to promote further European integration in the face of an expected rise of Euroscepticism after 2014's European Parliament elections, it must instrumentalise its relations to those with the loudest voice in the decisions. As long as it remains outside the Eurozone, France and Germany will still constitute the primary channels of the influential core, whereas the UK can serve at best as a healthy counterbalance to their ambitions. During the crisis, with its creditable economic achievements, Poland succeeded in registering their attention. But for substantial and long-term partnerships there is still much room for Poland to improve its overall influence.

Conclusions

During the past few years, Poland's own positive long-term performance coupled with an unfortunate European conjuncture has significantly improved Poland's international standing. Today, this contrast is fading: at home, the Polish government is struggling to deliver on its promises of reform, while the EU claims to be on the mend, with or without its own much-needed internal reforms. In order not to lose its recently-accumulated political capital to the changing national and European political climate, Poland needs to urgently deal with a number of issues, not least, to further converge its economy with the EU (Polish GDP per capita is still only 65% of the EU average); overcome its own complexes regarding the role of so called "new" Member States; and, regardless of domestic changes, continue with a convincing and self-assured foreign policy that will, with time, persuade its most relevant partners of its reliability. But even if Poland diligently keeps to its present track, the question is how long its web of partnerships will suffice to guarantee it a seat in the inner circle—that is, how long can this format be sustained without Poland formally belonging to the inner circle, which for the time being seems to be the Eurozone.

Poland and the European Union—Three Ideas of the Future

Roderick Parkes

As the previous chapter shows, the EU's eastern enlargement was famously incomplete. At the point of accession, the 10 newcomers remained outside core facets of cooperation, not because of UK-style opt-outs and hard-won derogations, but because they were deemed unready for full membership. The last decade was a period when "differentiated integration" was still perceived as an inclusive format, permitting an *avant-garde* of states to press ahead in an area of policy whilst leaving the door open to more hesitant or less advanced members to join later. The result, as we now know, was the reverse—a series of projects based on shaky foundations that have subsequently been shored up to the exclusion of others. Rather than a decade of consolidation, which many expected after 2004, the last decade has seen a massive but uneven leap in European integration.

For Poland, the EU has thus always been associated with a certain exclusiveness, and even today, full membership remains elusive, notably thanks to the emergence of a Eurozone core. If the distinctions between "insiders" and "outsiders" are now receding somewhat it is only because membership has become such an ill-defined concept and the difference between an EU member like the UK and a non-member like Norway is increasingly hard to distinguish. But this makes the situation perhaps more critical for Poland than in the run-up to its accession or at the height of the Eurozone crisis when fundamental questions of loyalty and commitment were being posed. Warsaw today faces the prospect of either being straight-jacketed into a Eurozone hard core that does not properly reflect its interests, or finding itself consigned to the EU's fuzzy periphery.

This may sound like an abstract problem, but it is anything but. Poland faces very tangible challenges. It must make sure that its European commitment remains credible (other members are unlikely to turn a blind eye to its pledge to join the euro as they seem to be doing with Sweden); it must minimise the growing hurdles to its potential Eurozone accession (for example, by making sure that the demands to bail out other members would not cripple it if it did join or that the current Eurozone members do not create a system of economic governance in closed intergovernmental mode that exclude it); and it must block developments that could already make life in the EU uncomfortable (a banking union that does not account for the Polish subsidiaries of large Eurozone banks, or the emergence of a budget for the Eurozone), all in the face of domestic scepticism about the country's eventual Eurozone accession.

Such dilemmas are increasingly viewed in other Eurozone capitals as a problem *raison d'état*: if Warsaw wishes to solve its Eurozone dilemmas—to maintain its political credibility and ensure its inclusion in decision-making—all it needs to do is commit to join the currency. It is the job of the government in Warsaw, they say, to win over a nervous population and come forward with a clear accession roadmap. This readiness on the part of its Eurozone partners to reduce Poland's dilemmas to a unilateral problem may be objectionable to Warsaw. Still, it is up to Warsaw to persuade other governments that its dilemmas are mutual. This collection of essays marks an attempt to mutualise Poland's euro dilemma, generalising it as a problem of insiders and outsiders. On this basis, it sets out three ideas of European union that might offset the pressures facing Poland: "Laboratory Europe," "Acquisitive Europe," "G-Whatever Europe." Each set of ideas stresses the EU's role as an international actor.

An International Perspective

Of course, this attempt to present Poland's euro dilemmas as part of a more general systemic problem within the EU is nothing new. Sympathetic commentators have conceptualised them as an (unusually severe) case of a common problem: Poland is experiencing its own version of the classic trade-off between enlargement and deeper integration. Warsaw needs the EU, and particularly the euro members, to deepen their cooperation in order to stave off the crisis and remain a force to be reckoned with; yet, it also wants the bloc to retain its openness not just towards euro non-members such as itself and a whole arc of countries to the east that were left out of the bloc in 2004 (another aspect of the "incomplete" eastern enlargement). However, one Eurozone foreign minister likes to point out that even if widening-vs.-deepening is a common dilemma, Poland's problems are unique: all Member States want either a deepening of integration or a widening, but Poland is alone and isolated in wanting both.

All the same, the widening-vs.-deepening concept is not a political dead-end for Poland when it comes to arguing its case in Europe. Such ideas are useful because they expand the picture away from the internal mechanics of Eurozone decision-making and highlight the EU's broader nature as a tool of international relations. This is helpful because international shifts are at the heart of Poland's insider-outsider dilemmas: Poland gained accession to the EU thanks to one shift in the global situation (the end of the Cold War), and now it risks being excluded from full membership thanks to another (European decline and the onset of multipolarity). The European Union has actually had to adapt to three such shifts (the first being the end of the Second World War) each has brought its own logic of deepening and expansion, inclusion and exclusion. Poland may find an advantage in revisiting the narratives and rationales that underpin each, picking and mixing as it goes.

In the past 50 years, the European Union has helped its Member States adapt to three successive global situations—the post-1945 context of a devastated Western Europe situated between an increasingly hostile U.S. and USSR, the end of the Cold War and the challenges of Western-led economic globalisation, and now multipolarity and the relative decline of Western power. It thus began as a "community of law," founded in order to re-establish relations between mistrustful West European states under a U.S. umbrella. From there, the EU became a "union of prosperity" with the 1992 single market agenda as it faced up to the ambiguous benefits of Western-led globalisation. Now it is emerging as a "global actor" designed to permit EU states to become a coherent pole in a multipolar world, and to offset the decline of U.S. power and global institutions through greater cohesion and capacity for joint action ("actorness").

The community of law was about diffusing European power, with the original six members of the European community re-establishing trust through a system of mutual control and interference. By giving each other a say in their domestic policies and creating robust common institutions, they hoped to put an end to mutual aggression. This policy of checks and balances was carried out not least through a process of regional enlargement. Indeed, there has long been an assumption that this mode of diffusing power can be sustainable only if it spreads and spreads—otherwise, it will become prey for other powers. However, this law-based model of international powerlessness was undermined at the latest in the 1990s by a regional situation that privileged hard economic interests over normative concerns. And today, as the U.S. umbrella recedes further, the model of European powerlessness is colliding with the difficult realities of geopolitics.

As to the union of prosperity, it came into its own in the 1990s, with the emergence of new markets and competitors in both the EU's immediate surroundings and globally. With the U.S. still undertaking the heavy-lifting when it came to international security, the principal challenge to Europe from global interdependence, and the principal form of its international influence, was now economic. The single market was thus deepened so that the EU could assert itself globally, a means of help the Member States cope with the fiercely competitive rules

created by institutions such as the World Trade Organisation. And the single market was expanded eastwards to offset regional competition, proceeding into Central Europe on the basis of a rather acquisitive and protectionist logic. Today, though, the regional economic disparities that once made eastern enlargement both necessary and relatively straightforward are causing indigestion problems.

The third and most recent agenda—Europe, the global actor—has developed with the recession of the U.S. umbrella, the emergence of other regional powers such as the BRICS states, and a relative increase in expectations about Europe's capacity to meet its international responsibilities. Contrary to the earlier European desire to create common institutions in order to diffuse power and to spread this system by a creeping process of enlargement, the EU as global actor seeks to channel and centralise the influence of its members. Moreover, although the size of the EU's economy is still cited as the basis of its international relevance, today there is a growing understanding that economic power does not necessarily translate into political power. Rather than expanding the EU's market size to increase its international clout, as under "prosperity Europe," here enlargement is slowed so as to increase the bloc's cohesion.

The EU thus consists of three rather different international organisations, which thus differ from one another, not least in their notion of power, their geographical scope, their logic of international action, and their logic of inclusion and exclusion. Each, however, remains relevant to today's world. The question here, therefore, is how to combine these three logics of integration and expansion so as to suit Poland. This collection of essays renews the three sets of ideas underpinning the EU and repackages them as follows:

G-Whatever Europe: today's global system is characterised by a *de facto* diffusion of power, with international institutions rendered increasingly ineffective by veto-players and by a failure to gather a critical mass of states to undertake action. In this context, the original idea of the European Union as a "community of law" is being dusted off again and sold as a blueprint for solving these problems. European politicians are vocal about the EU's role as pioneer when it comes to dealing with networks of non-state actors, with intra-regionalism and with private-public partnerships. And yet, they have struggled to show precisely how the EU's *modus operandi* might offer a solution. This is unsurprising. Today's global challenge is actually the reverse of the one for which the EU was created. If the EU was set up in a bid to diffuse power. What is now required is an effort to mobilise that power.

Instead of offering the rest of the world lessons, the EU might learn something. On the global level, governments have countered the diffusion of political power by forming ad hoc coalitions under the heading "whatever works"—a so called G-whatever approach. If Poland wishes to prevent its exclusion but alleviate the EU's paralysis, it might apply this kind of G-whatever approach to Europe. Under this heading might be included efforts to increase the Polish presence in EU institutions, thus creating a stronger link between the centre and more local forms of power; greater resort to sub-EU forms of action, including renewed investment in the Visegrad format; and an effort to harness other forms of power in the EU, such as the cooperation between the so called Big-Three of France, Germany and the UK.

Acquisitive Europe: the European Union as a "Union of prosperity" has been struggling ever since the bloc's economy entered its deep crisis. As a result, the EU is said to be becoming more obviously acquisitive in its relations with its neighbours, with the bloc said to be pursuing an expansionist policy led by its economic and geopolitical interests. This is a reaction to a Russia and China asserting their geo-economic interests in the Western Balkans, Arctic and EU eastern neighbourhood. The result is a more openly mercantilist policy of access and inclusion towards countries such as Ukraine, focusing on regulatory approximation and offering partial access to the EU's internal market for goods, services, capital and labour in return for large concessions. The EU is expanding the reach of its cooperation into its eastern and southeastern neighbourhoods in order to gain resources.

And yet, this approach has not been extended to a certain class of state outside the EU's core—Poland, Sweden, the UK, Iceland, Switzerland, and Norway—despite the fact that they

share the EU's standards and can boast of important geopolitical resources or growth potential. If core Member States adopted a more acquisitive approach towards them, easing their access to the core, it could help restore the EU's fortunes, in turn improving the EU's capacity to assert its norms locally and globally. Or, in the Polish perspective, an aggressive effort on the part of the EU's core members to draw Poland in would allow Warsaw to cash in on the country's current economic health. Warsaw would encourage euro members to reduce the hurdles to joining the common currency (lower bail-out liabilities; concessions on the exchange-rate mechanism) and to benefit from its growth potential through targeted investment (energy, cohesion policy).

Laboratory Europe: the EU has yet to develop a clear sense of purpose for its role as "global Europe"—it has no answer to the question what agenda should underpin its efforts to channel Member State priorities onto the international stage. However, the narrative of Europe as a laboratory for globalisation is well established, and could again serve as a guiding logic. The EU's efforts to solve collective action problems amongst its members increase its internal cohesion as well as its capacity to solve parallel international problems. There are clear parallels between the European Union's internal dilemmas and the broader global situation. The bloc is displaying the same tensions between wealthy indebted states and catch-up powers, and the same challenges of integrating newcomers into shared institutions.

At the top of the bloc's list of priorities for Laboratory Europe would therefore be those internal problems that mirror global dilemmas. This would see the EU concentrate on at least two challenges of interest to Poland: first, ensuring the integration of catch-up powers such as itself into existing Western institutions (focusing on the integrity of the bloc's supranational institutions; the continued openness of Eurozone institutions; the prevention of the External Action Service's domination by large Member States; defusing east-west tensions in the EU), and, second, overcoming tensions resulting from resource disparities and the differing degree of its members' economic development (energy and climate policy; economic and budgetary policy; north-south-east relations).

I. Laboratory Europe

Energy: Can Greening Be Reconciled with Blacking?

Lidia Puka

The EU's new Member States have taken an active stance towards European energy-security mechanisms, such as the Regulation on the Security of Gas Supplies. On the overriding question of climate policy, however, they have often been reactive. In the opinion of many European environmentalists, Poland in 2012 "defied" European climate policy. It opposed the introduction of a binding obligation to raise the benchmark for average EU greenhouse gas emissions from 20% in 2020, to 30% by 2030 (as compared to the 1990 levels). And it refused to give political significance to the European Commission's Communication "Energy Roadmap 2050,"¹ which presented five strategies towards the low-carbon transition of European economies. This was viewed as indicative of Poland's, and the new Members', role as laggards. In reality, however, Poland's actions were indicative of a broader split on the EU's emerging energy policy.

Certainly, there is a set of features that the new Member States share, such as lower *per capita* economic performance, lower levels of market integration and energy interconnectivity, lower societal environmental awareness, and a lower stage of development as regards clean technologies (such as energy efficiency and renewables), as well as a greater emphasis on the principle of "solidarity" (understood sometimes as support for their transition)—as compared to the most integrated northwestern Member States. Nevertheless, the cleavage between the "new" and "old" Member States is not definitive, and does not demarcate "insiders" and "outsiders" in this policy area. The conditions that matter are far more complex, shift from issue to issue, and range from an individual country's energy mix to the popularity of its green parties. At present, there is a widening cleavage within the EU between fossil-fuel dependent and crisis-hit Member States on the one hand, and the more environmentally cautious, clean-tech exporters, on the other. The bloc's transition to a low-carbon economy has been undermined by economic crisis.

All the same, the current conditions, although extremely challenging, do leave room for action for a Member State or States ready to speak on behalf of the Eastern and Southern European group, and to bring to the table constructive proposals, as well as the most cost-efficient solutions for reducing the carbon intensity of the European economy. Actions made by the Eastern European countries to lower the energy intensity of their economies could, for instance, become best practices amongst all transition states—an aspiration shown in 2012 by Poland when it submitted alternative ideas for the European transition towards a low-carbon economy in the paper "Lines to take"² and in the "Polish policy paper on the future of the ETS up to 2030." The main argument is that European climate policy must be developed in relation to the global development of climate policy, in order to avoid carbon leakage. Moreover, it highlights the need to prioritise market regulations, and energy efficiency as the most cost-efficient measures to implement climate policy. The "Lines to take" paper argues that Poland can provide a model for economic development in which greenhouse gas (GHG) emissions drop and fuel poverty is avoided.

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Energy Roadmap 2050," 9 March 2012, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011DC0885:EN:NOT>.

² English version available at: www.mg.gov.pl/files/upload/17109/Lines%20to%20take_klimat_energia_clean_final_pl.pdf.

Greening or Blacking EU Energy Policy?

In March 2007, all Member States agreed on an energy policy that included the so-called 20-20-20 climate targets for reducing energy consumption and GHG emissions, and increasing the role of renewable energy sources in the global energy mix, all by 2020. The strategy was underpinned by a European market mechanism, namely the Emissions Trading System, introduced in the Energy and Climate Package of 2009. On the request of the coalition of Poland, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia, a solidarity principle was introduced, in the form of the differentiation of the ETS mechanisms, thus giving time for systemic adjustments. Nevertheless, the package created was ambitious and set high goals for all of the then 27 members.

Since 2009, the conditions that led to this package have undergone a qualitative change, and the agreement reached in the pre-crisis context has turned out to be unfeasible in the mid-crisis realities of 2014. Even the most ardent supporter of climate goals, the European Commission, has now acknowledged the importance of economic concerns for energy policy. Energy Commissioner Guenther Oettinger has put forward the idea of a fourth pillar of the 20-20-20 policy: that energy businesses should contribute 20% of the EU's GDP. The reasons for the shift from climate to economic goals are clear. The economic slowdown hit in the middle of the process of policy development—at the stage of making investments, rather than generating profits. As a result, many Member States have been put off from implementing EU policies deemed not to be economically viable, making the fulfilment of the 20-20-20 goals even more challenging.

So far, the target of reducing GHG emissions has the brightest prospects, precisely due to the economic slowdown. The success of the reduction, though, is perceived by the European Commission rather as “a temporary interruption” in the long-term trends of rising GHG consumption than a result of the implementation of tailor-made measures.³ Poland is likely to meet the 20% GHG target, though problems will arise for Spain, Portugal, Greece, Ireland, Austria, Finland, Slovenia, Netherlands and Cyprus. In terms of renewables, for most members except Slovenia and Bulgaria, their share of energy consumption has increased. Moreover, in 21 countries, emissions are still above 20% (with an EU average of 10%).

Meeting the last target, increasing energy efficiency through a drop in primary energy consumption by 20%, will largely depend on the economic performance of the Member States. Between 2000 and 2010, consumption has been rising on a year-on-year basis except for the year 2009—when it dropped due to the economic slowdown. To reach the 2020 goal, there would need to be either a continuous economic slowdown (even in 2009 the consumption level was 9% above the 2020 targets) or a wide-scale implementation of energy-saving measures.

In light of the doubt about the fulfilment of the 2020 goals, implementing the next round of binding climate commitments would therefore come as a serious challenge for the majority of Member States. The Energy Roadmap 2050 estimated that introducing these policies would entail an increase in household energy expenses of 16% by 2030, and as much as €1.5–2.2 trillion in grid investments between 2011 and 2050. Just to put this in scale, this would mean that as much as a third of the EU budget would need to be invested in grid development. Needless to say, the majority of the money would have to be invested in member countries where the grid requires the most dramatic modernisation—including Poland. In fact, in a short-term perspective, these investments could result in a sharp increase in budget deficits and in energy poverty in countries without proper infrastructure, namely in the east. In the south, they could result simply in non-compliance with the goals.

All of this is likely to further dampen the economic recovery and growth prospects in these countries. The poor economic situation has already strengthened the resort to individualism in energy policy decision-making, a trend exacerbated by the timing of changes to the pricing of global commodities—cheaper, and more readily available gas, and coal. In the

³ “Past trends and latest data for the headline indicators of the Europe 2020 strategy,” Eurostat, 1 October 2012, <http://epp.eurostat.ec.europa.eu>.

initial phase, these changes underlined the divisions in Europe, resulting in the “blackening” of some economies and the “greening” of others. Crisis-stricken southern economies, such as Spain’s, shifted towards the short-term lowest-cost option of coal. Meanwhile, some of the older Member States, such as Germany, Denmark and the UK, have moved towards the implementation of national systems of support for low-emission energy sources, often resulting in protection of the national market. Lately, however, the Member States showing a tendency towards “greening” have also started to develop in parallel “blackening” trends. The prime examples are the Netherlands or Germany, where the long-term goal of a low-carbon transition, or *Energiewende*, requires in its early phase the development of new coal-based power plants.

In this context, Poland makes an interesting case study, not as an anomaly but as an illustration of broader trends in Eastern and Southern Europe. In national policy documents, CO₂ reduction and decarbonisation are perceived as challenges and risk factors causing an economic slowdown, rather than creating growth and jobs, as is the case in Denmark. The Polish “Convergence Programme” of April 2012 sees the implementation of the Energy and Climate Package as a risk factor likely to cause negative economic and social implications because of an increase in electricity prices, not least for households, and a decrease in state budget revenues. At the same time, Polish policymakers accurately map the available room for improvement at the national level. The programme thus highlights the low energy efficiency of Polish businesses and the country’s heavy dependence (90%) on lignite and black coal in electricity production. Moreover, the “Polish Energy Policy 2030” plan concedes that even in 2030 coal will remain the main source for electricity and that reductions in CO₂ emissions will be achieved only thanks to the liquidation of heavy industry in Poland. On combating climate change, Poland underlines the necessity of introducing a global agreement in order to ensure the efficiency of European policies and avoid the negative consequences (not least environmental) of carbon-leakage worldwide.

On the other hand, the “Lines to take” paper underlines that the national Low Emission Economy Development Programme works “to create an optimal model of the modern material and energy-efficient innovation-oriented economy, able to compete on the European and global markets [that will include] a mechanism for verification of effectiveness of actions undertaken in global terms”. Once it’s finished Poland hopes that “an identical tool could be used at the EU level for evaluation of the proposals in the area of climate policy, in terms of their global impact.” Moreover, Poland aims to fulfil its 2020 commitments. The “National Reform Programme: Europe 2020” from April 2012 confirms the national goal of reaching 20% of the cumulative primary energy savings as compared to the 2012 level, and CO₂ reduction by 9% in 2016 (as compared to an average of 2001–2006). Moreover, the “Polish Energy Policy 2030” document of November 2009 highlights the potential of energy efficiency. A system of Green Certificates has been adopted via an act of parliament; however, the missing regulation on the side of the government has halted its implementation.

Future Scenarios: Can the Gap Be Bridged?

In light of the above circumstances, the question arises whether consensus in, and thus continuation of EU climate policy is feasible at all. One should not forget that the economic performance of Member States will play a leading role in answering this question; however, this should not be an excuse for passivity.

A hardening of positions is visible on both sides, complicating target-setting and negotiations of energy policy objectives. The energy policy initiatives planned by the European Commission for the years 2013 and 2014 repeat the controversial goals of 2012. The Commission plans to work out a Communication on a “new climate and energy framework for the period up to 2030” that repeats the disputed 2050 Energy Roadmap targets, including the one “to meet [the]

80–95% GHG emission reduction objective in 2050 compared to 1990.”⁴ At the same time, some of the new Member States (Poland, Czech Republic, Slovakia, Bulgaria, Romania, and Hungary) are resisting further changes and are focusing rather on developing indigenous resources and nuclear energy; at the same time, the group of countries that oppose nuclear energy is on the rise and includes Germany Italy, Belgium and non-Member State Switzerland.

As a consequence, a Member State that could take up the role of consent-maker is, and will be hard to find. In the current political framework, no party has really come forward with constructive proposals or ideas to establish a proper toolbox for the implementation of climate policies. However, to position themselves better politically, Eastern European countries should offer constructive solutions. It is thus recommended that Poland develop the optimal modelling for decision-making it mentioned in the “Lines to take,” and to invest in energy-efficiency measures.

There are at least three internal improvements that can be made in order to create a greater overlap of interests. They are not a guarantee of success, but should the EU wait longer, the gap between greening and blacking in the policy arena will be even greater, not only because of Poland’s overt political resistance, but because of the underlying problems of policy implementation for a majority of the Member States.

First, the investment required to achieve the transition to low-carbon, economies in Europe requires the creation of a financial fund of a scale that can only be compared in its scope and size to the existing EU cohesion fund. Even acknowledging savings on healthcare and environmental restoration offered by a successful transition, this is a sizeable investment. For the time being, the EU ambitions are low. Only in infrastructure is the €5.85 billion of the Connecting Europe Facility—the EU instrument for improving the trans-European energy infrastructure during the period 2014 to 2020—going to have a facilitating effect, but it is not sufficient to complete the creation of an energy market in the EU. At the same time, the next set of benchmarks of climate policy cannot be established without clarity about the scale and sources of this financing.

Second, much can be done in a domain which can offer the biggest added-value to the new Member States, namely, energy efficiency. It is generally considered, not least by the International Energy Agency in its “World Energy Outlook 2012,” to be an indispensable condition for the OECD countries (including the EU Members) to meet the challenge of rising global competition for energy resources. The Eastern European countries should see the current challenging situation as an opportunity to bridge the interests of the north and the south, by promoting, sharing, and investing in the technology of energy efficiency.

Third, the problem of a lack of access to clean technologies should be addressed in the selection and co-financing of projects between technology owners and the “new” and southern Member States. Environmental education and the promotion of healthy living are required, especially in the former Soviet republics, to create social awareness comparable to the Nordic countries a generation before.

As the example of the European Coal and Steel Community shows, energy cooperation may prove solid ground for European economic unification. Pooling of interests, and merging climate and energy goals in the current conditions will be challenging, though the costs of uncertainty could be high to bear. Greater focus needs to be put on economic feasibility of energy transition and its impact on competitiveness, with simultaneous support for market integration—the condition to gain economic profit. At the same time, trust needs to be rebuilt, to begin with, via a small step of more transparent decision-making and consultations between relevant stakeholders, including business, NGOs, and societies.

⁴ Point 38 of the Annex to the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission Work Programme 2013, COM(2012) 629 final, Strasbourg, 23 October 2012, http://ec.europa.eu/atwork/pdf/cwp2013_annex_en.pdf.

EMU and Economic Policy: Prospects for an Inclusive Recovery?

Paweł Tokarski

Despite the current considerable relief in the development of the Eurozone sovereign debt crisis, predicting the EU's economic future can be a risky venture. Media continue ruthlessly to give new doses of pessimistic information: potential future bailouts, weakening economic conditions, toppling governments, and the growing risk of social unrest. Therefore, any attempt to define more precisely what happens in a week, month or a year, especially in economic terms, carries a high risk of negative verification or at least randomness of judgment. However, some long-term processes do support the attempt to sketch out the upcoming economic challenges for the EU in the next several decades. These challenges can be described in two blocks. First, the consequences of the sovereign debt crisis for the EMU's architecture, and second, the question of growth and competitiveness.

Sovereign Debt and the Next Steps for EMU

The crisis that spread first to the financial sector and then to the real economy and to sovereign finances, came suddenly, causing confusion and an extreme mistrust of the current model of European economic integration. Although the roots of the current problems can be traced to the other side of the Atlantic (perhaps also to China), EU countries have considerably contributed to its escalation. The largest EU players proved that the bloc's rules can be breached with impunity; it also became clear that "cooking the books" and massive imbalances in the euro area went ignored for years. Despite the unprecedented wave of institutions and mechanisms that were created and ECB interventions, various risks still hang in the air in the form of a triple uncertainty: first, towards certain Eurozone countries, (Greece, Portugal, Spain, Italy and Cyprus); second, regarding the EU banking sector; and third, vis-à-vis the possible *finalité* of the "Genuine" EMU. It seems that we will have to live with a Europe with this uncertainty for some time to come, facing the risk of one or more countries leaving the Eurozone.

Only the wildest optimists can expect that austerity and the structural reforms in Greece will result in an end to the increase in public debt. Sooner or later, therefore, the Eurozone decision-makers, with decisive input from Berlin, will have to decide whether to inject billions more in euros into Greece, give bondholders a painful "haircut," or indeed to prepare for uncontrolled insolvency and the risk of spillover. At this point there is no easy solution. There has long been speculation that European taxpayers would only suffer again when a new coalition government was in place in Berlin, since German policy-makers have been trying to squeeze the progression of the crisis into the electoral calendar, with further crises being unwelcome to the Chancellor. However, it seems also that in a longer-term perspective German politicians will have to make a choice either to maintain the Eurozone in its current form or to keep Germany's existing socio-economic model, based as it is on exports, the lack of automatic indexation of wages, and low inflation.

Ahead of the EU is a very challenging regulatory agenda. It looks as though the most urgent task for the coming years will be mission impossible to interrupt the negative feedback loop between unsustainable public debt and the weak condition of the banking sector without engaging taxpayer money. The creation of something like a banking union will not be easy. It will require the transfer to the supranational level (European Central Bank) of significant powers concerning about €5trillion in household deposits. This sum gives a picture of the main preoccupation of ongoing discussions and just how difficult it will be to conclude them. Such efforts to create a well-functioning banking-supervision system may be an even more serious

task than the creation of the monetary union itself. Due to the political calendar and technical difficulties, it might take from five to 10 years—quite a contrast to the short-term expectations of market players.

It will also be necessary to strengthen fiscal integration and give the European Commission powers to control national budgets; however, this in turn will raise an even greater controversy. A related problem lies in testing the recently adopted economic governance mechanisms in practice, in particular: the excessive deficit and excessive imbalance procedures, as well as the fiscal compact. Another part of the discussion will focus on the extension of power and possible functions of the Eurozone permanent-rescue tool, the ESM. All of these solutions will be discussed under time pressures.

In any case, even if all the mechanisms outlined above are duly introduced and made operational, nobody can guarantee that a crisis of a similar or different form will not reappear in the future, therefore at some point it will be necessary to create an anti-cyclical instrument in the Eurozone that could help ease the possible shocks. That will inevitably provoke tensions with the non-Eurozone countries, since some will view it as an attempt to curb the traditional EU budget.

Nevertheless, the deeper integration of the Eurozone economies seems inevitable, and soon the EU-19 will be the future EU's centre of gravity. When designing the new "Genuine" EMU architecture, the big question mark will be how to respect the interests of the countries outside of the Eurozone, especially the UK and the Central and Eastern European (CEE) bloc. Existing initiatives such as the ESM treaty or fiscal compact do illustrate an important trend: a practical effort to institutionalise a narrow circle of integrating economies outside the rigid EU framework. Most probably this trend will continue, ending with the further separation of the hard core with consequences for the states outside. Yet, it is highly likely that Germany will keep the door to the Eurozone kingdom partially open, as several like-minded countries (Denmark, Sweden or Poland) will stay outside for longer.

The CEE countries should therefore increase the real convergence level by strengthening their economies, facilitating their future accession to the club. Yet, their attitudes towards euro accession may be different. Latvia and Lithuania are seeing their future inside the Eurozone. This contrasts with the reluctant position of the Czech Republic and Hungary, which will not take part in the third stage of EMU in the foreseeable time. Poland is somewhere in the middle and its accession fear is mitigated by the fact that, being an outsider, its influence on the shape of the new Eurozone architecture is strictly limited. Poland does not like to be an outsider. But the game had started before it had been dealt the cards. The latecomers will have difficulties finding a decent place at the table, and it will be an uphill task to overcome the distrust of its citizens and a considerable part of the political class towards the euro.

Growth and Competitiveness

EMU governance reforms and the more recent measures to promote growth are two sides of the same coin. Enhancing economic growth in the EU, with a special emphasis on the southern Member States, will be a key challenge for the Eurozone in the current and next decade. Their success will determine the pace of economic recovery in the euro area and its longer-term sustainability.

Fostering growth among the Eurozone's economic laggards will require long and complex structural reforms and all of these steps will have an adverse effect on the populations in some EU member countries, increase distrust in the authorities, and fuel extreme political forces. Urgent reform of the public sector and (sometimes of the political system) is also a prerequisite for successful economic reform. Countries such as Greece and Spain are not alone with the problem as it pertains also to the CEE countries. To find best practices, though, one does not have to go far, just a couple of hours flight-time to Stockholm, Helsinki or Copenhagen. The Scandinavian public sector, with its strong emphasis on transparency, can be a pattern for

many EU members. A further important example and symbol for the future of the Eurozone might be the Irish case. Its return to the financial markets in 2014 will result in a major surge of confidence.

The Single Market's liberalisation is a key issue to growth generation, as well as in providing a solution to related problems such as transportation or energy bottlenecks. Twenty years after the creation of the internal market, the EU lost its chance to put the elimination of the remaining barriers on the highest point of the agenda. For a single EU digital market perhaps we will have to wait for 25 or 30 more anniversaries. The internal market should rely on powerful institutions that firmly stand guard of common rules. The weakening process of the EU institutions, especially the European Commission is a worrying sign. The Commission cannot only be used for surveillance and punishment, but should play an important, positive role in EU economic governance. Another risk for the Single Market is that sooner or later the deeper integration of the euro area may result in fragmentation as different rules are likely to be created in the financial sector for the euro-states and the others.

Currently, the prospects for faster growth in the short-to-medium term remain low. Given these circumstances, it is very optimistic to expect that the Europe 2020 strategy can actually bring tangible results. A permanent lack of confidence, recession, the lack of vision of national economic policies and unwillingness amongst governments to bear the political costs of reform will cast a shadow on its results. It seems that in December 2020, therefore, the EU strategy will be bade goodbye shyly, without fanfare, as happened with the Lisbon strategy a decade earlier. The new strategy, "Europe 2030," if adopted, will be the last chance for the EU to halt the decline in its importance in international economic relations and remedy the mounting economic and social problems of the EU. Yet, its real impact will also be problematic.

The politics in Brussels as in other capital cities has a short time horizon. This diminishes its ability to address problems that will come up in the next 20 years or more, primarily related to negative demographic trends with potential deadly consequences for the EU economies. According to the European Commission Ageing Report 2012, in 2060 the EU's population will be slightly larger but considerably older than now. The share of people aged 65+ will triple by 2060, reaching 42% of the total population (22% in 2010), while those between 15–64 will decrease from 67% to 56%. This will have not only adverse fiscal consequences (possible collapse of the pension systems in some Member States) but also negative implications for economic growth and competitiveness of the EU to other economic areas. At some point, it will be necessary to redefine the existing social model in many Member States as ageing populations will put unsustainable pressure on national budgets. So far, a large part of the EU membership have introduced some reforms of their pension systems. Nevertheless, some EU members, especially Greece, Cyprus, Estonia and Slovenia might find themselves in serious troubles. This "pension time bomb" may in the longer perspective lead to a sovereign debt crisis 2.0, thus it already requires attention.

All of these factors will contribute to the pessimistic picture of the EU in a comparative perspective. A large portion of economic forecasts predict that the EU's share of the world's GDP will continue to shrink. Global Europe 2050, in the most pessimistic scenario, predicts that the EU, which currently accounts for almost a third of the world's output, will constitute only 15% of the world economy in 2050, compared to China (28%), the U.S. (16%) and India (8%). This dramatic decline will have not only economic but also political implications. The only chance of halting the downward trend may be painful, genuine economic reforms or the vain hope of political and social problems in emerging economies (e.g., in China or India). Due to economic ties, however, even the latter outcome could be a double-edged sword for the EU itself.

Conclusions

The most important task for the current decade will be to stem the crisis in the euro area by reforming national and Eurozone economic governance, reducing imbalances through structural reforms and restoring economic growth. These challenges will not be easy to address as it is not easy to convince some European societies that they should give up some of their social privileges. The difficult process of reforms will continue raising the level of social discontent. As a result, the euro area will continue to be confronted with the high probability of exit for one or several countries, where the population decides to vote for political forces rejecting the golden rule “conditionality for financial assistance” imposed by the German-led group of Eurozone lenders. This may lead to chaotic economic and political processes such as the partial disintegration of the euro area. The EU has much to gain from further economic integration and a lot to lose from disintegration. Therefore we should hope that the logic of common interest prevails over short-sighted political goals.

The reconstruction of the Eurozone’s economic architecture will continue. In the longer term, the emergence of a hard core corresponding to the composition of the euro area is rather difficult to avoid. Countries outside the euro area can seek to minimise the most harmful effects of this process and cushion possible negative impacts on the single market. Yet, it seems that Germany will keep the Eurozone structures sufficiently open to other like-minded countries. Another observable trend will be the further polarisation of the Eurozone into a group of laggards (Cyprus, Greece, Italy, Spain, Slovenia), a Germany-led club of key players (Finland, the Benelux countries, Austria, and a weakening role for France), and a “waiting room” for other countries. The strongest countries will continue to keep discreet but firm control of key Eurozone institutions and mechanisms by taking key managerial positions. The CEE countries that decide to join the euro area will have to stay somewhere in the middle. It will also depend on their economic performance, whether they manage to overcome domestic political obstacles by finishing their painful structural reforms by building solid fundamentals of modern, technology-based, competitive economies or share the faith of the laggards. In this case, the CEE’s economic performance and euro area participation may differ, leading to fragmentation of the region. The key structural reforms lie in the hands of the national governments. Coordination of economic policies is and for a long time would be too weak to force appropriate reforms upon the Member States.

The implications of the Eurozone crisis, which changed its character from acute to permanent, will be managed from election to election, and summit to summit, and will override medium and long-term challenges, such as the necessity to complete the Single Market or to counteract negative demographic trends, which are unlikely to be properly addressed in time. Moreover, the problems enumerated above do not exhaust completely the list of challenges. Important battles for the economic future of the EU will also be played out in the fields of environmental pollution, climate change, energy, education and other social issues, although offering an analysis of this, however brief, would go beyond the scope of this essay.

Political Union: Can the Euro-outs Rely on the Community Institutions?

Agata Gostyńska

The debate about a political union, on standby mode since the fiasco of the Treaty establishing a Constitution for Europe, has been reinvigorated by EU actions to fight the sovereign-debt crisis. The recent shift in the division of competences strictly reserved for national parliamentary oversight and concerning sensitive matters of budgetary policy meant the question would not remain untouched, especially given, first, the insufficient democratic legitimacy and accountability of the Eurozone decision-making process, second, insufficient political leadership to take the EU out of crisis, and third, a lack of political consensus on measures to tackle the crisis, reinforcing the tendency to opt for integration at different speeds.

All of these issues form part of a discussion on the future political shape of the European Union, and could potentially exacerbate distinctions between Eurozone members and non-members. In this discussion, non-euro members, and particularly the bloc's newcomers, have instinctively relied upon the Commission and Parliament to safeguard their interests. Supranational institutions have traditionally functioned as guarantors of the Community interest, and have counterbalanced disparities in weight between individual Member States represented in the Council. It seems, however, a right time to ask whether the Commission and Parliament are living up to their integrative role.

Political Union—A Confusing Notion

The notion of a political union has served different purposes depending on who is referring to it. In German rhetoric, for instance, one of the major components of a political union is stricter budgetary discipline executed from the EU level, accompanied by a democratically accountable decision-making process with increased national parliamentary involvement.¹ The southern Member States, however, see a political union rather as a solidarity platform defending the EU from further economic shocks and neutralising the social costs of painful reforms.² Regardless of what political union means for different Member States,³ it will require an institutional reshuffle and possibly entail the further politicization of EU institutional affairs. Despite papers mapping concrete government proposals,⁴ there are not many that have a coherent vision of a political union from the perspective of the EU institutions. Without an analysis of the European Parliament and the European Commission's positions, however,

¹ See the analysis of Ulrike Guérot, who argues that the development of the notion of a political union in Germany is strictly related with opposition towards fiscal federalisation and debt mutualisation: U. Guérot, "Reinventing Europe: Germany Debates Political Union," European Council of Foreign Relations, 5 September 2012, www.ecfr.eu.

² O. Cramme, S.B. Hobold, "Political Union: A Critical Companion, Not a Federal Marriage," 17 October 2012, www.policy-network.net.

³ It is worth underlining that a report by the Future of Europe Group delivered by 11 foreign ministers, usually referred to in the discussion on the political union, is in fact an expression of the personal thoughts of the report's authors and as such cannot always be ascribed to their Member States: "Final Report of the Future of Europe Group of the Foreign Ministers of Austria, Belgium, Denmark, France, Italy, Germany, Luxembourg, the Netherlands, Poland, Portugal and Spain," 17 September 2012.

⁴ See, i.a., L. Barry, "Towards Political Union: September 2012 Update," The Institute of International and European Affairs, 21 September, www.iea.com; T. Chopin, J.F. Jamet, F.X. Priollaude, "A Political Union For Europe," Policy Paper, Fondation Robert Schuman, European Issues, no. 252, 24 September 2012.

discussion on the democratic legitimacy of the decision-making process lacks a proper foundation.⁵

Moreover, the positions of the two actors cannot be considered separately. Their inter-institutional relationship is based on mutual interdependence arising, on the one hand, from the Parliament's role, *i.a.*, in appointing the Commission President and censuring its activities and, on the other, from the Commission's competence to initiate the legislative process. The relationship thus constitutes a significant piece of the political union puzzle.⁶ This relationship also deserves closer attention, especially by those Member States that have traditionally looked upon the EU institutions as a guarantor of their proper inclusion in the decision-making process.

The European Commission: In Search of Credibility

In recent years, the European Commission's role in economic governance has been much strengthened. The "six-pack" and accompanying "two-pack" legislation, as well as the Treaty on stability, coordination and governance in the Economic and Monetary Union (fiscal compact) extended its powers in the coordination of Member States' economic policies, including enforcing stricter budgetary discipline and correcting macroeconomic imbalances. Concomitant with the acquisition of new powers, the Commission faces a question of legitimacy that will be of key significance if it is to enjoy the credibility of Member States and their societies in executing the new rules enshrined in EU legal acts, such as the revised Stability and Growth Pact.⁷

The European Commission acknowledges this. In his annual State of the Union Address in 2012, President Barroso hinted that selecting a Commission president from the candidates put forward by the European political parties in the next elections to the European Parliament would be a first step towards establishing a real European public sphere, and thus bring the EU's political life closer to its citizens.⁸ On 12 March 2013, the Commission adopted a recommendation on how to strengthen the link between citizens and the EU and thus guarantee full application of the Lisbon provisions on the 2014 elections to the European Parliament.⁹

⁵ Some of the thoughts concerning democratic legitimacy and political leadership developed in this text were also discussed in the author's text, "Przyszły kształt instytucjonalny i polityczny Unii Europejskiej a proces finalizacji Unii Gospodarczej i Walutowej" ("The Future Institutional and Political Shape of the European Union and the Genuine Economic and Monetary Union"), *Nowa Politologia*, 10 April 2013, www.nowapolitologia.pl.

⁶ Art. 17.7 TUE: "...Taking into account the elections to the European Parliament (author's highlight) and after having held the appropriate consultations, the European Council, acting by a qualified majority, shall propose to the European Parliament a candidate for President of the Commission. This candidate shall be elected by the European Parliament by a majority of its component members...;" Art. 17.8 TUE: "The Commission, as a body, shall be responsible to the European Parliament (author's highlight). In accordance with Article 234 of the Treaty on the Functioning of the European Union, the European Parliament may vote on a motion of censure of the Commission. If such a motion is carried, the members of the Commission shall resign as a body and the High Representative of the Union for Foreign Affairs and Security Policy shall resign from the duties that he carries out in the Commission," Treaty on the European Union and Treaty on the Functioning of the European Union, O.J. EU C 326, 26 October 2012.

⁷ This was, *i.a.*, expressed by the Belgian Enterprise Minister, P. Magnette, who asked: "Who knows Olli Rehn ... ?" in response to the Commission's claims on the Belgian government's assumptions on the budget deficit. For more, see: H. Mahony, "Brussels' New Budget Powers Draw First Rebuke," *EUObserver*, 12 January 2012, www.euobserver.com.

⁸ J.M. Barroso, State of Union Address 2012, Plenary Session of the European Parliament, Strasbourg, 12 September 2012.

⁹ "2014 European Parliament Elections: Commission recommends that political parties nominate candidate for Commission President," European Commission, Press Release, 12 March 2013, www.ec.europa.eu.

However, despite describing a vision of the EU as a federation of nation-states in the State of the Union Address in 2012, Barroso did not provide his recipe for political leadership of the EU. It is not entirely clear whether he would personally opt for merging the post of Commission president with that of European Council president, even though some of his Commissioners have revealed their sympathy for this move.¹⁰ Until more details of this idea are known, this concept—supported by some of the ministers participating in the Group on the future of Europe¹¹—raises institutional concerns and confusion on how to combine a role for brokering political compromise between 28 Member States while defending the neutrality of the legislative proposals at the same time.¹²

Moreover, despite the formal increase in the Commission's executive powers, the crisis has favoured a top-down approach to decision-making and resulted in the dominance of intergovernmentalism over the Community Method, which naturally affected the European Commission, too. On many occasions, President Barroso has nevertheless underlined his commitment to the Community Method as the proper tool to fight the crisis.¹³ And indeed, the Commission has defended, hand in hand with the EP, the ambitious proposals covered by the "six-pack" legislation against any Member States' attempts at dilution. However, at the same time, the Commission has appeared to have accepted that the European Project is becoming more and more differentiated and has resulted in a multi-tier EU.¹⁴ Using international law rather than EU treaties as the basis for deeper integration is something the Commission does not exclude, even though it seems to perceive it as a transitional measure before the respective treaty revision can be imposed.¹⁵

The Commission's plans for a political union also envisage strengthening its vice president for Economic and Monetary Affairs and the Euro, possibly giving this figure the charge of running a future EMU treasury.¹⁶ This prominence, occupied presumably by a senior official, would be difficult to reconcile with the collegiality principle that currently governs the Commission's internal organisation. Upgrading the job performed by Commissioner Olli Rehn would certainly reinvigorate the discussion on the necessary reforms concerning the Commission's internal functioning and would probably bring back the issue of the number of Commissioners and their nomination procedure. The more important question that remains open, however, is whether this type of portfolio should be reserved for Eurozone members only. This scenario, which is *prima facie* unfavourable to non-Eurozone Member States, could lead to further EU fragmentation and to weakening the community factor in the decision-making process.

¹⁰ See, for instance: M. Barnier "Towards a New Europe," speech at the Humboldt University, Berlin, 9 May 2011.

¹¹ Final Report of the Future of Europe Group, *op. cit.*

¹² H. Van Rompuy, "Beyond the Institutions: Why Europe Today?," speech at the Europe Conference, "Building the Europe of the Future: Post Crisis Reflections," Copenhagen, 11 May 2012.

¹³ See, i.a.: J.M. Barroso, "The State of Europe – Die Europarede Berlin," speech at the Haus der Berliner Festspiele, 9 November 2011, where he claims: "... And this means that the deepening of the Euro area integration including by Treaty change must preserve the EU's political, legal and institutional coherence. This means that the deepening of the Euro area integration must be done through the Community method, preserving and developing the role of the Community institutions"

¹⁴ Already in his 2011 State of the Union Address, the Commission president protested some Member States' attempts to delay the speed of integration, and underlined this again in 2012 when he said "the speed will not be dictated by the slowest or the most reluctant ...," J.M. Barroso, State of the Union Address 2012.

¹⁵ Communication from the Commission, "A Blueprint For a Deep and Genuine Economic and Monetary Union: Launching a European Debate," Brussels, 28 November 2012, COM(2012)777 final.

¹⁶ This idea was raised before by Germany and its finance minister (Schäuble), see also: "Blueprint," *op. cit.*

The Commission's ideas concerning the EU's optimal institutional architecture mark its attempts to gain more political capital in EU governance. Even though the Commission has officially been given new prerogatives in the coordination of economic policies, it lacks political credibility to efficiently execute them. Ideas to boost the public European sphere by such things as "personalization" of the EP elections attempt to provide the Commission with some democratic legitimacy and thus strengthen its hand against Member States reluctant to comply with its recommendations. However, any such measures aimed at interlinking the EP elections with the nomination of the Commission president by nomination of the top candidates by major political groups meets with the wide hesitance of Member State leaders who would like to maintain the decisive role in appointing a candidate for the Commission president. This reflects a wider concern that further strengthening ties between Parliament and the European Commission could lead to the latter's politicisation, putting its regulatory functions and that of the EU's agenda setter at risk.

The European Parliament: A Missing Element in Eurozone Governance

With every major treaty revision the European Parliament has gained new powers. More importantly, it has learnt how to use its competences, both budgetary and legislative ones, to further increase its influence in the decision-making process. However, the European Parliament still has limited influence on shaping European economic governance, albeit there is growing MEP interest in these affairs. At first sight, it might therefore appear surprising that the EP did not back immediate treaty revisions that could constitute an opportunity for extending its current competences.¹⁷ However, recent examples of its marginalisation in the decision-making process—the ESM Treaty and fiscal compact, both negotiated by recourse to international law—have weakened its bargaining position. MEPs' limited interest in opening the Pandora's Box of treaty revision is also related to the upcoming end of this Parliament. Additionally, Parliament's president was excluded from the work of the Four Presidents on the report "Towards a genuine Economic and Monetary Union."¹⁸ Having acknowledged these attempts to sideline it, the EP simply cut its cloth in the discussion on the treaties' revision, with the European political groups flexing their muscles for the 2014 election campaign.

At the same time, the European Parliament has showed the determination to assert itself in actions to bolster economic governance. It aimed to safeguard adequate influence over the negotiations on the Single Supervisory Mechanism. Although its role was only consultative in the respective legislative process (Art. 127.6 TFEU) it co-decides amendments to the regulation establishing the European Banking Authority. By treating both acts as a joint "legislative package," the EP tried to safeguard a satisfactory level of democratic accountability with regards to the European Central Bank's supervisory actions and thus to increase Parliament's influence on the future banking union. Successful, it managed to secure the right of approval on nominations for the chair and vice-chair of the Supervisory Board. Moreover, by concluding the interinstitutional agreement on cooperation with the ECB over exercising its supervisory tasks, the EP has marked an unprecedented leap in imposing parliamentary oversight on the European Central Bank.¹⁹

¹⁷ The European Parliament pointed out in 2012, that the current legal framework allows for further progress in completing the EMU. See: European Parliament resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup "Towards a genuine Economic and Monetary Union" (2012/2151(INI)).

¹⁸ *Ibidem*.

¹⁹ Interinstitutional Agreement between the European Parliament and European Central Bank on practical modalities of the exercise of democratic accountability and oversight over the exercise of the task conferred on the ECB within the framework of the Single Supervisory Mechanism, www.ecb.europa.eu.

The sovereign debt crisis and the accompanying Eurozone institutional reshuffle are of increasing concern to MEPs. The Constitutional Affairs Committee (AFCO), drew up an own-initiative report devoted to constitutional problems of multi-tier governance in the European Union.²⁰ These concerns are also prompted by ideas floated on necessary reforms of Parliament's functioning, which call for the EP to reflect the deepening of euro-area cooperation. Such ideas are from time to time championed by euro Member States that object to the fact that EMU matters are handled by MEPs from all Member States.

In similar fashion, the never-ending discussion on Parliament's Strasbourg seat has also been used to promote ideas of creating a separate assembly for Eurozone members.²¹ Last but not least, a discussion on the possible renegotiation of the UK's status in the EU, aiming to loosening its ties with Europe, might well affect MEPs of British origin. Proposals breaching the supranational nature of the EP so far tend to be rejected by Parliament, although the idea to create a committee dedicated to euro matters and consisting of MEPs coming from euro-area member states seems to never have left the room for good.²² Surprisingly enough in 2012, even the Parliament's president has shown a certain ambiguity in this matter by acknowledging that the EP's internal organisation should be constructed to prevent MEPs from Member States with an opt-out from blocking the decision making process.²³

A more recent challenge for the EP is posed by the demands that, following the further transfer of competences from the national to the EU level in the sensitive field of economic policy coordination, national parliaments should be involved in the EU-level decision-making process.²⁴ Even though the EP seems to recognize the inevitability of reinforcing national parliaments' role in European economic governance, the idea of establishing a new mixed parliamentary body was perceived by MEPs as unworkable.²⁵ It might also complicate the EP's function to counterbalance the negative effects of differentiated integration. The establishment of new forms of interparliamentary cooperation, as the tortuously winding road towards an Inter-Parliamentary Conference for Common Foreign and Security Policy and Common Security and Defence Policy shows, can trigger disputes between the European Parliament and national

²⁰ Roberto Gualtieri (S&D) and Rafał Trzaskowski (EPP), representing two of the biggest political groups in the EP, are the co-authors of the report. Keeping in mind that both political groups differ to some extent in the scope of measures that should be taken on the EU level to fight the crisis, attempts to cooperate on such a report should be considered as beneficial for consensus building in the future discussion on the political union. R. Gualtieri, R. Trzaskowski, "Report on constitutional problems of a multi-tier governance in the European Union", Committee on Constitutional Affairs, (2012/2078/(INI)), 7 November 2013.

²¹ J. Attali, "Two Europes, Two Parliaments," *L'Express*, 22 October 2012, <http://blogs.lexpress.fr/attali/2012/10/22/two-Europes-two-parliaments>.

²² H. Mahony, "Eurozone MEPs Should Have Exclusive Voting Rights, French Deputy Says," *EUObserver*, 18 October 2011. See also, R. Trzaskowski, "A Closer Economic Union with V4 Members on Board?" in: A. Gostyńska, R. Parkes (eds.), *Towards a V4 Position on the Future of Europe*, PISM Report, December 2012, pp. 17–18.

²³ "Organise EP voting system to ensure Euro opt-outs cannot block," interview by G. Sebag with M. Schulz, *Europolitics*, 17 October 2012, www.europolitics.info.

²⁴ The idea to create a conference established from the deputies of the national parliaments and European Parliament's committee coping with budgetary discipline is envisaged in Art. 13 of the fiscal compact. Its initial organisation was already agreed in Nicosia on 21–23 April 2013; "Presidency Conclusions of the Conference of Speakers of EU Parliaments," Nicosia 21–23 April 2013 and further discussed in Vilnius on 16 and 17 October 2013, "Interparliamentary Conference on Economic and Financial Governance of the European Union: Presidency Conclusions," Vilnius 16–17 October 2013; see also: Treaty on stability, coordination and governance in the Economic and Monetary Union, 2 March 2012, Brussels.

²⁵ European Parliament resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup "Towards a genuine Economic and Monetary Union" (2012/2151(INI)).

assemblies with regards to the question who takes the lead in the democratic legitimisation of the economic governance decision-making process.²⁶ The first meeting of the interparliamentary conference, as set up by the fiscal compact and held in Vilnius, only confirmed these concerns and showed wide disagreement among MEPs and MPs with regards to the correct level on which parliamentary scrutiny in terms of the European Semester should be exercised—making the process of agreeing on the Rules of Procedures of the new interparliamentary body extremely difficult.²⁷

Conclusions

The ongoing crisis, favouring ideas that undermine the integrity and coherence of the EU, influences the debate on the future political shape of the EU. The inter-institutional dialogue on economic governance in the EU suggests that the European Commission and Parliament have been testing each other's inclination for a differentiated mode of integration. Even though they were called upon to serve the common good of the EU-28, they have also been under increasing pressure to safeguard their role in a more differentiated EU in which the Eurozone members are playing the tune. This makes them naturally vulnerable to such ideas as a separate Eurozone parliamentary committee.²⁸ Moreover, it has already been suggested that similar distinctions could apply to the College of Commissioners,²⁹ which could question the crucial role of the Commission as an independent arbiter of all Member States with its right of legislative initiative.

Both the Parliament and Commission have traditionally served the role of bridge-builder between non-Eurozone members and those participating in the final stage of EMU. Moreover, their participation in the differentiated integration platforms, provided by EU primary law, have facilitated and promoted the inclusive character of such cooperation and respect for the rights and obligations of non-participating Member States.³⁰ Any further accommodation on the part

²⁶ This also seems to have been acknowledged in a recent report prepared by European Council President Herman Van Rompuy: "... Decisions on national budgets are at the heart of Member States' parliamentary democracies. At the same time, the provisions for democratic legitimacy and accountability should ensure that the common interest of the union is duly taken into account; yet national parliaments are not in the best position to take it into account fully. This implies that further integration of policymaking and a greater pooling of competences at the European level should first and foremost be accompanied with a commensurate involvement of the European Parliament in the integrated frameworks for a genuine EMU ...;" H. Van Rompuy, J.M. Barroso, J.C. Juncker, M. Draghi, "Towards a Genuine Economic and Monetary Union," 5 December 2012.

²⁷ J. Iwaniuk, "Palpable Tension between National Parliaments and EP," *Europolitics*, 21 October 2013.

²⁸ See "Communication from the Commission. A Blueprint for a Deep and Genuine Economic and Monetary Union. Launching a European Debate", Brussels, 28 November 2012, COM(2012)777 final, where the possibility of setting up a special committee on euro matters was indicated. Even though it is not explicitly articulated in the blueprint that such a committee would consist of MEPs coming from the euro area, it can be assumed that electing someone from the UK or a Swede as chairman of such a committee would not gather wider support.

²⁹ V. Kreiling, *Notre Europe* Jacques Delors Institute, synthesis of the book by S. Goulard, M. Monti, *Democracy in Europe: Looking Further Ahead*, Flammarion, Paris, 2012, p. 3, www.notre-Europe.eu. The authors of the book suggest that within the framework of the European Parliament a Eurozone Parliament with non-Eurozone deputies exercising observatory status should be established while the European Commission could be adjusted in a similar fashion.

³⁰ Enhanced cooperation makes use of the common EU institutions. European Parliament's consent is required for enhanced cooperation to be triggered and it is involved on the regular legislative basis and in accordance with the procedures to be applied in the implementation of enhanced cooperation. A request to initiate enhanced cooperation is submitted to the European Commission, which decides whether to submit the proposal. It also examines motions by non-participating Member States to join the enhanced cooperation; See: Article 20 on the Treaty on the European Union, and Articles 329 and 331 on the Treaty on the Functioning of the European Union, the Treaty on the European Union, and Treaty on the Functioning of the European Union, O.J.C 326, 26 October 2012.

of the community institutions towards the flexible integration process and their vulnerability to intra-institutional segmentation puts this at risk.

It also weakens the bargaining powers of non-Eurozone members in the decision-making process, particularly at the stage of legislative readings in the European Parliament. The idea of excluding the non-Eurozone deputies from voting procedures concerning EMU and, in the worst-case scenario, also from related deliberations could get fresh legs by the ongoing discussions in Brussels' EU corridors on reshaping the UK's relationship with the European Union. If the European Parliament flirts with such ideas, it could increase the risk of permanent fragmentation, haunting European integration and sidelining non-Eurozone members.

The burgeoning discussion on the so called fourth pillar of a genuine EMU—democratic legitimacy and accountability—will coincide with the electoral campaign for the European Parliament in 2014. This platform should be used to explore the question of how the further development of mutual relations between the Commission and Parliament could successfully counterbalance the negative implications of differentiated integration. In particular, prospective MEPs from non-Eurozone states that have committed to join the currency should engage in the discourse on the side that euro related matters cannot be simply isolated from the general interests of the EU.

In this context, the recently proposed efforts to narrow the gap between the EU and its citizens by "Europeanising" the European Parliament elections, leaving aside the question of whether it would lead to a dangerous politicisation of the Commission, will have better chances to succeed if undertaken in a coherent and integral EU. There can be no European demos in a fragmented Union.

II. Acquisitive Europe

Financing: Who Pays for the Catch-up States?

Patryk Toporowski

Without Community financing it is difficult to imagine how the EU would function. Money legitimises the decisions made at the EU level, meaning that a focus on the current system of financing and its likely development is key to the question of EU-wide cohesion. The picture, however, is becoming increasingly blurred with the weakening of democratic control of the process: the EU budget—controlled by Parliament, and fiercely negotiated by the Member States—has been relegated to the status of just one of the sources that finance EU activities such as substitutes for the Eurozone budget, other funds, and money under the control of the ECB, EBI and others. It is difficult to say whether such a complex system will help the EU meet challenges such as increasing competitiveness, emerging from the financial crisis and hastening long-term economic growth. A more suitable solution lies in a system transparent to the decision-makers in all Member States and to their citizens, which may react to unpredicted events.

The Current System of Financing: Growing Complexity

Money matters. The magnitude and character of the financing for EU actions do not just signal the path of integration but define it. What, then, can be expected in the future? Greater diversification and fragmentation is the short answer. Whereas EU actions have traditionally been financed through the EU budget (about €130 billion a year), today they are also funded through the European Stability Mechanism (no specific yearly amount, but a total capacity of about €750 billion), as well as indirectly through the ECB's operations, which can be treated as ad hoc funding (the bank's total reserves add up to €536 billion, but its total capital is up to €5.2 trillion). Additionally, as the Banking Union takes shape, a Banking Deposit Guarantee Scheme will complement ECB operations.¹

There is also another, frequently overlooked source that today is negligible and stagnating, but might grow if boosted by reforms—the European Trading Scheme for CO₂ allowances, in which money accrued from auctions is to be spent on green investments. The number of CO₂ allowances to be traded in 2013 was set at 2.04 billion, and given the average price of €5 per unit, the auctions was expected to yield €10 billion. The sum is small; however, it's possible the price might rise. In an analysis by Deutsche Bank in 2008, the price was forecast to reach as much as €80 per allowance by 2020, potentially making this source of financing even greater than the EU budget. Of course, the reality will likely fall somewhere inbetween today's price and that forecasted, hence even a price half as high as predicted by Deutsche Bank would generate a massive amount of money to be spent on green EU actions (to be used within the individual domestic budget frameworks of the Member States).²

Add to this picture the European Investment Bank with capital of €232 billion, whose objective is to fund projects of European importance inside as well as outside the EU. The EIB may also borrow money from the market and support projects with these additional means. Its priorities within the EU are currently classified as cohesion, SMEs, environment, the knowledge

¹ It remains difficult to discern the shape of this scheme and thus to assess its firepower. Nevertheless it would be smaller than the sum of money within all national guarantee schemes. Also, its mutual relationship to another emerging Banking Union pillar—the European Resolution Fund—reveals the possible magnitude of change in the system of financial flows from the Member States to the EU.

² It would probably take place despite the fact that the amount of allowances decreases each year by 1.74%.

economy, transport and energy. Outside the EU, the funds are distributed according to the following objectives: the development of the private and financial sectors, infrastructure, energy supplies, environment, and EU presence. Given the current political agenda, it is likely that in the future the objectives of the Bank will evolve to include securing the EU's economic growth.

The EBRD, meanwhile, provides a more indirect financing source, supporting specific projects within the EU Member States relatively loosely linked with EU interests. Its capital in 2011 was around €35 billion, and that tends to increase over time. However, its ownership status (the composition of the contributor countries) extends significantly beyond the EU, and the scope of the project is expected increasingly to reach third countries.

Another facility is the European Development Fund (EDF), which supports an important part of EU foreign policy—providing aid for development to the ACP countries (Africa, Caribbean, Pacific) and OCT (overseas countries and territories). It is taken into account when discussing the Multiannual Financial Framework, but is not, to the concern of several Member States, currently treated as an MFF item. Its size is negligible when compared to the common budget, though.

The common budget has become, therefore, only one of a range of available funding sources for EU actions. Yet, it clearly remains the most important channel. Certainly, it is difficult to pinpoint its relative role within the whole system because, although some items may be measured in yearly revenues and expenditures (EU budget and ETS), others are more complex (such as the balances of the banks). In general, the EU budget is complementary to the other facilities (the projects may be financed by combining any of these facilities with the common budget) and it is a basic facility for Member States, local authorities and other agents. Importantly, the common budget is to be used in a more global way, covering the broader scope of EU actions, from R&D through farming to external actions.

The New Eurozone Facility: A Source of Exclusion

To assess the continued significance of the EU budget for integration, it is important to look at possible developments in the whole system. Some important changes are likely to have occurred, though not on as big a scale as they could be. Most significantly, a new facility, competing with the existing Community budget, was designed for Eurozone members only (and for the so called “pre-ins”). Despite its small projected initial amount, the existence of this proposal modifies the system of relations between the various funding facilities more than any other single facility. It therefore deserves separate analysis.

The current debate on this issue excludes the option of substituting the current EU budget with a new instrument designed for the Eurozone; however, the ultimate version would differ from the initial form. This facility, named the Convergence and Competitiveness Instrument (CCI), is planned to be flexible enough to address a country's characteristics. Due to its general form, probably no other instrument would be introduced, though that cannot be excluded depending on how the Eurozone evolves in the coming decade. The issues that are most readily mentioned by prominent European politicians are the scope and functions of this new facility: it is to be focused on stability and solidarity functions. As to its size, that remains unknown as it would rather strongly fluctuate and might depend on specific circumstances. Experts and officials predict, however, that the package would amount to anywhere from €15 billion to €20 billion a year, relying on funding sources that have not yet been specified. Initially, the most commonly proposed source was a Financial Transactions Tax, which alone could generate a sum of that magnitude. But as this has to be accepted by all the Eurozone Member States, it cannot be guaranteed. Nowadays, this and any other source of financing the Eurozone facility are not specified.

When considering the size of this new facility, the small proposed amount sounds justified if the so called Eurozone budget pursues only these two functions. However, no one

can exclude the possibility that this facility will crowd out some functions of the current EU budget. This would seem likely given the hasty deepening of political integration within the euro area. Thus, the overall size of this funding channel would increase at the cost of the EU budget, and its significance, role and magnitude would in turn reflect and define the political and economic evolution of the Union.

An increase in the size of that budget would most likely be spurred by the performance through 2020 of those countries that are most acutely experiencing the crisis now. They will not be able to exit the crisis on their own, and the size of transfers in their direction will have to be increased. The basic flaws within the Eurozone have still not been fixed, including insufficient labour mobility and differences in productivity among the Member States and individual regions. These disparities invite systemic shocks to reappear from time to time. One solution to ease this phenomenon is to create a budget with a developed redistribution function. However, economic tensions would still grow due to the increasing specialisations of the regions, along with their wealth, which in turn would lead to more severe crises. That is because such an approach would focus on the consequences of the flaws, not the reasons. Thus, it is very probable that the size of the facility would gradually increase over time in order to address these problems existing within the Eurozone. This would happen at the cost of the current EU budget for two reasons. An increase in the size of the Eurozone facility would also increase its scope of action, thus inviting a substitution of the common budget. At the same time, the limited amount of total available funds from the government would mean a crowding out of "less important" facilities to the advantage of those considered "more important."

The launch of this facility and the almost inevitable increase in its size would in turn have political consequences. It would, on the one hand, deepen the integration of the euro-area members, cementing the mutual reliance of the countries of the common currency and leading to the possible foundation of a new EU institution (a kind of Eurozone treasury). On the other hand, the process of integration between the euro area and non-euro area Member States would be damaged. It is possible that some non-members, such as Great Britain, would gain a new argument for changing their relations with the EU as a result. But this pertains also to those non-members that are obliged to join. Should the situation within the Eurozone, despite institutional and systemic changes, fail to improve, non-Eurozone countries would hesitate to adopt the common currency.

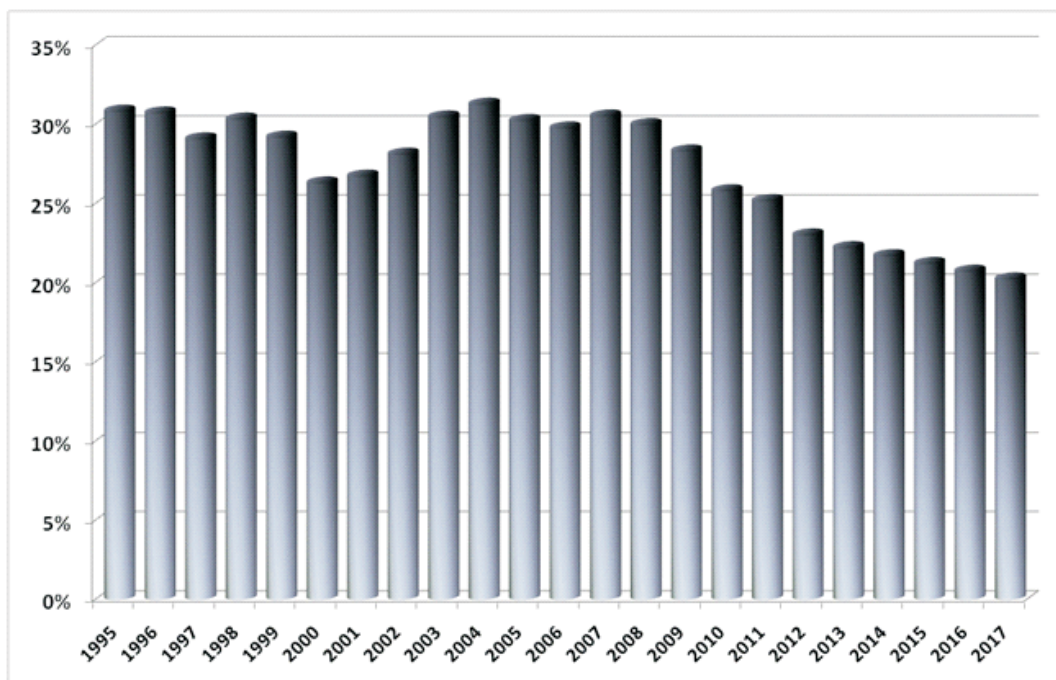
When considering the ongoing situation within the euro area, this facility would be a tool to pass control of the economies of the weaker states (those who do not have gold bullions) to the stronger ones (those who do). This would be possible given that this new facility would be used only when certain conditions are met (sound national budgetary management) as well as through other mechanisms (such as the acceptance of the national budgets by other Member States). This could be made possible by the inclusion in this facility of so called partnership contracts in which the parties in need make commitments in terms of structural changes in return for additional financial flows. The Member States discuss the conditions under which the money is granted.

The creation and growth of such a facility at the expense of the EU budget is tempting to those states eager to significantly modify the existing funding scheme within the EU. Germany would be interested in making this facility contingent upon political conditionality, encouraging the other Member States to implement its particular vision of further integration. France would be interested in providing funding for social policies, such as unemployment benefits for crisis-burdened governments as well as funding the solutions for the deficiencies within the financial sector. Great Britain would cite it as a reason to reduce its contribution to the whole EU system of financing. This makes the Eurozone facility almost certain to be established and developed; moreover, it makes it likely that this instrument will at least partly be a substitute for the EU budget.

The EU Budget: A Decreasing Role, but an Important Purpose

Even if the EU budget does gradually lose its role in the future (mostly after this decade), it is still a significant tool, and thus it is worth analysing its current and future purposes. What would be the main purpose of the future EU budget? It certainly should be linked with a long-term strategy for the European Union. Currently the EU 2020 strategy fills that role, focusing on three aspects of economic growth (“smart, sustainable and inclusive growth”). This reflects the fact that the EU is today experiencing problems with competitiveness, highlighted by its decreasing share of the global economy (shown in Graph 1). The focus of the strategy is thus, in general, sound, and it is likely to be maintained even if the results are currently unsatisfactory. After all, competitiveness is positively correlated with a country’s wealth, making it an obvious goal. Furthermore, to boost the potential of the EU economy as a whole, funding at the EU level should be used. Thus, the competitiveness orientation should be an absolute priority of the common budget, even if its scope is small.

Graph 1. The EU’s share of the global economy (GDP)



Source: IMF World Economic Outlook.

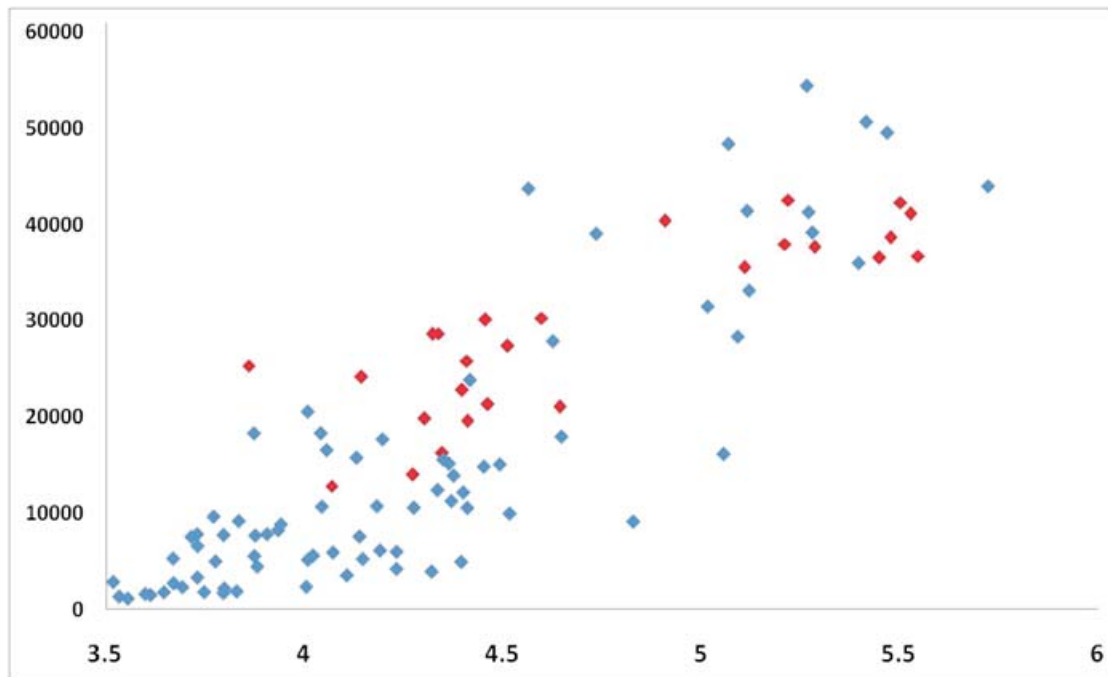
On the one hand, the decline in the EU’s share of the global economy is natural, due to the fact that emerging economies are growing much faster. But on the other hand, it is concerning that the decrease is so steep (from about 30% at the beginning of 1995 to 2004, to about 23% in 2012), and this share could drop further in the next five years to 20%. Some predictions of its potential relative size are even worse, and international organisations as well as Eurostat, are still reducing their forecasts for EU growth. This has significant consequences for the global political constellation, including the possible shift in votes from the EU to the emerging economies within the World Bank and the International Monetary Fund. The same could take place in the case of the G20 or even G8.³ It will also become self-reinforcing.

³ One of the global consulting agencies predicted that no European state would be in the Top 8 biggest countries by 2050. Hence, the question of European representation in global economic affairs clearly arises: whether the EU is sufficiently determined to maintain a certain share of the global economy to decide on global issues in the G8 forum.

A smaller EU can achieve less in the way of protecting its global interests (such as trade and investments and other financial flows).

When looking at competitiveness measures, such as the Global Competitiveness Index compiled by the World Economic Forum, it is clear that competitiveness (which significantly contributes to long-term growth) among the Member States is relatively poor and uneven (see the red dots representing EU states and blue representing third countries, Graph 2).

Graph 2. GDP per capita (vertical axis) and Global Competitiveness Index (horizontal axis) in 2012



Source: World Economic Forum and IMF World Economic Outlook.

There is room for improvement. The Member States' tendency to view the common budget mainly in terms of financial flows impedes its evolution to a fully-fledged growth-oriented facility. The growth-friendly traits are included in cohesion policy and Horizon 2020. Other budget items, however, have barely been streamlined with the competitiveness-orientation, as Member States seek to increase flows to their pet policies. As a consequence of the diminishing size of the budget, the EU will likely resort more to sub-instruments with loan-based mechanisms at the cost of regular grants to specific projects (funded totally by the EU or co-financed). In the future, these kinds of mechanisms might even comprise as much as one-third of the total budget. Possibly all of EU regional policy, as well as aid to SMEs, could be financed in this way.

Conclusions

The EU's overall funding system will become less transparent due to the development of existing facilities (e.g., EU ETS) and the creation of new schemes (such as CCI). As a consequence, and due to historical reasons, the absolute and relative magnitude of the EU budget will decrease in favour of other channels of funding. A significant change will also occur with the increasing significance of loan-based instruments and their introduction into existing sources of financing, currently being transfer mechanisms, non-refundable loans or co-financed projects. Hence, the role of the ECB will be much more important in this area than is currently the case, as the Eurozone expands and governments pay more attention to the EU banking system. Moreover, within the EU budget, two item groups will evolve most significantly:

cohesion and common agricultural policy. However, it is difficult to expect that EU funding will address properly the problem of lagging EU competitiveness, as this would remain beyond the sphere of the narrow interest of stakeholders (Member States, EU institutions).

This predicament affects the new Member States particularly clearly, but they should assess the existing and potential sources of EU financing through the prism of a long-term perspective. Currently, the EU budget and especially cohesion-related funds are of key interest. But as the new members gradually converge with Germany, France and Great Britain, structural changes will occur, altering their needs. On top of that, when Poland and other new members ultimately join the euro area, this will alter their appreciation of the relationship between the EU budget and CCI, as well as the ESM and ECB. Accession to the euro area, coupled with a strengthening of their economies may boost their political firepower within the EIB, giving them greater impact upon the definition of projects of European interest. Of course, a balanced assessment of the general outcome of any instrument requires a focus not only on benefits but also on costs. Each of the described instruments needs adequate funding directly or indirectly originating from Member States, and one day Poland and other new members will likely become net contributors to the EU budget.

What the new Members should take into the account in the near term is the phenomenon directly linked with the growing complexity of the EU's system of funding—the concomitant increase in decision-making processes due to the emergence of new instruments. These processes are much more disadvantageous to them than the MFF budgeting process. Within these new facilities there would be no negotiations, but decisions by boards, elected now or in the near future. Thus, Poland and the new members should even now lobby for seats on these decision-making panels before the debate on relevant topics, such as completing the EMU or a banking union, ends.

Neighbourhood Policy: “Let Economics Do the Job”

Elżbieta Kaca

As a foreign policy player, the EU has the clearest priorities in its direct neighbourhood: it must shield itself from numerous threats, such as irregular migration flows, conflict and energy insecurity. However, its political leverage over the region has weakened even as a new union diplomacy has been created. The reason lies in the fact that EU policy tools do not meet reality and changing trends. The European Neighbourhood Policy was created in 2004, a time when the EU was self-assured due to the successful accession of 10 new Member States and wanted to impose upon its neighbours its political vision by using strategies replicating enlargement. It is no longer the same story. Internally, the EU integration model is being rethought and is developing into multi-speed formats from which the 2004 members find themselves rather marginalised. No further accession commitments are likely to be undertaken by the Member States in the medium term beyond those already made to the West Balkans.

If enlargement-lite has until now been the main source of engagement with neighbours, then, this today results in the decreased attractiveness of the EU. The European Union must search for new ways to increase its role as a regional player, while at the same time facing up to broader external challenges: it must contend with other players in the neighbourhood, such as the emerging powers China and Russia, which are increasing their political and economic activities in the region and bringing with it greater competition. A change of EU policy is thus required. This chapter explores the case of the eastern neighbourhood, using the deficiencies in current policy to show where updates are needed. The EU's relations with its neighbours should be formulated on a more equal basis by focusing on areas of mutual interest and improving the EU's offer in order to help them implement EU conditions. This process should be accompanied by a strengthening of the European External Action Service in order to permit the EU to increase its presence in the neighbourhood vis-à-vis Russia and China.

Mixed Results and the Need to Respond

European Neighbourhood Policy is characterised by tools resembling enlargement conditionality and ambitious political objectives aimed at neighbours' democratic transformation. ENP does not, however, offer membership prospects, and it is not bringing results. The ambiguous nature of regional progress in democracy and governance is evidenced by numerous indices (World Bank, Freedom House, Transparency International, etc.) by the assessment of independent think tanks (i.e., the European Integration Index for the Eastern Partnership), and also by European Commission progress reports. According to the Freedom House classification, in 2012 none of the six EaP countries could be recognised as “free:” Azerbaijan and Belarus are classified as states that are not free; and Armenia, Georgia, Moldova and Ukraine as “partly free.” Indeed, very few eastern neighbours show any interest in beginning the transformation path, though it is currently the case to some extent for Moldova.

Readiness to follow EU conditionality depends on a mixture of factors, such as the political will of the ruling elites, the size and wealth of neighbouring economies, and also geopolitical orientation. A good indicator of readiness to change is the absorption level of EU funds directed at government reform (budget support). Amongst the Eastern neighbours during 2007–2013, the countries that had the highest level of meeting EU conditions were Moldova, Georgia, and Armenia, while Ukraine and Azerbaijan—with the lowest levels—were more resistant.

The unresponsiveness of the EU's neighbours to its overall agenda does not mean, however, that they have no mutual cooperation interests—in some sectoral areas such as trade and migration, visible progress of contractual relations is noticeable. This is readily understandable as the EU is an attractive market and the primary trade partner for the majority of EaP countries (except Ukraine and Belarus). The EU, moreover, started negotiations on Deep and Comprehensive Free Trade Areas (DCFTAs) with Moldova, Georgia and Armenia in 2012, and these have already been completed with Ukraine. On migration, the EU agreed a two-stage action plan with Ukraine (November 2010), Moldova (January 2011) and Georgia (February 2013), setting out the conditions that both countries must meet while preparing for the introduction of a visa-free regime. Both Armenia and Azerbaijan signed visa-facilitation agreements. Armenia signed the attendant readmission deal too, while the latter is in the process of negotiating just such an arrangement.

The EU must innovate in its neighbourhood as other players are actively increasing their spheres of influence, Russia, the traditional actor, and to a lesser extent, China. Russia would like to enlarge its Customs Union, to which it added Belarus and Kazakhstan in 2010. This has already seen the elimination of some non-tariff barriers and moves toward a common external tariff and joint customs code.¹ It would also counterbalance the conclusion of the DCFTAs with EaP countries by aggressive means (manipulation of energy pricing, artificial trade obstacles, threats to withdraw security guarantees or threats to withdraw military cooperation, and “the instrumentalisation” of protracted conflicts).² Unlike Russia, China is developing its activities on the basis of tied credits, loans granted for infrastructure projects and the creation of joint ventures, with the acquisition of local firms and a low level of direct investments. In 2012, for instance, China agreed with Ukraine on \$36 billion in credit in exchange for delivering technologies. With Belarus, notably in the years 2005–2010, Beijing made credit lines available worth a total of \$16 billion, and several contracts for the implementation of joint projects have been signed (telecommunications, heating and power plants).³ Economically speaking, both Russia and China are well-placed trade partners for the EaP countries—Russia is amongst the top three trade partners in almost all EaP countries (besides Georgia), while China is amongst the top five trade partners for Ukraine, Armenia, Belarus and Georgia.⁴

Let Economics Do the Job

As the EU is an economic power, it should use its leverage in order to increase its political impact, moving from enlargement-lite (whereby the vague promise of future accession to the EU was used as leverage) to “sectoral enlargement.” Offering access to the internal market or to the Schengen Area in return for the uptake of EU norms seems to be an interesting option to a majority of the eastern neighbours (apart perhaps from Belarus). Anyhow, in order to succeed the EU should avoid the enlargement-lite approach of focusing on the conditions side while not offering a carrot, and work more on a partnership basis. Such an approach would involve helping neighbours in concrete terms with the implementation of EU deals—an aspect sorely lacking now. If successfully implemented, visa and trade deals would allow both sides to recover from enlargement indigestion. In the long term, however, depending on the conditions on both sides, the question of enlargement must again be raised.

¹ O. Shumylo-Tapiola, “The Eurasian Customs Union: Friend or Foe of the EU?,” Carnegie Europe, October 2012.

² As explained by Commissioner Štefan Füle in “Statement on the Pressure Exercised by Russia on Countries of the Eastern Partnership,” 11 September 2013, http://europa.eu/rapid/press-release_SPEECH-13-687_en.htm.

³ T. Iwański, “Ukraine, Belarus and Moldova and the Chinese Economic Expansion in Eastern Europe,” *OSW Commentary*, iss. 79, 28 May 2012.

⁴ Data from 2012, <http://ec.europa.eu/trade/policy/countries-and-regions/statistics>.

The current approach of tying up the region by means of EU norms and standards through the signature of legally-binding DCFTAs sets a good example. This new generation of agreements requires not only the abolition of tariff and non-tariff barriers but also the implementation of EU regulatory legislation on trade-related issues (i.e., intellectual property rights). Moldova and Georgia initialled Association Agreements, including Deep and Comprehensive Free Trade Agreements (DCFTAs) at the Vilnius summit organised by the Lithuanian presidency on 28–29 November 2013, whilst such a deal is suspended with Ukraine due to political reasons. For its part, Armenia quit efforts to finalise these agreements with the EU, as its president announced in September 2013 the intent to join Russia's Customs Union. This froze the almost-completed negotiations on a DCFTA with the EU as the two customs regimes are incompatible. Yet, it remains unclear whether the EU's neighbours are actually going to implement the agreements, let alone whether the Union has suitable assistance and monitoring instruments to support and assess the process.

The implementation of the DCFTAs will be burdensome as it implies the deeper intrusion of EU norms into national legislation in comparison to ordinary free trade agreements (FTAs). The lack of a clear assessment of profits and burdens has dampened enthusiasm. A preliminary European Commission analysis foresees that DCFTAs will lead to 1–5% GDP growth in neighbouring states, but no precise data can be given in the case of the EaP countries. The long-term benefits, such as the potential increase in product expansion on the global market (as a result of the introduction of EU norms) and a better business climate leading to higher investments, are not seriously measurable. The same is true of the cost of reforms. Last but not least, DCFTA implementation may founder on the problem of weak local administration. According to the European Integration Index, the professionalisation of EaP countries' administrations is still far below EU standards, even in Moldova. The corruption indices confirm this. The 2012 Transparency International Corruption Perceptions Index places Georgia in 51st place, Moldova at 94th, Armenia at 105th, Belarus at 123rd, Azerbaijan at 139th, and Ukraine at 144th out of 176 countries.

Bearing in mind these challenges, the EU should work on more balanced deals and strengthen its offer by helping those countries fulfil the conditions it poses. On trade, for instance, the EU can create an instrument aimed at helping neighbouring countries with the proper implementation of this new generation of trade deals. It is not enough to allocate financial resources under existing budget support operations (funds directly passed by the EU to neighbours' national budgets for the aim of reform) due to weak Commission capacities to impact and monitor reform progress. There is a need for an instrument operating on a project basis and ideally governed by one of the international financial institutions (outsourced through tenders).

Several functions could be covered in this respect. First, it should finance concrete government administration projects in the sphere of DCFTA implementation, and its thematic scope should be kept broad as the needs of EaP countries are diverse. Moldova, for instance, needs additional financial resources to build phytosanitary laboratories. Second, it should introduce a new, improved scheme of EU advisory missions more practical than the current twinning and TAIEX instruments. It should fund advisory services involving experts delivering practical administration training and implementing concrete governance solutions in cooperation with national officials. Third, a special line should be created for civil society projects aimed at monitoring the progress of DCFTA implementation and launch information campaigns on the benefits of these agreements to the population (at least in those countries where there are relatively free options to act for CSOs). In terms of financing, the EaP should grant countries that have made a choice to deepen economic integration with the EU by increased financial allocations, even at the expense of other neighbouring countries, according to the "more for more" rule.

The EU Needs a Strengthened Diplomacy

The EU also has to address the challenge of more competition on the side of China and Russia in the region. In order to do so, it has to increase its political presence in the neighbourhood and significantly strengthen its new diplomatic body, the EEAS. Several challenges have to be overcome to this extent. Primarily, there is a weak coordination role played by the EEAS over the Commission on a large spectrum of crosscutting policies, such as development, trade, justice and home affairs, and energy. Development policy provides a case in point. The practical arrangements put in place under the Lisbon Treaty led to a situation in which both parties have veto power in case of diverging views. While both the EEAS and Commission have a say in formulating aid-strategy documents, the Commission retains control of the implementation of the neighbourhood budget and its programs aid at the technical, as opposed to the political, level. As the relations between both actors are fixed only by an informal inter-institutional agreement, the decision-making process can—in practice—be dominated by personalities, leading to turf wars.

The consequence is that the EU spends money more like a philanthropist than a political player—the current distribution of financial assistance⁵ is dominated by a development logic and, in the case of some neighbours, it is also related to some extent to the priorities of political cooperation, since aid is implemented by the European Commission (DG DEVCO) according to principles it uses worldwide. In 2007–2010, most of the supported reforms in EaP countries concerned the improvement of the socio-economic situation⁶ and only to a limited extent supported reforms aimed at the implementation of the main political priorities of the Partnership, that is, economic integration, visa-regime liberalisation and governance issues. There is a need, therefore, for a better balance in this respect and a strengthened role for the EEAS in aid programming. For this reason, a written agreement should be concluded between the EEAS and the Commission on the delimitation of assistance-related powers and competences in order to facilitate cooperation between the two players.

The process of strengthening Union diplomacy must, however, address one basic obstacle—the lack of meaning ascribed to political intelligence and the lack of political officers working in the neighbourhood field and in delegations. EU Delegations in the Partnership countries in 2011 had on average 20–30 people (with the exception of Ukraine, where there were about 95 people).⁷ They consisted notably of aid and economic personnel with very few employees dealing with analysis of the political situation in a given country. This makes it impossible to carry out regular monitoring of the political situation in a given country in detailed sectors. In the Brussels headquarters of the Eastern Partnership, no more than 28 people worked on the bilateral and multilateral agenda, including both political and organisational issues. If the neighbourhood is really *the* EU priority, the number of political officers should be increased at the expense of other geographical areas (since a total increase in the EEAS budget is not realistic). The argument for the creation of a stable system of political intelligence lies also in the fact that the current EU system is based on outsourcing to external experts. This system is heavily criticised by EaP officials. No wonder: EU experts hired on short-term contracts do not always have a thorough knowledge about the country in which they are based.

⁵ In the years 2007–2013, it accounted for up to €2.3 billion (national allocations of European Neighbourhood and Partnership Instrument funding).

⁶ It can be visible in Moldova where poverty reduction is the priority of budget support (supported sectors such as health, water sanitation, economic stimulation in rural areas, environment) or Ukraine (transport, environment, energy), Armenia (vocational education, agriculture), Georgia (regional development, support for conflict-affected population), and Azerbaijan (agriculture and administrative).

⁷ Data from E. Kaca, M. Sus, *The New European Union Diplomacy and the Eastern Partnership*, Institute of Public Affairs, Warsaw, 2011.

Conclusions

The current trend in neighbourhood policy is to avoid revolutionary moves in terms of policy substance and tools. With the 25 May 2011 review of the ENP, a minor modification of priorities and tools was presented, and the financial instruments planned for the next financial perspective 2014–2020 will be slightly improved. No radical change is possible in terms of the policy paradigm so long as the EU is primarily preoccupied by its internal economic problems. The EU and even the most engaged supporters of an active EU role in the neighbourhood are not prepared nowadays to contribute financially to the next wave of enlargement in the mid-term perspective. For Poles, for instance, that would involve sharing the financial resources for cohesion and agriculture policy, which is unthinkable. One should remember that during the DCFTA negotiations with Ukraine, the country that was asking for quotas in the agriculture sector and delaying the negotiations was Poland, which was responding to fears of competition and economic losses. In the long term, however, if the EU economic situation improved significantly and some successful democratic transformation processes took place in the eastern neighbourhood, the enlargement question would be raised again.

For the time being, the EU should work on the better use of the attributes it already has. The ENP should become a rather sober strand of foreign policy relying on contractual relations in which the focus is made on cooperation on areas of mutual interest and in which relevant aid offers are directed to neighbours in order to make them implement the negotiated EU conditions. In the area of trade deals, Warsaw can propose the creation of a specific DCFTA-related financial instrument and a focus within the country-specific strategies on the economic agenda. An opportunity to do so might be the increase by 40% of the neighbourhood budget to the sum of around €15.4 billion negotiated under the incoming multi-annual financial framework.

At the same time, the EU must become more competitive externally in terms of its diplomacy. A strengthening of the EEAS's competences in neighbourhood policy is required. In a neighbourhood with greater economic links to the EU, the Union's claims might be heard more clearly and the denser network of political contacts will result in a better understanding of mutual expectations. On the whole, it is better for the EU, and for Poles, to have vivid and real interactions with their neighbours than to participate in a soap opera full of theatrical gestures.

Enlargement Policy: Does Differentiated Integration Allow for Differentiated Enlargement?

Pinar Elman

Debates on the future architecture of the EU, and the onset proper of “differentiated integration,” tend to neglect the implications for enlargement policy. The issue has received little attention either in the European Union or candidate states, despite the fact that the internal EU reforms necessary to reassert the bloc’s attractiveness and power also risk creating new barriers to accession hopefuls. Yet the discussion on the future form of the European institutions and the different levels of integration may well provide a historic opportunity to overcome the EU’s enlargement crisis. If the EU grasps this chance to reform the enlargement process, it could not only strengthen stability, security and prosperity on the continent, it might reaffirm its influence on the world stage. In what follows, the contours of such a policy will be set out in order to pose the simple question: is this a step the EU is prepared to take?

The New Geostrategic Rationale for Enlargement

While the EU is spending its time mainly on resolving its internal crises, the map of global influence continues to shift with the emergence of new actors, of challengers to Western power and of new forms of cooperation that side-line international institutions and their incumbents. The post-crisis EU will need to compete in a fast-changing multipolar world, at the very least to maintain its wealth and security. Viewed from this very rational perspective, the bloc needs to develop its capabilities including expanding its strategic depth and reach, improving its demographic balance, increasing its level of competitiveness and growing its economy. The EU already possesses a tool that can provide these assets: enlargement policy. However, enlargement policy at present is also in crisis as it faces a serious slow-down, and indeed may have stalled altogether.

Of course, with all the other crises—economic, financial, political, existential—pummeling the European Union right now, the crisis in the bloc’s enlargement policy has been rather overlooked or, more precisely, is simply mashed into the bloc’s general pool of malaise. Yet, this particular crisis requires separate attention. Although the EU’s array of internal problems has clearly had a negative effect on the enlargement process, diminishing the EU’s attractiveness and further increasing enlargement-fatigue, the facets of the crisis in enlargement policy are relatively distinct and lie in the mechanics of the process itself. Recent additions were not successfully completed, and the goal of creating regional stability by means of normative transfer remains to be achieved. Some of the new Member States have, for example, poor governance standards as regards rule-of-law and other EU values and norms.

Following the 2013 enlargement to Croatia, therefore, the process will likely experience a considerable slow-down despite recent attempts to resuscitate the process by giving candidate status to Serbia and starting accession negotiations with FYROM (the Former Yugoslav Republic of Macedonia) as well as the Commission’s starting a “positive agenda” with Turkey in order to keep that particular stalled accession process alive. Indeed, EU accession negotiations have increasingly been “renationalised,” that is they have become leverage in bilateral disputes with Member States. Talks with Turkey came to a halt as chapters were unilaterally blocked by France and Cyprus, the name dispute between FYROM and Greece remains a problem, as does the question of Kosovo’s status. No future EU enlargement is expected at least until 2019/2020.

With the waning of an accession perspective, candidate countries with whom the EU enjoys a strong overlap of strategic interests are considering walking away from the process.

This would be detrimental to the interests of the bloc. Within the current multipolar environment in which the EU is not the only centre of attraction, even in its own region, strengthening the bloc's attractiveness and leverage requires more than simply upgrading a candidate's status in the accession process or opening new negotiation chapters. A new accession process would, rather, encourage more immediate access to decision-making rights in policy areas selected by the EU and each candidate whilst locking the candidate into a ratchet mechanism towards full membership. The selection of the policy areas would be carried out within the priorities of both the Union and the candidate, with the previous "one-size-fits-all" approach being replaced by a kind of "differentiated integration" for each state. Enlargement policy that offers progress through differentiated integration creates a stronger incentive for both the Union and the candidate as it would provide faster, modular integration and stronger mutual benefits in selected policy areas.

Another potential asset of the differentiated enlargement approach lies in its capacity to ease accession. As it stands, the current financial crisis is expected to have a serious impact upon enlargement: further political integration between EU states will complicate the integration of candidate states, making accession, and post-accession integration even more of a moving target. Integration in financial and economic matters, not to mention a prospective political union, stretches the "integration capacity" of the candidate states as they are expected to take on the entire EU *acquis*. Even today, the adoption and implementation of the 35 membership-negotiation chapters together with their opening and closing benchmarks is challenging. This long, drawn-out process often results in such problems as "accession fatigue" and a rise in euro-scepticism in the candidate state itself, making EU-inspired reforms unpopular. As a response, a flexible enlargement process would ease the integration of the candidate state as it would provide step-by-step integration; and the benefits acquired in the early stages of this differentiated cooperation would help to ensure that candidates remain anchored in the EU.

Five Principles

If this notion of enlargement policy were to be pursued, the reforms necessary to create a kind of differentiated enlargement policy would be fairly fundamental. In order to concentrate minds, it is worth setting out the contours of any such policy in the form of hard principles:

- First, the Union would have to guarantee that the viability of EU accession remains alive for neighbouring third countries, including those that would boost its global role. From a candidate state's perspective, integration into an already integrated Union will become more and more difficult with the further deepening of the EU. Currently therefore the accession offer may remain formally alive whilst in reality it is closing—a cheap trick. The EU would have to take measures to ease the candidate state's integration to the deepened EU in part by boosting its integration capacity. In that sense, differentiated integration can make this process easier, and may provide faster access to the more tangible benefits of membership.
- Second, and in the same vein, the reforms would have to mitigate "accession fatigue" in the candidate state. The formation of a more flexible membership model through a differentiated integration process would allow common action in policy areas selected as a result of bilateral dialogue between the Union and each candidate. This would entail formally recognising that the distinction between EU membership and non-membership is not clear-cut and is increasingly arranged on a sectoral basis. This flexible model will allow the Union to gain considerable flexibility and global competitiveness in selected policy areas, while the candidate will profit faster from the accession process. Moreover, accession candidates would be permitted to negotiate opt-outs for themselves, rather than being expected to adopt the full *acquis*.
- Third, there would be a need to re-weight Union-wide interests against the national interests of the Member States. Under the current structure of the Union, enlargement

progress is subject to interference. Bilateral blocks on negotiations by a single Member State are not in the Union's interest. This will be particularly important in the selection of common action areas with the candidate states, and in their implementation. The Member States are loath to grant the community full control over the enlargement process. The logical alternative, therefore, is for a particular policy area to remain at a more inter-governmental level, permitting sub-groups of Member States to forge deeper agreements with newcomers.

- Fourth, differentiated enlargement would have to allow candidates some real scope of initiative in those policy areas where they participate, as well as the right to join ministerial and working groups. By allowing this option, the candidate would be included in the discussions and, in return, their attachment to the bloc can be strengthened. The EU cannot expect to absorb new states without taking into account their political specificities and strengths. However, while the candidate could contribute in shaping policies, and be given the right to opt-out, the monopoly for decision-making would belong only to the Member States and MEPs, thus keeping full membership as an attractive final step.
- Fifth, the Union has to ensure the successful implementation of EU values and standards by the candidate state in a given policy area before allowing them to join in European discussions. The Commission's quality of analysis needs to be improved and candidate states better assessed. The Union's principle of conditionality should, however, also be understood also as "reverse conditionality," posing duties and, above all, a transformative effect on the EU itself. To facilitate differentiated enlargement, the EU thus needs to find a means of recognising legitimate regulatory differences between individual Member States that have particular concerns, without prejudicing the overall process.

Current Reform Proposals

So, how compatible are the current reform proposals for the future of the EU with the idea of differentiated enlargement? Some of these are directed to a further deepening of cooperation that would result in the use of more communitarian methods with fewer pockets of sovereignty for Member States. If this results in reinforcing the role of the Commission in enlargement policy, and specifically the negotiation and accession progress, it could ensure the success of the classic enlargement process by linking negotiations more clearly to the success of a candidate state in adopting the EU's values and standards rather than in defusing minor bilateral arguments. However, such a move would provide no direct solution to the candidate state's integration capacity, and the accession of the candidate state to an even more integrated EU would still take considerable time, potentially diluting the candidate's interest. Moreover, the question of the adaptability of the Union as a rigid block to the fast-changing global order would remain unanswered.

Other reform proposals recognise the EU as a more differentiated model, reflecting a multi-tier structure and different levels of integration, and thus set forth a potential solution to these dilemmas. The differentiated quality of future integration might allow the emergence of different policy tiers in which Member States would join according to their interests, forming a more integrated core group of insiders, with others remaining outside, temporarily or permanently. Within the new structure, the "core group" might in fact include various constellations of Member States functioning under specific decision-making processes depending on the policy area. This structure would permit something close to the kind of differentiated process set out above, in which candidate states would apply to opt in to the tier they consider to be most beneficial to their national interests and to temporarily remain outside other policy areas. Flexible membership, with a differentiated level of integration under a "membership-by-policy" model, could also boost the adaptation capacity of a candidate state.

Yet, the formation of a multi-tier EU poses great risks for enlargement policy. For one thing, the adoption of basic EU standards would have to remain a precondition for acceding to the benefits and decision-making process at different tiers. For another, the EU would need to emphasise that the differentiated enlargement process is in no way a form of “privileged partnership” which would give restricted access to decision-making processes. Rather it should aim at equal membership. Transforming the accession negotiations into the pursuit of “privileged partnership” would not help consolidate reforms in the candidate country and in the long term would not create the expected benefits of enlargement for either party. The long-term problems arising from this kind of expedient differentiation will only reaffirm the importance of full EU membership and the EU’s nature as a cohesive bloc of states. It is therefore in the interests of both the EU and its accession partners to ensure that short-term modular integration is ratcheted into full participation in the long-term.

Conclusions

Amongst the current accession candidates, this analysis is clearly weighted towards the case of Turkey more than it is to the Western Balkans. After all, reform of enlargement policy of the kind that creates a differentiated or sectoral accession process would mark a shift in favour of the candidate state. It would harness the candidate’s capacity for policy-making and partnership with the EU, as opposed to the current reliance upon conditionality which assumes the candidate is a relatively passive “policy-taker.” Despite concerns about Turkey’s own political and constitutional development, it is easy to see identify the geopolitical rational in that particular case. A prospering and important player in its multi-regional neighbourhood, Turkey is already part of the EU customs union and participates in several EU missions abroad. Enlargement to Turkey would mean a return to a geo-strategic and interest-based foreign policy for the EU, extending the bloc’s geopolitical reach and power, and representing a marked advantage in a shifting global order.

In principle at least, this sectoral framework would allow the EU to benefit immediately from Turkish assets without sharing decision-making power. In exchange, Turkish officials would gain the opportunity to contribute to the shaping of Union policies by allowing them the right to initiate, or at least to inspire, policy as well as to participate in the decision-making processes at the working and ministerial levels, whilst recognising their right to opt-out of certain other areas. Intensified dialogues between Turkish and EU officials and potential benefits could strengthen Turkey’s European vision whilst also ensuring the successful adoption of EU values and standards in selected policy areas. Importantly, it would also prepare the Union for the shape of things to come. After all, should the current wave of enlargement be completed and current neighbourhood policy revisited, the bloc will be faced with formulating a new approach to a whole arc of states with considerable geopolitical potential.

Yet, the trade-offs involved in this model, both when it comes to subordinating the EU’s internal politics to geostrategic imperatives, and the emergence of further differentiation and fragmentation within union structures, will be considerable stumbling blocks. With the stakes relatively clear, though, the above should function as a yard stick against which other (no doubt difficult) options can be measured when it comes to the EU’s global role.

III. G-Whatever Europe

Common Foreign and Security Policy: Can the Big Three Be Harnessed?

Dorota Liszczyk

It has never been the EU's goal to create a fully-integrated foreign and security policy that could substitute in whole or in part for national foreign policies. Compared to other EU policies as well as domestic foreign and security policies, CFSP remains a phenomenon in itself. For years treated as an experiment, integration within the area of foreign and security policy was initially developed outside the European Community structures and still today CFSP remains a "common policy" in name only. The policy uniqueness results also from its distinctive financing system as the Treaty on the European Union excludes the possibility of using the EU budget to finance European operations with military or defence implications. Such expenses are to be borne by the Member States. Yet, the reason for developing CFSP is nevertheless strictly connected with the integration process in other areas of EU activity. This means that this area of cooperation directly benefits from the broader integration dynamic—especially the economic sphere—in which stronger integration raises expectations of a coherent foreign policy dimension.¹

The results of cooperation, moreover, should not be overlooked, with the EU Member States managing to move beyond ad hoc cooperation. Since 1993, under CFSP more than 1,000 binding decisions have been adopted.² In addition, in the period 1995–2012 the High Representative, the EU Council or the presidency issued 2,444 declarations or statements on various international developments.³ Since 2003, the EU has launched eight military and 19 civilian missions.⁴ EU Member States have also systematically developed the institutional framework of this field of cooperation and, last but not least, are more likely to act together and in a more coherent way in international fora. Moreover, the system—through the Foreign Affairs Council meetings and other bodies with competences in the area of CFSP, such as COREPER or the Political and Security Committee—forces the Member States to undertake systematic consultations, leading to better mutual understanding of different national positions.

All this means that the experiment called CFSP generates added value for participating actors. For those states with global ambitions in foreign policy, which in the post-Cold War realities have had to face up to a relative loss of power, acting within European structures helps them to maintain their aspiration to be an important global player and launch initiatives that can be better implemented and more easily legitimised than on an individual basis. For the other Member States, the CFSP framework has become the most important arena to carry out their foreign policy, boosting their international influence.

The Big Three and the Ownership Question

¹ S. Lehne, "The Impact of the Euro Crisis on EU Foreign Policy," The Institute of International and European Affairs, 9 October 2012, www.iiea.com.

² On the basis of <http://eur-lex.europa.eu>. See also: D.C. Thomas, "Explaining EU Foreign Policy: Normative Institutionalism and Alternative Approaches," in: D.C. Thomas (ed.), *Making EU Foreign Policy: National Preferences, European Norms and Common Policies*, Palgrave Macmillan, Basingstoke–New York, 2011, pp. 11–12.

³ On the basis of www.consilium.europa.eu/policies/foreign-policy/cfsp-statements, 5 December 2012.

⁴ On the basis of www.consilium.europa.eu/eeas/security-defence/eu-operations.

Given the intergovernmental nature of CFSP, there can be no legitimacy for this policy if the EU Member States do not enjoy a sense of ownership. This is to be guaranteed by a decision-making mechanism that, at least in theory, assumes uniform distribution of rights among members. A state's significance within EU foreign policy is, however, far from reflecting the voting procedure in the EU Council. There are obvious factors, such as the size of the Member State, its economic, military and diplomatic resources, membership and position within international fora, as well as the personalities engaged in carrying out foreign policy. This explains the prominence of the so called Big Three (France, Great Britain, Germany) compared to the other EU Member States.⁵ Of course, neither of these two groups is homogenous when it comes to interests, priorities, ambitions or approaches to EU integration, let alone the resources to carry out foreign policy. Outside the "Big Three," meanwhile, the most obvious differentiating factor is that some of these states are "old" EU members and some are "new" ones. At the time of their accession, the new members were faced with a well-established institutional set-up as well as with the codes of conduct formed as part of the EU's external activity over the years and hardly susceptible to change.

Taking the "Big Three" as the dominant unit of CFSP nevertheless helps us to understand the problems with which EU foreign policy has to contend. To some extent, the pronounced role of France, Germany and the United Kingdom is not only natural but also positive, given their ability to assess various international developments and to propose the line the EU is to follow. Nevertheless, if this informal leadership is to create positive added-value in EU foreign policy and be acceptable to the other Member States, it needs to learn some "golden rules." Transparency as well as more open channels of dialogue and consultation will prevent this exclusive subsystem from becoming a kind of directorate and will permit other willing EU players to contribute to common undertakings. The lack of such a practice currently has harmful consequences. There is a widely shared opinion that the formalized cooperation of the "Big Three" does not necessarily reflect the interests of other EU Member States, and thus the ownership—so much desired in EU foreign policy—belongs only to a very limited group of states.

The Lisbon Treaty was supposed to address these problems. Its implementation, however, has coincided with the serious debt crisis in the Eurozone. The effects are apparent in the way the European Council has functioned during the crisis. Although the frequency of meetings of this institution, which is also the highest decision-making instance in CFSP, have increased, foreign policy issues have barely been featured. Thus, despite the initial announcement made by President Herman Van Rompuy promising to use his powers under the treaty and place foreign policy alongside economic affairs as a priority,⁶ a European Council faced with internal EU problems has had to reduce the level of this ambition. The crisis has deepened the divisions amongst Member States, reducing the level of solidarity and trust between them. This has led to temptations to renationalise EU foreign policy, something reflected in increasingly frequent attempts to adopt national positions without coordination and to invest less in common undertakings. Furthermore, the question is open as to whether the crisis-forced closer cooperation within the euro area will also impact EU foreign policy, causing an emergence in this area of "two-tier" EU membership.

Diplomacy for Whom?

These circumstances have also complicated the already difficult start of the new EU diplomatic service. After almost three years, the unprecedented experiment that led to the

⁵ See: S. Lehne, *The Big Three in EU Foreign Policy*, Carnegie Europe, July 2012, www.carnegieendowment.org.

⁶ H. Van Rompuy, "The Challenges for Europe in a Changing World," address to the Collège d'Europe, Bruges, February 2010.

fusion of different structures, positions and work cultures is raising more and more doubts. The decision to create the European External Action Service (EEAS) was supposed to overcome the deficits (especially the geographical imbalances that most affect the new EU Member States⁷) inherited from the European Commission's administrative structures and to counter-balance the dominant role of the strongest Member States—for example, by lending support to other Member State initiatives. It was also invented to foster a unique corporate identity by bringing together functionaries transferred from EU institutions and diplomats seconded from national diplomacies. At the same time, the EEAS was to become a structure that, while transparent and open to initiatives coming from the EU Member States, should have in its genetic code an imperative of serving them.

It is true that the problem of the dysfunction or so called lack of will within CFSP is not primarily the problem of the institutions established to carry out this policy. Nevertheless, it is hard to imagine how an EEAS that is not recognised by all actors as competent in the field of EU foreign policy could foster the will for action. Thus, prominent among the challenges that the new EU diplomatic service is facing is the need to establish a sense of ownership amongst all members. This, of course, is inextricably linked to the problem of the geographical balance of the EEAS's officials, since this is the most obvious determinant allowing a state proper representation in the new service. But the notion of ownership goes far beyond staffing issues and involves also the question of cooperation between EU diplomacy and national services. That is why the process of creating the EEAS as well as the implementation of the decision constituting the service was and is carefully watched by Member States as well as by EU institutions.

Personnel decisions taken in 2011, 2012 and 2013 by Catherine Ashton, the High Representative for Foreign Affairs and Security Policy, helped significantly reduce but not eliminate the disparities in the representation of specific EU Member States as well as taking the EU closer to the goal of having a third of its administrator level (AD) within the EEAS structure be national diplomats.⁸ EU member governments are involved in the recruitment process through their participation in the interview panels, but only when it comes to the highest positions within the EEAS headquarters and the Heads of the EU Delegation. Some blunders that undermine the generally positive trend have also been committed. There are questions about transparency in the EEAS structure and in some recruitment procedures, about insufficient access to the personnel decisions. And there are complaints about the submission—by EEAS management—of additional factors determining the achievement of the objectives specified in the decision constituting the EEAS.⁹ None of this helps build a sense of ownership of the EU diplomatic service.

The EEAS's internal life can also resemble an obstacle course. The excessive centralization of the decision-making process, coupled with workflow problems and, last but not least, heterogeneous rules for different categories of staff—for example, with regard to the principles of evaluation—are only some of the EEAS's major problems. These hinder the creation of a good working atmosphere and reinforce the internal inconsistencies of the service. Whereas the presence of national diplomats within the EEAS is critical to ensuring a sense of the service's ownership among the EU Member States, they cannot be thus perceived as someone

⁷ See: R. Formuszewicz, J. Kumoch, *The Practice of Appointing the Heads of EU Delegations in the Wake of Council Decision on the European External Action Service*, PISM Report, Warsaw, 2010.

⁸ See: R. Formuszewicz, D. Liszczyk, *The Staff of the EEAS: An Issue for the 2013 Review*, PISM Report, December 2012; "Member State Diplomats as Proportion of AD Staff, Taking into Consideration Already Announced Recruitments of 2013 Rotations" in "2013 EEAS Review," <http://eeas.europa.eu>, p. 19.

⁹ See: Z. Murdoch, J. Trondal, S. Gänzle, *The Origins of Common Action Capacities in EU Foreign Policy: Observations on the Recruitment to the European External Action Service (EEAS)*, ISL Working Paper 2012:09, Department of Political Science and Management University of Agder, pp. 14–25.

who can just drop in for a while; on the contrary, they are a necessary and vital component of a “corporate culture” still *in statu nascendi*.

Yet, when it comes to the relations between the EEAS and EU Member States, a new form of inter-institutional cooperation is emerging, especially between the rotating national presidencies of the EU Council and the diplomatic service. Of course not all of the presidencies share the same level of ambition on EU foreign affairs, but for those willing to be active, a path has been created. Today it has become routine for representatives of the countries at the helm—on behalf and at the request of the High Representative—to conduct political dialogue with third countries, represent the EU in international organisations and manage communication with the European Parliament. What is more, such undertakings do not harm the logic of the Lisbon Treaty—on the contrary, they seem to foster mutual trust and constitute the countries’ input in building the capacity and prestige of the EEAS.¹⁰

The day-to-day cooperation between the EEAS and all EU Member States requires, however, the development of rules, forms and, last but not least, incentives compelling for both parties. It is not true that so far nothing has been done in this regard. It seems, however, that if at the very top, the seeds of mutual cooperation—via, for example, consultations or information sharing—are sewn, at the middle and lower management levels there is no idea how to instil and maintain a positive and transparent interaction. Once installed, the informal code of conduct with regard to joint consultations, operational cooperation, agenda-setting, information-sharing or the preparation of common initiatives could—if supported by all actors involved—create inestimable added value.

Conclusions

CFSP is not an area where—at least for the foreseeable future—huge reforms will occur. As the implementation of the Lisbon Treaty runs into trouble, Member States are approaching a red line as regards the scale of integration they can condone. This means the EU has to make do with what it has. This will require a less cautious and conflict-shy approach to the internal life of the EEAS and the relations between the service and the Member States. CFSP is an instrument that ought to serve the EU Member States. As long as there are doubts about that, or indeed a suspicion that it serves just a select few, there will be no strong conviction that joint action can provide added value. The positive interactions between the EEAS and the national diplomacies that have spontaneously developed in response to the needs of the hour should be more widely adopted to build mutual trust and a sense of ownership in the difficult process of shaping and implementing EU foreign policy.

Opening channels for dialogue and consultation and boosting the transparency of the functioning of the EEAS are the principal prerequisites needed to cement the perception of the EU diplomatic service as an added-value within the CFSP set-up. As creativity, strategic thinking and flexibility are injected into the bloc’s diplomatic activity, Member States and the EEAS should have no problem with inventing methods of cooperation and pooling common efforts tailored to the needs of the moment. Such an approach is furthermore recommended as the geographical balance within the EEAS falls short. Whilst this balance is important, it is conceptually elusive and even if it were achieved would be no guarantee that a sense of EEAS ownership emerges. The question whether the existing stakeholders will take advantage of the service’s positive tendencies or whether the situation requires a generational change remains open.

¹⁰ See: A. Gostyńska, D. Liszczyk, “Supporting Presidency: Poland at the Halfway Mark,” *EUObserver*, 12 October 2011; A. Gostyńska, D. Liszczyk, “The ‘Supporting Presidency’: A Model of the Rotating Presidency’s Activity in the European Union’s External Actions,” *Bulletin PISM*, no. 55 (272), 31 May 2011.

Visegrad Four Cooperation: Sufficient Reason for Its Existence?

Dariusz Kałan

When, almost 30 years ago, Timothy Garton Ash asked in the title of his famous essay “Does Central Europe exist?,” he only exposed the more general attitude of Western societies, for whom everything east of Germany was an indefinite blank spot on the map; the area ironically described by Czesław Miłosz as “*Ubi leones* land.” Today, however, Central Europe, after its great changes in 1989, 1999 and 2004, has been undoubtedly promoted to become a recognised part of the Western world, having its own strong political and cultural identity that seems to be more and more attractive for foreign observers. Having established that Central Europe actually exists, then, it is now necessary to ascertain what it actually is.

History offers plenty of definitions. One strand of thinking says that Central Europe is synonymous with *Mitteleuropa*, the concept that was put into motion during the First World War by Friedrich Neumann and only served to highlight—in spite of the region’s multilingual and multicultural character—its domination by Germany. Others have argued that Central Europe was in fact born in the Habsburg Empire and pertains only to the former territories of Austria-Hungary. Supporters of culinary impressions repeat, straight faced, a popular saying that Central Europe is everywhere where you can have *Apfelstrudel*. With this troublesome multitude of concepts it is quite reasonable to follow Josef Kroutvor’s definition from another iconic essay: “Central Europe is a geopolitical term, a hybrid, which changes throughout history with the situation of the biggest powers.”¹

If Central Europe is something historically unstable and dependent on external circumstances, it is easy to define it in the current political situation: it is the area between the Baltic and Adriatic with its heart in four states, the members of the Visegrad Group, that have formed the *avant-garde* of the region’s western integration. However, the fluidity and contingencies of the region not only gives it the freedom to search for its current definition, but provokes questions about its future, too. How will Central Europe look in 10 or 20 years? Will its situation again be subordinated to the whims of the biggest powers? It is a question that can only be answered with an eye to the possible external factors (connected with security, political importance in the EU, geopolitics and relations with non-European countries), as well as the internal opportunities and threats arising particularly from the regions’ diversity. Here, then, are the five questions that will define the future of Central Europe.

Question No. 1: Is Cooperation Possible Within the Region?

For a contemporary reader, this question is potentially groundless. The last 20 years have showed that even with all of the differences in national interests, the four Visegrad states are generally able to avoid embarrassing disputes and prefer rather to search for fields of common activity. It should never be forgotten, though, that smooth cooperation is by no means a given. The post-1989 period is the first time in history that relations in the region have not been based on hegemony, domination, fear, or permanent tension. Instead, the four have succeeded in building stable relations on mutual understanding and respect, an achievement that Central European enthusiasts from the interwar period could have only dreamed about.

This, however, does not mean that the positive juncture will persist. Petty nationalism, historical resentments, minority problems—all of them sooner or later resurface, especially in

¹ J. Kroutvor, “Europa Środkowa—anegdota i historia,” in: J. Baluch (ed.), “Hrabal, Kundera, Havel... Antologia czeskiego eseju,” Universitas, Kraków, 2001, p. 227.

an era of economic turmoil. This explains the calls for the setting up of a common Central European political bloc, one based on the model of the proposed federative *Międzymorze (Intermarium)*, that would define common interests, fight for them in the West, and hold in check national egoisms. An entity that would, in other words, be called to life to be both more formalised and engaged than the existing Visegrad Group. But since the current juncture is induced by external factors, the foundations for such a bloc would be weak.

The real stimulation for cooperation cannot be a new super-bureaucratic statism or formalistic legalism, but rather good, shared infrastructure and strong civic and personal contacts. Today, such things are surprisingly weak. It is challenging to get from one Central European city to another, and those in one country know very little about the history, past or present of their neighbours. These factors are potentially much more treacherous to the future than a non-centralized political mechanism. They can be easily used by populists who are always happy to exploit a lack of popular knowledge for their own purposes. In fact, as dialogue and exchange between the societies of the region stagnate, relations would be left in the hands of politicians. This would severely undermine the Visegrad Group's potential for development, not least in the context of the European Union.

Question No. 2: Are the CE States Able to Work Together as a Region in the EU?

The Visegrad Four, with its non-institutional, informal character, successfully counterbalances the central-command style of the EU system and gives proof that it is possible to sustain cooperation for 20 years for reasons of purpose and passion, not out of cold obligations arising from signed treaties. Moreover, even if one limits Central Europe only to the V4, it would turn out that in the EU there is a powerful structure with nearly 65 million people, substantial gross national income (\$260 billion) and the same number of voices in the current voting system of the EU Council as France or Germany. Indeed, these numbers are impressive, but does that really mean that the V4 states are able to work together efficiently in the European forum?

It is fair to say that in their thoughts about the future of Europe, the Central European states should be focused on two vital issues. First, with the historical experience of their countries in mind, regional leaders could be expected to push for the reinforcement of the EU's common security policy by, for instance, introducing it as part of so called permanent structured cooperation between smaller groupings of Member States. In fact, one may be still surprised why Central Europe—the most unstable part of the continent in the 20th century—has not yet emerged as an *avant-garde* lobby. At the same time, though, following the saying that no one ever takes care of you better than you yourself, the region should give a clear example by increasing its public spending on defence, which right now at around 2% of GDP on average is extremely low. Engagement in the EU's neighbourhood is the second obvious focus for the V4 countries, which together make up part of the EU's eastern borderlands. The Balkans of the 1990s still serve as an example of how incalculable a turn developments in the EU's surroundings may take if left beyond control.

There is the pressing question of managing economic change, too. Here, however, lies the greatest danger for the region. There are strong divisions between the four countries, not only in terms of currency, with Slovakia now a member of the Eurozone, but also in regards to more fundamental issues, such as deepening European integration or measures to be taken to counteract the economic crisis. If Central Europe did not succeed in working better collectively, it is very likely that the scenario that many are afraid of—the creation of a “two-speed Europe”—will be played out in the region, dividing it into a pro-European heart and a non-influential periphery. For both sides, this would be detrimental: one side will have frustrated neighbours across its borders, while the other will have to find some adequate alternative to its diminished European activity.

Question No. 3: Is Central Europe still between Germany and Russia?

Geopolitics still matter. So, too, does history. And yet nowadays it tends to be forgotten. In that sense at least Fukuyama was right—the period post-1989 did mark “the end of history.” Sadly, it has been a consistent theme of the past that temperatures in Central Europe tend to rise when the two great neighbours and exponents of different civilizations—Germany and Russia—start to get along with each other over the heads of the CE states. It is understandable that today such thoughts rarely occur. Germany is not only a stable and reliable democracy but also the most important economic and political partner for almost all regional countries. Russia in turn seems to have already replaced military power with economic and energy tools, becoming a more predictable partner.

However, to keep balance in the space between these two countries, it seems reasonable to consider a two-track strategy for the region: to strengthen its own economic, energy and military potential, as well as to maintain the integrity of both the EU and NATO, since this follows the two usual approaches that in the past were taken to stave off the bleaker scenarios. The first was always to engage at least one of the two in a broader arrangement that reached beyond its narrow national interests. The second was to find an external guardian and protector. Neither of these approaches was particularly successful, of course, but an appreciation of past missteps creates greater self-awareness and regional cooperation. There was certainly a third strategy, namely to get closer to either Germany or Russia, making one the guarantor of regional interests, but it always cost too much by way of dependence, a remark pertinent for the past and present.

As for potential dangers, Russia has historically played a good game of divide and rule in the region. The Visegrad countries are able to speak with one voice only very rarely with Russia. This is due to different historical experiences and cultural ties, economic interests, and informal influences. But in their relationship with Moscow, they must avoid the Visegrad double-speak on Russia in the EU fora as well as in preventing Russian pressure from affecting their contact with other Eastern European countries. Therefore, in recommending to the Visegrad countries to engage in smart bilateralism with Russia, one should note that with Germany there is a different problem. The huge dependence on trade with this country, coupled with its *de facto* leadership in the EU, are resulting in growing uncertainty about what will happen if the economic crisis eventually hits there. For Central Europe, this would be not only an economic blow but also a good reason to start thinking again about geopolitics, since a weak Germany leaves them much more exposed to this country's strengthened cooperation with Russia.

Question No. 4: Is the CE Still a Key Point on the Map of the World?

There were actually times when Central Europe was considered to be one of the global centres. Csaba Gy. Kiss, a Hungarian historian and essayist, put it plastically, saying: “Here, in the throat of an hourglass, from this to the other direction flew avant-gardes, armies, cultural goods, deadly bacteria and ideas supposed to save the world”. Without going back to the World Wars, which started there, the highpoint for Central Europe was the cusp of the 1990s, when all eyes were focused on the region's return from a centrally planned economy. But things have changed now. The region's time has gone, irrevocably, which means that by losing global attention, it is also losing out on the attention of the global powers, including the U.S.

Since the EU is desperately searching for a way out of a deep economic and institutional crisis, resulting in sharing a very small part in the resolution of global challenges, the U.S. has particularly focused on building a stronger multipolar order with other partners, the BRICS group or Turkey, whose potential has been increasing, imposingly. Central Europe, in turn, has since joining the Euro-Atlantic structures been considered by American decision-makers as a safe and peaceful place with no real security threats. The Obama tenure in particular proved the

region's declining importance in U.S. policy. It seems thus that, according to Washington, Central Europe is a kind of mission accomplished.

The U.S. has not only shifted its interest away from the continent but also become—as put by Ivan Krastev—a “retired power,” only occasionally undertaking action in the Middle East or North Africa. Operating under a set of constraints very different from those of 20 years ago, Central Europe and the U.S. will sooner or later have to build up a new partnership that will not be so engaging towards the Americans. For the region, a stark choice will present itself: take greater interest in global issues or face isolation. This certainly may be a chance for the region to establish its own political identity and to pull itself out from “the throat of the hourglass.”

Question No 5: Do the CE States have the Courage and Intellectual Resources to Create the Future?

It was Jürgen Habermas, the leading German philosopher and sociologist, who coined the famous *bon mot* that Central-Eastern Europe is unable to produce anything that would push global development in new directions. Although phenomena such as the “Solidarity” movement would seem to contradict this thought, today it is, indeed, quite visible that the intellectual discourse about the future of Europe has shifted to the Western part of the continent. One may claim that the debate is dominated by the language of economics and has very little to do with other ideas, nevertheless sometimes—especially in a time of what seems to be an insoluble crisis—it is worth starting to listen more carefully to thinkers other than economists.

In the 1970s and 1980s, which from today's perspective seem to be the “golden age” of Central European thinking, intellectuals such as Kundera, Miłosz, Konrad and Havel made an effort to seek out a basis for the Central European identity and open the democratic imagination of Europe. Hard-headed supporters of “historical facts” will surely argue that books never changed history, and as abstracts they are at best fodder for hypersensitive aesthetes, but not for political decision-makers. It should, however, be recalled that in 1989 the truest “historical fact” of all materialised: Central Europe returned to the map of the free world. Without ideas to pave the way, it will be much harder collectively and individually to take advantage of the historical opportunity that created.

We need ideas today that would not be limited to the question of how much money the EU should give to Greece or how the EU Member States are supposed to cut their national budgets. In fact, Europe as we knew it before does not exist any longer. The whole continent is in a process of dramatic change, but hardly anyone is aware where it is heading. If Central Europe wants to be considered a player, it should take part in the search for a broader vision.

Public Opinion: Does Political Fragmentation Mean Popular Fragmentation?

Ryszarda Formuszewicz

Europe is facing a substantial downturn in social support for the European integration process. This worsening attitude towards the European project, combined with low trust in national policymakers, creates fertile ground for the rise of Eurosceptic and protest parties. According to the twice-yearly Eurobarometer surveys, trust has significantly diminished in European institutions, and the future of the European project seems uncertain to many Europeans.¹ Furthermore, this downward trend in the EU's image in European public opinion appears persistent and widespread, giving considerable cause for concern, as this distrust characterises the majority sentiment in 20 EU countries. An absolute majority of respondents in one recent Eurobarometer survey expressed distrust of the European Union in the EU15 countries, the euro area Member States, and also in the euro-outsiders category.²

Besides the Eurobarometer reports, a recent survey conducted by the Washington-based Pew Research Center drew a bleak image of the European community on the basis of interviews in eight Member States in March 2013.³ In comparison to the previous year, only 45% of respondents viewed the EU favourably. The results in the case of France were especially worrying, where a positive view of the European Union was shared by only 41%—even lower than the United Kingdom's 43%. Admittedly, a positive view was indicated by 60% of Germans and 68% of Poles. Nevertheless, a more general downward trend was visible in reported perceptions of EU membership's impact on national economies: just 41% of Poles perceived a positive effect, while in Italy, only 11% agreed with this opinion.

Still, in the rush of pessimism that followed the publication of these figures, it may be that some important nuances have been missed. Although the general downward trend is indisputable, the precise link between political and popular fragmentation is still unclear, and thus whether a state's "insider" or "outsider" status has an impact on public opinion. For one thing, it is clear that the crisis, although asymmetric in its effects on individual states, has reactivated old problems that are apparent Europe-wide. For another, there are serious question marks about whether the distinctions made by pollsters between different Member States ("old" and "new," euro "pre-ins" and "outs") are accurate and helpful or whether they in fact produce new divisions. Still, if an EU-wide solution is desirable, the hopes currently pinned on the 2014 European elections should be treated with caution.

The Euro-crisis: A New Twist on an EU-wide Problem

Critical assessments have accompanied the European Project since its beginnings, and the ebbs and flows in integration have certainly been influenced by contemporary prevailing attitudes towards geographical expansion and deeper cooperation. Nevertheless, social and political elites EU-wide were long able to develop the European project freely because of a significant level of public disinterest. With the public's growing political awareness in the wake of the euro-crisis, popular opinion now increasingly influences the European political process,

¹ See: Standard Eurobarometer 78, Autumn 2012, "Report Public Opinion in the European Union," http://ec.europa.eu/public_opinion/archives/eb/eb78/eb78_en.htm. The analysis covers the period before the accession of Croatia to the EU on 1 July 2013.

² *Ibidem*, pp. 76–77.

³ Pew Research Center, *The New Sick Man of Europe: The European Union*, 13 May 2013, www.pewglobal.org/European-union-the-latest-casualty-of-the-Euro-crisis.

and the political feasibility of new ideas is being tested almost for the first time in the public arena.⁴ If the growing awareness of European politics thanks to the economic downturn is to be blamed for the end of the so called permissive consensus, therefore, it is an EU-wide phenomenon.

The economic downturn has been damaging to public support across the bloc, and the correlation between the economic situation and the EU's image is strong.⁵ Moreover, common political manoeuvres have long influenced domestic images of the EU, such as the "europeanisation" of political accountability for unpopular measures and the "nationalisation" of the credit for the benefits. It is in this area that representatives of mainstream national parties across the bloc have played to anti-European sentiments. By the same token, a common practice among politicians is to invest significantly less in European affairs because of the focus on domestic issues during national election campaigns. Another factor that cannot be underestimated is the impact of media coverage on European integration, in particular, the "Rupert Murdoch effect."⁶

Further widely cited grounds for the diminishing trust in European institutions is the democratic deficit within the EU, something which the current crisis and its political implications have deepened but not in a geographically specific way. Across the EU, the relationship between European institutions and national governments has been put under pressure, and the democratic legitimacy of decisions again put in the spotlight. One example of this is seen in the debate about the active role of the European Central Bank, which was both welcomed and contested. Today, even if more than a third of Europeans cannot name three of the European institutions, 27% were nevertheless able to name the ECB, which is especially meaningful in comparison with the mere quarter in the case of the European Commission.⁷ For the guardian of the treaties and the centre point of the Community Method, that is a rather sobering result. With the majority sharing the opinion that their voice "does not count in the EU," the only positive signal is that the number increased of those who think, to the contrary, that their voice does matter in the EU. The predominant opinion is that national interests are not properly taken into account—shared by 55% of respondents in countries outside the euro area, 54% in the EU-12 countries (or "new member states"), 51% in EU15 countries and by 50% of Euro area respondents.⁸

Furthermore, an expanding recourse to intergovernmentalism has led to greater awareness of the tense relationships between Member States, despite the rhetoric of integration and harmony. One consequence has been a "bilateralisation" in perception that has made it difficult to differentiate between a critical stance on the EU and one on Germany, which is seen as a hegemon imposing austerity measures and the leader of the "creditors camp" within the Eurozone. Anti-German resentment has permeated the already Eurosceptic mood, leading to two possible outcomes: first, a well-functioning EU could be seen as a counterbalance to the dominant position of Germany—"More Europe, Less Germany;" and, second, if the influence of Germany is seen as unavoidable, the image of the EU and the level of trust in it could consistently suffer. The friction between creditors and debtors among the Eurozone members generally negatively affect the way all Europeans view the EU.

⁴ W. Knelangen, "Euroskepsis? Die EU und der Vertrauensverlust der Bürgerinnen und Bürger," *Aus Politik und Zeitgeschichte*, Nr 4, 2012.

⁵ J. Zalc, "The Europeans' Attitudes about Europe: A Downturn Linked Only to the Crisis?," Schuman Foundation, *European Issues*, no. 277, 6 May 2013, p. 9.

⁶ O. Daddow, "The UK Media and 'Europe': From Permissive Consensus to Destructive Dissent," *International Affairs*, vol. 88, no. 6, November 2012.

⁷ European Parliament Eurobarometer, "Two years to go to the 2014 European elections," 20 August 2012, www.europarl.pl/resource/static/files/eb77_4_ee2014_synthese_analytique_en.pdf.

⁸ Standard Eurobarometer 78, *op. cit.*, pp. 57–58.

The feeling that hardly anything depends on decisions taken by citizens at the ballot box is also reflected in polling results across the EU, although especially in the southern EU countries. The now defunct technocratic government in Italy led by former EU Commissioner Mario Monti was appointed under external pressure. An Irish prime minister had to explain to his domestic electorate how a drafted Irish budget plan ended up in Germany after it was revealed that the plan had been seen by the finance committee of the German Bundestag during the process of approval for a rescue package. Of particular significance was the failed attempt in autumn of 2011 by Greek Prime Minister Georgios Papandreou to secure a mandate from the Greek electorate for tough financial restructuring, in which he was forced to cancel the referendum. Still it is not just the nationals of these countries who may be put off by such manoeuvres.

Finally, the crisis has revealed the general weakness of democratic procedures at the national level, characterised by a marked convergence in competing parties' political programmes. The motto "there is no alternative" or "TINA" undermines the essence of a political discourse that enables choice—Democracy without Choices (Ivan Krastev). In general, only a minority of Europeans trust their national institutions: 27% of respondents tend to trust their government, while 68% distrust it; 28% trust their country's parliament, versus 66% that do not.⁹ Half of Europeans (50%) believe that their voice counts in their country, while 47% believe that the opposite is true.¹⁰ All these elements work in favour of Eurosceptic and protest parties and could yield significant results in the 2014 European Parliament elections; they also could support other manifestations of organised opposition towards the European project.

A Problem of "Insiders" and "Outsiders"?

These developments have made old semantic and symbolic questions more significant. During the Cold War, "Europe" simply meant Western Europe. Later on, and especially after the Eastern enlargement, the European Union was equated with the whole continent. Yet, the current crisis has given rise to a tendency to identify the European project with the common currency, dividing Member States into insiders and outsiders. With the five new Member States that have already joined the Eurozone, and with Latvia acceding soon, the formerly strong dividing line between the "EU-15" and "EU-12" has become almost irrelevant.¹¹ Rather, the significance of the internal divide between euro-ins and euro-outs is growing, with the first group torn additionally between north and south, creditors and debtors, and the latter with different stances toward the euro: those who intend to join, and the resolute outsiders.

But while the Eurobarometer reports differentiate between the EU-12 and EU-15, as well as between euro zone members and non-members, this does not nearly reflect the full breadth of the internal dynamics between the Union and its members. The explanatory value of the results remains limited in the absence of close examination of the distribution of opinions within the Eurozone as well as within the bloc of non-members. After all, there are fully different background factors to explain public attitudes in the UK, where the taboo of withdrawal has been broached, and in Poland, where membership in the EU is indisputable. As for the Pew Research Center, it surveyed only eight Member States (Italy, France, Spain, Britain, Greece, Germany, Czech Republic, and Poland), with a slight overrepresentation of the south and a side-lining of the Benelux and Scandinavian Member States. Consequently, the findings display primarily the drifting apart of the Franco–German engine and particular relations with Germany, while other significant interrelations remain in the background.

⁹ *Ibidem*, p. 37.

¹⁰ *Ibidem*, p. 57.

¹¹ New Member States that already joined the club are Slovenia (1 January 2007), Cyprus and Malta (1 January 2008), Slovakia (1 January 2009) and Estonia (1 January 2011). Latvia will follow on 1 January 2014. Lithuania intends to join the Eurozone in 2015.

Further, Eurobarometer surveys as to attitudes inside and outside the euro area are muddy. The latest survey results reveal no such divisions.¹² This contrasts with the interpretation delivered in the first report, which indicated the existence of a real divide—even a chasm—on certain topics, which was confirmed by differences as large as 30 percentage points concerning key topics.¹³ Yet, the issues addressed in the first report, such as the euro as an element of European identity, were better suited to display such differences and to give an impression of division. Respondents from the non-euro area identified (54%) as a national of their country only; whereas in the euro area, respondents declared (48%) that they felt both national and European. The single currency was the most cited element of identity among respondents in the euro area (54%), whereas it came fourth (with geography) in the non-euro area (24%). For the outsiders, the main element of identity was values of democracy and freedom (41%). In general, there are some variations between the Eurozone and those outside the Eurozone with regard to values that should be defended as a matter of priority.

Although there is consensus about the protection of human rights (EU27 56%), solidarity between EU Member States has more support in the Eurozone (37%, compared with 32% outside), while freedom of speech is given higher priority in the non-euro zone states (36%, compared with 29% of those in the Eurozone). As to the political response to the current crisis, the current method of coordinating economic, budget and taxation policies clearly has more support in the Eurozone (39%) than in the non-Eurozone (28%). However, there are no notable differences with regard to other priority policies; tackling poverty is in first place in both zones (54% in the Eurozone, 52% in the non-Eurozone). Improving consumer protection (30%) and security and defence policy (28%) are cited by identical proportions of respondents in both areas.¹⁴

Interestingly, there are differences in the perceptions of European democracy. The way it works is considered satisfactory by an absolute majority of respondents within the EU-12 countries (54% “totally satisfied”, versus 33%) and by a relative majority of respondents in countries outside the euro area (48% versus 39%). In contrast, a relative majority of respondents in the EU15 countries (48% “total not satisfied,” compared with 42%) and euro area countries (48% compared with 43%) express their dissatisfaction.¹⁵ The future role of the EP is seen in a different way, with more respondents in the Eurozone expecting that its role will remain stable or grow (absolute majority of 56%), while respondents outside the Eurozone are more likely to see a less important role in the future. However, in both categories, the absolute majority hope that the EP’s role will be strengthened in the future (56% and 52%, respectively). Nevertheless, as to expectations of a “less important” role, the results are 18%, compared with 27% of respondents in the non-Eurozone.¹⁶

Finally, 53% of Europeans support the economic and monetary union, and this support is dominant in 19 Member States.¹⁷ A majority of respondents oppose the euro in seven non-euro area Member States: UK, SE, CZ, DK, PL, LV, LT.¹⁸

¹² Parlemeter European Parliament Eurobarometer, “Focus on the euro zone and the non-euro zone;” Brussels, 14 February 2013, www.Europarl.Europa.eu/pdf/Eurobarometre/2013/parlemeter/eb78.2_parlemetre_focus_Euro_non-Euro_en.pdf.

¹³ Parlemeter European Parliament Eurobarometer, *op. cit.*, p. 2.

¹⁴ Parlemeter European Parliament Eurobarometer, *op. cit.*, p. 3.

¹⁵ Standard Eurobarometer 78, *op. cit.*, p. 54.

¹⁶ Parlemeter European Parliament Eurobarometer, *op. cit.*, p. 14.

¹⁷ Standard Eurobarometer 78, *op. cit.*, p. 86.

¹⁸ Standard Eurobarometer 78, *op. cit.*, p. 87

Conclusions

Given the pervasive problem of the democratic deficit, hopes are pinned to the upcoming European elections (22–25 May 2014), but awareness of the risks seems not to be widespread. By all means, a desirable increase in voter turnout, which has continuously worsened since 1979, could lead to expanded representation of protest and Eurosceptic parties. The mobilisation of the electorate with European issues could be a double-edged sword. Furthermore, the default assumption that voters would be willing to abandon the current practice of using the European election as a means to judge the politics of their current national government seems rather unconvincing. On the contrary, the probability that the voters will punish the political mainstream with a “vote of no confidence” is rather high. One should pay particular heed to the result that a clear majority of respondents in all of the Member States tends not to trust political parties (80%).¹⁹

Moreover, it is worth considering what will be the follow-up damage in terms of public attitudes if the electorate should realise that there is a gap between expectations and outcomes determining the EU’s new political setup and programme. Despite the final turnout and the results achieved by different political forces, it will be the process of composing the new European Commission, including the High Representative of the Union for Foreign Affairs and Security Policy, that will be decisive for the credibility of the political re-start. Even if symbolic elements are certainly desirable for promoting the European project, the significance of the election will not be an end in itself. What political leaders have to prove is their ability to deliver ideas that are both expressive and feasible, with careful consideration of requirements for legitimacy of output in times of crisis.

Despite expectations for the European elections of 2014, the real test will come at a later stage with possible national referendums. The vote on Britain’s EU membership is already announced, should the Conservative party win the next national election. One could hardly expect significant changes in the future shape of the integration project without direct legitimisation by the citizens of some Member States. Still, an absolute majority of Europeans do not think that it would be easier for their country to face the future outside the EU, and this opinion is expressed in 24 out of the then-27 Member States. The only exception is the UK, where an absolute majority of respondents (54%) say that their country would fare better alone.²⁰ With the step-by-step crystallization of the idea of referendum on EU membership, British respondents who report they would vote for staying in the EU number fewer than those who would prefer to reload a modernised version of the policy of splendid isolation.²¹ For now, however, optimism about the future of the EU is stronger among respondents within the NMS12 (58%) and countries outside the euro area (51%) than in euro area countries (48%) or the EU15 (47%).²² Expectations and improvement ideas seem to lead in different directions. One of them could lead to the Rubicon, with UKIP and others already encamped on its bank. Without a true, joint re-commitment to the European project, reinforcements could follow.

¹⁹ *Ibidem*, p. 38.

²⁰ *Ibidem*, p. 49.

²¹ For this trend, see: “Recent Results in Politics: Europe (referendum),” <http://yougov.co.uk/news/categories/politics>.

²² Standard Eurobarometer 78, *op. cit.*, p. 96.

Poland: A Problem Shared?

Since the onset of the Eurozone debt-crisis, Poland's approach to the EU has gone through at least three distinct shifts as it responds to the deepening of Eurozone integration and the changing locus of power within the bloc. The first of these saw Poland acting as the bloc's *equality supervisor*, defending the principle of parity between governments, particularly as guaranteed by the supranational institutions. During its presidency of the Council in the second semester of 2011, it forged a successful partnership with the Commission and Parliament. Yet that effort ended with the British "veto" at the December summit and with the signature of the fiscal compact, a parallel legal architecture potentially excluding non-Euro members. For Poland, signing the compact meant still belonging, but to a different kind of EU.

In this more exclusive and intergovernmental EU, there followed a period of *accelerated catch-up*, during which Poland, one of the few countries to be weathering the financial storm in both economic and political terms, emerged as a leading player in the bloc, even without being a "core member." This has been at the encouragement of other Member States, notably a Germany short of true European partners and keen to involve its neighbour as a "pre-in" to the Eurozone. However, it also strained Poland's resources and its relations to outliers like the UK, leading in turn to an inadvertent weakening of the supranational bodies and subjecting Warsaw to demands to nail its colours to the mast as regards its own timetable for Eurozone entry as well as intensified scrutiny of its credentials as a "good European."

And today? Poland now is said to be "keeping its foot in the door." Following the let-up in the Eurozone crisis during Germany's general election period, and the apparent victory of muddling through, it has been enough simply to secure ad hoc involvement in euro decisions. The pressure on Poland to decide whether it is "in" or "out" has thus diminished somewhat. But, to coin a phrase, a club that allows its members to keep a foot in the door may not be one worth belonging to: Poland has been able to practice this policy only because a lack of strategic direction from Brussels and Berlin means it has not yet had to give a long-term commitment or a roadmap. With the choices, trade-offs and implications of (in)action becoming harder to judge, the pitfalls of this situation for Warsaw are murky but large.

In seeking to negotiate its way through this changed context, Poland may fall into a policy of *parallelism*, encouraging the Eurozone members to deepen their cooperation in the hope that this will once again make membership an attractive prospect for voters, whilst attempting to keep up with the bloc through unilateral reforms to the domestic economy. This, and a policy of hedging against a Eurozone downturn by reaching out to new markets, might well permit Poland to take a proper and dispassionate decision about the timing and even the terms of accession further down the road. But it is not so far removed from the policy pursued by the UK—"you go your way, and we'll go ours." Moreover, this approach will not seriously allay the need for Poland to be involved in Eurozone decision-making. Thus, inevitably, the question of Poland's status will again raise its head.

When this happens, Poland will have to work against the tendency of Eurozone governments to "unilateralise" its European dilemmas. This collection of essays has therefore explored the means of *mutualising these problems*, encouraging other Members to view Poland's relations with the Eurozone core as part of a broader systemic problem of insiders and outsiders. Each of the three ideas sketched out in the present volume brings with it a narrative and set of practices that Warsaw might harness to achieve this.

The notion of *Laboratory Europe*, for instance, is underpinned by shared institutions designed to overcome structural deficits between catch-up countries and incumbents. *Acquisitive Europe* expands its resource base via enlargement policies, whether in the classic form or in a weaker form towards the neighbourhood or indeed from a differentiated core

outwards (to Poland). And *G-Whatever Europe* is carried out through formats such as “enhanced cooperation” between a small group of Members (potentially including Poland) or through sub-regional cooperation, such as in the Visegrad format.

These three sets of ideas thus provide a toolbox from which Poland may borrow if it wishes to fight back against the assumption that its European dilemmas can be resolved unilaterally. However, as shown by this collection of essays, these ideas contain not just supporting arguments for Poland but pitfalls. The question therefore is how to pick from and mix these ideas to Poland’s best advantage without creating internal contradictions or an impression of inconsistency.

More fundamentally, Polish policymakers would have to assess how sensible it is to build a long-term European policy on the basis of its current dilemmas. After all, each of the ideas set out here are based on the assumption that the principal challenge to Poland is the emergence of a set of insider/outsider relationships in the EU—an organisation whose core Warsaw wishes to join. Shifts in the international environment, the emergence of new European organisations, a significant change in Poland’s international standing—all these things may alter that basic calculus.

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