

Political trends and priorities 2011-2012

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EPC PROGRAMMES ON
EU INTEGRATION AND CITIZENSHIP
EUROPE'S POLITICAL ECONOMY
EUROPE IN THE WORLD

The EPC's Programme on EU Integration and Citizenship

With the passing into force of the Lisbon Treaty, the new policy focus is on adapting the EU's institutional architecture to take account of the changed set-up, and on bringing the EU closer to its citizens.

Continuing discussion on governance and policy-making in Brussels is essential to ensure that the European project can move forward and respond to the challenges facing the Union in the 21st century in a democratic and effective manner.

This debate is closely linked to the key questions of how to involve European citizens in the discussions over its future; how to win their support for European integration and what are the prospects for – and consequences of – further enlargement.

These questions are in turn linked to the search for appropriate and coherent policy responses to the challenges posed by Europe's increasingly diverse societies and rising immigration.

This programme focuses on these core themes and brings together all the strands of the debate on these key issues, addressing them through a number of fora, task forces and projects. It also works with other programmes on cross-cutting issues such as the links between the EU's internal debate on migration issues and the wider one on globalisation and migration, the international ramifications of the debate on intercultural dialogue, and the integration of the Balkans in the Union.

The EPC's Programme on Europe's Political Economy

Taking the steps needed to make the EU a world leader in today's globalised economy and ensure the sustainability of the European economic and social models form the core of this programme's activities.

Europe's ability to create wealth on a sustained and sustainable basis, while at the same time ensuring employment growth, equitable income distribution and the efficient provision of public services, will depend on the necessary reforms being introduced to respond to the challenges of globalisation, the ageing of Europe's population and climate change.

The Lisbon Agenda has provided a good starting point, but Europe needs to look now at reinvigorating this process to achieve its goal of becoming the world's most competitive economy.

This programme addresses these issues through a number of fora and task forces. It engages in, and stimulates, debate on economic policy in general and focuses on specific issues such as the internal market, innovation, better regulation, energy and lifestyle risks. It also works with other programmes on cross-cutting issues such as the economic integration of migrants, the EU budget and the Union's relations with Africa and Asia.

The EPC's Programme on Europe in the World

Building EU foreign policy over the past twenty years has been one of the most challenging and difficult aspects of the process of integration and, despite the innovations introduced by the Lisbon Treaty, is still far from meeting the expectations of European citizens and of the rest of the world. At the same time, the EU's role in international politics is challenged politically and economically. The rise of new powers, an increasingly fluid system for global governance, the growing internationalisation of domestic politics and policies, all put the EU under the spotlight to deliver.

The EPC's Europe in the World Programme, supported by the Calouste Gulbenkian Foundation, takes a dual approach. EU capabilities in foreign policy and its political will to play as a global actor are essential to understand the ways in which the Union engages with the world, by analysing the External Action Service, the use of the EU's foreign policy tool box, and political dynamics in Europe.

Through seminars, public events, and special projects, the Programme also examines the EU's 'performance' in certain parts of the world (especially in the Balkans and in the EU's neighbourhood, but also in Asia) while addressing thematic and cross-cutting issues, such as foreign policy and international migration, international justice, human rights.

For details of the EPC's activities under these programme, please visit our website: www.epc.eu

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I. Introduction

2010 has been an *annus horribilis* for the European Union (EU) and its Member States. In the first half of the year the Greek sovereign debt crisis developed into a fully-fledged euro crisis, which has not only shaken the common currency and spread to Ireland, but has also cast into doubt the overall prospects for the European integration project.

Today's EU is burdened by an increase of national focus, an increasing distrust among Member States and a growing gap between national capitals and 'Brussels'. The global financial and economic crisis had already provoked self-contemplation, national egoism, and even some unilateral reactions. But the effects of the European debt crisis are even worse as they go well beyond the realm of the economy.

The euro crisis and reactions to it have widened old cracks and opened new wounds between Member States and citizens, which will take time to heal and some scars are likely to remain. There is even a danger that the poisoned political atmosphere among EU countries and their citizens could bring the European construction to a standstill, because the European Union is still a project in the making and major reforms and new grand projects require the consensus and support of (almost) all Member States.

In the context of this deep crisis, the present paper provides an *ex ante* analysis of political trends and priorities in 2011 and 2012. The paper begins with a reflection on the major long-term political and economic trends, which are likely to set the overall internal and external framework in which the EU will operate in the years to come.

Subsequently, the paper identifies a number of major priorities for 2011/2012 on the basis of key trends, which are expected to determine the Union's agenda in the years ahead. Three broad areas of concern are subject to the analysis: *Europe's political economy*, *Europe's role in the world* and the *quality of EU governance* following the entry into force of the Lisbon Treaty. This part of the paper is followed by an examination of the likelihood of changes to the EU's emerging agenda, taking into account risks and uncertainties which could fundamentally change the agenda.

The paper concludes with a summary of the main findings and conclusions.

The present analysis is based on the results of a project carried out by the European Policy Centre (EPC) for the European Economic and Social Committee (EESC) in the first half of 2010.

II. Analysis of trends and emerging policy priorities for 2011-2012

Long-term trends¹

There can be no doubt: the history of European integration since the early 1950s has been a remarkable success story. After the experience of two devastating world wars the European project has contributed decisively to peace, prosperity and solidarity on the old continent. Today, the European Union is omnipresent: there is virtually no policy area which is not directly or indirectly affected by decisions taken collectively in Brussels. Joint institutions, shared sovereignty and an unprecedented level of economic, political and social interdependence have tied Europeans closer together than at any time in their history.

But despite all its successes, past achievements – such as the Single Market, the abolition of borders, the euro, or the unification of the continent – are wearing off. Today the Union suffers from a lack of strategic orientation and risks losing attractiveness inside and outside Europe. After two decades of institutional reform and constant rounds of enlargement, the EU resembles a sedate tanker with a glorious history but without a command bridge steering towards its next destination. As a consequence, the European project has lost support both among ordinary citizens and increasingly also among political, economic, cultural and intellectual elites.

Many question the future added-value of European integration: what is the Union's new *raison d'être*? What is the EU's future added-value beyond the mere preservation of past accomplishments? In addition, the further development of European integration is hampered by a conceptual schism between and within EU countries. Contradictory and often irreconcilable views about Europe's future oppose each other, fostering mutual distrust and national ring-fencing – a phenomenon exacerbated by the effects of the current financial and economic crisis and the euro crisis.

In global terms, the EU and all its members are in relative decline – politically and economically. Europe is no longer in the centre of gravity and history, as global developments are increasingly shaped in other parts of the world. This geopolitical shift increases the pressure on Europe to fill the gaps and to rise to the new challenges of regional and world affairs. But the EU is not able to speak with one voice, which is necessary if Europeans want to see their common values, interests and historical experience reflected in a future system of global governance. If the Union and its members are not able to collectively and proactively respond to the challenges of a highly dynamic global environment the old continent runs the risk of gradual marginalisation and global irrelevance.

Economically, Europe is a major player, which has promoted and profited from economic globalisation. But the EU and its members are challenged by new economic players and by the negative economic, financial and social effects of the global crisis and the European debt crisis. The balance of economic power is shifting and Europe might feel the long-term consequences of the crises more severely than other world regions. As a consequence, Europe's economic and social model is threatened and many Europeans feel a sense of insecurity and anxiety – *Zukunftsangst* is becoming a widespread phenomenon among many citizens who fear that their living standards might drop.

In the coming years the EU and its members need to make long-term strategic choices with increasing costs if choices are delayed. The Union needs ambitious, yet realistic policy responses, which are concrete enough to address Europe's key challenges. The effects of the global crisis, growing competition from developed and developing countries, resource scarcity, the increasing complexity of national and transnational security risks, demographic trends, public finance imbalances and climate change can only be effectively addressed at the EU level.

Three broad areas will be of particular concern in the years to come: (i) Europe's political economy; (ii) Europe's role in the world; and (iii) the quality of EU governance following the entry into force of the Lisbon Treaty. But what are the key trends and priorities in these three areas?

Europe's political economy

There are four major trends which will influence and shape economic, social, and environmental EU policy priorities in the near future:

- increasing economic interdependence within the EU, and especially the euro zone, but insufficient mechanisms to deal with associated risks;
- rising global interdependence and the internationalisation of policy issues;
- the reassessment of the effectiveness of EU policies in light of new challenges; and
- a range of threats to Europe's economic, social and environmental model.

Trend 1: Increasing EU interdependence

Recent developments have demonstrated that European economies are tightly interwoven, with no EU Member State being shielded from developments in another. This became clear in the response to the financial and economic crisis – no support packages for banks or fiscal stimulus programmes could ignore the cross-border spillover of any action. Within the euro zone, the Greek and Irish debt crises have further reinforced this message, showing clearly that one euro-zone country's difficulties have a euro-zone wide impact and have to be addressed collectively.

One direct impact is that the current discussion on euro-zone governance will continue in the coming year(s). The Commission and the Task Force led by European Council President Herman Van Rompuy have made a number of proposals concerning economic governance. These have been broadly endorsed by the European Council, although there is still missing clarity in a number of areas, for example what Treaty change might be necessary to move forward on a permanent crisis mechanism.

Current proposals include discussion of the tighter monitoring of euro-zone economies, a stronger enforcement of the Stability and Growth Pact and a crisis mechanism which is able to respond rapidly and effectively to future crises. However, it is unlikely that the current proposals can be translated quickly into action, given the time it takes to reach significant European decisions and the fact that some proposed changes potentially require Treaty modifications.

Linked to this is the wider consideration and implementation of mechanisms to prevent future financial crises, including the implementation of proposals for the improvement of transparency and supervision of financial institutions at EU level.

Finally, it is likely that we will witness further discussions on how macro-economic policies can be coordinated more effectively, including for example calls for further fiscal harmonisation. The management of public finances will also feature in this debate with the ideas of common EU debt and 'Euro-bonds' on the table again.

Trend 2: Internationalisation of issues

It is increasingly clear that globalisation has meant that a range of issues which were previously predominantly domestic now have an international dimension or are even issues which can only be dealt with effectively on a global level.

The issue par excellence which falls under this definition is climate change. While Europe has historical responsibilities to reduce its emissions, on a global scale the proportion of European Green House Gas emissions is declining, while developing countries' emissions are increasing rapidly. To achieve European climate change objectives thus requires that the EU manages to find a global agreement. With the failure of Copenhagen at the end of 2009, the EU will be trying again to move this agenda on in the next few years. However, there are signs of 'environment fatigue' inside the EU: the issue has been pushed down the priority list of European leaders who are struggling with

the impact of the economic crisis. It remains to be seen how far European leaders will push an ambitious agenda in this policy area, especially since the Cancún global summit did not advance the agenda significantly.

Globalisation also entails increasing flows of trade, investment and people. While the recession has caused a dip in these flows, it looks likely that globally these flows will continue to increase in the coming years. At the international level, this is resulting in discussions around currency and trade imbalances. Unfinished business includes the global trade agreement (WTO Doha Round). In many EU countries, the unease felt about the impact of globalisation is likely to be aggravated by the recession, for example in the reaction to migration.

Migration is likely to continue to be a key issue in the public debate, but with relatively limited EU powers to act collectively. Pursuing the development of forward-looking labour migration policies for Europe, with the ability to respond in a flexible way to the priorities and needs of labour markets, are called for in both the Europe 2020² Strategy and the Reflection Group report.³

The belief follows that labour immigration would help relieve the forecast demographic pressures on Europe's pension, health and welfare systems as well as boost competitiveness. However, the context for political manoeuvre for common EU initiatives on labour migration is complicated by the impact of the global economic crisis and by reluctant electorates, even though the Lisbon Treaty has done away with the need for unanimity in the Council.

As a result, increased policy attention will fall on the possibilities of temporary forms of migration, including circular migration, an exploration of which is planned for in the Stockholm Programme. Joint EU action is much more likely to take place with regard to policing Europe's borders against irregular migrants, including a strengthening of the powers of Frontex.

The global competition for resources is also likely to heat up in line with the global economic recovery. This has implications for food, commodity and energy prices which are likely to increase. Food and energy security are again topics which will affect the EU and should reappear on the agenda.

Finally, the regulation of financial markets and institutions is likely to feature in global negotiations as well as within the EU legislative process. Given the global nature of these markets it is clear that on a wide range of issues real progress can only be made through international agreements, be it, for example, in areas such as taxation of financial transactions, or the regulation of hedge funds and credit rating agencies. However, the EU needs first to find a meaningful and ambitious internal consensus on the way forward.

Trend 3: Reassessment of EU policies

The challenges the EU faces, such as the impact of the economic crisis, climate change, globalisation and ageing, will also lead to a re-examination of EU policies in a range of areas to determine whether they are still fit for purpose. Financial market regulation and supervision is one of these areas but a wide range of other EU policies will also be under scrutiny.

Much of the debate will focus on EU spending and in particular on the beginning consideration of the next Multi-Annual Financial Framework (MAFF) for the period from 2014 onwards. The EU budget review, which was carried out from 2008 to 2009 (published in autumn 2010), is the starting point for these considerations. At the same time it is already becoming clear that EU Member States (especially the net payers) will exert pressure to limit the future EU budget. One could already in the course of the 2011 budget negotiations witness severe controversies with respect not only to the overall size of future EU expenditure in times of austerity, but also concerning the role of the European Parliament in the upcoming debates about the MAFF and the potential implications of a breakdown of negotiations.

The two biggest spending blocks – agriculture and cohesion policy – will come under much scrutiny. On agriculture, the big issues will include food security but also the greening of the sector, new uses for agriculture such as biofuels and a possible (partial) renationalisation of the policy. On cohesion policy the debate will focus on whether interventions are necessary in the richer Member States and how mechanisms can be put in place which can ensure that the money is spent effectively and targeted in the new Member States, in particular in the newest EU countries.

In addition, there will be a re-evaluation of the ‘needs’ of countries which had been moving in the right direction but were severely affected by the economic crisis. Countries such as Spain and Ireland but also Greece and Portugal might require additional assistance.

There is also an ongoing debate about the future of the Single Market and associated policies, such as industrial/sectoral policies, state aid and public procurement as well as the Single Market’s social dimension. Mario Monti’s report provides new impetus in this area⁴, with the Commission proposing a range of measures to be implemented in response, including the Single Market Act which contains 50 proposals. Among these, making the Single Market fit for the digital world continues to be a key challenge, with difficult policy issues such as Intellectual Property Rights and data and consumer protection being potential areas of conflict.

Finally, in many areas there will be discussions on sectoral policies, be it, for example, in relation to energy, information and communication technologies or in relation to public services such as health. The debate is broadly going to be between proponents of further European market integration versus an attempt to hold on to national frameworks.

Trend 4: Threats to Europe’s economic, social and environmental model

The growing unease in the populations about markets, globalisation and the role of companies is in part a reaction to the negative impacts and uncertainties created by the crisis. However, these concerns are also longer term, questioning whether Europe needs to reassess how it perceives ‘progress’ and stipulating a greater role for the public sector but also for civil society, communities and individuals/households.

At the same time, the public finance situation and additional pressures, for example from the labour market, are severely limiting the ability of many Member States to provide the level of public services which was available before the crisis. There is an ongoing debate on who should bear the cost of consolidation and how the inevitable corrections in spending and taxation impact on different levels of society, with austerity programmes implemented in many EU Member States.

European labour markets will continue to suffer in the next few years. While some countries are seeing a continuing deterioration (e.g. Spain or Greece) in other countries the situation seems to have been stabilised or even improved (e.g. Germany). However, the austerity programmes with the associated withdrawal of additional debt-financed public spending will have consequences. In addition, the situation of Europe’s labour markets will remain difficult given the significant challenge to continue labour market intervention in the current state of public finance.

At EU level, much of the debate is likely to focus on the implementation and effectiveness of the Europe 2020 agenda and associated policy questions. While the broad outline of Europe 2020 was agreed in 2010, many open questions will remain, for example on effective ways of increasing innovation or social cohesion. The cost of climate change mitigation is also likely to be raised. One of the key questions will be whether the new agenda can deliver growth and jobs. At this stage, it is likely that European performance in this area will remain sluggish in most parts of the EU, which will raise questions about the usefulness of EU policy in this field.

Europe in the world

Concerning Europe's role in the world, two broad trends are identifiable, which are determining EU priorities and approaches to international affairs:

- a growing marginalisation of Europe and the EU at the global level;
- at the regional level an increasingly differentiated and often waning power of attraction in non-EU Europe, also as a consequence of enlargement fatigue.

Trend 1: Global marginalisation

The rise of new powers, the fluidity in the global balance of power, which is shifting away from Europe and the West, the fragmentation of decision-making centres, and the ongoing process of revision of global governance structures are leading to an increasing marginalisation of Europe and of the EU. The long phase of inward-looking politics within the Union, compounded by the process of institutional reform and economic crisis, has also contributed to the EU losing ground and attraction internationally.

There are three fronts to examine to understand how the EU is responding and what priorities can be identified for 2011-2012.

Building the new EU foreign policy set up

As far as internal capabilities are concerned, the Lisbon Treaty was supposed to provide the institutional capacity to address the EU's shortcomings as a global actor with the creation of the new positions of High Representative for Foreign and Security Policy/Vice-President of the Commission (HR/VP) and of the President of the European Council, and with the creation of the European External Action Service (EEAS).

Rather than respond to the frequent demand for a 'single voice' for the EU, the Lisbon Treaty has increased the number of personalities representing the Union externally. The coming months will continue to witness an adjustment of the ground to be covered respectively by Catherine Ashton and Herman Van Rompuy.

After the Belgian Presidency in the second half of 2010 and the assiduous participation in EU summitry of the President of the European Council, it is likely that Mr Van Rompuy will play an increasingly important role in defining priorities and guidelines for EU international action, also in the context of the European Council (which is tasked by the Lisbon Treaty to provide the general foreign policy strategy), at the expense of the rotating presidency. In September 2010 he convened a special European Council to discuss with national leaders the future of the EU's 'strategic partnerships' with key countries. While the summit did not lead to a substantial revision of the EU's priorities *vis-à-vis* these countries, it did produce needed guidelines for coordination between institutions and member states prior to the summits the EU regularly holds with them. The key issue remains the degree of coordination and ability to work in tandem with the HR/VP. While reports are expected from Ashton's team on relations with countries such as Russia and China, so far 2010 has not witnessed new policy-shaping initiatives from the HR/VP.

With regard to the EEAS, it is early to make an assessment. In 2010 all the major decisions on the new structure and the top nominations were made, and the implementation phase will occur during 2011. A first assessment will be carried out by the HR/VP in 2011-12, and a major review in 2014, making the EEAS one of the most topical and absorbing issues of EU foreign affairs in the next two years.

While performance remains to be seen, it is possible to highlight a number of challenges emerging for this new structure:

- the real closure of the institutional gap between the Commission and the Council, given the ambiguities in the 'division of labour' between the two, especially in the management of the resources for external relations;

- the balance between strategic goals and long-term engagement;
- the strengthening of holistic policies, integrating key thematic priorities which reflect a support for global public goods, such as the environment, sustainable development, human rights, energy supply, efficiency and security, peace, civil society development;
- the evolution of the European Parliament's new role;
- the prospects for the budgetary sustainability of an enhanced foreign policy service, with Member States showing signs of unwillingness to put financial resources to match the EEAS potential.

Defence issues will also be on the agenda. The Lisbon Treaty lays down the provisions for *permanent structured cooperation*, which would allow some EU Member States to pursue further integration in defence matters (see also p. 18). Alone this has proved to be an insufficient incentive, in the light of the bilateral and intergovernmental agreement between France and Britain on defence matters. However, some countries holding the next rotating Presidencies (Hungary, Poland and Denmark) will put defence on its list of priorities and national budgetary cuts might provide a rationale for the development of more common military capabilities.

Relations with partners

A revision of EU relations with its partners is an increasingly important item on the agenda of both the President of the European Council and the HR/VP. The context is unfavourable as the external demand for a stronger EU is weakening, and competition on the ground from emerging powers is questioning the EU model. So far, the Union has developed or is negotiating 'special partnerships' with more than a handful of countries (Brazil, China, India, Japan, Mexico, Russia, and South Africa) in addition to the special relations with the US and Canada. But diversity and fragmentation within the EU have prevented it from identifying the common interests and priorities, making these partnerships devoid of content.

Beyond the summity that these policies entertain, transforming these 'special partnerships' into meaningful and substantive relationships based on real policy issues and concerns entails multifaceted challenges. The EU's 'blueprint' for agreements with third countries, which follows a common institutionalised and legalised format, will have to be adapted to the different interests, specific conditions, and policy priorities that each country represents, given the diversity between them.

The EU will also need to work out a hierarchy of priorities and issues it wants to address through bilateral means (for instance energy, trade, migration), and those which it wants to strengthen through a political dialogue which can also serve as the basis for the development of shared positions to be carried out through multilateral institutions (for example, energy security and efficiency, climate change, regional and global security, reform of the financial system).

The challenge is therefore to identify the key issues and strategies as well as the most appropriate means to pursue them, finding a balance between bilateralism and multilateralism. Furthermore, engaging partners would require making some of those concessions the EU has so far been reluctant to make on allowing third countries access to European markets. As mentioned above, Van Rompuy's first attempt did not lead to a revision of such partnerships.

A European voice? Representation in international institutions

The trend for the redefinition of international institutions has become incontestably clear since the financial and economic crisis. The enlargement, functions, responsibilities, participation, new rules and principles of international institutions are all set for a substantial review. This is not an item on the EU agenda, but the rise of the G-20 will make it an item for the international agenda over the years to come, in political, security and economic issues.

The EU's ability to act effectively at the multilateral level has been weakening (as the Doha trade and Copenhagen climate negotiations show), but its own experience with multilateralism suggests the

imperative of thinking about how to participate in emerging structures for global governance, how to co-write the rules of the game, and how to ensure the participation of the EU in these structures.

Linking EU relations with its 'special partners' and with emerging powers to strategies for reform of the multilateral system would be one way of building consensus. But the EU will have to come to terms with its marginalisation in the world: negotiating new rules and principles will require compromise with those countries pushing for their voices to be heard.

Trend 2: The decline of 'magnet' Europe

The EU's performance in its region has always been the most important measure of its ability to influence global politics; after all, EU Common Foreign and Security Policy was *de facto* born in the 1990s in the Balkans. Enlargement to Central Europe is commonly seen as the EU's most successful foreign policy. But changes since the 1990s, the different and specific challenges that South East Europe poses to the accession policy, the interdependence between enlargement and the broader European region are such that the EU risks eroding one of its major assets: its power of attraction to the outside world.

The challenges are interconnected: a successful enlargement strategy in the years to come, regardless of the timeframe for accession, will contribute greatly to maintaining the EU's power of attraction in the wider region and to strengthening its credibility in the world. South East Europe and the EU's neighbourhood are also the only geographical areas of priority mentioned in the Lisbon Treaty.

'Pacta sunt servanda'

The enlargement fatigue of the past five years, and the outspoken opposition to Turkey's accession, have clouded EU policies towards South East Europe. Yet, the commitments have been made and enlargement will remain an inescapable priority. Croatia is likely to close accession negotiations during the next twelve months and join in the very near future (possibly 2013). But beyond Croatia (and Iceland?), the EU will in the current political climate face a serious challenge in keeping the momentum and political support for enlargement in the EU and in South East Europe itself at a time of economic crisis.

The region is tainted by problems of unresolved statehood, recalcitrant nationalism, bilateral disputes, economic crisis, and the pre-accession and accession paths over the next few years are marred by possible blockages and vetoes by EU Member States.

The challenge for the EU will be to refine its tools to ensure that this political minefield is not made hostage to problems inside the region and the waning of political consensus in the EU. The last few months of 2010 saw a number of positive changes in the region (signs of a beginning of reconciliation between Serbia and Croatia, the UN Resolution on Kosovo presented by Serbia and the EU to start talks between Belgrade and Prishtina) show that the time is ripe to demonstrate the EU's commitment towards the region.

In the unlikelihood that the process of accession can be accelerated over the next few years, the EU will have to devise parallel strategies based in its foreign and security policy (and thus through the new EEAS, as enlargement will remain under the remit of the Commission) to keep the entire region anchored to Europe. Relations with Turkey in particular will require a strengthening of political dialogue over issues of common concern in the neighbourhood (Caucasus, Middle East) rather than exclusively as a candidate for accession. There are many signs indeed that Ankara is increasingly disengaging and diverging from the EU to develop a stronger role in its neighbourhood.

Wider Europe and the Mediterranean

The EU has become increasingly engaged with non-EU Europe, especially to the East, also as a consequence of its power of attraction. This is weakening with enlargement fatigue and because of EU

reluctance to commit to any future expansion in Eastern Europe. But the level of interdependence and of engagement, and the internal drivers in support of policies such as the Eastern Partnership are such that this topic will remain high on the agenda at least throughout 2011 with the successive Hungarian and Polish rotating presidencies of the EU. Furthermore, the 2008 wars in Georgia and in Gaza underlined that security and conflict risks are still high in the EU's eastern and southern neighbourhoods.

The continuous inability in the Union to devise a common strategy towards Russia trickles down to its relations with Eastern Europe, and leads to the weakening of EU leverage there. Relations with the Mediterranean too are subjected to competing visions and priorities. Beyond the policy formats promoted over the past few years (European Neighbourhood Policy, the Union for the Mediterranean, the Eastern Partnership), at least two priorities can be identified:

- Putting some meat on the bone of 'advanced status' countries that enjoy closer relations with the EU. This too would entail some concessions on the EU side and some creativity in conceptualising a European space which is broader than the Union as well as attractive and convenient to non-EU countries.
- Devising a strategy to deal with countries that are most impermeable to EU attraction. If there was a tension in the EU's neighbourhood policies between 'a ring of friends' and 'a ring of well governed countries', the preference seems to have tilted towards the latter, but it is unclear whether this approach pays off.

Quality of EU governance

In the near future three major trends will influence and shape issues related to the quality of EU governance following the entry into force of the Lisbon Treaty in December 2009:

- a growing gap between the EU and its citizens increasing the Union's legitimacy crisis;
- a continuous process of reaching a new institutional equilibrium; and
- the need to accommodate the increasing heterogeneity in an EU 27+.

Trend 1: Legitimacy crisis

The European project is losing attractiveness and support both among ordinary citizens and increasingly also among political, economic, cultural and intellectual elites. One can identify a number of main reasons for the EU's legitimacy crisis. First, the Union lacks strategic orientation. The EU and its members have been unable to provide a new *raison d'être* explaining the necessity to continue or even to further enhance cooperation. Second, citizens perceive 'Brussels' as a distant apolitical apparatus, which lacks resilient debates about the future of European integration and about the objectives and content of EU policies. Third, the EU and its members suffer from a crisis of representative democracy. Citizens have lost faith in the public sphere and in the ability of elected politicians to manage the complexity of modern life. This is not an exclusively European phenomenon. But the lack of confidence in national and European policy-makers has particularly drastic consequences for the EU, which is still perceived as an elitist project. Fourth, the EU's inability to react swiftly and effectively to the current euro crisis has increased political distrust among Member States and widened the gap between national capitals and 'Brussels'.

In the upcoming years one needs to concentrate on three key priorities closely linked to the EU's legitimacy crisis: (i) the application of the Citizens' Initiative; (ii) the role of national parliaments; and (iii) the preparations for the 2014 European elections.

Application of Citizens' Initiative

In a much-heralded effort to bring people across Europe closer to the EU, the Lisbon Treaty introduced the *Citizens' Initiative* (CI). This instrument allows more than one million citizens from a "significant" number of Member States to invite the European Commission to submit a legislative proposal within the "framework of its powers" and "for the purpose of implementing the Treaties" (Article 11 TEU).

At the end of 2010 the Citizens' Initiative has not yet been put into practice. It is thus too early to deliver a verdict on whether the new instrument will actually contribute to bringing the people across Europe closer to the EU and to each other. The CI is supposed to counter public apathy, stimulate transnational debate and enhance people's awareness about the potentials and limits of the EU. At the same time, however, there are a number of risks associated with the Citizens' Initiative.

First, some initiatives might mirror segmental interests pushed by a well-organised minority rather than a general will of European citizens. It seems rather unlikely that 'ordinary citizens' will employ the instrument. The European public will instead have to rely on intermediaries, such as NGOs, trade unions, or lobby groups. Policy-making might then fall prey to a 'tyranny of minorities' backed by resourceful interest groups, which are able to successfully organise a Citizens' Initiative.

Second, the new instrument might become a source of misunderstanding and frustration on the side of organisers and signatories of a Citizens' Initiative. This could be the case if the Commission's response does not match the expectations of the organisers and supporters of an initiative, if a legislative act proposed by the Commission is substantially amended or rejected by the EU's co-legislators (EP and Council), and because it will take years for a successful Citizens' Initiative to be implemented. The future practice will test both the relevance of the issue in question as well as the patience of the organisers and signatories of a Citizens' Initiative.

Bearing in mind the risks and opportunities associated with the new instrument, the implementation of the Citizens' Initiative needs to be welcomed with a healthy dose of realism and with creative solutions for improvement.

Role of national parliaments

The Lisbon Treaty extends the information rights and powers of national parliaments. Most significantly, the Lisbon Treaty introduces the so-called 'yellow' and 'orange card', which allows national parliaments to scrutinise whether legislative proposals abide by the subsidiarity principle. For the first time, the new procedure offers national parliaments a direct way to make their voice heard distinct from their governments.

The increased role of parliaments in EU policy-making has the potential to encourage national debates about European affairs. However, the new stipulations could also overburden national parliaments and have a critical impact on EU governments. Most parliaments are already struggling with their current workload, and the eight weeks allowed to file a complaint against an EU proposal will raise the bar even higher.

In addition, the enhanced role of national parliaments could in certain Member States (further) limit the executive's room of manoeuvre. Governments might be obliged to consult and coordinate more closely with parliaments, which in turn could restrict the executive's autonomy. In other cases, some governments could be tempted to (mis)use the new powers given to national parliaments to indirectly influence or even obstruct EU policy-making.

At the European level, the stronger role of national parliaments could foster transnational debates and cooperation between national and European legislators. But to make use of their new prerogatives, national parliaments and even domestic political parties would have to further intensify their cross-border cooperation.

The upcoming years will be decisive, as the potential impact of both 'cards' will become clearer only if and when they are actually used in practice, thus creating precedents and prompting responses on both the national and European levels.

Preparation of the European Parliament elections in 2014

The European Parliament (EP) elections in 2014, the preparations of which will have to start in 2012, will be the EU's next major legitimacy test. The record low turnout of 43% in the June 2009 European elections was a strong sign that a majority of citizens have lost interest in the EU as it stands.

One key reason why voters increasingly abstain from EP elections relates to the perception of the Union as an alienated bureaucratic moloch, where citizens are the objects but not the sovereign subjects of European policy-making. This perception springs above all from the fact that the principle of opposition, the dialectics of political discourse, and the personalisation of political conflicts have played a minimal role in the EU's political system. As a consequence, citizens disassociate themselves from the EU and this manifests itself in a decreasing turnout at EP elections.

One key issue to look at in view of the preparations for the 2014 EP elections is whether European political parties will – in an attempt to counter public apathy – be able to dramatise and personalise their election campaigns. In order to do so, European political parties could nominate their top candidates running for key posts in the next European Commission.

By participating in EP elections citizens would (in)directly influence the appointment of the next Commission President or the EU's next foreign policy chief. This procedure could not only upgrade the importance of European elections, but also strengthen the legitimacy and power base of the Commission and its President and further enhance the political significance of the Parliament.

Trend 2: Reaching a new institutional equilibrium

Making the EU's new institutional system work is no easy task. The first year after the entry into force of the new Treaty has shown that the 'Lisbon architecture' is no less complex than the previous one. One can expect that the EU will still be in the process of reaching a new institutional equilibrium in 2011/2012. In 2010 the EU was still in a transitional phase, which will now be followed by a 'consolidation period' likely to last until the end of Mr Van Rompuy's initial mandate in 2012. By then, the new architecture should be fully tested and (hopefully) somewhat stabilised.

The Lisbon Treaty has substantially increased the European Parliament's powers, strengthened the role of the European Council, introduced an elected semi-permanent President of the European Council and a multi-hatted EU foreign policy 'chief', and limited the role of the rotating presidency of the Council. The first year following the entry into force of the new Treaty and the choice of office holders have already provided some indications of the direction in which the institutional balance of power is moving. However, it is still too early to draw some definite conclusions concerning the systemic consequences of the Lisbon Treaty reforms. Concerning the immediate future, two issues are particularly important for the overall development of the EU's new institutional equilibrium.

Role of the (President of the) European Council

The Lisbon Treaty has enhanced the power position of the European Council, which has now become a formal EU institution. The European Council has in the course of the last decades become the Union's strategic initiator and ultimate decision-taker. The introduction of an (s)elected full-time President of the European Council (POTEC) has further strengthened the role of European Council. In the first year in office, President Van Rompuy and his team have tested the system, exploring how far they can stretch their role in the framework of the new institutional architecture. In view of the future role of the (President of the) European Council two developments will be particularly significant in the upcoming years:

- *The role of the European Council in the framework of European economic governance:* The euro crisis has shown that the EU lacks a clearly identifiable and strong political authority, which is able to offer strategic guidance, guide the coordination of national economic policies, and provide leadership in times of crisis on the highest political level. The EU heads of state and government of the euro area have signalled that the European Council's "role in economic coordination" should be increased. However, one can expect that Member States will struggle to reach a consensus about the future competences and powers of the European Council in the realm of economic governance.
- *The relationship between the President of the European Council and the Commission President:* The relationship between President Van Rompuy and President Barroso has started in a collegial spirit. Both Presidents have regular weekly meetings and have found a *modus vivendi* concerning the EU's external representation on the presidential level. But despite this promising start, one cannot rule out a potential rivalry or even a battle of egos between the two presidents.

Relationship between the Commission and the European Parliament

Since the late 1990s the Commission has lost much of its strategic clout, as power and influence have shifted towards the European Council. At the same time we have witnessed a weakening of the institutional link between the Commission and the EP, as the relationship has in many ways developed from 'supranational partnership' to 'institutional antagonism'.

The upcoming years will largely determine the direction in which the inter-institutional relationship between the two supranational protagonists of European integration will develop. In the first year of the Barroso II Commission one could observe a certain *rapprochement* between the Brussels Executive and the Parliament, which is already extensively using its new powers provided by the Lisbon Treaty. By presenting his political guidelines for the new Commission and by accepting some of the EP's key requests

for a new inter-institutional agreement President Barroso has testified his willingness to intensify political ties between both institutions. But it remains to be seen, whether the Commission and the European Parliament will develop a 'strategic partnership' in the years to come.

Trend 3: Need to accommodate increasing heterogeneity in EU27+

The increasing heterogeneity among EU countries and diverging political objectives concerning the future path of integration call for a higher degree of differentiated integration. Differentiation is no magic potion and should not be an end in itself. Nevertheless, a more differentiated Europe will be a necessity if the EU27+ wants to remain effective. As in the past with the common currency, the Schengen accords, social policy, or more recently with the Treaty of Prüm, intensified cooperation among a smaller group of countries can help overcome a situation of stalemate and improve the way in which the Union functions.

The EU has already entered the path of differentiation and it is likely that the degree of flexibility will further increase in the years to come. One can expect that the EU will follow a functional-pragmatic approach, which aims to overcome concrete blockades in specific policy areas. The application of two specific instruments of flexible integration will be particularly important: *enhanced cooperation and permanent structured cooperation*.

Enhanced cooperation is a general instrument of differentiation, originally introduced in the Amsterdam Treaty and then modified by the Treaty of Nice, the Constitutional Treaty and eventually the Lisbon Treaty. Enhanced cooperation is a last resort mechanism, which allows a minimum number of states – nine according to the Lisbon Treaty – to cooperate more closely on the basis of a clear set of preconditions, rules and procedures concerning the authorisation, the operation and the widening of cooperation.

Although enhanced cooperation was already introduced in 1997, the instrument had never been applied in practice until 2010 when the Commission proposed a Council regulation implementing enhanced cooperation concerning common divorce rules for couples of mixed nationality. The use of enhanced cooperation will provide a first opportunity to get familiar with the instrument in practice and this could in return lead to more cases of enhanced cooperation in the years to come.

Permanent structured cooperation is a novel instrument of differentiation in the field of Common Security and Defence Policy (CSDP) introduced by the Lisbon Treaty. Permanent structured cooperation allows those Member States "whose military capabilities fulfil higher criteria and which have made more binding commitments to one another with a view to the most demanding missions" to establish closer forms of cooperation within the framework of the EU. The instrument is thought to further integrate and develop the military forces of participating EU countries. Rising constraints on national budgets and the wish of some Member States to further integrate in the area of defence increase chances that permanent structured cooperation will be implemented in the years to come.

III. Analysis of likelihood of changes to the emerging agenda

The key trends and political priorities for the near future could be challenged or reshaped by the many risks and uncertainties which could alter the agenda fundamentally. This has been demonstrated repeatedly in recent years: 2008 saw the 'No' to the Lisbon Treaty in the Irish referendum in June, the war between Georgia and Russia in August, and the collapse of Lehman Brothers in September.

The degree of risk and uncertainty seems to have multiplied in recent years. Not only do global events increasingly have local impacts, but the speed of change has accelerated. This implies that the agenda for the EU is likely to see significant change in the coming years. Some of the changes are impossible to predict: for example the timing of environmental/natural catastrophes such as volcanic ash or epidemics such as swine flu is impossible to foresee. However, the changes are not all completely random. There are a number of areas where change could potentially be triggered.

In the economic field, most uncertainties are linked to future economic performance. In general, these are still downward risks: the banking crisis could resurface, there could be further public finance trouble in the euro zone or even a global downturn, especially if the Chinese economy were to slow down.

Further economic turmoil could also aggravate the social situation, leading to widespread social unrest and the rise of extremist politics. There are some upward risks, for example European economies could grow faster than expected or the impact of the economic crisis on the labour market might not be as great as originally feared (as seen in Germany at the moment). But overall the downward risks seem more significant, especially since economic divergence within the eurozone is increasing.

It is unclear what will happen to inflation in the next couple of years. This is particularly true for energy/oil prices and commodities. While the long-term trend is for increasing demand (and thus higher prices), the economic crisis might continue to dampen inflation and price rises.

A high degree of unpredictability in international politics needs to be taken into account when assessing the EU's foreign policy priorities in the years to come. It remains to be seen whether meaningful global agreements can be reached on climate change, trade or financial services regulation and what role the EU can play. An outbreak of conflict, most likely in one of the world's trouble spots, a rise in oil prices, or a terrorist attack could all change an already fluid global landscape, possibly leading the EU to reshape its policy priorities or its relations with key partners.

Institutionally, the implementation of the Lisbon Treaty might throw up a few surprises. For example, the new Citizens' Initiative might provide a new impetus to policy developments. While major rounds of EU enlargement seem highly unlikely, one can already witness a renewed debate about the possibility of substantial treaty changes in the context of a reform of European economic governance. However, a potential new round of treaty negotiations might not be limited to one policy area but rather lead to yet another more substantial debate about changing the Union's primary law.

Political developments in the Member States add to the uncertainty: for example, it is unclear what influence the rise of nationalist and populist parties might have on EU developments and how traditional parties will react to the rise of nationalism and populism.

Finally, uncertainty also arises from political choices and the personalities of key European figures. Decision-makers can associate their career with an issue which was previously less prominent as, for example, Jacques Delors and the single market. Leadership can potentially change the political agenda.

IV. Conclusions

The financial and economic crisis has brought to the fore a number of trends that have the potential to undermine the multi-level European governance set-up by amplifying contradictions and divergences between national and European institutions, interest groups and concerns. The crisis is already jeopardising social cohesion within the Member States, and could have further and unforeseen consequences.

It is also seriously testing the solidarity and political trust between EU Member States, with consequences on the system of governance and on the ability to respond to crises collectively. Internationally, it could undermine the degree and forms of EU engagement and solidarity with the rest of the world, aggravating a general trend of a gradual marginalisation of Europe on the global scene.

A second general consideration that needs to be highlighted is that policy issues are no longer compartmentalised but have become increasingly complex and multifaceted, breaking down old divisions between internal and external affairs. Climate change is the prime example of this trend.

This means that addressing such issues requires the search for a synergy between different levels of governance and interest group representation, moving between sub-state, national, European and international levels in a bid for innovative solutions. Expert and new input from different stakeholders in the European decision-making and -influencing bodies thus becomes more crucial in a multilevel system of governance.

Broad trends, such as the impact of the economic crisis on labour markets and migration patterns will remain high on the European political agenda, and will be reflected in policy terms in the debate about reforming the Stability and Growth Pact and the implementation of the Europe 2020 Strategy. This will be accompanied by the ongoing debate on economic governance, which currently sees competing attempts by Member States and institutions on identifying means and solutions, creating a degree of uncertainty about the future of European economic governance.

The start of the debate over the next few months on the new Multi-Annual Financial Framework will also compound discussions over what the EU budget should be for, with a strong focus on the largest chapters of EU expenditure: agriculture and cohesion policies.

In the international sphere, the decreasing influence and importance of Europe in the world will force the EU to renew and reshape multilateral and bilateral strategies, from both the political and the economic points of view, to sustain its global role. From a more strategic point of view this could include some reflection on how to reconcile possible tensions between multilateral positions, often based on EU principles, to developing relations with partners, more often grounded in specific interests. In policy terms, this will be reflected in the shape the European External Action Service will take, in its implementation, and in the performance of the new institutional positions created by the Lisbon Treaty. Enlargement and relations with neighbouring countries will remain a pressing issue if only because of demands from these countries and because of the challenges deriving from proximity (security, organised crime, migration pressure).

In institutional terms the challenges are also significant. Paradoxically, the more the EU has become ubiquitous and crucial, the less citizens are interested in its developments, reflecting a legitimacy crisis that is visible at the national and European levels, and that hinders the formation of a leadership which might drive European integration.

The increasing importance of national parliaments and the co-decision powers extended to the European Parliament (with elections forthcoming in 2014) could change the picture in the very near future. At the same time, the backdrop of European politics is complicated by the institutional innovations introduced by the Lisbon Treaty, which still need to see their smooth application into practice fulfilled, while the past enlargements of 2004 and 2007, and future ones will further increase diversity within the EU. Concerning the overall institutional balance, one major issue to follow is whether the relationship between the

Commission and the European Parliament will develop from 'institutional antagonism' to a new form of 'strategic partnership'.

One key challenge will remain the management of heterogeneity and the institutional formulas to do so: enhanced cooperation, differentiation, and different speeds of integration will be high on the agenda in the years to come.

To sum up, Europe is, once again, facing a period of uncertainty. The enhanced institutional and legal framework, which was finally delivered through the Lisbon Treaty after almost ten years of agony, is being tested by both pre-existing and unforeseen challenges. The EU and its members are not only confronted with the severe economic, social and political consequences of the global crisis. The Economic and Monetary Union is struggling for survival. Even though the new Treaty has provided the EU with novel instruments, reformed institutions and new personalities, it is already apparent that the means available at the European level are falling short of the challenges we face. The whole process of European integration is in doubt on a number of levels: Can we sustain continuing economic integration without further political integration? Is the legal/Treaty-based integration process flexible and quick enough to deal with rapidly emerging global challenges? Do Member States have the political will to overcome narrowly defined national interests and transfer the means and instruments to the European level necessary to meet the common objectives which have been set? Will EU governments be able to restore mutual trust and counter the growing gap between national capitals and 'Brussels'? If we do not find answers to these fundamental questions, Europe might once again slip back into relative inactivity and eventually risk global irrelevance. But the danger is even greater than that: if we cannot address and effectively respond to the fundamental challenges the European integration project is facing, the whole process will be in question.

Endnotes

1. This section is based on Rosa Balfour, Janis A. Emmanouilidis, Hans Martens, John Wyles, and Fabian Zuleeg (2010), *A Schuman Declaration for the Twenty-First Century?*, Brussels.
2. European Commission (2010) 'Europe 2020. A strategy for smart, sustainable and inclusive growth', COM(2010) 2020, Brussels: 3 March.
3. The Reflection Group (2010), *Project Europe 2030. Challenges and Opportunities, a report to the European Council by the Reflection Group on the Future of the EU 2030*, Brussels.
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